

FY 2018
Baseline Book

January 2017

JLBC

FY 2018 BASELINE BOOK

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FY 2018 BASELINE SUMMARY

Overview

The FY 2018 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 2018 General Fund revenue is projected to be \$9.76 billion. Base revenues are forecast to grow by \$394 million, or 3.9% above FY 2017. After adjusting these estimates for previously enacted tax law changes and the elimination of one-time monies, however, net revenue growth would only be \$20 million, or 0.2% above FY 2017.
- In comparison, FY 2018 Baseline formula spending is projected to be \$9.60 billion. This amount reflects a \$(25) million, or (0.3)%, decline in expenditures from FY 2017. Spending on current funding formulas would be offset by elimination of one-time FY 2017 spending.
- The projected FY 2018 cash balance is \$159 million. When comparing ongoing revenues with ongoing spending, however, the structural balance is only \$46 million.

The Baseline can be used to determine the level of resources available for new initiatives, either in terms of new spending or tax reductions. The structural balance of \$46 million and the cash balance of \$159 million, however, likely overstates the availability of funds for 2 reasons:

- The Baseline eliminates over \$240 million of spending that was labeled as "one-time" in the FY 2017 budget. There may be legislative interest in retaining some of this spending. The list of possible retention candidates is \$130 million (*see Table 1*).
- The Baseline does not include the preliminary estimate of \$23 million to fund the annual cost of provider rate increases for Proposition 206 minimum wage requirements.

Table 1

Possible Retention Candidates

<u>One-Time '17 Funding</u>	<u>\$ in M</u>
ADE IT System	7
ADE Statutory Expirations	50
SFB Building Renewal	15
Universities	19
County Assistance	38
Total	130

The retention candidates and the minimum wage adjustments would cost a combined \$153 million. If they were all funded, the \$46 million structural balance would become a shortfall.

Prior to considering the use of the FY 2018 balance for any new initiatives, the Legislature should first determine whether any of the \$153 million is to be funded in the FY 2018 budget.

Recession Stress Test

Any budget can also be evaluated for its ability to determine whether its reserves are sufficient in the event of a recession. While the Baseline envisions continued economic growth, the current nationwide expansion is nearing a historic length. In a mild to moderate recession, General Fund revenues could be expected to fall by (5)% in FY 2018, compared to the forecasted base revenue growth of 3.9%.

Table 2

FY 2018 Cash Balances

	<u>\$ in M</u>
Baseline	118
Recession Stress Test	(737)

In that type of "stress" test, revenue levels would decline by \$(896) million compared to the Baseline, and the FY 2018 budget would have a cash shortfall of \$(737) million (*see Table 2*). In comparison, the state’s Budget Stabilization Fund has a balance of approximately \$460 million. That dollar amount represents about 4.8% of General Fund revenue. The rating agencies recommend that states have reserves of 8% to 10% of their General Fund revenues.

FY 2017

The FY 2017 ending balance is currently projected to be \$114 million, an increase of \$48 million from the original budget estimate of \$66 million. Total revenues, including the beginning balance, are forecast to be \$9.74 billion compared to spending of \$9.63 billion. The net \$48 million adjustment has 2 components:

- Including the beginning balance, revenues are \$66 million higher than anticipated.
- Spending is projected to be \$18 million higher than originally budgeted in FY 2017, primarily due to supplemental funding for K-12 formula costs in the Arizona Department of Education.

FY 2018 Baseline Revenues

Base revenues are forecast to grow in FY 2018 while one-time revenues are projected to decline from FY 2017 to FY 2018. Overall FY 2018 collections would increase by 0.2% to \$9.76 billion, or \$20 million above the revised FY 2017 estimate. The major adjustments are:

- Based on JLBC's 4-sector consensus, FY 2018 base revenues are projected to grow by \$394 million, or 3.9%. 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*).
- The growth in base revenues would be partially offset by a \$(170) million decrease in the balance forward between FY 2017 and FY 2018. The state started FY 2017 with a cash balance of \$284 million, but that is projected to decline to \$114 million at the start of FY 2018.
- The state set-aside for urban revenue sharing formula distributions would increase from \$664 million to \$681 million, thereby decreasing state revenue by \$(17) million.
- Previously enacted legislative changes would reduce state revenue by \$(107) million, primarily from the continued phase-in of corporate income tax reductions.
- Elimination of one-time FY 2017 fund transfers would reduce revenues by \$(79) million.

FY 2018 Baseline Spending

Based on statutory funding formulas and other obligations, FY 2018 Baseline spending is projected to decline by (0.3)% to \$9.60 billion, or \$(25) million less than FY 2017. The major adjustments are:

- Department of Education formula spending would increase by \$79 million due to 1.4% growth in student enrollment, a 1.37% inflation factor, and growth in K-12 property taxes. The Baseline includes savings of \$(50) million for the statutory expiration of certain programs.
- AHCCCS formula spending would grow by a net of \$44 million, reflecting 1.6% caseload growth and a 3.0% capitation rate increase offset by a higher federal matching rate and a one-year moratorium on a health insurer fee. The Baseline does not address potential changes associated with a possible repeal of the federal Affordable Care Act.
- The Department of Economic Security (DES) budget would increase by \$18 million primarily for Developmental Disabilities Medicaid growth. The Baseline does not include funding for Developmental Disabilities provider rate adjustments associated with Proposition 206 minimum wage requirements due to insufficient data about the magnitude of provider cost increases resulting from the initiative.
- Department of Corrections spending would increase \$7 million for the annualization costs of opening 1,000 medium-security private beds in September 2016.
- University spending would decline by \$(15) million, primarily due to the elimination of \$19 million in one-time FY 2017 assistance.
- School Facilities Board funding would be reduced by \$(16) million, as approximately 47% of building renewal grants were labeled as one-time in FY 2017.
- The elimination of one-time FY 2017 Department of Public Safety Border Strike Force equipment expenses would save \$(15) million in FY 2018.
- County assistance would fall by \$(38) million due to one-time FY 2017 spending for local Highway User Revenue Fund (HURF) support and a Department of Juvenile Corrections cost offset.

- One-time FY 2017 capital construction costs would save \$(57) million in the Arizona Department of Transportation and \$(18) million in the Arizona Department of Administration.

The \$9.60 billion spending level would support a Full-Time Equivalent (FTE) Position ceiling of 52,655.7 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 \$625 million through FY 2020 – these risks could significantly change the final results of these budgets.

Arizona's budget picture is better than most states, as one-third to one-half of states are experiencing difficulties such as required mid-year budget reductions or revenues below the budgeted forecast. *State Policy Reports*, a joint project of the National Conference of State Legislatures and the National Governors' Association, has currently ranked Arizona 14th in economic momentum.

But the state faces a number of other challenges in putting together a FY 2018 budget. These challenges include:

- Potential Federal changes to the Affordable Care Act could cost between \$100 million and \$1.4 billion (*Please see Estimated Impacts of Changes to the Affordable Care Act for more information*). The starting date of any changes is unknown, but it may not occur until FY 2019.
- The state faces ongoing litigation such as:
 - The Hospital assessment lawsuit could cost between \$100 and \$250 million. The hospital assessment was enacted with less than a two-thirds vote. The plaintiffs contend that the enactment of an assessment requires that the two-thirds threshold be met under Proposition 108 to the Arizona Constitution. If the hospital assessment was eliminated, the state would at least have the cost of backfilling the assessment used to fund the mandatory Proposition 204 parents program. The cost would be substantially higher if childless adults were retained on the program.
 - The Rental Car surcharge litigation has a potential one-time impact of \$150 million. A 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.
- Under current assumptions, the state's retirement systems are underfunded, as the FY 2018 employer rates do not reflect the cost of the Arizona Supreme Court's decision in the *Hall* case, and the Elected Officials system is underfunded by about \$30 million yearly.

Table 3

Fiscal Challenges

- Changes to federal Affordable Care Act
- Pending Litigation
- Retirement underfunding
- Loss of state tax auditors
- Federal fiscal and monetary policy

There are also at least 2 challenges to forecasting revenues in FY 2018:

- Revenue collections may be affected by a one-third reduction in the number of audit staff at the Department of Revenue (DOR). The Baseline forecast has not been adjusted to account for these staffing changes.
- Federal fiscal and monetary policy changes may affect the performance of the broader economy. Tax reductions and infrastructure spending may boost the economy, but such a stimulus could be offset if the federal deficit grows or the Federal Reserve raises interest rates.

Debt

At the end of FY 2018, the state's projected level of lease-purchase and bonding obligations will be \$7.3 billion. The associated annual debt service payment is \$941 million.

Of the \$7.3 billion in total obligations, the General Fund share is \$2.1 billion. The General Fund annual debt service is projected to be \$354 million in FY 2018 (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 \$7.3 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 Standard & Poor's credit ratings as of November 2016, 28 states have a higher rating, 12 states have the same rating, and 9 states have a lower rating or are not rated due to a lack of state level debt. Along with an overall rating, credit agencies also provide an outlook in terms of the future direction of rating changes. As of May 2015, both major agencies have a stable outlook for Arizona.

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 2018 Other Fund appropriated spending level of \$4.1 billion, or 0.5% above FY 2017.

The level of FY 2018 non-appropriated state funds is expected to be \$9.1 billion, while non-appropriated Federal Funds are forecast to be \$15.5 billion. When all appropriated and non-appropriated fund sources are combined, total FY 2018 state spending would be \$38.3 billion.

January Baseline
Statement of General Fund Revenues and Expenditures 1/
With One-Time Financing Sources

	FY 2017 Baseline	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline
REVENUES				
Ongoing Revenues	\$10,040,595,900	\$10,434,418,500	\$10,757,988,100	\$11,199,698,600
Previously Enacted Changes		(107,200,000)	(66,400,000)	(23,000,000)
Urban Revenue Sharing	(663,582,200)	(680,770,100)	(680,860,200)	(698,850,600)
Net On-going Revenues	\$9,377,013,700	\$9,646,448,400	\$10,010,727,900	\$10,477,848,000
One-time Financing Sources				
Balance Forward	\$284,015,000	\$114,133,100		
Fund Transfers	79,361,600			
Subtotal One-time Revenues	\$363,376,600	\$114,133,100	\$0	\$0
Total Revenues	\$9,740,390,300	\$9,760,581,500	\$10,010,727,900	\$10,477,848,000
EXPENDITURES				
Operating Budget Appropriations	\$9,404,983,700	\$9,620,110,000	\$9,837,139,900	\$10,174,876,300
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Revertments	(140,000,000)	(120,000,000)	(120,000,000)	(120,000,000)
Subtotal Ongoing Expenditures	\$9,364,983,700	\$9,600,110,000	\$9,817,139,900	\$10,154,876,300
One-time Expenditures				
Capital Outlay	\$18,000,000			
Transportation Funding	86,500,000			
Operating One-Time Spending	139,467,800	25,578,600	25,670,900	62,066,100
FY 2017 Supplementals	17,305,700			
AHCCCS One-Time Savings		(24,130,900)		
Subtotal One-time Expenditures	\$261,273,500	\$1,447,700	\$25,670,900	\$62,066,100
Total Expenditures	\$9,626,257,200	\$9,601,557,700	\$9,842,810,800	\$10,216,942,400
Ending Balance 2/	\$114,133,100	\$159,023,800 3/	\$167,917,100 3/	\$260,905,600
Structural Balance 4/	\$12,030,000	\$46,338,400	\$193,588,000	\$322,971,700

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

SUMMARY OF ONE-TIME SPENDING AND ONE-TIME SAVINGS

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Operating				
ADOA/Automation Projects Fund - ADE IT	\$ 7,300,000	\$ -	\$ -	\$ -
ADOA/Automation Projects Fund - e-Procurement	3,000,000			
Corporation Commission - IT Funding	2,000,000			
Counties - DJC Local Cost Sharing Offset	8,000,000			
Economic Opportunity - Small Water Systems Fund Deposit	500,000			
DES - Domestic Violence Shelter (Maricopa/Yuma County)	100,000			
DES - ABLE Accounts	240,000			
ADE - District Sponsored Charter Schools	1,148,000			
ADE - Current Year Funding Backfill	31,000,000			
ADE - Small School Weight Hold Harmless	6,500,000			
ADE - Geographic Literacy	100,000			
Forestry and Fire Management - Inmate Fire Crew Carriers	190,000			
Forestry and Fire Management - Wildland Fire Engines	112,500			
Gaming - Breeders' Award	200,000			
Governor - Youth Success Fund Deposit		1,500,000		
Judiciary - Dependency Surge	3,000,000			
Judiciary - Information Technology Funding	948,700			
Legislature - Auditor General	200,000			
DPS - Border Security	14,600,000			
DPS - Testing Sexual Assault Kits	500,000			
DOR - Military Withholding Refunds	2,000,000			
SFB - Building Renewal Grants	15,000,000			
SFB - Public School Credit Enhancement Transaction Costs	500,000			
SFB - New School Construction	23,078,600	24,078,600	25,670,900	62,066,100
DWR - Water Protection Fund Deposit	250,000			
Universities - ASU	7,000,000			
Universities - NAU	4,000,000			
Universities - UA	8,000,000			
Subtotal - Operating Funding	\$ 139,467,800	\$ 25,578,600	\$ 25,670,900	\$ 62,066,100
AHCCCS - One-time Health Insurer Fee Savings		\$ (24,130,900)		
Capital Outlay				
Capital - ADOA - Projects	8,000,000			
Capital - Veterans Home Flagstaff	10,000,000			
Subtotal - Capital Outlay	\$ 18,000,000	\$ -	\$ -	\$ -
Supplementals				
ADE - Funding Formula Requirements	17,081,200			
Land Department - Central Arizona Project User Fees	224,500			
Subtotal - Supplementals	\$ 17,305,700	\$ -	\$ -	\$ -
Transportation Funding				
Highway Projects	56,500,000			
Local HURF - General Fund Deposit	30,000,000			
Subtotal - Transportation Funding	\$ 86,500,000	\$ -	\$ -	\$ -
Total - One-time Spending	\$ 261,273,500	\$ 1,447,700	\$ 25,670,900	\$ 62,066,100

SUMMARY OF FY 2018 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 2017 General Fund revenues of \$9.74 billion and spending of \$9.63 billion, the Baseline has a projected FY 2017 balance of \$114 million. Given forecasted FY 2018 General Fund revenues of \$9.76 billion and spending of \$9.60 billion, the Baseline has a projected FY 2018 balance of \$159 million.
- Under the 3-year budget projections, there would be a balance of \$168 million in FY 2019 and \$261 million in FY 2020.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of \$461 million.

General Fund Structural Balances

- The General Fund structural balance is the difference between ongoing General Fund revenues and expenditures.
- Given forecasted FY 2017 ongoing General Fund revenues of \$9.38 billion and ongoing spending of \$9.36 billion, the Baseline has a projected FY 2017 structural balance of \$12 million.
- Given forecasted FY 2018 ongoing General Fund revenues of \$9.65 billion and ongoing spending of \$9.60 billion, the Baseline has a projected FY 2018 structural balance of \$46 million.
- Under the 3-year budget projections, there would be a structural balance of \$194 million in FY 2019 and \$323 million in FY 2020.

General Fund Revenues

- Projected FY 2018 revenues are \$9.76 billion, including:
 - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$394 million, or 3.9%.
 - ⇒ The beginning balance would decrease by \$(170) million, from \$284 million at the beginning of FY 2017 to \$114 million at the start of FY 2018.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would increase from \$664 million to \$681 million, thereby decreasing state revenue by \$(17) million.
 - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(107) million, primarily from a reduction in corporate income taxes.
 - ⇒ Fund transfers from the Health Insurance Trust Fund would decrease by \$(79) million.
 - ⇒ Overall net revenues are forecast to increase in FY 2018 by \$20 million, or 0.2%, from \$9.74 billion in FY 2017 to \$9.76 billion in FY 2018.

General Fund Spending

- FY 2018 General Fund spending is projected to be \$9.60 billion, a decrease of \$(25) million, or (0.3)%, below FY 2017.
- The entire FY 2018 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$38.3 billion.

Education

Department of Education

- ADE General Fund spending would increase by \$79.3 million, or 1.9%, including:
 - ⇒ \$17.0 million for 1% Cap shortfall in FY 2016 (base adjustment).
 - ⇒ \$(12.1) million for Homeowner's Rebate surplus in FY 2016 (base adjustment).
 - ⇒ \$87.5 million for 1.4% student growth, for a total student count of 1,121,858.
 - ⇒ \$21.0 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$79.5 million for a 1.37% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(51.2) million for an increase in property tax collections due to new construction.
 - ⇒ \$(16.0) million to offset higher endowment earnings.
 - ⇒ \$(31.0) million to eliminate one-time current year funding backfill.
 - ⇒ \$(18.1) million to phase out remaining multisite charter small school weights.
 - ⇒ \$(1.8) million to eliminate Joint Technical Education District (JTED) funding for high school graduates.

- ⇒ \$(1.2) million to eliminate one-time funding for former district-sponsored charter schools.
- ⇒ \$818,800 for Empowerment Scholarship Account (ESA) growth.
- ⇒ \$5.0 million for new college credit by examination incentive program, as authorized in the FY 2017 budget.
- ⇒ \$(100,000) to eliminate one-time funding for Geographic Literacy.
- The Baseline continues to defer \$930.7 million in General Fund spending for school district payments from FY 2018 to FY 2019.

School Facilities Board

- SFB General Fund spending would decrease by \$(15.9) million, or (7.0)%, including:
 - ⇒ \$(15.0) million for the removal of one-time building renewal grant monies.
 - ⇒ \$(500,000) for the removal of one-time funding for Public School Credit Enhancement Transaction Costs.
 - ⇒ \$(244,900) for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$(174,600) million for lower costs of new school construction.

Universities

- The Universities' General Fund spending would decrease by \$(14.8) million, or (2.1)%, including:
 - ⇒ \$(19.0) million to remove one-time funding for operating or capital expenditures.
 - ⇒ \$4.2 million to restore one-time savings associated with refinancing lease-purchase payments for research infrastructure.
- Total university enrollment is expected to be 176,100 full-time equivalent students in FY 2018, or 6.6% above FY 2017.

Community Colleges

- Community College General Fund spending would increase by \$657,700, or 1.2%, primarily due to equalization formula growth.
- FY 2016 rural district enrollment decreased by (830) full-time equivalent students, or (2.8)%, for a total enrollment of 29,224. Including the Maricopa and Pima districts, total enrollment decreased by (6,168), or (5.0)%, for total enrollment of 116,494.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending would increase by \$44.0 million, or 2.5%, including:
 - ⇒ \$68.2 million for formula adjustments, including 1.6% enrollment growth and a 3.0% capitation rate increase. The capitation rate increase does not include adjustments related to the minimum wage increase required by Proposition 206.
 - ⇒ \$(24.1) million for a 1-year moratorium on the federal health insurer fee.
 - ⇒ The hospital assessment continues to fund the state's acute care costs of the Proposition 204 and Adult Expansion populations.
- AHCCCS enrollment is projected to grow to 1.89 million by June 2018. This level represents a caseload increase of 28,900, or 1.6%, above June 2017. Total June 2018 enrollment includes 33,850 children in the restored KidsCare program.

Department of Child Safety

- DCS' General Fund spending would remain unchanged in FY 2018.
- DCS' benchmark is to have fewer than 17,500 children in out-of-home care by the end of FY 2018. As of October 2016, there were 17,936 children in out-of-home care.

Department of Economic Security

- DES General Fund spending would increase by \$18.3 million, or 3.5%, including:
 - ⇒ \$18.6 million for formula adjustments, including a 4.5% enrollment and 2.5% capitation rate increase. The capitation rate increase does not include adjustments related to the minimum wage increase required by Proposition 206.
 - ⇒ \$(340,000) to remove one-time funding for ABLE accounts and domestic violence shelters.
- Medicaid Developmental Disability caseloads are projected to grow to 32,277 by June 2018. This level represents a caseload increase of 1,390, or 4.5%, above June 2017. In addition, another 7,693 clients are projected to receive non-Medicaid services in FY 2018.

- TANF Cash Benefits caseloads are projected to be flat in FY 2018, resulting in estimated enrollment of 17,763 by June 2018.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending would increase by \$7.0 million, or 0.7%, including:
 - ⇒ \$7.1 million for annualizing the costs of 1,000 private medium-security beds opened in fall 2016.
 - ⇒ \$(108,200) to remove one-time funding for equipment costs.
- The systemwide prison population is projected to be 43,262, or a growth of 360 inmates above FY 2017. In June 2018, ADC would have a permanent bed shortfall of (4,129). Taking into account 5,996 temporary beds, the shortfall becomes a surplus of 1,867 beds.

Judiciary

- Judiciary General Fund spending would decrease by \$(3.3) million, or (2.9)%, including:
 - ⇒ \$193,000 for the second year of a 3% pay increase for Supreme, Appeals, and Superior Court judges.
 - ⇒ \$425,400 for the annualization of additional funding for 2 new Supreme Court Justices.
 - ⇒ \$(3.0) million for the elimination of one-time funding for dependency case processing.
 - ⇒ \$(948,700) for the elimination of one-time funding for Wide Area Application Services equipment.
- The Baseline includes \$3.0 million in FY 2018 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 would decrease by \$(15.1) million, or (12.5)%, including:
 - ⇒ \$(14.6) million for the elimination of one-time equipment funding for the Border Strike Task Force.
 - ⇒ \$(500,000) for the elimination of one-time funding for sexual assault kit testing.

Local Issues

- The Baseline continues a \$5.5 million cash payment from the General Fund for county governments. Each county receives \$550,100 except Maricopa, Mohave, Pima, Pinal, and Yavapai. The Baseline continues an extra allocation of \$500,000 to Graham County.
- The Baseline includes a decrease of \$(8.0) million from the General Fund for the elimination of one-time funding distributed to counties to offset contributions for the cost of the Department of Juvenile Corrections.
- The Baseline includes an increase of \$17.2 million, or 2.6%, for higher urban revenue sharing payments to city governments. Total funding would be \$680.8 million.
- The Baseline removes \$(30.0) million in one-time local Highway User Revenue Fund (HURF) monies.

General Government

Automation

- The Baseline includes \$6.5 million for large-scale automation projects. Of this amount, \$5.0 million is financed from the General Fund and \$1.5 million is financed from Other Funds. The \$6.5 million FY 2018 amount includes the following:
 - ⇒ \$1.5 million for technology projects and project management at ADOA.
 - ⇒ \$5.0 million as the next installment to replace the DCS Children's Informational Library and Data Source (CHILDS).

Revertments

- The Baseline assumes projected revertments at \$(120) million, compared to \$(140) million in FY 2017. (Revertments are unspent appropriations.)
- FY 2018 Administrative Adjustments are forecast to be \$100 million, which is unchanged from FY 2017.

FY 2017 General Fund Supplementals

- The Baseline includes a net increase of \$17.3 million for FY 2017 adjustments, including:
 - ⇒ For ADE, a \$17.1 million General Fund supplemental for 1% Cap funding shortfalls.
 - ⇒ \$224,500 for the Land Department's Central Arizona Project payments.

State Employee Issues

FTE Positions

- The Baseline increases the Total Funds Full-Time Equivalent (FTE) ceiling by 71.4 FTE Positions in FY 2018, including:
 - ⇒ An increase of 71.4 FTE Positions in DES' Division of Developmental Disabilities (DDD) for additional case managers.
 - ⇒ A decrease of (11.0) FTE Positions from the Border Strike Task Force line item for an adjustment to reflect funded positions.
 - ⇒ An increase of 6 FTE Positions for the second year of a 2-year phase-in of resources for the expansion of the Supreme Court from 5 to 7 justices.
 - ⇒ An increase of 5 FTE Positions to allow previously appropriated monies to be utilized for personnel costs in the Office of Economic Opportunity (OEO)
- These adjustments would bring the total FTE Position ceiling to 52,655.7 in FY 2018.

Employee Retirement Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will increase from 11.48% to 11.50%.
- 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 2018 increase in the aggregate employer contribution rate would be 9.48%.
 - ⇒ In CORP, the FY 2018 increase in the aggregate employer contribution rate would be 2.27%.
- 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 10 years.
- If the Legislature chooses to fund the FY 2018 employer contribution rate changes, the General Fund cost would be \$12.0 million (\$27.3 million Total State Funds) in FY 2018. The Baseline does not include funding for the employer share of these rate adjustments in any agency budget.
- The recent Supreme Court ruling against EORP in *Hall vs. the Elected Officials' Retirement Plan* will result in a larger unfunded liability for EORP, CORP, and PSPRS and increased contribution rates. The employer rate increases for FY 2018 do not reflect the impact of the *Hall* case.

Capital

The Baseline removes \$(8.0) million from the General Fund for one-time ADOA building renewal monies. The Baseline also removes \$(86.5) million for one-time transportation projects, including \$(30.0) million for local HURF and \$(56.5) million for Arizona Department of Transportation (ADOT) projects.

- The Baseline includes \$6.1 million from Other Appropriated Funds for building renewal at 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 2018 GENERAL FUND SUMMARY BY AGENCY

	GF FY 2017 Estimate	GF FY 2018 Baseline	GF FY 2018 Baseline - FY 2017
BUDGET UNITS			
Administration, Arizona Department of	\$10,264,500	\$10,264,500	\$0
Administration, Arizona Department of Automation Projects Fund	14,881,600	5,000,000	(9,881,600)
Administrative Hearings, Office of	860,500	860,500	0
African-American Affairs, Arizona Commission of	125,000	125,000	0
Agriculture, Arizona Department of	9,162,700	9,162,700	0
AHCCCS	1,750,941,400	1,794,980,300	44,038,900
Attorney General - Department of Law	24,664,800	24,664,800	0
Charter Schools, State Board for	1,185,200	1,185,200	0
Child Safety, Department of	379,179,400	379,179,400	0
Commerce Authority, Arizona	21,800,000	21,800,000	0
Community Colleges, Arizona	54,312,700 ^{1/}	54,970,400	657,700
Corporation Commission	2,611,600	611,600	(2,000,000)
Corrections, State Department of	1,046,682,600	1,053,665,200	6,982,600
County Funding	14,000,500	6,000,500	(8,000,000)
Deaf and the Blind, Schools for the	21,378,100	21,378,100	0
Economic Opportunity, Office of	1,068,700	484,100	(584,600)
Economic Security, Department of	530,124,400	548,428,900	18,304,500
Education, State Board of	1,094,000	1,094,000	0
Education, Department of	4,069,375,800	4,148,687,800	79,312,000
Emergency and Military Affairs, Department of	12,619,500	12,619,500	0
Environmental Quality, Department of	2,823,600	2,823,600	0
Equal Opportunity, Governor's Office of	189,100	189,100	0
Equalization, State Board of	643,000	643,000	0
Executive Clemency, Board of	952,600	952,600	0
Financial Institutions, State Department of	2,978,200	2,978,200	0
Forestry and Fire Management, Arizona Department of	10,442,800	10,120,300	(322,500)
Gaming, Department of	1,979,500	1,779,500	(200,000)
Governor, Office of the	6,849,900	8,349,900	1,500,000
Governor's Office of Strategic Planning and Budgeting	1,994,000	1,994,000	0
Health Services, Department of	86,551,700	86,551,700	0
Historical Society, Arizona	2,722,900	2,722,900	0
Historical Society, Prescott	824,500	824,500	0
Housing, Department of	811,400	811,400	0
Independent Redistricting Commission	1,115,300	1,115,300	0
Insurance, Department of	5,824,300	5,824,300	0
Judiciary			
Supreme Court	19,219,500	18,716,500	(503,000)
Court of Appeals	14,280,400	14,342,100	61,700
Superior Court	79,517,800	76,628,800	(2,889,000)
SUBTOTAL - Judiciary	113,017,700	109,687,400	(3,330,300)
Juvenile Corrections, Department of	24,180,400	24,180,400	0
Land Department, State	12,491,400	12,715,900	224,500
Legislature			
Auditor General	18,066,500	17,866,500	(200,000)
House of Representatives	13,201,500	13,201,500	0
Joint Legislative Budget Committee	2,488,300	2,488,300	0
Legislative Council	8,215,400	8,215,400	0
Senate	9,408,500	9,408,500	0
SUBTOTAL - Legislature	51,380,200	51,180,200	(200,000)
Mine Inspector, State	1,212,500	1,212,500	0
Navigable Stream Adjudication Commission	124,000	124,000	0
Postsecondary Education, Commission for	1,396,800	1,396,800	0
Public Safety, Department of	121,195,700	106,095,700	(15,100,000)
Public Safety Personnel Retirement System	6,000,000	6,000,000	0
Radiation Regulatory Agency	1,563,100	1,563,100	0
Real Estate Department, State	2,994,900	2,994,900	0
Revenue, Department of	31,998,300	29,998,300	(2,000,000)
School Facilities Board	228,094,400	212,174,900	(15,919,500)
Secretary of State	14,969,200	11,584,700	(3,384,500)

	GF FY 2017 Estimate	GF FY 2018 Baseline	GF FY 2018 Baseline - FY 2017
Tax Appeals, State Board of	266,600	266,600	0
Tourism, Office of	7,112,000	7,112,000	0
Transportation, Department of	50,400	50,400	0
Treasurer, State	1,205,100	1,205,100	0
Tribal Relations, Governor's Office on Universities	57,500	57,500	0
Board of Regents	21,928,400	21,928,400	0
Arizona State University - Tempe/DPC	253,651,900 <u>2/</u>	248,942,600	(4,709,300)
Arizona State University - East Campus	22,523,100 <u>2/</u>	22,523,100	0
Arizona State University - West Campus	29,222,600 <u>2/</u>	29,222,600	0
Northern Arizona University	105,227,000	102,876,700	(2,350,300)
University of Arizona - Main Campus	197,059,600	189,330,500	(7,729,100)
University of Arizona - Health Sciences Center	68,859,800	68,859,800	0
SUBTOTAL - Universities	698,472,400	683,683,700	(14,788,700)
Veterans' Services, Department of	6,054,100	6,054,100	0
Water Resources, Department of	13,012,600	12,762,600	(250,000)
OPERATING BUDGET TOTAL	\$9,429,885,100	9,504,943,600	75,058,500
FY 2017 Supplemental/Ex-Appropriation <u>3/</u>	17,305,700	0	(17,305,700)
Capital Outlay Projects	18,000,000	0	(18,000,000)
Debt Service Payments	84,117,400	84,115,100	(2,300)
Civic Center Debt Service	20,449,000	22,499,000	2,050,000
Rio Nuevo Distribution	10,000,000	10,000,000	0
Transportation Funding	86,500,000	0	(86,500,000)
Administrative Adjustments	100,000,000	100,000,000	0
Revertments	(140,000,000)	(120,000,000)	20,000,000
GRAND TOTAL	\$9,626,257,200	\$9,601,557,700	(\$24,699,500)

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

2/ Arizona State University's (ASU) FY 2017 statewide adjustments were revised after publication of the FY 2017 Appropriations Report to reflect a change in the methodology used to allocate Health Insurance Trust Fund savings by campus.

3/ Please see page S-31 for individual agency detail.

FY 2018 OTHER APPROPRIATED FUNDS SUMMARY BY AGENCY

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
<u>BUDGET UNITS</u>			
Accountancy, State Board of			
Board of Accountancy Fund	\$1,937,000	\$1,937,000	\$0
Acupuncture Board of Examiners			
Acupuncture Board of Examiners Fund	178,500	175,500	(3,000)
Administration, Arizona Department of			
Air Quality Fund	927,300	927,300	0
Arizona Financial Information System Collections Fund	9,406,300	9,406,300	0
Automation Operations Fund	23,937,600	23,937,600	0
Capital Outlay Stabilization Fund	18,069,600	18,069,600	0
Corrections Fund	570,400	570,400	0
Federal Surplus Materials Revolving Fund	464,500	464,500	0
Information Technology Fund	3,436,000	2,936,000	(500,000)
Motor Vehicle Pool Revolving Fund	10,151,300	10,151,300	0
Personnel Division Fund	12,857,900	12,857,900	0
Risk Management Revolving Fund	93,046,300	93,046,300	0
Special Employee Health Insurance Trust Fund	5,256,100	5,256,100	0
Special Services Revolving Fund	592,200	592,200	0
State Surplus Materials Revolving Fund	2,947,000	2,947,000	0
State Web Portal Fund	4,542,400	4,542,400	0
Telecommunications Fund	2,020,100	1,845,100	(175,000)
Total - Arizona Department of Administration	<u>188,225,000</u>	<u>187,550,000</u>	<u>(675,000)</u>
Administration, Arizona Department of -			
Automation Projects Fund	47,774,700	6,500,000	(41,274,700)
Agriculture, Arizona Department of			
Air Quality Fund	1,434,400	1,434,400	0
Pest Management Trust Fund	0 ^{1/}	0	0
Total - Arizona Department of Agriculture	<u>1,434,400</u>	<u>1,434,400</u>	<u>0</u>
AHCCCS			
Budget Neutrality Compliance Fund	3,563,300	3,655,300	92,000
Children's Health Insurance Program Fund	3,674,900	113,681,000	110,006,100
Prescription Drug Rebate Fund - State	113,778,900	113,778,900	0
Substance Abuse Services Fund	2,250,200	2,250,200	0
Tobacco Products Tax Fund			
Emergency Health Services Account	18,747,200	19,244,300	497,100
Tobacco Tax and Health Care Fund			
Medically Needy Account	72,998,200	72,998,200	0
Total - AHCCCS	<u>215,012,700</u>	<u>325,607,900</u>	<u>110,595,200</u>
Arts, Arizona Commission on the			
Budget Stabilization Fund	1,500,000	0	(1,500,000)
Athletic Training, Board of			
Athletic Training Fund	119,100	119,100	0
Attorney General - Department of Law			
Antitrust Enforcement Revolving Fund	244,300	244,300	0
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,080,400	2,080,400	0
Collection Enforcement Revolving Fund	6,845,200	6,845,200	0
Consumer Protection-Consumer Fraud Rev. Fund	5,575,700	5,575,700	0
Interagency Service Agreements Fund	16,308,500 ^{2/}	16,308,500	0
Internet Crimes Against Children Enforcement Fund	900,000	900,000	0
Risk Management Revolving Fund	9,406,700	9,406,700	0
Victims' Rights Fund	3,758,900	3,758,900	0
Total - Attorney General - Department of Law	<u>45,119,700</u>	<u>45,119,700</u>	<u>0</u>
Automobile Theft Authority			
Automobile Theft Authority Fund	5,295,500	5,295,500	0
Barbers, Board of			
Board of Barbers Fund	370,700	370,700	0
Behavioral Health Examiners, Board of			
Board of Behavioral Health Examiners Fund	1,759,100	1,759,100	0
Child Safety, Department of			

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
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	149,472,700	0
Total - Department of Child Safety	<u>178,139,100</u>	<u>178,139,100</u>	<u>0</u>
Chiropractic Examiners, State Board of Board of Chiropractic Examiners Fund	451,100	451,100	0
Contractors, Registrar of Registrar of Contractors Fund	12,165,400	12,165,400	0
Corporation Commission Arizona Arts Trust Fund	49,900	49,900	0
Investment Management Regulatory and Enforcement Fund	708,900	708,900	0
Public Access Fund	6,558,800	6,558,800	0
Securities Regulatory and Enforcement Fund	4,909,600	4,909,600	0
Utility Regulation Revolving Fund	14,098,400	14,098,400	0
Total - Corporation Commission	<u>26,325,600</u>	<u>26,325,600</u>	<u>0</u>
Corrections, State Department of Alcohol Abuse Treatment Fund	555,500	555,500	0
Corrections Fund	30,317,800	27,517,800	(2,800,000)
Penitentiary Land Fund	979,300	979,300	0
Prison Construction and Operations Fund	13,686,300	13,686,300	0
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,500	1,861,500	0
State Education Fund for Correctional Education	669,500	669,500	0
Transition Program Fund	2,400,100	2,400,100	0
Total - State Department of Corrections	<u>50,470,000</u>	<u>47,670,000</u>	<u>(2,800,000)</u>
Cosmetology, Board of Board of Cosmetology Fund	1,805,200	1,805,200	0
Criminal Justice Commission, Arizona Criminal Justice Enhancement Fund	646,600	646,600	0
Drug and Gang Prevention Resource Center Fund	604,500	604,500	0
State Aid to County Attorneys Fund	973,700	973,700	0
Victim Compensation and Assistance Fund	4,220,600	4,220,600	0
Total - Arizona Criminal Justice Commission	<u>6,445,400</u>	<u>6,445,400</u>	<u>0</u>
Deaf and the Blind, Arizona Schools for the Schools for the Deaf and the Blind Fund	11,677,700	11,838,900	161,200
Deaf and the Hard of Hearing, Comm. for the Telecommunication Fund for the Deaf	4,309,500	4,309,500	0
Dental Examiners, State Board of Dental Board Fund	1,214,500	1,214,500	0
Economic Security, Department of Child Support Enforcement Administration Fund	16,632,600	16,632,600	0
Domestic Violence Services Fund	4,000,000	2,500,000	(1,500,000)
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	72,964,700	0
Health Services Lottery Monies Fund	700,000	0	(700,000)
Long Term Care System Fund	26,559,600	26,559,600	0
Public Assistance Collections Fund	421,900	421,900	0
Special Administration Fund	5,528,700	2,928,700	(2,600,000)
Spinal and Head Injuries Trust Fund	2,323,700	2,323,700	0
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	<u>293,945,000</u>	<u>289,145,000</u>	<u>(4,800,000)</u>
Education, Department of Department of Education Empowerment Scholarship Account Fund	797,900	797,900	0

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
Department of Education Professional			
Development Revolving Fund	2,700,000	2,700,000	0
Permanent State School Fund	219,804,200	235,284,600	15,480,400
Proposition 301 Fund	7,000,000	7,000,000	0
Teacher Certification Fund	2,342,700	2,342,700	0
State Web Portal Fund	500,000	0	(500,000)
Tribal College Dual Enrollment Program Fund	250,000	250,000	0
Total - Department of Education	<u>233,394,800</u>	<u>248,375,200</u>	<u>14,980,400</u>
Environmental Quality, Department of			
Air Quality Fund	8,236,400	7,046,600	(1,189,800)
Emergency Response Fund	132,800	132,800	0
Emissions Inspection Fund	32,620,500	30,861,700	(1,758,800)
Hazardous Waste Management Fund	1,734,600	1,734,600	0
Indirect Cost Recovery Fund	13,375,200	13,375,200	0
Permit Administration Fund	7,114,100	7,114,100	0
Recycling Fund	1,352,900	1,352,900	0
Solid Waste Fee Fund	1,239,000	1,239,000	0
Underground Storage Tank Fund Revolving Fund	22,000	22,000	0
Water Quality Fee Fund	10,507,400	10,507,400	0
Total - Department of Environmental Quality	<u>76,334,900</u>	<u>73,386,300</u>	<u>(2,948,600)</u>
Exposition and State Fair Board, Arizona			
Arizona Exposition and State Fair Fund	11,613,300	11,613,300	0
Financial Institutions, Department of			
Board of Appraisal Fund	815,100	815,100	0
Financial Services Fund	1,453,000	1,453,000	0
Total - Department of Financial Institutions	<u>2,268,100</u>	<u>2,268,100</u>	<u>0</u>
Funeral Directors and Embalmers, Board of			
Board of Funeral Directors' and Embalmers' Fund	373,300	373,300	0
Game and Fish Department, Arizona			
Capital Improvement Fund	1,001,200	1,001,200	0
Game and Fish Fund	35,687,600	35,687,600	0
Game, Nongame, Fish and Endangered Species Fund	345,800	345,800	0
Watercraft Licensing Fund	5,187,800	4,566,800	(621,000)
Wildlife Endowment Fund	16,200	16,200	0
Total - Arizona Game and Fish Department	<u>42,238,600</u>	<u>41,617,600</u>	<u>(621,000)</u>
Gaming, Department of			
Tribal-State Compact Fund	2,081,800	2,081,800	0
Racing Regulation Fund	2,886,000	2,886,000	0
State Lottery Fund	300,000	300,000	0
Arizona Benefits Fund	11,050,900	11,050,900	0
Total - Department of Gaming	<u>16,318,700</u>	<u>16,318,700</u>	<u>0</u>
Health Services, Department of			
Arizona State Hospital Fund	9,562,000	9,562,000	0
ASH Land Earnings Fund	880,100	650,000	(230,100)
Capital Outlay Stabilization Fund	1,559,900	1,559,900	0
Child Fatality Review Fund	94,700	94,700	0
Disease Control Research Fund	250,000	0	(250,000)
Emergency Medical Services Operating Fund	5,357,900	5,357,900	0
Environmental Laboratory Licensure Revolving Fund	924,200	924,200	0
Federal Child Care and Development Fund Block Grant	872,300	872,300	0
Health Services Licensing Fund	9,232,300	9,232,300	0
Indirect Cost Fund	8,546,100	8,546,100	0
Newborn Screening Program Fund	7,130,100	7,130,100	0
Nursing Care Institution Resident Protection Revolving Fund	138,200	138,200	0
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	3,619,500	3,619,500	0
Total - Department of Health Services	<u>52,867,300</u>	<u>51,387,200</u>	<u>(1,480,100)</u>

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
Homeopathic and Integrated Medicine			
Examiners, Board of			
Board of Homeopathic and Integrated Medicine			
Examiners' Fund	103,000	87,300	(15,700)
Housing, Department of			
Housing Trust Fund	318,500	318,500	0
Industrial Commission of Arizona			
Administrative Fund	19,881,300	19,881,300	0
Judiciary - Supreme Court			
Confidential Intermediary and Fiduciary Fund	488,900	488,900	0
Court Appointed Special Advocate Fund	2,943,200	2,943,200	0
Criminal Justice Enhancement Fund	4,365,200	4,365,200	0
Defensive Driving School Fund	4,198,500	4,198,500	0
Health Services Lottery Monies Fund	250,000	0	(250,000)
Judicial Collection Enhancement Fund	14,017,900	14,017,900	0
State Aid to the Courts Fund	2,945,100	2,945,100	0
Total - Judiciary - Supreme Court	29,208,800	28,958,800	(250,000)
Judiciary - Superior Court			
Criminal Justice Enhancement Fund	5,435,200	5,435,200	0
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	11,953,300	11,953,300	0
SUBTOTAL - Judiciary	41,162,100	40,912,100	(250,000)
Juvenile Corrections, Department of			
Criminal Justice Enhancement Fund	531,500	531,500	0
Department of Juvenile Corrections			
Local Cost Sharing Fund	11,260,000	11,260,000	0
State Charitable, Penal and Reformatory			
Institutions Land Fund	2,000,100	2,000,100	0
State Education Fund for Committed Youth	1,588,200	1,588,200	0
Total - Department of Juvenile Corrections	15,379,800	15,379,800	0
Land Department, State			
Due Diligence Fund	500,000	500,000	0
Environmental Special Plate Fund	260,600	260,600	0
Trust Land Management Fund	4,036,500	4,036,500	0
Total - State Land Department	4,797,100	4,797,100	0
Legislature			
Legislative Council			
Telecommunication Fund for the Deaf	250,000	0	(250,000)
Liquor Licenses and Control, Department of			
Liquor Licenses Fund	3,007,400	3,007,400	0
Lottery Commission, Arizona State			
State Lottery Fund	113,225,100 ^{3/}	117,903,600	4,678,500
Massage Therapy, Board of			
Board of Massage Therapy Fund	470,100	455,100	(15,000)
Medical Board, Arizona			
Arizona Medical Board Fund	6,463,600	6,463,600	0
Mine Inspector, State			
Aggregate Mining Reclamation Fund	112,900	112,900	0
Naturopathic Physicians Medical Board			
Naturopathic Physicians Medical Board Fund	184,200	180,200	(4,000)
Navigable Stream Adjudication Commission			
Arizona Water Banking Fund	200,000	200,000	0
Nursing, State Board of			
Board of Nursing Fund	4,784,800	4,784,800	0
Nursing Care Institution Administrators Board			
Nursing Care Institution Administrators'			
Licensing and Assisted Living Facility			
Managers' Certification Fund	445,400	445,400	0
Occupational Therapy Examiners, Board of			
Occupational Therapy Fund	170,700	170,700	0
Opticians, State Board of Dispensing			
Board of Dispensing Opticians Fund	140,000	140,000	0
Optometry, State Board of			

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
Board of Optometry Fund	210,100	210,100	0
Osteopathic Examiners, Arizona Board of			
Board of Osteopathic Examiners Fund	940,500	901,500	(39,000)
Parents Comm. on Drug Education & Prevention, AZ			
Drug Treatment and Education Fund	300,000	0	(300,000)
Parks Board, Arizona State			
State Parks Revenue Fund	14,486,900	12,836,900	(1,650,000)
Personnel Board, State			
Personnel Board Subaccount of the			
Personnel Division Fund	375,300	375,300	0
Pharmacy, Arizona State Board of			
Arizona State Board of Pharmacy Fund	2,135,200	2,015,200	(120,000)
Physical Therapy, Board of			
Board of Physical Therapy Fund	484,200	474,200	(10,000)
Pioneers' Home, Arizona			
Miners' Hospital Fund	2,028,900	2,028,900	0
State Charitable Fund	4,145,700	4,145,700	0
Total - Arizona Pioneers' Home	<u>6,174,600</u>	<u>6,174,600</u>	<u>0</u>
Podiatry Examiners, State Board of			
Podiatry Fund	148,400	148,400	0
Postsecondary Education, Commission for			
Postsecondary Education Fund	1,534,100	1,534,100	0
Private Postsecondary Education, Board for			
Board for Private Postsecondary Education			
Fund	396,100	396,100	0
Psychologist Examiners, State Board of			
Board of Psychologist Examiners Fund	475,400	475,400	0
Public Safety, Department of			
Arizona Deoxyribonucleic Acid Identification			
System Fund	4,969,600	4,969,600	0
Arizona Highway Patrol Fund	24,113,100	24,113,100	0
Arizona Automated Fingerprint Identification System Fund	2,910,200	2,910,200	0
Automobile Theft Authority Fund	3,000,000	0	(3,000,000)
Concealed Weapons Permit Fund	3,489,000	1,389,000	(2,100,000)
Crime Laboratory Assessment Fund	870,200	870,200	0
Crime Laboratory Operations Fund	13,597,300	13,597,300	0
Criminal Justice Enhancement Fund	2,860,500	2,860,500	0
Drug and Gang Prevention Resource Center Fund	1,000,000	0	(1,000,000)
GIITEM Border Security and Law			
Enforcement Subaccount	2,527,700	2,527,700	0
Highway User Revenue Fund	96,006,100	96,006,100	0
Motorcycle Safety Fund	205,000	205,000	0
Parity Compensation Fund	2,129,400	2,129,400	0
Public Safety Equipment Fund	2,893,700	2,893,700	0
Risk Management Revolving Fund	1,263,700	1,263,700	0
Safety Enforcement and Transportation			
Infrastructure Fund - Department of			
Public Safety Subaccount	1,551,800	1,551,800	0
State Aid to Indigent Defense Fund	700,000	700,000	0
State Highway Fund	7,301,800	7,301,800	0
Total - Department of Public Safety	<u>171,389,100</u>	<u>165,289,100</u>	<u>(6,100,000)</u>
Radiation Regulatory Agency			
State Radiologic Technologist Certification			
Fund	271,600	271,600	0
Radiation Regulatory Fee Fund	576,500	576,500	0
Total - Radiation Regulatory Agency	<u>848,100</u>	<u>848,100</u>	<u>0</u>
Residential Utility Consumer Office			
Residential Utility Consumer Office			
Revolving Fund	1,331,400	1,331,400	0
Respiratory Care Examiners, Board of			
Board of Respiratory Care Examiners Fund	300,300	300,300	0
Retirement System, Arizona State			
Long-Term Disability Trust Fund Administration			
Account	2,800,000	2,500,000	(300,000)

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
Arizona State Retirement System Administration			
Account	24,684,200	22,384,200	(2,300,000)
Total - Arizona State Retirement System	27,484,200	24,884,200	(2,600,000)
Revenue, Department of			
Department of Revenue Administrative Fund	45,158,700	45,158,700	0
Liability Setoff Program Revolving Fund	397,900	397,900	0
Tobacco Tax and Health Care Fund	678,300	678,300	0
Total - Department of Revenue	46,234,900	46,234,900	0
Secretary of State			
Election Systems Improvement Fund	2,941,100	2,941,100	0
Records Services Fund	740,400	740,400	0
Total - Secretary of State	3,681,500	3,681,500	0
State Boards' Office			
Special Services Revolving Fund	0	0	0
Technical Registration, State Board of			
Technical Registration Fund	2,916,400	2,116,400	(800,000)
Transportation, Department of			
Air Quality Fund	161,700	161,700	0
Driving Under the Influence Abatement Fund	152,200	152,200	0
Highway User Revenue Fund	649,700	649,700	0
Motor Vehicle Liability Insurance			
Enforcement Fund	1,308,700	1,308,700	0
Safety Enforcement and Transportation			
Infrastructure Fund - Department of			
Transportation Subaccount	1,868,300	1,868,300	0
State Aviation Fund	1,615,800	1,615,800	0
State Highway Fund	348,128,300	346,628,300	(1,500,000)
Transportation Department Equipment Fund	18,474,600	18,474,600	0
Vehicle Inspection and Certificate of Title			
Enforcement Fund	1,450,200	1,450,200	0
Total - Department of Transportation	373,809,500	372,309,500	(1,500,000)
Treasurer, State			
Border Security Trust Fund	0	0	0
Law Enforcement and Boating Safety Fund	2,183,800	2,183,800	0
State Treasurer Empowerment Scholarship			
Account Fund	79,400	79,400	0
State Treasurer's Operating Fund	2,559,300	2,559,300	0
State Treasurer's Management Fund	195,600	195,600	0
Total - State Treasurer	5,018,100	5,018,100	0
Universities			
Arizona State University - Tempe/DPC			
University Collections Fund	593,126,200 4/	593,126,200	0
Arizona State University - East Campus			
University Collections Fund	42,303,300 4/	42,303,300	0
Technology and Research Initiative Fund	2,000,000	2,000,000	0
Total - Arizona State University - East Campus	44,303,300	44,303,300	0
Arizona State University - West Campus			
University Collections Fund	44,190,500 4/	44,190,500	0
Technology and Research Initiative Fund	1,600,000	1,600,000	0
Total - Arizona State University - West Campus	45,790,500	45,790,500	0
Northern Arizona University			
University Collections Fund	147,283,300 4/	147,283,300	0
University of Arizona - Main Campus			
University Collections Fund	405,141,100 4/	405,141,100	0
University of Arizona - Health Sciences Center			
University Collections Fund	47,491,400 4/	47,491,400	0
SUBTOTAL - Universities	1,283,135,800	1,283,135,800	0
Veterans' Services, Department of			
State Veterans' Conservatorship Fund	899,200	899,200	0
State Home for Veterans Trust Fund	31,147,600	31,147,600	0
Total - Department of Veterans' Services	32,046,800	32,046,800	0
Veterinary Medical Examining Board			
Veterinary Medical Examining Board Fund	651,900	584,800	(67,100)
Water Resources, Department of			

	OF FY 2017 Estimate	OF FY 2018 Baseline	OF FY 2018 Baseline - FY 2017
Assured and Adequate Water Supply Admin Fund	266,300	266,300	0
Water Resources Fund	641,400	641,400	0
Water Banking Fund	1,211,400	1,211,400	0
Total - Department of Water Resources	<u>2,119,100</u>	<u>2,119,100</u>	<u>0</u>
OPERATING BUDGET TOTAL	\$3,720,807,800	\$3,781,399,900	\$60,592,100
FY 2017 Supplemental/Ex-Appropriation <u>5/</u>	59,225,800	0	(59,225,800)
AFIS Systems Collections	3,000	0	(3,000)
HITF Employer Rate Reduction	(4,622,500)	0	4,622,500
Agency Relocation	576,800	0	(576,800)
Capital Outlay Projects	<u>333,217,500</u>	<u>349,354,600</u>	<u>16,137,100</u>
GRAND TOTAL	<u>\$4,109,208,400</u>	<u>\$4,130,754,500</u>	<u>\$21,546,100</u>

- 1/ The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$1,695,500 and 30 FTE Positions from the Pest Management Fund in FY 2017 for the Office of Pest Management. Laws 2016, Chapter 221 subsequently transferred the Office of Pest Management to the Department of Agriculture (ADA) creating the Division of Pest Management within ADA as of July 1, 2016. Chapter 221 converted the Pest Management Fund into the Pest Management Trust Fund, establishing the Trust Fund as a non-appropriated fund. The *FY 2017 Appropriations Report* displayed the Pest Management Fund as appropriated because the appropriation provided in Chapter 117 occurred before the statutory changes made by Chapter 221. The statutory changes included in Chapter 221 converted the Pest Management Trust Fund to a non-appropriated fund.
- 2/ In November, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation of \$15,508,500 and would also need to use 6 FTE Positions of the total 11 FTE Positions and the entire \$800,000 reserve appropriation provided in a FY 2017 General Appropriation Act footnote.
- 3/ Revised Lottery forecast.
- 4/ Reflects tuition collections receipts above the amount appropriated by the Legislature in FY 2017. A footnote in the FY 2017 General Appropriation Act appropriated any tuition collections receipts above the appropriated amount to the university.
- 5/ Please see page S-31 for individual agency detail.

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2017 GF <u>1</u> / Current	FY 2018 Baseline <u>2</u> / Above FY 17	FY 2018 GF JLBC Baseline
OPERATING SPENDING CHANGES			
DOA - Arizona Department of Administration	10,264,500		10,264,500
APF - Automation Projects Fund/ADOA	14,881,600		5,000,000
APF - Remove ADE Automation (One-time)		(7,300,000)	
APF - Fund DCS Automation @ \$5 M		418,400	
APF - Remove DOA Procurement (One-time)		(3,000,000)	
OAH - Office of Administrative Hearings	860,500		860,500
AAM - Commission of African-American Affairs	125,000		125,000
AGR - Department of Agriculture	9,162,700		9,162,700
AXS - AHCCCS	1,750,941,400		1,794,980,300
AXS - Formula Changes		44,038,900	
ATT - Attorney General	24,664,800		24,664,800
CHA - State Board for Charter Schools	1,185,200		1,185,200
DCS - Department of Child Safety	379,179,400		379,179,400
ACA - Arizona Commerce Authority	21,800,000		21,800,000
CCO - Arizona Community Colleges	54,312,700		54,970,400
CCO - Formula Changes		657,700	
COR - Corporation Commission	2,611,600		611,600
COR - Remove One-time Automation Funding		(2,000,000)	
ADC - Department of Corrections	1,046,682,600		1,053,665,200
ADC - Annualize 1,000 Medium Security Beds		7,090,800	
ADC - Remove One-time Equipment Costs		(108,200)	
CF - County Funding	14,000,500		6,000,500
CF - Remove One-time Additional County Distribution		(8,000,000)	
SDB - Arizona State Schools for the Deaf and the Blind	21,378,100		21,378,100
OEC - Office of Economic Opportunity	1,068,700		484,100
OEC - Remove One-time Small Water Systems Fund Deposit		(500,000)	
OEC - Remove One-time Regulatory Cost Model Funding		(84,600)	
DES - Department of Economic Security	530,124,400		548,428,900
DES - DD Caseload/Inflation Funding		18,644,500	
DES - Remove One-time Domestic Violence Shelter Funding		(100,000)	
DES - Remove One-time ABLE Account Funding		(240,000)	
BOE - State Board of Education	1,094,000		1,094,000
ADE - Arizona Department of Education	4,069,375,800		4,148,687,800
ADE - Base Adjustment		4,857,400	
ADE - Enrollment Growth		87,526,600	

	FY 2017 GF 1/ Current	FY 2018 Baseline 2/ Above FY 17	FY 2018 GF JLBC Baseline
ADE - Higher Average Cost Per Pupil		21,000,000	
ADE - Inflation		79,519,800	
ADE - New Construction		(58,082,100)	
ADE - Homeowner's Rebate		6,852,200	
ADE - Land Trust Distribution		(16,032,700)	
ADE - Eliminate Multi-Site Charters Small School Weight		(18,100,000)	
ADE - Eliminate JTED Funding For HS Graduates		(1,800,000)	
ADE - District Sponsored Charter Phase-Out		(1,148,000)	
ADE - Eliminate Current Year Funding		(31,000,000)	
ADE - Empowerment Scholarship Accounts		818,800	
ADE - Eliminate One-time Geographic Literacy Funding		(100,000)	
ADE - AP Testing Incentives		5,000,000	
EMA - Department of Emergency & Military Affairs	12,619,500		12,619,500
DEQ - Department of Environmental Quality	2,823,600		2,823,600
OEO - Governor's Office of Equal Opportunity	189,100		189,100
EQU - State Board of Equalization	643,000		643,000
EXE - Board of Executive Clemency	952,600		952,600
DFI - Dept of Financial Institutions	2,978,200		2,978,200
FOR - Department of Forestry and Fire Management	10,442,800		10,120,300
FOR - Remove One-time Fire Management Software Costs		(20,000)	
FOR - Eliminate One-time Inmate Fire Crew Carriers Funding		(190,000)	
FOR - Eliminate One-time Wildland Fire Engines Funding		(112,500)	
GAM - Department of Gaming	1,979,500		1,779,500
GAM - Eliminate One-time Breeder's Award Fund Deposit		(200,000)	
GOV - Office of the Governor	6,849,900		8,349,900
GOV - Foster Youth Education Success Program (One-time)		1,500,000	
OSP - Gov's Office of Strategic Planning & Budgeting	1,994,000		1,994,000
DHS - Department of Health Services	86,551,700		86,551,700
AZH - Arizona Historical Society	2,722,900		2,722,900
PAZ - Prescott Historical Society	824,500		824,500
DOH - Department of Housing	811,400		811,400
IND - Independent Redistricting Commission	1,115,300		1,115,300
INS - Department of Insurance	5,824,300		5,824,300
SPA - Judiciary - Supreme Court	19,219,500		18,716,500
SPA - 2 New Supreme Court Justices		425,400	
SPA - 1.5% Judicial Pay Raise		20,300	
SPA - IT Funding (One-time)		(948,700)	
COA - Judiciary - Court of Appeals	14,280,400		14,342,100
COA - 1.5% Judicial Pay Raise		61,700	

	FY 2017 GF <u>1/</u> Current	FY 2018 Baseline <u>2/</u> Above FY 17	FY 2018 GF JLBC Baseline
SUP - Judiciary - Superior Court	79,517,800		76,628,800
SUP - Remove One-time Dependency Surge Funding		(3,000,000)	
SUP - 1.5% Judicial Pay Raise		111,000	
DJC - Department of Juvenile Corrections	24,180,400		24,180,400
LAN - State Land Department	12,491,400		12,715,900
LAN - CAP Fees		224,500	
Legislature			
AUD - Auditor General	18,066,500		17,866,500
AUD - Remove One-time Audit Funding		(200,000)	
HOU - House of Representatives	13,201,500		13,201,500
JLBC - Joint Legislative Budget Committee	2,488,300		2,488,300
LEG - Legislative Council	8,215,400		8,215,400
SEN - Senate	9,408,500		9,408,500
MIN - State Mine Inspector	1,212,500		1,212,500
NAV - Arizona Navigable Steam Adjudication Comm.	124,000		124,000
POS - Commission for Postsecondary Education	1,396,800		1,396,800
DPS - Department of Public Safety	121,195,700		106,095,700
DPS - Remove One-time Sexual Assault Kit Testing Funding		(500,000)	
DPS - Remove One-time Border Strike Task Force Funding		(14,600,000)	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000
RAD - Radiation Regulatory Agency	1,563,100		1,563,100
REA - State Real Estate Department	2,994,900		2,994,900
REV - Department of Revenue	31,998,300		29,998,300
REV - Remove One-time Military Withholding Refunds		(2,000,000)	
SFB - School Facilities Board	228,094,400		212,174,900
SFB - New School Construction (Site Conditions)		1,000,000	
SFB - New School Construction (Benson USD)		(1,174,600)	
SFB - Lease-Purchase Changes		(244,900)	
SFB - Remove One-time Credit Enhancement Funding		(500,000)	
SFB - Remove One-time Building Renewal Grants		(15,000,000)	
SOS - Secretary of State	14,969,200		11,584,700
SOS - Remove Elections Services Funding		(3,384,500)	
TAX - State Board of Tax Appeals	266,600		266,600
TOU - Office of Tourism	7,112,000		7,112,000
DOT - Department of Transportation	50,400		50,400

	FY 2017 GF 1/ Current	FY 2018 Baseline 2/ Above FY 17	FY 2018 GF JLBC Baseline
TRE - State Treasurer	1,205,100		1,205,100
OTR - Governor's Office on Tribal Relations	57,500		57,500
UNI - Universities			
UNI - Arizona Board of Regents	21,928,400		21,928,400
UNI - ASU - Tempe/DPC	253,651,900		248,942,600
UNI - Refinance Adjustment		2,290,700	
UNI - Remove One-time Additional Resources		(7,000,000)	
UNI - ASU - East Campus	22,523,100		22,523,100
UNI - ASU - West Campus	29,222,600		29,222,600
UNI - Northern Arizona University	105,227,000		102,876,700
UNI - Refinance Adjustment		1,649,700	
UNI - Remove One-time Additional Resources		(4,000,000)	
UNI - UA - Main Campus	197,059,600		189,330,500
UNI - Refinance Adjustment		270,900	
UNI - Remove One-time Additional Resources		(8,000,000)	
UNI - UA - Health Sciences Center	68,859,800		68,859,800
VSC - Department of Veterans' Services	6,054,100		6,054,100
WAT - Department of Water Resources	13,012,600		12,762,600
WAT - Remove One-time Water Protection Fund Deposit		(250,000)	
OTH - Other			
OTH - FY 17 Supplemental/Ex-Appropriation	17,305,700	(17,305,700)	0
OTH - Debt Service Payments	84,117,400	(2,300)	84,115,100
OTH - Civic Center Debt Service	20,449,000	2,050,000	22,499,000
OTH - Rio Nuevo Distribution	10,000,000		10,000,000
OTH - Administrative Adjustments	100,000,000		100,000,000
OTH - Revertments	(140,000,000)	20,000,000	(120,000,000)
TOTAL - OPERATING SPENDING CHANGES	9,521,757,200	79,800,500	9,601,557,700
CAPITAL SPENDING			
ADOA Building Renewal	8,000,000	(8,000,000)	0
Veterans Home - Flagstaff	10,000,000	(10,000,000)	0
Transportation Funding	86,500,000	(86,500,000)	0
TOTAL - CAPITAL SPENDING	104,500,000	(104,500,000)	0
TOTAL - ALL SPENDING	9,626,257,200	(24,699,500)	9,601,557,700
REVENUE CHANGES			
Ongoing Revenue			
REV - Ongoing Revenue	9,377,013,700	269,434,700	9,646,448,400
One-Time Revenue			
REV - Beginning Balance	284,015,000	(169,881,900)	114,133,100
REV - ADOA - Health Insurance Trust Fund Transfer	78,900,000	(78,900,000)	0

	FY 2017 GF <u>1/</u> Current		FY 2018 Baseline <u>2/</u> Above FY 17	FY 2018 GF JLBC Baseline
REV - ADOA - Automation Operations Fund Transfer	461,600		(461,600)	0
TOTAL - REVENUE CHANGES <u>3/</u>	9,740,390,300		20,191,200	9,760,581,500
ENDING BALANCE	114,133,100		44,890,700	159,023,800

1/ Represents original FY 2017 agency appropriations adjusted for revisions in Arizona Department of Education, Land Department and Secretary of State.

2/ Represents FY 2018 Baseline cost above FY 2017 estimate.

3/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2017 OF 1/ Baseline	FY 2018 Baseline 2/ Above FY 2017	FY 2018 OF JLBC Baseline
OPERATING SPENDING CHANGES			
SBA - State Board of Accountancy	1,937,000		1,937,000
ACU - Acupuncture Board of Examiners	178,500		175,500
ACU - Remove One-Time Rulemaking Funding		(3,000)	
DOA - Arizona Department of Administration	188,225,000		187,550,000
DOA - Remove One-time Government Transformation Funding		(500,000)	
DOA - Remove One-time Telecommunications Projects		(175,000)	
APF - Automation Projects Fund/ADOA	47,774,700		6,500,000
APF - Remove ADE Automation		(7,300,000)	
APF - Remove Non-Project Management ASET Funding		(12,098,400)	
APF - Remove DES IT Security Projects		(1,294,700)	
APF - DCS Automation		418,400	
APF - Remove ADC Automation		(8,000,000)	
APF - Remove DOR Automation - Tax System Assessment		(1,000,000)	
APF - Remove DOA Procurement		(12,000,000)	
AGR - Department of Agriculture	1,434,400		1,434,400
AXS - AHCCCS	215,012,700		325,607,900
AXS - Acute Care Caseload/Inflation		497,100	
AXS - Restoration of KidsCare		110,006,100	
AXS - Other Adjustments		92,000	
ART - Arizona Commission on the Arts	1,500,000		0
ART - Remove One-Time BSF Funding		(1,500,000)	
BAT - Board of Athletic Training	119,100		119,100
ATT - Attorney General	45,119,700		45,119,700
ATA - Automobile Theft Authority	5,295,500		5,295,500
BAR - Board of Barbers	370,700		370,700
BHE - Board of Behavioral Health Examiners	1,759,100		1,759,100
DCS - Department of Child Safety	178,139,100		178,139,100
BCE - State Board of Chiropractic Examiners	451,100		451,100
ROC - Registrar of Contractors	12,165,400		12,165,400
COR - Corporation Commission	26,325,600		26,325,600
ADC - Department of Corrections	50,470,000		47,670,000
ADC - Remove One-time Radio Replacement Funding		(2,800,000)	
COS - Board of Cosmetology	1,805,200		1,805,200

	FY 2017 OF <u>1</u> / Baseline	FY 2018 Baseline <u>2</u> / Above FY 2017	FY 2018 OF JLBC Baseline
JUS - Arizona Criminal Justice Commission	6,445,400		6,445,400
SDB - AZ State Schools for the Deaf and the Blind	11,677,700		11,838,900
SDB - Base Level Increase		161,200	
HEA - Comm for the Deaf & the Hard of Hearing	4,309,500		4,309,500
DEN - Board of Dental Examiners	1,214,500		1,214,500
DES - Department of Economic Security	293,945,000		289,145,000
DES - Remove One-time Domestic Violence Fund Increase		(1,500,000)	
DES - Remove One-time DD Room and Board Funding		(600,000)	
DES - Remove One-time APS Caseload Growth Funding		(2,000,000)	
DES - Remove One-time Area Agencies on Aging Funding		(700,000)	
ADE - Arizona Department of Education	233,394,800		248,375,200
ADE - Land Trust Distribution		15,480,400	
ADE - Remove One-time Code Writers Pilot Funding		(500,000)	
DEQ - Department of Environmental Quality	76,334,900		73,386,300
DEQ - Remove One-time WQARF Funding Increase		(2,948,600)	
COL - Arizona Exposition and State Fair Board	11,613,300		11,613,300
DFI - Dept of Financial Institutions	2,268,100		2,268,100
EMB - Board of Funeral Directors and Embalmers	373,300		373,300
FIS - Arizona Game and Fish Department	42,238,600		41,617,600
FIS - Remove One-time Aquatic Invasive Species Funding		(375,000)	
FIS - Remove One-time Law Enforcement Watercraft Funding		(246,000)	
GAM - Department of Gaming	16,318,700		16,318,700
DHS - Department of Health Services	52,867,300		51,387,200
DHS - Remove One-time ASH Equipment Funding		(230,100)	
DHS - Remove One-time Alzheimer's Research Funding		(1,000,000)	
DHS - Remove One-time Pediatric Autoimmune Disorders Funding		(250,000)	
HOM - Board of Homeopathic & Integrated Medicine Examiners	103,000		87,300
HOM - Align Appropriation With Revenues		(15,700)	
DOH - Department of Housing	318,500		318,500
IND - Industrial Commission	19,881,300		19,881,300
SPA - Judiciary - Supreme Court	29,208,800		28,958,800
SPA - Remove One-time Felony Pre-Trial Intervention Funding		(250,000)	
SUP - Judiciary - Superior Court	11,953,300		11,953,300
DJC - Department of Juvenile Corrections	15,379,800		15,379,800
LAN - State Land Department	4,797,100		4,797,100

	FY 2017 OF 1/ Baseline	FY 2018 Baseline 2/ Above FY 2017	FY 2018 OF JLBC Baseline
Legislature			
LEG - Legislative Council	250,000		0
LEG - Remove One-time Hearing Loop Funding		(250,000)	
LIQ - Department of Liquor Licenses & Control	3,007,400		3,007,400
LOT - Arizona State Lottery Commission	113,225,100		117,903,600
LOT - Sales Adjustment		4,678,500	
MAS - Board of Massage Therapy	470,100		455,100
MAS - Remove One-time On-Line Renewal IT Funding		(15,000)	
MED - Arizona Medical Board	6,463,600		6,463,600
MIN - State Mine Inspector	112,900		112,900
NAT - Naturopathic Physicians Medical Board	184,200		180,200
NAT - Remove One-time IT Equipment Funding		(4,000)	
NAV - Navigable Stream Adjudication Commission	200,000		200,000
NUR - State Board of Nursing	4,784,800		4,784,800
NCI - Nursing Care Inst. Administrators Board	445,400		445,400
OCC - Board of Occupational Therapy Examiners	170,700		170,700
DIS - State Board of Dispensing Opticians	140,000		140,000
OPT - State Board of Optometry	210,100		210,100
OST - AZ Board of Osteopathic Examiners in Medicine/Surgery	940,500		901,500
OST - Remove One-time Database/Licensing System Expenses		(39,000)	
APC - Arizona Parents Comm. On Drug Education and Prevention	300,000		0
APC - Remove One-time Prevention Programs Funding		(300,000)	
SPB - Arizona State Parks Board	14,486,900		12,836,900
SPB - Remove Federal Reduction Offset Funding		(1,500,000)	
SPB - Remove One-time Arizona Trail Funding		(150,000)	
PER - Personnel Board	375,300		375,300
PHA - Arizona State Board of Pharmacy	2,135,200		2,015,200
PHA - Remove One-time Software Upgrade Funding		(100,000)	
PHA - Remove One-time Leave Payout Funding		(20,000)	
PHY - Board of Physical Therapy Examiners	484,200		474,200
PHY - Remove One-time Laptop Replacement Funding		(10,000)	
PIO - Arizona Pioneers' Home	6,174,600		6,174,600
POD - State Board of Podiatry Examiners	148,400		148,400
POS - Commission for Postsecondary Education	1,534,100		1,534,100

	FY 2017 OF 1/ Baseline	FY 2018 Baseline 2/ Above FY 2017	FY 2018 OF JLBC Baseline
PRI - Board for Private Postsecondary Education	396,100		396,100
PSY - State Board of Psychologist Examiners	475,400		475,400
DPS - Department of Public Safety	171,389,100		165,289,100
DPS - Remove One-time Border Strike Task Force Funding		(4,000,000)	
DPS - Remove One-time Virtual Law Enforcement Training Funding		(2,100,000)	
RAD - Radiation Regulatory Agency	848,100		848,100
RUC - Residential Utility Consumer Office	1,331,400		1,331,400
RES - Board of Respiratory Care Examiners	300,300		300,300
RET - Arizona State Retirement System	27,484,200		24,884,200
RET - Remove One-Time Automation Funding		(2,070,000)	
RET - Operating Budget Savings		(230,000)	
RET - Long-Term Disability Contract Savings		(300,000)	
REV - Department of Revenue	46,234,900		46,234,900
SOS - Secretary of State	3,681,500		3,681,500
TEC - State Board of Technical Registration	2,916,400		2,116,400
TEC - Remove One-time E-Licensing System Funding		(800,000)	
DOT - Department of Transportation	373,809,500		372,309,500
DOT - Remove One-time Phoenix Area Freeway Lighting Funding		(1,500,000)	
TRE - State Treasurer	5,018,100		5,018,100
UNI - Universities			
UNI - ASU - Tempe/DPC	593,126,200		593,126,200
UNI - ASU - East Campus	44,303,300		44,303,300
UNI - ASU - West Campus	45,790,500		45,790,500
UNI - Northern Arizona University	147,283,300		147,283,300
UNI - UA - Main Campus	405,141,100		405,141,100
UNI - UA - Health Sciences Center	47,491,400		47,491,400
VSC - Department of Veterans' Services	32,046,800		32,046,800
VME - Veterinary Medical Examining Board	651,900		584,800
VME - Remove One-time On-Line Licensing Software Funding		(67,100)	
WAT - Department of Water Resources	2,119,100		2,119,100

	FY 2017 OF 1/ Baseline	FY 2018 Baseline 2/ Above FY 2017	FY 2018 OF JLBC Baseline
OTH - Other			
OTH - FY 16 Supplemental/Ex-Appropriation	59,225,800	(59,225,800)	0
OTH - Unallocated Agency Relocation	576,800	(576,800)	0
OTH - Unallocated AFIS Cost Charges	3,000	(3,000)	0
OTH - Unallocated FY 2017 HITF Rate Reduction	(4,622,500)	4,622,500	0
TOTAL - OPERATING SPENDING CHANGES	\$3,775,990,900	\$5,409,000	\$3,781,399,900
CAPITAL SPENDING CHANGES			
Building Renewal			
Arizona Department of Administration	19,000,000	(19,000,000)	0
ADC Building Renewal	5,464,300		5,464,300
Game & Fish Department	530,000		530,000
Juvenile Corrections	1,100,000	(1,100,000)	0
Arizona Lottery Commission	118,100	4,100	122,200
Arizona Department of Transportation	4,232,300	(835,500)	3,396,800
New Projects			
ADOT Statewide Highway Construction	50,092,000	54,478,000	104,570,000
ADOT Controlled Access	94,382,000	7,517,000	101,899,000
ADOT Debt Service	126,141,000	(17,324,000)	108,817,000
ADOT Airport Planning	19,079,900	5,475,400	24,555,300
ADOT Vehicle Wash Systems	5,530,000	(5,530,000)	0
Game and Fish Radio Towers	306,000	(306,000)	0
Game and Fish Boat Structures	874,900	(874,900)	0
Game and Fish Capital Projects	3,867,000	(3,867,000)	0
Arizona Exposition and State Fair	1,000,000	(1,000,000)	0
State Parks Board	1,500,000	(1,500,000)	0
TOTAL - CAPITAL SPENDING CHANGES	\$333,217,500	\$16,137,100	\$349,354,600
TOTAL - OPERATING & CAPITAL SPENDING	\$4,109,208,400	\$21,546,100	\$4,130,754,500
FUND TRANSFERS			
APF/DOA - Automation Projects Fund			
APF/DOA - Automation Operations from ADOA	7,420,600	(5,920,600)	1,500,000
APF/DOA - State Web Portal from ADOA	5,650,000	(5,650,000)	0
APF/DOA - IT Fund from DOA	527,800	(527,800)	0
APF/DOA - Statewide Transfers for ADOA Procurement	9,000,000	(9,000,000)	0
APF/DOA - ACI Fund from ADC	1,000,000	(1,000,000)	0
APF/DOA - Inmate Store Proceeds from ADC	1,000,000	(1,000,000)	0
APF/DOA - Penitentiary Land Earnings Fund from ADC	1,000,000	(1,000,000)	0
APF/DOA - Charitable, Penal & Reformatory Land Fund from ADC	1,000,000	(1,000,000)	0
APF/DOA - Special Services Fund from ADC	4,000,000	(4,000,000)	0
APF/DOA - Special Admin Fund from DES	1,294,700	(1,294,700)	0
APF/DOA - Liability Setoff Program Revolving Fund from DOR	1,000,000	(1,000,000)	0
Other Transfers			
ADC - Radios - Corrections Fund from Inmate Store Proceeds	1,000,000	(1,000,000)	0
ADC - Radios - Corrections Fund from DOC Revolving Fund	500,000	(500,000)	0
ADC - Radios - Corrections Fund from Penitentiary Land Earnings Fund	400,000	(400,000)	0
ADC - Radios - Corrections Fund from Special Services Fund	400,000	(400,000)	0

	FY 2017 OF <u>1</u> / Baseline		FY 2018 Baseline <u>2</u> / Above FY 2017	FY 2018 OF JLBC Baseline
ADC - Radios - Corrections Fund from Char., Penal & Ref. Fund	500,000		(500,000)	0
GAM - Racing Regulation Fund from Racing Admin Fund	23,700		(23,700)	0
ADOT - Motor Vehicle to SETIF	1,100,000		(1,100,000)	0
TOTAL - FUND TRANSFERS	\$36,816,800		(\$35,316,800)	\$1,500,000

1/ Represents original FY 2017 agency appropriations adjusted for revisions in Department of Agriculture, Attorney General, Lottery Commission, and the Universities. Original FY 2017 agency transfers adjusted for revisions in Automation Projects Fund/ADOA.

2/ Represents FY 2018 Baseline cost above FY 2017 estimate.

FY 2017 SUPPLEMENTALS

	Change to Original '17 Budget
General Fund	
Department of Education - Additional State Aid	\$17,081,200
State Land Department - Central Arizona Project User Fees	224,500
General Fund - Total	\$17,305,700
Other Funds	
AHCCCS - KidsCare Services - CHIP Fund	\$59,225,800
Other Funds - Total	\$59,225,800
Expenditure Authority	
AHCCCS - PDRF In Lieu of Federal Funds	\$137,309,100
AHCCCS - Federal Medicaid Authority	(110,854,300)
Expenditure Authority - Total	\$26,454,800

**SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2016, 2017 and 2018 1/**

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
BUDGET UNITS			
Department of Administration (ADA)			
Administration - AFIS II Collections (4203)	\$407,900	\$1,000	\$1,000
Certificate of Participation (5005)	117,576,700	120,586,000	121,513,700
Construction Insurance (4219)	0	4,822,800	6,812,800
Co-Op State Purchasing Agreement (4213)	4,379,700	3,164,000	3,164,000
Emergency Telecommunication Services Revolving (2176)	14,908,500	20,110,800	20,110,800
Employee Related Expenditures/Benefits Admin (ITA3035)	34,777,700	34,830,000	34,830,000
Federal Grants (2000)	1,131,000	1,694,100	1,694,100
Federal Grants - American Recovery and Reinvestment Act (2999)	1,114,000	0	0
IGA and ISA (2500)	8,862,500	8,065,600	8,065,600
Oil Overcharge (GVA3171)	123,400	116,300	116,300
Payroll Administration (9200)	116,900	140,800	140,800
Privatized Lease-to-Own (2495)	0	0	0
Retiree Accumulated Sick Leave (3200)	14,271,800	14,623,500	14,623,500
Special Employee Health Insurance Trust (3015)	847,832,100	894,675,300	922,370,300
Special Events (2503)	34,000	15,400	15,400
Special Services Revolving (4208)	782,500	785,900	785,900
State Employee Travel Reduction (2261)	439,000	535,000	535,000
State Web Portal (2531)	0	0	0
Statewide ARRA Administration SWCAP (GVA2950)	15,500	0	0
Statewide Donations (2025)	504,300	56,200	5,000
Total - Department of Administration	<u>\$1,047,277,500</u>	<u>\$1,104,222,700</u>	<u>\$1,134,784,200</u>
Office of Administrative Hearings (HGA)			
IGA and ISA (2500)	\$709,700	\$749,500	\$749,500
Arizona Commission of African-American Affairs (AMA)			
African-American Affairs, Arizona Commission of (2397)	\$5,200	\$12,300	\$12,300
Arizona Department of Agriculture (AHA)			
Administrative Support (2436)	\$38,000	\$39,400	\$39,400
Agricultural Consulting and Training Trust (1239)	200	1,900	1,900
Agricultural Products Marketing (2368)	393,000	490,800	490,800
Aquaculture Trust (2297)	0	6,200	6,200
Beef Council (2083)	348,100	348,000	348,000
Citrus, Fruit and Vegetable Trust (2260)	349,800	381,300	381,300
Citrus Trust (2299)	43,900	66,800	66,800
Commercial Feed Trust (2012)	275,900	267,800	267,800
Commodity Promotion (2458)	7,100	12,000	12,000
Cotton Research and Protection Council (2013)	2,384,800	2,928,000	2,928,000
Dangerous Plants, Pests and Diseases Trust (2054)	40,300	67,500	67,500
Designated (3011)	572,900	740,000	740,000
Egg Inspection Trust (2022)	1,371,600	1,445,500	1,445,500
Equine Inspection (2489)	0	0	0
Federal (2000)	4,971,300	4,587,300	4,587,300
Federal-State Inspection (2113)	2,859,400	3,103,800	3,103,800
Fertilizer Materials Trust (2081)	339,700	266,900	266,900
Grain Trust (2201)	130,800	149,600	149,600
Iceberg Lettuce Trust (2259)	97,400	100,000	100,000
IGA and ISA (2500)	1,565,800	0	0
Indirect Cost Recovery (9000)	160,700	320,200	320,200
Livestock and Crop Conservation (2378)	478,000	485,400	485,400
Livestock Custody Trust (2065)	35,400	174,900	174,900
Nuclear Emergency Management (2138)	0	0	0
Pest Management Trust (2050)	0	1,580,000	1,580,000
Pesticide Trust (2051)	419,000	395,100	395,100
Protected Native Plant Trust (2298)	75,900	83,800	83,800
Seed Law Trust (2064)	56,500	53,900	53,900
Total - Arizona Department of Agriculture	<u>\$17,015,500</u>	<u>\$18,096,100</u>	<u>\$18,096,100</u>
AHCCCS (HCA)			
County Funds (2120/2223)	\$299,153,500	\$299,667,700	\$306,417,000
Delivery System Reform Incentive Payment (2130)	0	0	0
Employee Recognition (2025)	1,800	1,800	1,800
Federal - Medicaid Direct Services (2120)	44,315,700	45,826,100	47,202,800

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Federal Funds (2000)	1,116,100	53,632,400	53,632,400
Federal Grants - American Recovery and Reinvestment Act (2999)	20,751,000	55,790,100	55,790,100
Federal Medicaid Authority (2120/2223)	6,140,839,600	8,383,725,800	8,484,116,600
Hospital Assessment (9692)	224,197,600	252,329,100	284,761,900
Hospital Loan Residency (2532)	0	0	0
IGA for County Behavioral Health Services (4503)	0	58,699,000	58,699,000
Intergovernmental Service (2438)	7,965,000	7,920,300	7,920,300
Nursing Facility Provider Assessment (2567)	18,031,200	27,589,400	32,989,400
Political Subdivision (1111)	106,506,900	140,887,600	103,147,500
Prescription Drug Rebate (2546)	360,776,400	322,743,500	462,205,700
Proposition 202 - Trauma and Emergency Services (2494)	23,027,400	23,027,400	23,027,400
Seriously Mentally Ill Housing Trust (2555)	0	2,000,000	2,000,000
Third Party Liability and Recovery (3791/3019)	770,000	1,434,700	1,434,700
Tobacco Litigation Settlement, Arizona (TRA2561)	98,906,900	100,000,000	79,000,000
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Tobacco Products Tax Fund - Proposition 204 Protection Account (1303)	38,140,700	37,521,000	40,413,000
Total - AHCCCS	\$7,384,499,800	\$9,812,795,900	\$10,042,759,600
Arizona Commission on the Arts (HUA)			
Arts Special Revenues (2116)	\$215,200	\$79,900	\$79,900
Arts Trust, Arizona (3043)	1,404,100	1,373,600	1,373,600
Federal Grants (2000)	836,000	833,000	833,000
State Poet Laureate (2569)	2,500	2,500	2,500
Total - Arizona Commission on the Arts	\$2,457,800	\$2,289,000	\$2,289,000
Attorney General - Department of Law (AGA)			
Anti-Racketeering Revolving (2131)	\$15,735,700	\$22,058,300	\$22,058,300
Attorney General Expendable Trust (3102)	1,520,700	1,172,500	1,172,500
CJEF Distribution to County Attorneys (2068)	3,436,700	3,677,900	3,677,900
Colorado River Land Claims Revolving (2430)	0	0	0
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving (2573)	1,742,500	200,000	200,000
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving (2573)	0	3,500,000	3,500,000
Court-Ordered Trust (3180)	1,727,200	1,693,500	1,693,500
Criminal Case Processing (2461)	21,300	74,300	74,300
Federal Grants (2000)	4,929,400	5,794,500	5,473,500
Indirect Cost Recovery (9000)	3,968,600	7,308,000	7,308,000
Intergovernmental Agreements (2500)	5,329,500	9,249,500	9,249,500
Motor Carrier Safety Revolving (2380)	0	0	0
Prosecuting Attorneys' Advisory Council Training (2057)	1,130,400	1,251,600	1,251,600
Victim Witness Assistance (2228)	48,300	14,300	14,300
Total - Attorney General - Department of Law	\$39,590,300	\$55,994,400	\$55,673,400
Automobile Theft Authority (ATA) Settlement (1991)	\$30,000	\$103,000	\$103,000
State Board for Charter Schools (CHA)			
Charter Arizona Online Instruction Processing (2319) Implementation Project (2025)	\$3,000	\$3,000	\$3,000
New Charter Application Processing (2568)	0	0	0
Total - State Board for Charter Schools	\$49,300	\$29,000	\$29,000
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)	358,995,000	415,269,400	415,269,400
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	\$358,995,000	\$415,269,400	\$415,269,400
Citizens Clean Elections Commission (ECA)			
Citizens Clean Elections Fund (2425)	\$4,343,300	\$10,423,400	\$10,423,400
Arizona Commerce Authority (CAA)			
Application Fees (3005)	\$0	\$738,900	\$564,900
Commerce Authority, Arizona (2547)	0	0	0
Commerce Authority Carryover, Arizona (1001)	112,300	1,547,700	1,185,700
Commerce Authority Local Communities, Arizona (EPA2498)	0	106,300	0
Commerce Development Bond (2196)	5,500	5,700	0
Competes, Arizona (2548)	0	0	0

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Corporation for Skilled Workforce (1002)	0	0	0
Donations (3189)	36,000	178,800	0
Federal Funds (2000)	2,182,000	1,354,300	1,354,300
Innovation Accelerator, Arizona (9507)	1,220,300	164,100	164,100
Job Training (1237)	6,963,800	6,000,400	6,000,400
Total - Arizona Commerce Authority	\$10,519,900	\$10,096,200	\$9,269,400
Arizona Community Colleges (CMA)			
Community College District Collegiate Special Plate (varies by account)	\$0	\$0	\$0
Tribal Assistance (NA)	775,200	768,700	768,700
Workforce Development Accounts (varies by account)	17,390,800	18,223,000	18,223,000
Total - Arizona Community Colleges	\$18,166,000	\$18,991,700	\$18,991,700
Constable Ethics Standards and Training Board (CNA)			
Constable Ethics Standards and Training (2346)	\$246,300	\$497,700	\$497,700
Registrar of Contractors (RGA)			
Residential Contractors' Recovery (3155)	\$3,206,600	\$4,666,800	\$4,666,800
Corporation Commission (CCA)			
Federal (2000)	\$988,700	\$825,000	\$825,000
IGA and ISA (2500)	2,800	0	0
Utility Siting (2076)	10,900	0	0
Total - Corporation Commission	\$1,002,400	\$825,000	\$825,000
State Department of Corrections (DCA)			
Correctional Industries Revolving, Arizona (4002)	\$38,717,300	\$37,871,000	\$37,871,000
Community Corrections Enhancement (2395)	306,500	402,000	402,000
Corrections Donations (3147)	19,400	3,000	3,000
Federal (2000)	6,423,000	7,059,300	7,059,300
Indirect Cost Recovery (9000)	18,300	167,700	167,700
Inmate Store Proceeds (2505)	5,073,700	5,230,000	5,230,000
Interagency Service Agreement (2500)	58,200	56,000	56,000
Prisoner Spendable Accounts (2428)	0	0	0
Special Services (3187)	2,767,100	4,360,000	4,360,000
State DOC Revolving (2515)	1,890,800	2,700,000	2,700,000
Statewide Employee Recognition Gifts/Donations (2449)	0	0	0
Total - State Department of Corrections	\$55,274,300	\$57,849,000	\$57,849,000
Arizona Criminal Justice Commission (JCA)			
Drug and Gang Enforcement (2516)	\$5,927,300	\$7,126,500	\$5,274,500
Federal Grants (2000)	7,218,600	10,302,900	8,156,500
Total - Arizona Criminal Justice Commission	\$13,145,900	\$17,429,400	\$13,431,000
Arizona State Schools for the Deaf and the Blind (SDA)			
ASDB Classroom Site (2486)	\$1,992,900	\$1,988,200	\$1,988,200
Enterprise (4222)	136,400	136,400	136,400
Federal Grants (2000)	2,079,000	2,079,000	2,079,000
IGA and ISA (2500)	0	0	0
Instructional Improvement (2492)	0	0	0
Regional Cooperatives (4221)	13,386,100	13,290,000	13,290,000
State Grants (2011)	362,800	362,800	362,800
Trust (3148)	81,900	81,900	81,900
Total - Arizona State Schools for the Deaf and the Blind	\$18,039,100	\$17,938,300	\$17,938,300
Arizona Early Childhood Development and Health Board			
Early Childhood Development and Health (2542)	\$124,439,900	\$133,360,200	\$145,650,700
Federal Grants (2000)	3,667,000	8,366,200	7,298,200
Total - Arizona Early Childhood Development and Health Board	\$128,106,900	\$141,726,400	\$152,948,900
Office of Economic Opportunity (EOA)			
Clean Water Revolving (FAA2254)	\$0	\$111,626,900	\$111,626,900
Drinking Water Revolving (FAA2307)	0	65,458,800	65,458,800
Economic Development (3777)	0	0	0
Economic Opportunity Operations, Office of (9903)	0	1,968,300	1,968,300
Federal (2000)	0	29,967,700	29,967,700
Finance Authority Operations, Arizona (FAA5352)	0	0	0
Greater Arizona Development Authority Revolving (FAA2311)	0	211,200	211,200
IGA and ISA (2500)	0	79,900	79,900
Small Water Systems (FAA2225)	0	0	0
Total - Office of Economic Opportunity	\$0	\$209,312,800	\$209,312,800
Department of Economic Security (DEA)			
Child Restraint (2192)	\$0	\$0	\$0
Child Support Enforcement Administration (2091)	28,821,200	42,299,500	42,299,500
Client Trust (3152)	0	1,494,700	1,494,700

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Developmentally Disabled Client Investment (3146)	142,200	145,100	145,100
Developmentally Disabled Client Services Trust (2019)	19,700	53,200	53,200
Donations (3145)	53,000	32,800	32,000
Economic Security Capital Investment (2093)	0	245,200	245,200
Federal Grants (2000)	1,923,561,600	1,939,158,100	1,939,158,100
Health Services Lottery Monies (4250)	0	0	0
Industries for the Blind, Arizona (4003)	18,888,800	19,770,400	0
Interagency Service Agreement (2500)	7,000,000	0	0
Job Training, Arizona (1237)	881,100	120,000	0
Long Term Care System - Federal Match (2225)	732,175,200	901,809,600	967,800,600
Neighbors Helping Neighbors (2348)	38,800	35,000	35,000
Revenue from State or Local Agency Fund (3193)	1,552,000	2,131,200	0
Special Olympics Tax Refund (3207)	66,300	59,700	59,700
Unemployment Insurance Benefits (7510)	277,956,100	298,900,000	309,900,000
Unemployment Special Assessment (2558)	146,000	58,400	0
Total - Department of Economic Security	\$2,991,302,000	\$3,206,312,900	\$3,261,223,100
Department of Education (EDA)			
Agricultural Youth Organization Special Plate, Arizona (2650)	\$132,200	\$132,200	\$132,200
Assistance for Education (2420)	122,900	110,900	110,900
Character Education Special Plate (2522)	39,600	25,000	25,000
Classroom Site (2471)	432,461,200	447,102,000	447,102,000
Department of Education Empowerment Scholarship Account (2570)	17,600	2,600	2,600
Education Commodity (4210)	191,800	255,300	255,300
Education Donations (2025)	57,900	20,000	20,000
Education Learning and Accountability (2552)	0	0	0
Failing Schools Tutoring (2470)	593,500	1,411,500	1,411,500
Federal (2000)	1,124,034,400	1,159,279,200	1,159,279,200
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Golden Rule Special Plate (2366)	176,600	110,000	110,000
IGA and ISA (2500)	3,893,000	3,563,000	3,563,000
Indirect Cost Recovery (9000)	4,167,100	4,835,400	4,835,400
Instructional Improvement (2492)	53,001,600	50,000,000	50,000,000
Internal Services (4209)	4,694,200	4,539,500	4,539,500
Production Revolving (4211)	1,301,900	1,238,100	1,238,100
Proposition 301 (1014)	102,720,600	96,039,600	96,039,600
Special Education (1009)	0	0	0
Structured English Immersion, Arizona (2535)	0	0	0
Youth Farm Loan, Arizona (2136)	0	26,000	26,000
Total - Department of Education	\$1,727,606,100	\$1,768,690,300	\$1,768,690,300
Department of Emergency and Military Affairs (MAA)			
Camp Navajo (2106)	\$12,245,900	\$16,867,500	\$16,867,500
Emergency Management Assistance Compact Revolving (NA)	0	0	0
Federal Funds - Emergency (2000)	11,516,100	13,445,300	8,280,500
Federal Funds - Military (2000)	28,891,000	33,907,700	27,405,600
Indirect Cost Recovery (9000)	661,400	1,201,200	1,201,200
Interagency Service Agreement (2500)	1,366,300	1,714,100	1,714,100
Military Installation (1010)	0	0	0
Morale, Welfare and Recreational (2124)	26,100	50,000	50,000
National Guard (2140)	5,100	194,800	100,000
National Guard Relief (2349)	0	0	0
Nuclear Emergency Management (2138)	0	0	0
Statewide Donations (2025)	0	0	0
Total - Department of Emergency and Military Affairs	\$54,711,900	\$67,380,600	\$55,618,900
Department of Environmental Quality (EVA)			
Donations (2449)	\$4,100	\$4,400	\$4,400
Federal (2000)	7,616,700	18,120,300	18,120,300
IGA and ISA (2500)	5,052,800	7,341,600	7,341,600
Institutional and Engineering Control (2563)	12,700	24,300	24,300
Intergovernmental Agreement (2180)	0	0	0
Monitoring Assistance (2308)	591,500	845,500	845,500
Specific Site Judgment (3006)	0	0	0
Underground Storage Tank Revolving Summary (2271)	13,339,900	62,067,200	32,067,200
Voluntary Lawn and Garden Equipment Emissions Reduction (2306)	0	0	0
Voluntary Remediation (2564)	348,500	588,300	588,300
Voluntary Vehicle Repair and Retrofit Program (2365)	0	0	0
Water Quality Assurance Revolving (2221)	13,771,700	15,261,500	15,261,500

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Total - Department of Environmental Quality	\$40,737,900	\$104,253,100	\$74,253,100
Governor's Office of Equal Opportunity (AFA)			
Equal Employment and Economic Development (2000)	\$0	\$0	\$0
Board of Executive Clemency (PPA)			
Federal Grants (2000)	\$41,500	\$43,600	\$43,600
State Department of Financial Institutions (BDA)			
IGA and ISA (2500)	\$81,600	\$1,100	\$0
Mortgage Recovery (1997)	0	0	0
Receivership Revolving (3023)	307,800	538,500	230,500
Revolving (2126)	814,000	849,100	849,100
Total - State Department of Financial Institutions	\$1,203,400	\$1,388,700	\$1,079,600
Department of Fire, Building and Life Safety (MMA)			
Arson Detection Reward (2169)	\$0	\$0	\$0
Building and Fire Safety (2211)	30,700	0	0
Condominium and Planned Community Hearing Office (2537)	19,000	0	0
Consumer Recovery (3090)	5,800	0	0
DPS-FBI Fingerprint (2159)	0	0	0
Federal (2000)	304,700	0	0
Interagency Service Agreement (2500)	163,100	0	0
Manufactured Housing Cash Bond (3722)	0	0	0
Mobile Home Relocation (2237)	296,600	0	0
Trampoline Court Safety (2578)	0	0	0
Total - Department of Fire, Building and Life Safety	\$819,900	\$0	\$0
Arizona Department of Forestry and Fire Management (FOA)			
Arson Detection Reward (2169)	0	0	0
Cooperative Forestry (2232)	\$8,946,900	\$7,301,300	\$7,301,300
Fire Suppression Revolving (2360)	31,835,700	36,315,500	36,315,500
Interagency Service Agreement (2500)	0	0	0
Trampoline Court Safety (2578)	0	0	0
Total - AZ Department of Forestry and Fire Management	\$40,782,600	\$43,616,800	\$43,616,800
Arizona Game and Fish Department (GFA)			
Big Game Permit (3712)	\$0	\$241,800	\$0
Conservation Development (2062)	1,231,400	1,007,400	1,007,400
Federal (2000)	0	0	0
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Federal Revolving (2028)	42,491,100	45,890,300	44,050,200
Firearms Safety and Ranges (2442)	24,000	0	0
Game and Fish Federal Duck Stamps (3711)	0	120,400	0
Game and Fish Publications Revolving (4007)	149,500	149,500	149,500
Game and Fish Special Stamp Collection (3709)	0	41,300	0
Game and Fish Stamps (3708)	0	0	0
Game and Fish Trust (3111)	3,238,300	2,890,300	2,890,300
Heritage (2295)	8,036,600	11,805,100	11,782,600
IGA and ISA (2500)	0	0	0
Indirect Cost Recovery (9000)	4,910,500	6,971,600	6,971,600
Kaibab Co-op (3714)	0	114,000	0
Livestock Compensation (3103)	0	0	0
Off Highway Vehicle Recreation (2253)	1,971,600	2,163,300	1,881,200
Wildlife Conservation (2497)	6,377,100	7,978,100	7,927,300
Wildlife Conservation Enterprise (2029)	742,100	525,200	525,200
Wildlife Theft Prevention (2080)	163,200	198,700	198,700
Total - Arizona Game and Fish Department	\$69,335,400	\$80,097,000	\$77,384,000
Department of Gaming (GMA)			
Breeders Award, Arizona (2206)	\$37,600	\$29,000	\$29,000
DPS-FBI Fingerprint (2159)	30,800	0	0
Greyhound and Retired Racehorse Adoption (2015)	2,700	2,300	2,300
IGA and ISA (2500)	1,691,700	1,320,000	1,320,000
Racing Administration (2018)	0	0	0
Racing Commission Bond Deposit (3720)	0	0	0
Racing Investigation (2369)	2,700	500	500
Racing Regulation Fund - Mixed Martial Arts Account (2393)	18,400	18,200	18,200
Total - Department of Gaming	\$1,783,900	\$1,370,000	\$1,370,000
Arizona Geological Survey (GSA)			
Federal Grants (2000)	\$2,349,900	\$0	\$0
Geological Survey (3030)	642,300	0	0
Indirect Cost Recovery (9000)	490,500	0	0
Total - Arizona Geological Survey	\$3,482,700	\$0	\$0

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Office of the Governor (GVA)			
County Fairs Livestock and Agriculture Promotion (2037)	\$0	\$0	\$0
Endowment Partnership (3206)	473,600	44,700	44,700
Federal Grants (2000)	13,804,600	21,219,300	21,219,300
Foster Youth Education Success (NA)	0	0	0
IGA and ISA (2500)	504,400	510,800	510,800
Indirect Cost Recovery (9000)	1,149,100	1,539,400	1,539,400
Prevention of Child Abuse (2439)	271,500	266,500	266,500
Total - Office of the Governor	\$16,935,700	\$23,580,700	\$23,580,700
Department of Health Services (HSA)			
Breast and Cervical Cancer Screening and Diagnostic Special Plate (2513)	\$0	\$704,000	\$704,000
Childhood Cancer and Rare Childhood Disease Research (NA)	0	0	0
Disease Control Research (2090)	2,638,200	2,576,100	2,576,100
Donations - DHS (3010/2025)	322,600	239,100	239,100
Donations - Statewide (2025)	3,100	1,700	1,700
Federal Funds (2000)	314,815,800	250,195,400	250,195,400
Health Services Lottery (4250)	9,805,400	9,209,300	9,209,300
IGA and ISA (4500)	16,803,100	16,802,600	16,802,600
IGA for County Behavioral Health Services (4503)	60,876,600	0	0
Interagency Service Agreement for Behavioral Health Services (4502)	1,319,449,400	0	0
Internal Services (4202)	4,300	4,300	4,300
Medical Marijuana (2544)	8,295,400	11,110,600	11,110,600
Medical Student Loan (3306)	29,200	187,200	187,200
Oral Health (3038)	155,900	237,000	237,000
Prescription Drug Rebate (2546)	0	0	0
Risk Assessment (2427)	37,200	60,000	60,000
Serious Mental Illness Services (2464)	0	0	0
Seriously Mentally Ill Housing Trust (2555)	1,764,100	0	0
Smoke-Free Arizona (2541)	2,732,100	3,076,000	3,076,000
Tobacco Tax and Health Care - Health Education Account (1308)	17,099,500	21,220,000	21,220,000
Tobacco Tax and Health Care - Health Research Account (2096)	3,280,600	8,729,300	8,729,300
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Total - Department of Health Services	\$1,758,112,500	\$324,352,600 2/	\$324,352,600
Arizona Historical Society (HIA)			
Exposition Museum Centennial, Arizona (2650)	\$89,600	\$0	\$0
Federal Grants (2000)	0	0	0
Permanent Arizona Historical Society Revolving (2900)	571,600	606,300	609,100
Preservation and Restoration (2125)	42,900	41,200	41,200
Private (9447)	531,100	499,900	468,400
Private Grants (9449)	0	0	0
Restricted (9448)	0	0	0
Trust (9450)	29,400	24,000	18,000
Total - Arizona Historical Society	\$1,264,600	\$1,171,400	\$1,136,700
Prescott Historical Society of Arizona (PHA)			
Sharlot Hall Historical Society (9505)	\$605,100	\$829,800	\$829,800
Department of Homeland Security (HLA)			
Federal Funds (2000)	\$23,484,300	\$30,561,100	\$30,561,100
Arizona Department of Housing (HDA)			
Building and Fire Safety (2211)	\$0	\$0	\$0
Consumer Recovery (3090)	0	0	0
DPS-FBI Fingerprint (2159)	0	0	0
Federal Funds (2000)	76,317,800	81,748,400	87,329,900
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	476,900
Housing Program (2200)	10,660,900	5,590,900	6,490,600
Housing Trust (2235)	3,886,700	7,436,300	13,331,700
IGA and ISA (2500)	6,656,200	3,485,800	3,020,000
Manufactured Housing Cash Bond (3722)	0	0	0
Mobile Home Relocation (2237)	0	139,500	139,500
Total - Arizona Department of Housing	\$97,521,600	\$98,400,900	\$110,788,600
Industrial Commission of Arizona (ICA)			
Federal Grants (2000)	\$2,935,800	\$3,160,300	\$3,160,300
Revolving (2002)	77,900	145,000	145,000
Special (2180)	17,003,300	17,661,800	17,661,800

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Total - Industrial Commission of Arizona	\$20,017,000	\$20,967,100	\$20,967,100
Department of Insurance (IDA)			
Assessment Fund for Voluntary Plans (2316)	\$72,400	\$500	\$500
Captive Insurance Regulatory/Supervision (2377)	210,200	398,600	398,600
Federal (2000)	333,800	836,000	166,100
Financial Surveillance (2473)	263,300	586,900	586,900
Health Care Appeals (2467)	262,800	308,800	308,800
IGA and ISA (2500)	600	4,400	0
Insurance Examiners' Revolving (2034)	4,347,800	4,159,900	4,159,900
Life and Disability Insurance Guaranty (2154)	1,105,300	1,083,400	81,083,400
Property and Casualty Insurance Guaranty, Arizona (2114)	12,911,600	12,944,800	12,944,800
Receivership Liquidation (3104)	24,900	81,700	81,700
Total - Department of Insurance	\$19,532,700	\$20,405,000	\$99,730,700
Judiciary - Supreme Court (SPA)			
Alternative Dispute Resolution (3245)	\$217,600	\$261,200	\$261,200
Certified Reporters (2440)	94,900	106,200	106,200
Drug Treatment and Education (2277)	385,800	494,600	494,600
Grants and Special Revenue (2084)	16,092,700	19,346,900	19,346,900
Juvenile Probation Services (2193)	0	0	0
Lengthy Trial, Arizona (2382)	691,000	685,700	685,700
Public Defender Training (3013)	591,400	704,600	704,600
Total - Judiciary - Supreme Court	\$18,073,400	\$21,599,200	\$21,599,200
Judiciary - Superior Court (SPA)			
Community Punishment Program Fines (2119)	\$0	\$125,000	\$125,000
Criminal Justice Enhancement (2075)	1,247,600	0	0
Drug and Gang Enforcement Account (2074)	0	1,057,900	1,057,900
Drug Treatment and Education (2277)	3,537,400	3,701,000	3,701,000
Grants and Special Revenue (2084)	1,375,400	3,200	3,200
Juvenile Probation Services (2193)	0	0	0
State Aid to Detention (2141)	0	0	0
Total - Judiciary - Superior Court	\$6,160,400	\$4,887,100	\$4,887,100
Department of Juvenile Corrections (DJA)			
DJC Restitution (2476)	\$0	\$0	\$0
Employee Recognition (2449)	800	800	800
Federal (2000)	1,226,900	1,224,600	1,224,600
IGA and ISA (2500)	0	0	0
Indirect Cost Recovery (9000)	0	0	0
Instructional Improvement (2492)	0	0	0
Juvenile Corrections (3024)	40,800	40,800	40,800
State Education System for Committed Youth Classroom Site (2487)	55,600	55,600	55,600
Statewide Donations (2025)	17,100	2,500	2,500
Total - Department of Juvenile Corrections	\$1,341,200	\$1,324,300	\$1,324,300
State Land Department (LDA)			
CAP Municipal and Industrial Repayment (2129)	\$0	\$0	\$0
Federal (2000)	36,900	15,000	0
Federal Reclamation Trust (2024)	0	0	0
Interagency Agreements (2212)	0	0	0
Off-Highway Vehicle Recreation (2253)	390,300	345,000	345,000
Resource Analysis Division Revolving (4009)	109,900	150,000	150,000
Riparian Acquisition Trust (3201)	0	0	0
State Land Department (2451)	217,600	375,000	375,000
Statewide Employee Recognition Gifts/Donations (2449)	600	1,000	1,000
Total - State Land Department	\$755,300	\$886,000	\$871,000
Legislature - Auditor General (AUA)			
Audit Services Revolving (2242)	\$1,956,300	\$1,960,300	\$1,960,300
Department of Liquor Licenses and Control (LLA)			
Anti-Racketeering Revolving (2131)	\$14,300	\$13,700	\$13,700
Audit Surcharge (3010)	179,600	178,800	178,800
DPS - FBI Fingerprint (2159)	0	0	0
Enforcement Surcharge - Enforcement Unit (3012)	410,300	379,300	379,300
Enforcement Surcharge - Multiple Complaints (3011)	467,600	504,200	504,200
Federal Grants (2000)	82,400	0	0
Total - Department of Liquor Licenses and Control	\$1,154,200	\$1,076,000	\$1,076,000
Arizona State Lottery Commission (LOA)			
State Lottery (2122)	\$571,668,100	\$539,847,400	\$567,528,900
Debt Service Fund (NA)	37,501,800	37,501,500	37,500,800

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
University Capital Improvement (NA)	38,647,500	39,927,000	39,923,200
Mass Transit (NA)	11,502,000	11,502,000	11,502,000
Total - Arizona State Lottery Commission	\$659,319,400	\$628,777,900	\$656,454,900
State Mine Inspector (MIA)			
Abandoned Mines Safety (2408)	\$13,100	\$15,000	\$15,000
Federal Education and Training (2400)	83,400	45,200	45,200
Federal Grants (2000)	476,700	349,000	374,100
Total - State Mine Inspector	\$573,200	\$409,200	\$434,300
Navigable Stream Adjudication Commission, AZ (NSA)			
IGA and ISA (2500)	\$0	\$0	\$0
State Board of Nursing (BNA)			
Nurse Aide Training and Registration (2000)	\$414,300	\$414,700	\$518,600
Statewide Donations (2025)	0	0	0
Total - State Board of Nursing	\$414,300	\$414,700	\$518,600
Arizona Parents Commission on Drug Education and Prevention (PCA)			
Drug Treatment and Education (2277)	\$5,295,200	\$4,788,000	\$5,088,000
Arizona State Parks Board (PRA)			
Arizona Trail Fund (2525)	\$0	\$75,000	\$75,000
Federal (2000)	3,118,600	4,332,200	1,670,100
Land Conservation - Administration Account (2432)	604,100	375,000	0
Land Conservation - Donation Account (2432)	0	0	0
Land Conservation - Public Conservation Account (2432)	0	0	0
Off Highway Vehicle Recreation (2253)	1,722,600	4,064,100	4,064,100
Partnership (2448)	203,400	210,400	210,400
State Lake Improvement (2105)	7,122,200	14,280,000	8,280,000
State Parks Fund (3117)	62,300	285,000	285,000
Sustainable State Parks and Roads (3125)	0	75,000	75,000
Yarnell Hill Memorial (3124)	0	1,500	1,500
Total - Arizona State Parks Board	\$12,833,200	\$23,698,200	\$14,661,100
Office of Pest Management (SBA)			
Federal (2000)	\$88,200	\$0	\$0
Arizona State Board of Pharmacy (PMA)			
Controlled Substances Prescription Monitoring Program (2359)	\$459,100	\$527,900	\$527,900
Pharmacy, Arizona State Board of (2052)	125,000	200,000	200,000
Total - Arizona State Board of Pharmacy	\$584,100	\$727,900	\$727,900
Arizona Pioneers' Home (PIA)			
Pioneers' Home Fund (Cemetery Proceeds) (3144)	81,600	12,000	12,000
Pioneers' Home Fund (Donations) (3143)	4,200	13,900	13,900
Statewide Employee Recognition Gifts (2449)	2,200	2,200	2,200
Total - Arizona Pioneers' Home	\$88,000	\$28,100	\$28,100
Commission for Postsecondary Education (PEA)			
Family College Savings Program Trust (3121)	\$450,100	\$729,600	\$729,600
Federal Grants (2000)	15,500	0	0
IGA and ISA (2500)	0	0	0
Mathematics, Science, and Special Education Teacher Student Loan (2358)	0	0	0
Postsecondary Education (2405)	46,900	133,300	133,300
Postsecondary Education Grant Program (2530)	0	0	0
Private Postsecondary Education Student Financial Assistance (2128)	0	0	0
Teachers Incentive Program (2249)	0	0	0
Total - Commission for Postsecondary Education	\$512,500	\$862,900	\$862,900
Arizona Power Authority (PAA)			
Hoover Uprating (1113)	\$33,561,700	\$35,299,600	\$35,299,600
Interest Income (1112)	13,600	7,000	7,000
Power Authority, Arizona (9506)	1,242,400	2,345,400	2,345,400
Total - Arizona Power Authority	\$34,817,700	\$37,652,000	\$37,652,000
State Board for Private Postsecondary Education (PVA)			
Student Tuition Recovery (3027)	\$283,900	\$277,000	\$277,000
Department of Public Safety (PSA)			
Anti-Racketeering Revolving (3123)	\$8,165,000	\$7,562,200	\$7,562,200
Capitol Police Administrative Towing (1999)	2,700	15,000	15,000
Conferences, Workshops, and Other Education (2700)	25,900	26,000	26,000
Criminal Justice Enhancement (3702)	0	0	0
DPS Administration (2322)	1,195,100	2,098,000	2,098,000

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
DPS Licensing (2490)	1,229,000	1,199,800	1,199,800
Driving Under the Influence Abatement (2422)	1,922,300	1,900,500	1,900,500
Families of Fallen Police Officers Special Plate (2386)	266,500	250,000	250,000
Federal Grants and Reimbursements (2000)	30,280,100	74,312,600	63,807,900
Fingerprint Clearance Card (2433)	5,037,400	5,189,600	5,189,600
Fingerprinting Fund, Board of (2435)	581,900	617,300	617,300
IGA and ISA (2500)	9,988,900	8,752,800	8,030,800
Indirect Cost Recovery (9000)	1,572,100	1,632,200	1,632,200
Motor Carrier Safety Revolving (2380)	1,600	4,000	4,000
Peace Officers' Training (2049)	6,591,400	6,414,500	6,414,500
Public Safety Equipment (2391)	0	1,200,000	1,200,000
Records Processing (2278)	5,613,800	5,456,900	5,456,900
State Highway Work Zone Safety (2480)	0	0	0
Statewide Donations (2025)	0	0	0
Victims' Rights Enforcement (2519)	418,700	1,000,000	1,000,000
Total - Department of Public Safety	\$72,892,400	\$117,631,400	\$106,404,700
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)	\$29,800	\$30,300	\$31,300
Investment and Administrative Expenses (NA)	11,261,000	11,181,700	11,224,600
Total - Public Safety Personnel Retirement System	\$11,290,800	\$11,212,000	\$11,255,900
Radiation Regulatory Agency (AEA)			
Federal Grants (2000)	\$453,900	\$401,100	\$401,100
Laser Safety (2388)	59,000	75,400	75,400
Nuclear Emergency Management (2138)	0	0	0
Total - Radiation Regulatory Agency	\$512,900	\$476,500	\$476,500
State Real Estate Department (REA)			
Condominium and Planned Community Hearing Office (2537)	\$19,000	\$23,500	\$23,500
Education Revolving (4011)	0	15,700	15,700
Recovery (3119)	102,800	139,700	139,700
Total - State Real Estate Department	\$121,800	\$178,900	\$178,900
Arizona State Retirement System (RSA)			
Administrative Account - Investment Expenses (1407)	\$71,833,000	\$74,141,000	\$80,662,000
Long-Term Disability Trust Fund Administration Account (1408)	1,600	0	0
Total - Arizona State Retirement System	\$71,834,600	\$74,141,000	\$80,662,000
Department of Revenue (RVA)			
Escheated Estates (3745)	\$0	\$0	\$0
Estate and Unclaimed Property (1520)	0	0	0
I Didn't Pay Enough (6001)	0	0	0
IGA and ISA (2500)	4,874,500	586,000	586,000
Revenue Publications Revolving (2166)	4,500	0	0
Special Collections (2168)	0	0	0
Statewide Employee Recognition Gifts/Donations (2449)	0	2,000	2,000
Veterans' Income Tax Settlement (1601)	0	0	0
Waste Tire (2356)	0	0	0
Total - Department of Revenue	\$4,879,000	\$588,000	\$588,000
School Facilities Board (SFA)			
Building Renewal Grant (2392)	\$0	\$0	\$0
Emergency Deficiencies Correction (2484)	606,200	963,800	0
Land Trust Bond Debt Service (5030)	23,365,000	26,446,000	26,449,500
Lease-to-Own Debt Service (2373)	0	0	0
New School Facilities (2460)	6,400	11,000	11,000
Public School Credit Enhancement, Arizona (NA)	0	0	0
School Improvement Revenue Bond Debt Service (5020)	69,667,000	64,146,200	64,133,500
Total - School Facilities Board	\$93,644,600	\$91,567,000	\$90,594,000
Secretary of State - Department of State (STA)			
Address Confidentiality Program (2557)	\$173,900	\$272,300	\$272,300
Blue Book Revolving, Arizona (2006)	0	0	0
Data Processing Acquisition (2265)	8,000	100,000	100,000
Election Training (2521)	600	0	0
Federal Grants (LAA2000)	3,449,800	3,360,200	3,360,200
IGA and ISA (2500)	0	0	0
Museum Gift Shop Revolving (LAA4008)	119,500	120,700	120,700
Notary Bond (2387)	109,500	99,600	99,600
Standing Political Committee Administrative (2426)	0	0	0
State Library (LAA2115)	274,600	339,400	339,400

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Total - Secretary of State - Department of State	\$4,135,900	\$4,292,200	\$4,292,200
State Board of Technical Registration (TEA)			
Technical Registration Board of Investigations (2072)	\$18,300	\$11,200	\$11,200
Office of Tourism (TOA)			
Tourism (2236)	\$14,195,900	\$14,139,900	\$14,139,900
Department of Transportation (DTA)			
Highways Magazine, Arizona (2031)	\$4,654,900	\$4,762,800	\$4,762,800
Cash Deposits (2266)	95,000	95,000	95,000
Contract Counsel (4212)	0	0	0
Federal Grants (2097)	2,262,100	1,664,700	1,644,700
Highway Expansion and Extension Loan Program (2417)	0	0	0
International Development Authority, Arizona (1994)	0	0	0
Local Agency Deposits (3701)	3,057,500	3,057,500	3,057,500
Maricopa Regional Area Road (2029)	58,483,800	58,483,800	58,483,800
Motor Carrier Safety Revolving (2380)	0	0	0
Railroad Corridor Acquisition Fund (2493)	0	0	0
Rental Tax and Bond Deposit (3737)	900	1,000	1,000
Shared Location and Advertising Agreements Expense (2414)	2,000	0	0
Statewide Employee Recognition Gifts/Donations (2449)	13,700	12,000	12,000
Statewide Special Plates (2650)	2,032,700	2,381,000	2,381,000
Underground Storage Tank Revolving (3728)	0	0	0
Total - Department of Transportation	\$70,602,600	\$70,457,800	\$70,437,800
State Treasurer (TRA)			
Criminal Justice Enhancement (3702)	\$4,342,400	\$4,342,400	\$4,342,400
Public Deposit Administration (2574)	0	103,200	103,200
Public School Credit Enhancement, Arizona (2675)	0	0	0
Total - State Treasurer	\$4,342,400	\$4,445,600	\$4,445,600
Governor's Office on Tribal Relations (IAA)			
Indian Town Hall, Arizona (4014)	\$0	\$0	\$0
Publications (4013)	0	0	0
Statewide Donations (2025)	21,000	13,500	13,500
Total - Governor's Office on Tribal Relations	\$21,000	\$13,500	\$13,500
Arizona Board of Regents (BRA)			
Health Education Center Program, Arizona (BRA2) Federal (2000)	\$0	\$0	\$0
Regents Local (BRA1)	2,357,300	1,168,200	56,700
Technology and Research Initiative (2472)	2,787,400	4,116,100	4,039,200
Trust Land (3131/3132/3134/3136)	1,842,100	3,973,100	2,000,000
Total - Arizona Board of Regents	\$6,986,800	\$9,257,400	\$6,095,900
Arizona State University - Tempe/DPC (ASA)			
Auxiliary (UNI8906)	\$174,862,100	\$178,625,600	\$199,282,000
Designated (UNI8905)	773,530,900	885,429,000	938,159,500
Endowment and Life Income (UNI8904)	1,546,000	0	0
Federal Grants (UNI8903)	296,055,700	282,156,100	282,156,100
Federal Indirect Cost Recovery (UNI8902)	54,318,300	57,682,000	57,682,000
Indirect Cost Recovery (Non-Federal) (UNI8900)	6,639,400	6,879,600	6,879,600
Loan (UNI8901)	508,700	0	0
Restricted (Excluding Federal Funds) (UNI8907)	151,459,500	145,223,900	145,223,900
University Capital Improvement Lease-to-Own and Bond (BRA3042)	11,918,300	11,925,800	11,926,700
Total - Arizona State University - Tempe/DPC	\$1,470,838,900	\$1,567,922,000	\$1,641,309,800
Arizona State University - East Campus (ASA)			
Auxiliary (UNI8906)	\$1,739,000	\$2,162,800	\$2,162,800
Designated (UNI8905)	53,289,100	48,969,900	52,422,300
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	8,440,100	8,155,700	8,155,700
Federal Indirect Cost Recovery (UNI8902)	1,879,300	1,995,700	1,995,700
Indirect Cost Recovery (Non-Federal) (UNI8900)	218,200	231,700	231,700
Loan (UNI8901)	0	0	0
Restricted (Excluding Federal Funds) (UNI8907)	2,478,100	2,394,700	2,394,700
Total - Arizona State University - East Campus	\$68,043,800	\$63,910,500	\$67,362,900
Arizona State University - West Campus (ASA)			
Auxiliary (UNI8906)	\$532,800	\$601,600	\$601,600
Designated (UNI8905)	65,974,100	101,645,100	102,826,400
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	11,755,100	11,359,000	11,359,000
Federal Indirect Cost Recovery (UNI8902)	2,191,100	2,326,700	2,326,700

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Indirect Cost Recovery (Non-Federal) (UNI8900)	254,400	270,100	270,100
Loan (UNI8901)	0	0	0
Restricted (Excluding Federal Funds) (UNI8907)	20,160,900	19,481,700	19,481,700
Total - Arizona State University - West Campus	<u>\$100,868,400</u>	<u>\$135,684,200</u>	<u>\$136,865,500</u>
Northern Arizona University (NAA)			
Auxiliary (UNI8906)	\$74,582,100	\$76,806,300	\$79,425,000
Designated (UNI8905)	156,393,200	180,776,700	183,440,700
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	81,486,500	82,301,600	83,124,700
Federal Indirect Cost Recovery (UNI8902)	6,720,400	6,787,600	6,855,500
Indirect Cost Recovery (Non-Federal) (UNI8900)	306,600	2,917,300	2,249,700
Loan (UNI8901)	125,600	394,700	405,800
Restricted (Excluding Federal Funds) (UNI8907)	24,758,300	24,854,700	25,316,600
University Capital Improvement Lease-to-Own and Bond (BRA3042)	9,487,400	11,082,500	11,077,200
Total - Northern Arizona University	<u>\$353,860,100</u>	<u>\$385,921,400</u>	<u>\$391,895,200</u>
University of Arizona - Main Campus (UAA)			
Auxiliary (UNI8906)	\$253,465,700	\$252,424,000	\$261,259,000
Designated (UNI8905)	544,401,800	616,449,100	638,024,500
Endowment and Life Income (UNI8904)	1,198,600	1,234,500	1,277,700
Federal Grants (UNI8903)	155,585,500	172,631,900	179,629,700
Federal Indirect Cost Recovery (UNI8902)	44,056,600	45,378,300	46,966,500
Geological Survey (3030)	0	2,620,800	1,756,800
Geological Survey - Mining, Mineral and Natural Resources			
Educational Museum Account (9999)	0	75,000	75,000
Indirect Cost Recovery (Non-Federal) (UNI8900)	10,689,800	11,010,500	11,395,800
Loan (UNI8901)	729,100	751,100	777,500
Restricted (Excluding Federal Funds) (UNI8907)	181,198,200	171,559,700	177,566,700
University Capital Improvement Lease-to-Own and Bond (BRA3042)	26,903,700	26,900,400	26,900,400
Total - University of Arizona - Main Campus	<u>\$1,218,229,000</u>	<u>\$1,301,035,300</u>	<u>\$1,345,629,600</u>
University of Arizona - Health Sciences Center (UAA)			
Auxiliary (UNI8906)	\$9,459,500	\$13,047,400	\$13,504,200
Designated (UNI8905)	267,478,800	305,927,700	316,635,500
Endowment and Life Income (UNI8904)	20,042,800	17,644,100	18,261,600
Federal Grants (UNI8903)	72,752,900	94,935,900	98,258,400
Federal Indirect Cost Recovery (UNI8902)	22,385,900	23,057,500	23,864,500
Indirect Cost Recovery (Non-Federal) (UNI8900)	4,217,800	4,344,300	4,496,400
Restricted (Excluding Federal Funds) (UNI8907)	90,762,200	73,495,200	76,067,400
Total - University of Arizona - Health Sciences Center	<u>\$487,099,900</u>	<u>\$532,452,100</u>	<u>\$551,088,000</u>
Department of Veterans' Services (VSA)			
Federal (2000)	\$903,100	\$2,358,800	\$2,358,800
Military Family Relief (2339)	499,500	693,600	693,600
Post-9/11 Veteran Education Relief (2645)	0	0	0
Statewide Employee Recognition Gifts (2449)	2,000	5,000	5,000
Veterans' Cemetery (2481)	4,662,600	692,800	692,800
Arizona State Veterans' Cemetery Trust (2499)	25,300	352,600	352,600
Veterans' Donations (2441)	1,763,600	1,308,000	1,308,000
Veterans' Income Tax Settlement (1601)	0	0	100,000
Total - Department of Veterans' Services	<u>\$7,856,100</u>	<u>\$5,410,800</u>	<u>\$5,510,800</u>
Water Infrastructure Finance Authority (WFA)			
Clean Water Revolving (2254)	\$150,568,300	\$0	\$0
Drinking Water Revolving (2307)	42,281,300	0	0
Federal (2000)	28,543,100	0	0
Greater Arizona Development Authority Revolving (2311)	47,600	0	0
Small Water Systems (2225)	0	0	0
Water Supply Development Revolving (2336)	0	0	0
Total - Water Infrastructure Financing Authority	<u>\$221,440,300</u>	<u>\$0</u>	<u>\$0</u>
Department of Water Resources (WCA)			
Administrative (3025)	\$0	\$0	\$0
Augmentation and Conservation Assistance (2213)	880,600	800,000	800,000
Colorado River Water Use Fee Clearing Account (2538)	7,400	0	0
Dam Repair (2218)	0	80,000	80,000
Federal Grants (2000)	290,200	339,800	339,800
Flood Warning System (1021)	82,400	0	0
General Adjudications (2191)	8,400	0	0
Indirect Cost Recovery (9000)	51,400	200,000	200,000
Interagency Service Agreement (2500)	0	371,000	371,000
Production and Copying (2411)	300	0	0

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Publication and Mailing (2410)	600	0	0
Purchase and Retirement Fund (2474)	0	0	0
Statewide Donations (2025)	160,200	10,000	10,000
Water Banking, Arizona (2110)	7,430,000	6,505,500	6,505,500
Water Protection, Arizona (1302)	902,200	181,200	181,200
Water Quality, Arizona (2304)	95,300	94,000	94,000
Well Administration and Enforcement (2491)	153,400	369,000	369,000
Total - Department of Water Resources	<u>\$10,062,400</u>	<u>\$8,950,500</u>	<u>\$8,950,500</u>
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$21,009,990,000	\$22,821,807,600	\$23,347,777,300
Subtotal - Other Funds	7,942,985,000	8,399,705,700	8,771,056,300
Subtotal - Federal Funds	13,067,005,000	14,422,101,900	14,576,721,000
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	<u>\$21,009,990,000</u>	<u>\$22,821,807,600</u>	<u>\$23,347,777,300</u>
CAPITAL - NON-APPROPRIATED			
Aviation Federal Funds (DTA2267)	\$3,480,000	\$3,500,000	\$2,500,000
Federal Grants (DTA2097)	880,101,000	853,985,000	920,440,000
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)	14,571,000	8,000,000	8,000,000
Maricopa Regional Area Road (DTA2029)	322,428,000	584,769,000	298,165,000
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$1,221,580,000	\$1,451,254,000	\$1,230,105,000
Subtotal - Other Funds	337,999,000	593,769,000	307,165,000
Subtotal - Federal Funds	883,581,000	857,485,000	922,940,000
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	<u>\$1,221,580,000</u>	<u>\$1,451,254,000</u>	<u>\$1,230,105,000</u>
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$22,231,570,000	\$24,273,061,600	\$24,577,882,300
Subtotal - Other Funds	8,280,984,000	8,993,474,700	9,078,221,300
Subtotal - Federal Funds	13,950,586,000	15,279,586,900	15,499,661,000
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	<u>\$22,231,570,000</u>	<u>\$24,273,061,600</u>	<u>\$24,577,882,300</u>

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

2/ The FY 2017 budget includes a reduction of \$(1,453,392,800) from non-appropriated funds in the Department of Health Services (DHS) to transfer behavioral health services from DHS to AHCCCS. Of this amount, \$(1,349,352,900) is from the ISA for Behavioral Health Services Fund, \$(60,519,600) is from the IGA for County Behavioral Health Services Fund, \$(41,520,300) is from Federal Funds, and \$(2,000,000) is from the Seriously Mentally Ill Housing Trust Fund.

NA = No Fund Number

STATE PERSONNEL SUMMARY

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

BUDGET UNITS	Fiscal Year 2017			Fiscal Year 2018		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
Accountancy, State Board of	0.0	13.0	13.0	0.0	13.0	13.0
Acupuncture Board of Examiners	0.0	1.0	1.0	0.0	1.0	1.0
Administration, Arizona Department of	114.2	417.9	535.1	114.2	417.9	535.1
Automation Projects Fund	0.0	15.0	15.0	0.0	15.0	15.0
Capital Outlay	0.0	5.0	5.0	0.0	5.0	5.0
SUBTOTAL - Administration, Arizona Department of	114.2	437.9	555.1	114.2	437.9	555.1
Administrative Hearings, Office of	12.0	0.0	12.0	12.0	0.0	12.0
African-American Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Agriculture, Arizona Department of <u>2/3/</u>	182.0	14.3	196.3	182.0	14.3	196.3
AHCCCS	455.6	685.6	1,141.2	455.6	685.6	1,141.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>4/</u>	1,019.8	1,306.5	2,326.3	1,019.8	1,306.5	2,326.3
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law <u>5/</u>	218.6	362.1	580.7	218.6	362.1	580.7
Automobile Theft Authority	0.0	6.0	6.0	0.0	6.0	6.0
Barbers, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Behavioral Health Examiners, Board of	0.0	17.0	17.0	0.0	17.0	17.0
Charter Schools, State Board for	14.0	0.0	14.0	14.0	0.0	14.0
Child Safety, Department of <u>6/</u>	1,527.2	1,665.9	3,193.1	1,527.2	1,665.9	3,193.1
Chiropractic Examiners, State Board of	0.0	5.0	5.0	0.0	5.0	5.0
Contractors, Registrar of	0.0	105.6	105.6	0.0	105.6	105.6
Corporation Commission	6.0	294.9	300.9	6.0	294.9	300.9
Corrections, State Department of	9,535.0	6.0	9,541.0	9,535.0	6.0	9,541.0
Cosmetology, Board of	0.0	24.5	24.5	0.0	24.5	24.5
Criminal Justice Commission, Arizona	0.0	9.0	9.0	0.0	9.0	9.0
Deaf and the Blind, Arizona State Schools for the	263.8	277.4	541.2	263.8	277.4	541.2
Deaf and the Hard of Hearing, Commission for the	0.0	15.0	15.0	0.0	15.0	15.0
Dental Examiners, State Board of	0.0	11.0	11.0	0.0	11.0	11.0
Economic Opportunity, Office of	0.0	0.0	0.0	5.0	0.0	5.0
Economic Security, Department of <u>7/</u>	1,366.5	2,851.5	4,218.0	1,388.1	2,901.3	4,289.4
Education, State Board of	4.0	0.0	4.0	4.0	0.0	4.0
Education, Department of	135.9	36.0	171.9	135.9	36.0	171.9
Emergency and Military Affairs, Department of <u>2/8/</u>	69.6	0.0	69.6	69.6	0.0	69.6
Environmental Quality, Department of	0.0	322.0	322.0	0.0	322.0	322.0
Equal Opportunity, Governor's Office of	4.0	0.0	4.0	4.0	0.0	4.0
Equalization, State Board of	7.0	0.0	7.0	7.0	0.0	7.0
Executive Clemency, Board of	14.0	0.0	14.0	14.0	0.0	14.0
Exposition and State Fair Board, Arizona	0.0	184.0	184.0	0.0	184.0	184.0
Financial Institutions, State Department of	46.1	23.0	69.1	46.1	23.0	69.1
Forestry and Fire Management, Arizona Department of	67.0	0.0	67.0	67.0	0.0	67.0
Funeral Directors and Embalmers, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Game and Fish Department, Arizona	0.0	273.5	273.5	0.0	273.5	273.5
Gaming, Department of	0.0	155.8	155.8	0.0	155.8	155.8
Governor's Office of Strategic Planning and Budgeting	22.0	0.0	22.0	22.0	0.0	22.0
Health Services, Department of	888.6	176.9	1,065.5	888.6	176.9	1,065.5
Historical Society, Arizona	50.9	0.0	50.9	50.9	0.0	50.9
Historical Society of Arizona, Prescott	13.0	0.0	13.0	13.0	0.0	13.0
Homeopathic and Integrated Medicine Examrs., Bd. of	0.0	1.0	1.0	0.0	1.0	1.0
Housing, Department of	17.0	3.0	20.0	17.0	3.0	20.0
Industrial Commission of Arizona	0.0	235.6	235.6	0.0	235.6	235.6
Insurance, Department of	72.3	0.0	72.3	72.3	0.0	72.3
Judiciary						
Supreme Court	138.6	38.4	177.0	144.6	38.4	183.0
Court of Appeals	136.8	0.0	136.8	136.8	0.0	136.8
Superior Court	128.8	8.7	137.5	128.8	8.7	137.5
SUBTOTAL - Judiciary	404.2	47.1	451.3	410.2	47.1	457.3
Juvenile Corrections, Department of	478.5	260.0	738.5	478.5	260.0	738.5
Land Department, State	125.7	4.0	129.7	126.7	3.0	129.7
Legislature						
Auditor General	184.8	0.0	184.8	184.8	0.0	184.8
Joint Legislative Budget Committee	29.0	0.0	29.0	29.0	0.0	29.0

BUDGET UNITS	Fiscal Year 2017			Fiscal Year 2018		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Legislative Council	49.0	0.0	49.0	49.0	0.0	49.0
SUBTOTAL - Legislature	262.8	0.0	262.8	262.8	0.0	262.8
Liquor Licenses and Control, Department of	0.0	45.2	45.2	0.0	45.2	45.2
Lottery Commission, Arizona State	0.0	98.8	98.8	0.0	98.8	98.8
Massage Therapy, Board of	0.0	5.0	5.0	0.0	5.0	5.0
Medical Board, Arizona	0.0	61.5	61.5	0.0	61.5	61.5
Mine Inspector, State	14.0	0.0	14.0	14.0	0.0	14.0
Naturopathic Physicians Medical Board	0.0	2.0	2.0	0.0	2.0	2.0
Navigable Stream Adjudication Commission, Arizona	2.0	0.0	2.0	2.0	0.0	2.0
Nursing, State Board of	0.0	42.2	42.2	0.0	42.2	42.2
Nursing Care Institution of Administrators, Bd	0.0	6.0	6.0	0.0	6.0	6.0
Occupational Therapy Examiners, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Opticians, State Board of Dispensing	0.0	1.0	1.0	0.0	1.0	1.0
Optometry, State Board of	0.0	2.0	2.0	0.0	2.0	2.0
Osteopathic Examiners, Arizona Board of	0.0	7.2	7.2	0.0	7.2	7.2
Parks Board, Arizona State	0.0	163.0	163.0	0.0	163.0	163.0
Personnel Board, State	0.0	3.0	3.0	0.0	3.0	3.0
Pest Management, Office of <u>3/</u>	0.0	0.0	0.0	0.0	0.0	0.0
Pharmacy, Arizona State Board of	0.0	18.0	18.0	0.0	18.0	18.0
Physical Therapy, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Pioneers' Home, Arizona	0.0	106.3	106.3	0.0	106.3	106.3
Podiatry Examiners, State Board of	0.0	1.0	1.0	0.0	1.0	1.0
Postsecondary Education, Commission of	0.0	5.0	5.0	0.0	5.0	5.0
Private Postsecondary Education, Board for	0.0	4.0	4.0	0.0	4.0	4.0
Psychologist Examiners, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Public Safety, Department of	706.7	1,250.0	1,956.7	695.7	1,250.0	1,945.7
Radiation Regulatory Agency <u>2/</u>	25.5	9.0	34.5	25.5	9.0	34.5
Real Estate Department, State	37.0	0.0	37.0	37.0	0.0	37.0
Residential Utility Consumer Office	0.0	11.0	11.0	0.0	11.0	11.0
Respiratory Care Examiners, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Retirement System, Arizona State	0.0	250.9	250.9	0.0	250.9	250.9
Revenue, Department of <u>9/</u>	389.0	491.8	880.8	389.0	491.8	880.8
School Facilities Board	17.0	0.0	17.0	17.0	0.0	17.0
Secretary of State, Department of State	131.1	10.0	141.1	131.1	10.0	141.1
Tax Appeals, State Board of	4.0	0.0	4.0	4.0	0.0	4.0
Technical Registration, State Board of	0.0	25.0	25.0	0.0	25.0	25.0
Tourism, Office of	28.0	0.0	28.0	28.0	0.0	28.0
Transportation, Department of	1.0	4,551.0	4,552.0	1.0	4,551.0	4,552.0
Treasurer, State	0.0	30.4	30.4	0.0	30.4	30.4
Tribal Relations, Governor's Office on	3.0	0.0	3.0	3.0	0.0	3.0
Universities <u>10/11/</u>						
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University - Tempe/DPC Campus	1,993.8	4,869.1	6,862.9	1,993.8	4,869.1	6,862.9
Arizona State University - East Campus	147.4	288.5	435.9	147.4	288.5	435.9
Arizona State University - West Campus	204.2	308.8	513.0	204.2	308.8	513.0
Northern Arizona University	872.3	1,388.4	2,260.7	872.3	1,388.4	2,260.7
University of Arizona - Main Campus	2,063.3	3,946.2	6,009.5	2,063.3	3,946.2	6,009.5
University of Arizona - Health Sciences Center	724.8	432.5	1,157.3	724.8	432.5	1,157.3
SUBTOTAL - Universities	6,031.7	11,233.5	17,265.2	6,031.7	11,233.5	17,265.2
Veterans' Services, Department of	106.3	406.0	512.3	106.3	406.0	512.3
Veterinary Medical Examining Board, Arizona. State	0.0	6.0	6.0	0.0	6.0	6.0
Water Resources, Department of	123.0	6.0	129.0	123.0	6.0	129.0
TOTAL APPROPRIATED FUNDS	24,561.0	28,020.3	52,584.3	24,583.6	28,069.1	52,655.7

- 1/ Full-Time Equivalent (FTE) Positions shown for individual agencies include only those positions funded by appropriated funds. The detail for changes in FTE Positions that occurred between FY 2017 and FY 2018 can be found in the individual agency pages.
- 2/ Laws 2015, Chapter 132 appropriated 5.5 General Fund FTE Positions in the Department of Emergency and Military Affairs, 5.5 General Fund FTE Positions in the Radiation Regulatory Agency, and 1.88 General Fund FTE Positions in the Department of Agriculture for FY 2016 and FY 2017.
- 3/ Laws 2016, Chapter 221 transferred the Office of Pest Management to the Department of Agriculture. Chapter 221 also converted the Pest Management Fund into the Pest Management Trust Fund, establishing the Trust Fund as a non-appropriated fund effective in FY 2017. The 30 FTE Positions funded from the Pest Management Fund are now funded by the Pest Management Trust Fund as non-appropriated FTEs.
- 4/ Includes 1,258.6 FTE Positions in FY 2017 and FY 2018 in the Other Fund FTE Positions columns funded from Federal Medicaid Expenditure Authority.

<u>BUDGET UNITS</u>	Fiscal Year 2017			Fiscal Year 2018		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
<u>5/</u>	In November 2016, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation as well as 6 FTE Positions of the 11 FTE Positions and the entire \$800,000 of the ISA Reserve appropriation. As a result, the FY 2017 estimate and FY 2018 Baseline have increased by 6 FTE Positions and \$800,000 over the FY 2017 appropriated amounts.					
<u>6/</u>	Includes 1,045.0 FTE Positions in FY 2017 and FY 2018 in the Other Fund FTE Positions columns funded from Expenditure Authority.					
<u>7/</u>	Includes 1,812.4 FTE Positions in FY 2017 and 1,862.0 FTE Positions in FY 2018 in the Other Fund FTE Positions columns funded from the Long Term Care System Fund and Federal Funds for Child Support Enforcement.					
<u>8/</u>	Includes 1 General Fund FTE Position in the Department of Emergency and Military Affairs for the administration of the Military Installation Fund per A.R.S. § 26-263.					
<u>9/</u>	The FY 2017 FTE allocations have been rebased to match FY 2018 allocations.					
<u>10/</u>	The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) originally appropriated 16,747.9 FTE Positions to Universities for FY 2017. This FTE amount has been revised to 17,265.2 to account for increased tuition and fee collections that exceeded what was originally included in the FY 2017 budget.					
<u>11/</u>	The Other Fund FTE Positions are funded by the University Collections Fund, which includes a portion of tuition, fees, and a portion of land earnings.					

FY 2018 BUDGET RECONCILIATION BILL PROVISIONS

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

Statewide

1. As session law, notwithstanding A.R.S. § 35-111 to permit the Governor to submit an annual budget for FY 2019.
2. As session law, notwithstanding A.R.S. § 35-113 to permit the head of each department to submit an annual budget for FY 2019.
3. As session law, notwithstanding A.R.S. § 35-121 to permit annual appropriations for all agencies for FY 2020. (Laws 2016, Chapter 127 permitted annual appropriations for all agencies through FY 2019.)
4. As session law, continue to set the FY 2018 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space.
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 2018. 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 FY 2018 county Arizona Long Term Care System (ALTCS) contributions at \$256,957,400.
9. As session law, set the County Acute Care contribution at \$46,813,400. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.
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, 2018 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, establish FY 2018 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. Require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. As session law, permit local jurisdictions to provide additional local match for Pool 5 distributions.
14. As session law, continue to require AHCCCS to report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) on any supplemental hospital payments paid to Critical Access Hospitals in FY 2018.

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. Subject to legislative appropriation, 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 permanent law, continue to require AHCCCS to submit a report to the JLBC and OSPB by December 1 yearly on utilization of emergency departments for non-emergency use by AHCCCS enrollees.
18. As permanent law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 1 yearly on hospital costs and charges.
19. As permanent law, require AHCCCS to report to JLBC on or before January 2 yearly on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities.
20. As session law, continue to require AHCCCS to report by November 1, 2017 on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 budget to hospitals.

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

Arizona Community Colleges

23. As session law, continue to suspend Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs funding formula for FY 2018 and specify the funding in the General Appropriation Act.

State Department of Corrections

24. As session law, continue to require the department to report actual FY 2017, estimated FY 2018, and requested FY 2019 expenditures as delineated in the prior year when the department submits its FY 2019 budget request pursuant to A.R.S. § 35-113.

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 2018, up to \$1,250,000 of county revenue for each county. Requires counties using this authority to report to the Director of JLBC on the intended amount and sources of funds by October 1, 2017.

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.
28. * As permanent law, prohibit DES from reducing the Long Term Care System Fund equity transfer to the General Fund by transferring equity to the State Long Term Care System Fund.
29. * As session law, require DES to transfer \$24,052,400 from the Long-Term Care System Fund to the General Fund on or before June 30, 2017.

Department of Education

JTEDs

30. 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

31. 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 1.37% for standard inflation.

Funding Formula Changes

32. As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 and reduce budget limits accordingly. As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2018 by the amount that would be reduced if they did qualify for state aid for FY 2018 and reduce budget limits accordingly.
33. As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
34. 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

35. As session law, continue to stipulate that \$100,000 of the \$3,646,400 School Safety Program appropriation for FY 2018 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.
36. 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.
37. As session law, continue the provision in the FY 2017 budget stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.
38. * As permanent law, require that the department submit its yearly report on the College Credit by Examination Incentive Program to the JLBC for its review and that the report list the amount of award funding received by each school.

Department of Emergency and Military Affairs

39. As permanent law, modify A.R.S. § 41-1252 to clarify that the Joint Committee on Capital Review shall review all grants for capital projects before monies are expended.

Department of Environmental Quality

40. As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank (UST) Fund in FY 2018 for department administrative expenses.
41. As session law, continue to suspend the requirement to appropriate \$15,000,000 from the state General Fund to the Water Quality Assurance Revolving Fund. In FY 2018, continue to reduce the General Fund appropriation to \$2,823,600 and appropriate \$2,491,200 from the Vehicle Emissions Inspection Fund and \$1,685,200 from the Air Quality Fund for a total of \$7,000,000.
42. As session law, continue to allow \$1,800,000 of the department's Emission Inspection Fund monies to be spent on the Safe Drinking Water Program.
43. As session law, continue to reduce vehicle emissions inspection fees by \$3 in Area A, which includes Maricopa County and portions of Pinal and Yavapai Counties.

Department of Financial Institutions

44. As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department.

Department of Health Services

45. As session law, continue to require all counties to pay 31% of their total Sexually Violent Person (SVP) costs throughout the entire commitment process, including pre-adjudication proceedings, in FY 2017.
46. As session law, continue to require all cities and counties to pay 100% of cost of Restoration to Competency treatment in FY 2018. Allow counties to use any source of county revenue to make the transfers.
47. 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.

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.

Judiciary

49. Discontinue the annual suspension of county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and require the Supreme Court to report on reductions in county funding as a result of the elimination of the non-supplanting provisions.

Department of Juvenile Corrections

50. 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

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

Arizona State Parks Board

52. 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

53. As session law, continue to require the Department of Public Safety (DPS) to receive JLBC review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2018 appropriation prior to its expenditure.
54. As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.
55. As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses.
56. As session law, allow DPS to utilize \$137,700 from the FY 2018 GIITEM Subaccount appropriation for costs related to an increase in the PSPRS employer contribution rate
57. As session law, continue the previously-approved \$30,000,000 shift of Highway Patrol costs from HURF to the General Fund in FY 2019.

Radiation Regulatory Agency

58. As session law, continue fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2018. The bill continues an intent clause that limits additional revenues to \$561,000.

Department of Revenue

59. 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).

School Facilities Board

Other Potential Statutory Changes

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

Universities

61. 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).

Other Potential Statutory Changes

62. * As permanent law, the JLBC Staff recommends that the Legislature consider whether to clarify the definition of "income" received by the universities for licensure and royalty payments and the sale or transfer of intellectual property that is subject to distribution to the General Fund.
63. * As permanent law, the JLBC Staff recommends that the Legislature consider whether to modify the universities' debt ratio limit to more accurately capture the universities indebtedness and resources available to pay debt service amounts.

Department of Water Resources

64. As session law, continue to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2017.
65. As session law, continue to allow the department non-municipality special fee authority, including an intent clause that limits additional revenue up to \$100,200, and exempt department from rulemaking for this purpose.

Revenues

66. As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2020.

FY 2018 GENERAL APPROPRIATION ACT PROVISIONS

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

Arizona Department of Administration

67. As session law, continue to provide ADOA the FY 2018 appropriation authority to spend certain Automation Projects Fund remaining balances as of June 30, 2017 for the same respective purposes specified in FY 2017 after a report to JLBC.

Arizona Commerce Authority

68. As session law, in accordance with statute (A.R.S. § 43-409), continue to allocate \$21,500,000 of General Fund withholding tax revenue to the Authority in FY 2018.

Counties and Cities & Towns

69. As session law, continue to appropriate \$550,050 to all counties with populations under 200,000 people according to the 2010 Census. As session law, continue to appropriate \$500,000 to Graham County.
70. As session law, in accordance with statute (A.R.S. § 9-601), appropriate \$22,449,000 from the General Fund for the Phoenix Convention Center.
71. As session law, continue to provide an estimate of \$10,000,000 for the amount of sales tax revenues that will be distributed to the Rio Nuevo Multipurpose Facility District-in accordance with statute (A.R.S. § 42-5031).

Department of Education

72. As session law, continue to defer \$930,727,700 in Basic State Aid payments from FY 2018 to FY 2019. Appropriate \$930,727,700 in FY 2019 for these deferred payments. Continue to exempt school districts with less than 600 students from the K-12 rollover. Allow the Department of Education to make the rollover payment no later than July 12, 2018.
73. As session law, continue to require school districts to include in the FY 2018 revenue estimates that they use for computing their FY 2018 tax rates the rollover monies that they will receive for FY 2018 in July 2018.

Debt Service

74. As session law, appropriate \$84,115,100 from the General Fund to the Arizona Department of Administration in FY 2018 for a debt service payment on the 2010 sale and leaseback of state buildings.

Revenues

75. As session law, continue to specify revenue and expenditure estimates for FY 2017, FY 2018, FY 2019, and FY 2020.
76. As session law, continue to require the Executive Branch to provide JLBC preliminary estimates of FY 2017 ending balances by September 15, 2017. Require JLBC Staff to report to JLBC by October 15, 2017 as to whether FY 2018 revenues and ending balance are expected to change by more than \$50,000,000 from budgeted projections.

Statewide

77. As session law, reduce the FY 2017 individual agency charges for general agency counsel provided by the Attorney General by \$(4,200) for the Department of Agriculture and \$(6,800) for Geological Survey and continue these reductions in FY 2018 and set the total level of charges at \$1,798,500.
78. 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.
79. As session law, continue to require ADOA to compile a report on Full-Time Equivalent (FTE) Position usage in FY 2017 in all agencies and provide it to the JLBC Director by October 1, 2017. The Universities are exempt from the report but are required to report separately.
80. As session law, continue to require each agency to submit a report to the JLBC Director by October 1, 2017 on the number of filled appropriated and non-appropriated FTE Positions by fund source as of September 1, 2017.
81. 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

82. As session law, continue to define “*” as designating an appropriation exempt from lapsing.
83. As session law, continue to define “expenditure authority” as continuously appropriated monies included in individual line items of appropriations.
84. As session law, continue to define “review by the Joint Legislative Budget Committee” as a review by a vote of a majority of a quorum of the members.

MAJOR FOOTNOTE CHANGES

The Baseline would include the following major additions, deletions or modifications of footnotes. This list does not include footnotes pertaining to one-time reports or appropriations or footnote changes conforming to enacted policy.

Arizona Department of Administration - Automation Projects Fund

- Adds footnote extending permission to spend FY 2016 appropriations for the Department of Environmental Quality's e-licensing project through the end of FY 2018.
- Adds footnote extending permission to spend FY 2017 appropriations for information technology projects at the Departments of Administration, Child Safety, Corrections, Economic Security, and Education through the end of FY 2018.

Attorney General - Department of Law

- Adds footnote prohibiting monies appropriated to the Litigation Expenses line item in the Department of Child Safety's budget from being counted towards the Attorney General's Interagency Service Agreements Fund appropriation in FY 2018.
- Deletes footnote allowing the Attorney General to access an additional \$800,000 and 11 FTE Positions from the Interagency Service Agreements Fund in FY 2018 upon submittal of a report to the Joint Legislative Budget Committee.

Department of Economic Security

- Deletes footnote permitting the department to use up to \$35,000,000 from the Budget Stabilization Fund for the purpose of providing funding for reimbursement grants.

INDIVIDUAL AGENCY ESTIMATES

Arizona State Board of Accountancy

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

FUND SOURCES

Other Appropriated Funds

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

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

Operating Budget

* * *

The Baseline includes \$1,937,000 and 13 FTE Positions from the Board of Accountancy Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,569,600	1,937,000
Year-End Fund Balance	2,513,000	2,373,600

Acupuncture Board of Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	89,900	105,200	105,200
Employee Related Expenditures	17,300	22,600	22,600
Professional and Outside Services	11,900	19,900	16,900
Travel - In State	1,500	1,500	1,500
Other Operating Expenditures	8,800	16,100	16,100
OPERATING SUBTOTAL	129,400	165,300	162,300
SPECIAL LINE ITEMS			
Annual Leave Payout	0	13,200	13,200
AGENCY TOTAL	129,400	178,500	175,500

FUND SOURCES

Other Appropriated Funds

Acupuncture Board of Examiners Fund	129,400	178,500	175,500
SUBTOTAL - Other Appropriated Funds	129,400	178,500	175,500
SUBTOTAL - Appropriated Funds	129,400	178,500	175,500
TOTAL - ALL SOURCES	129,400	178,500	175,500

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

Operating Budget

The Baseline includes \$162,300 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF FY 2018 \$(3,000)

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

Annual Leave Payout

The Baseline includes \$13,200 from the Acupuncture Board of Examiners Fund in FY 2018 for an annual leave payout for the retiring Executive Director. This amount is unchanged from FY 2017. The Executive Director's retirement has been delayed to FY 2018. It is assumed that the FY 2017 monies will not be used and will lapse.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	129,400	178,500
Year-End Fund Balance	180,100	163,700

Arizona Department of Administration

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	532.16	535.1	535.1
Personal Services	25,871,200	29,170,500	29,170,500
Employee Related Expenditures	9,471,300	10,922,000	10,922,000
Professional and Outside Services	8,707,700	11,321,700	11,321,700
Travel - In State	169,100	258,800	258,800
Travel - Out of State	29,100	82,200	82,200
Other Operating Expenditures	28,147,100	34,956,500	34,956,500
Equipment	4,535,700	4,435,900	4,435,900
OPERATING SUBTOTAL	76,931,200	91,147,600	91,147,600
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	6,874,000	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	7,063,100	9,406,300	9,406,300
Named Claimants	9,500	0	0
Information Technology Services			
Statewide Information Security and Privacy Office	853,200	870,900	870,900
Telecommunications Infrastructure	0	175,000	0
Risk Management			
Federal Transfer Payment	3,608,200	0	0
Risk Management Administrative Expenses	6,559,600	8,747,200	8,747,200
Risk Management Losses and Premiums	44,010,700	45,372,700	45,372,700
Workers' Compensation Losses and Premiums	28,267,300	31,159,200	31,159,200
Support Services			
Government Transformation Office	824,700	1,500,000	1,000,000
State Surplus Property Sales Proceeds	1,005,400	1,810,000	1,810,000
Other			
Southwest Defense Contracts	25,000	25,000	25,000
AGENCY TOTAL	176,031,900	198,489,500	197,814,500
FUND SOURCES			
General Fund	11,082,700	10,264,500	10,264,500
<u>Other Appropriated Funds</u>			
Air Quality Fund	488,100	927,300	927,300
Arizona Financial Information System Collections Fund	7,063,100	9,406,300	9,406,300
Automation Operations Fund	18,370,000	23,937,600	23,937,600
Capital Outlay Stabilization Fund	15,613,700	18,069,600	18,069,600
Corrections Fund	121,800	570,400	570,400
Federal Surplus Materials Revolving Fund	44,000	464,500	464,500
Information Technology Fund	2,571,000	3,436,000	2,936,000
Motor Vehicle Pool Revolving Fund	7,290,500	10,151,300	10,151,300
Personnel Division Fund	11,915,100	12,857,900	12,857,900
Risk Management Revolving Fund	89,124,100	93,046,300	93,046,300
Special Employee Health Insurance Trust Fund	4,934,000	5,256,100	5,256,100
Special Services Revolving Fund	0	592,200	592,200
State Surplus Materials Revolving Fund	1,928,800	2,947,000	2,947,000
State Web Portal Fund	3,991,600	4,542,400	4,542,400
Telecommunications Fund	1,493,400	2,020,100	1,845,100
SUBTOTAL - Other Appropriated Funds	164,949,200	188,225,000	187,550,000
SUBTOTAL - Appropriated Funds	176,031,900	198,489,500	197,814,500

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Other Non-Appropriated Funds	1,045,032,500	1,102,528,600	1,133,090,100
Federal Funds	2,245,000	1,694,100	1,694,100
TOTAL - ALL SOURCES	1,223,309,400	1,302,712,200	1,332,598,700

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 \$91,147,600 and 504.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,613,800
Air Quality Fund	927,300
Automation Operations Fund	23,937,600
Capital Outlay Stabilization Fund (COSF)	10,419,700
Corrections Fund	570,400
Federal Surplus Materials Revolving Fund	464,500
Information Technology Fund	2,065,100
Motor Vehicle Pool Revolving Fund	10,151,300
Personnel Division Fund	12,857,900
Risk Management Revolving Fund	7,767,200
Special Employee Health Insurance Trust Fund	5,256,100
Special Services Revolving Fund	592,200
State Surplus Materials Revolving Fund	1,137,000
State Web Portal Fund	4,542,400
Telecommunications Fund	1,845,100

These amounts are unchanged from FY 2017.

Facilities Management

Utilities

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

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2017.

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

Financial Services

Arizona Financial Information System

The Baseline includes \$9,406,300 and 28 FTE Positions in FY 2018 from the Arizona Financial Information System Collections Fund for the Arizona Financial Information System (AFIS). These amounts are unchanged from FY 2017.

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

Information Technology Services

Statewide Information Security and Privacy Office

The Baseline includes \$870,900 and 3 FTE Positions from the Information Technology Fund in FY 2018 for the Statewide Information Security and Privacy Office (SISPO). These amounts are unchanged from FY 2017.

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

Telecommunications Infrastructure

The Baseline includes no funding in FY 2018 for Telecommunications Infrastructure. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (175,000)
The Baseline includes a decrease of \$(175,000) from the Telecommunications Fund in FY 2018 for 2 one-time projects:

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

Risk Management

Federal Transfer Payment

The Baseline includes no funding from the Risk Management Fund in FY 2018 for one-time payments to the federal government. This amount is unchanged from FY 2017.

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

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

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

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

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

Risk Management Administrative Expenses

The Baseline includes \$8,747,200 from the Risk Management Revolving Fund in FY 2018 for Risk

Management Administrative Expenses. This amount is unchanged from FY 2017.

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

Risk Management Losses and Premiums

The Baseline includes \$45,372,700 from the Risk Management Revolving Fund in FY 2018 for Risk Management Losses and Premiums. This amount is unchanged from FY 2017.

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

Workers' Compensation Losses and Premiums

The Baseline includes \$31,159,200 from the Risk Management Revolving Fund in FY 2018 for Workers' Compensation Losses and Premiums. This amount is unchanged from FY 2017.

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 2018 for the Government Transformation Office (GTO). FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (500,000)

The Baseline includes a decrease of \$(500,000) from the Information Technology Fund in FY 2018 to remove one-time funding for additional resources at the GTO. This line item funds the GTO, which assists state agencies in designing and implementing process improvements. The office publishes an annual report on its accomplishments.

State Surplus Property Sales Proceeds

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

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

Other

Southwest Defense Contracts

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

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

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

On or before October 1, 2017, the department shall submit a report for review by the Joint Legislative Budget Committee of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The Joint Legislative Budget Committee may require the department to submit more frequent reports as necessary for further review.

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

the \$2,947,000 in FY 2018 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,947,000 in FY 2018, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee.

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

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

The appropriation from the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenues and transfers during FY 2018. These monies are appropriated to the Department of Administration for the purposes established in A.R.S. § 41-711. The appropriation is adjusted as necessary to reflect receipts credited to the Automation Operations Fund for automation operation center projects. Before the expenditure of any Automation Operations Fund monies in excess of \$23,937,600 in FY 2018, 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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnotes concerning one-time reporting requirements on vehicle maintenance and information technology FTE Positions and a one-time footnote specifying the use of additional State Procurement Office resources.

Other Issues

This section includes information on the following topics:

- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment

- Public Safety Communications
- Proposition 123

Automation Projects

The Baseline includes \$1,500,000 transferred from Other Funds to the Automation Projects Fund in FY 2018 for automation and information technology projects at ADOA. This amount consists of:

ASET Initiatives

The Baseline includes \$1,500,000 from the Automation Projects Fund in FY 2018 to continue to fund personnel and information technology projects at the Arizona Strategic Enterprise Technology (ASET) office in ADOA.

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

Health Insurance Trust Fund

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2016, HITF had a balance of \$323.3 million. Recent budgets have included a number of measures to reduce the HITF balance. Information on HITF receipts, expenses and fund balances are displayed in *Table 1*.

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

In addition to one-time fund transfers, an ongoing method to reduce the HITF balance is to adjust the employer/employee contribution strategy. The revised contribution rates became effective January 1, 2016. As such, the FY 2016 budget only included partial-year savings related to HITF changes. When effective for an entire year, the FY 2017 budget assumed the HITF rate reduction would generate \$(24,247,400) of General Fund savings in FY 2017.

Some of the HITF revenues are generated from Federal Funds. As a result, when HITF monies are transferred to the General Fund, the federal government requires that they receive a refund as well, known as a federal financial participation (FFP) repayment. Laws 2016, Chapter 117

Table 1

Health Insurance Trust Fund

Balance Sheet

(\$ in millions)

	Actual FY 2016	Estimated FY 2017	Estimated FY 2018
Beginning Balance	\$339.8	\$323.3	\$191.0
Receipts	\$838.3	\$806.9	\$806.9
Expenses	\$844.6	\$859.8	\$887.4
FFP Repayment ^{1/}	6.1	0.5	8.9
Transfer	<u>4.1</u>	<u>78.9</u>	<u>0</u>
Net Expenses	\$854.8	\$939.2	\$896.3
HITF Ending Balance	\$323.3	\$191.0	\$101.6

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

included a FY 2016 supplemental appropriation of \$6,167,600 from the Special Employee Health Insurance Trust Fund to repay the federal government for debts incurred due to HITF transfers to the General Fund in FY 2015. While not yet authorized by the Legislature, the FY 2017 FFP repayment for FY 2016 HITF transfers of \$4,076,000 is estimated to be \$464,100. This repayment may alternatively be financed from the Risk Management Revolving Fund.

Due to the FY 2017 and previous balance reduction measures, HITF is expected to have a fund balance of \$191.0 million at the end of FY 2017. ADOA's reserve strategy consists of maintaining a balance of approximately 20% of annual expenses, or approximately \$186.4 million. However, in recent years, medical expenditures have increased. The FY 2018 HITF ending balance is expected to be \$101.6 million. *(Please see the Health Insurance section in the General Provisions section for information on current state employee health insurance rates.)*

Risk Management Revolving Fund

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

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

Table 2 depicts actual balance, revenue, and expenditure information for FY 2016 as well as the estimated amounts for FY 2017 and FY 2018. Due to the unpredictable nature of the Risk Management program, ADOA tends to estimate future expenditures above historical spending levels. Table 2 also includes an adjusted FY 2018 expenditure estimate, which is closer to historical spending levels. Under this adjusted estimate, the FY 2018 ending balance would be \$63.0 million.

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

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

Federal Financial Participation Repayment

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

Fund Transfers

As part of its budget balancing, the state transferred monies from several ADOA funds to the General Fund in the past. The federal government contributed to several of those funds. For example, the state's Risk Management Revolving Fund is funded from charges to state agencies. These agencies may use Federal Funds to

	<u>Actual</u> <u>FY 2016</u>	<u>Estimated</u> <u>FY 2017</u>	<u>Estimated</u> <u>FY 2018</u>
Beginning Balance	83,326.6	75,135.3	66,108.5
Revenues	<u>102,796.1</u>	<u>101,145.5</u>	<u>101,145.5</u>
Total Funds Available	186,122.7	176,280.8	167,254.0
Expenditures			
ADOA	85,510.0	93,046.3	123,624.3
Federal Repayment	<u>3,614.1</u>	<u>3,100.0</u>	-
ADOA Subtotal	<u>89,124.1</u>	<u>96,146.3</u>	123,624.3
Other Agencies ^{1/}	9,960.9	10,670.4	10,670.4
Admin Adjustment	<u>11,902.4</u>	<u>3,355.6</u>	-
Total Expenditures	110,987.4	110,172.3	134,294.7
Ending Balance	75,135.3	66,108.5	32,959.3
Spending Adjustment ^{2/}	-	-	(30,000.0)
Adjusted Expenditures			104,294.7
Revised Balance	75,135.3	66,108.5	62,959.3

^{1/} Includes \$2,867,600 appropriated as an FY 2016 supplemental appropriation to the Department of Child Safety.
^{2/} Would reduce projected expenditures closer to historical ongoing spending levels which would increase the revised ending balance.

pay their charge. If part of the fund balance is transferred to the General Fund, the federal government bills the state to have a proportionate share of the transfer paid back to the federal government.

Disallowed Costs

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

Excess Retained Earnings

Certain enterprise funds carry a balance beyond the annual needs of the fund in order to provide some stability of cash flow. The federal government, however, charges the state for their proportionate share of excess fund balances above any amount that would fund more than 1/6th of the fiscal years' expenditures, or 60 days of working capital. In the past, the state has successfully

negotiated not to be charged for excess fund balances in HITF.

FY 2016

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

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

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

FY 2017

Based on prior experienced of federal repayment and estimates provided by ADOA, the federal government is likely to charge the state approximately \$3,139,600 for restricted used of Federal Funds as follows:

- \$3,139,600 related to fund transfers from 4 different funds in FY 2016.

This amount does not include excess retained earnings or fund transfers from HITF in FY 2016 and beyond. *(Please see the Federal Transfer Payment line item above for information.)*

Public Safety Communications

In August 2013, Public Safety Communication Advisory Commission, under ADOA, received a \$2,900,000 federal

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

A FY 2017 General Appropriation Act footnote required ADOA to submit a report by October 1, 2016 to JLBC for review of the expenditures to date and progress of implementation for any SLIGP funds. Through June 2016, ADOA reported spending \$1,396,900 of the \$2,900,000 grant.

Proposition 123

As a beneficiary of the Arizona State Land Trust, ADOA receives monies generated from lease revenues and the proceeds from land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

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

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

The JLBC Staff projects that the Legislative, Executive, and Public Buildings Land Fund will have an FY 2017 ending balance of \$3,590,100. The fund will have estimated revenues of \$792,900 in FY 2018. The Baseline does not appropriate any monies from the fund in FY 2018.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Administration - AFIS II Collections Fund (ADA4203/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Financial transaction processing fees.		
Purpose of Fund: To operate the Arizona Financial Information System (AFIS) II.		
Funds Expended	407,900	1,000
Year-End Fund Balance	1,145,100	1,144,100
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	488,100	927,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	7,063,100	9,406,300
Year-End Fund Balance	502,200	401,600
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 \$5,700,000 in FY 2016 and \$7,420,000 in FY 2017 and a transfer of \$461,600 into the General Fund in FY 2017. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	18,370,000	23,937,600
Transfer to Automation Projects Fund	5,700,000	7,420,000
Transfer to the General Fund	0	461,600
Year-End Fund Balance	14,530,300	8,382,700
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	15,613,700	18,069,600
Year-End Fund Balance	18,965,700	8,429,400
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	117,576,700	120,586,000
Year-End Fund Balance	8,930,400	7,257,600
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	0	4,822,800
Year-End Fund Balance	14,251,500	12,428,700
Co-Op State Purchasing Agreement Fund (ADA4213/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Annual subscription fees paid by local governments for state purchasing records, fees paid by individuals for copies of public records, and fees paid by vendors participating in the State Contract Show.		
Purpose of Fund: To provide microfiche of state purchasing information to local governments, as well as to reproduce public records for local governments and the public.		
Funds Expended	4,379,700	3,164,000
Year-End Fund Balance	1,381,200	1,377,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	121,800	570,400
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	14,908,500	20,110,800
Year-End Fund Balance	5,955,200	3,862,200
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	34,777,700	34,830,000
Year-End Fund Balance	3,952,400	3,952,400
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	1,131,000	1,694,100
Year-End Fund Balance	233,400	302,500
Federal Grants - American Recovery and Reinvestment Act (ARRA) (ADA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used for the installation of solar panels in the Phoenix and Tucson complexes, the implementation of the statewide Health Information Exchange (HIE), and broadband development.		
Funds Expended	1,114,000	0
Year-End Fund Balance	0	0
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	44,000	464,500
Year-End Fund Balance*	72,800	(368,500)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	8,862,500	8,065,600
Year-End Fund Balance	4,190,400	2,792,100
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. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	2,571,000	3,436,000
Transfer to Automation Projects Fund	0	527,800
Year-End Fund Balance	2,826,000	2,034,000
Legislative, Executive, and Public Buildings Land Fund (ADA3127/A.R.S. § 37-525)		Appropriated
Source of Revenue: State trust land lease revenues.		
Purpose of Fund: To support state Legislative, Executive, and Judicial buildings. In FY 2005, to construct a new Library and Archives Building.		
Funds Expended	0	0
Year-End Fund Balance	2,839,000	3,590,100
Monument and Memorial Repair Fund (ADA2338/A.R.S. § 41-1365)		Appropriated
Source of Revenue: Monies derived from fundraising activities, monies that are collected by the proponents of a monument or memorial, grants, donations, and legislative appropriations.		
Purpose of Fund: For the maintenance, repair, reconditioning, or relocation of monuments or memorials and for supporting mechanical equipment in the Governmental Mall.		
Funds Expended	0	0
Year-End Fund Balance	219,500	219,500
Motor Vehicle Pool Revolving Fund (ADA4204/A.R.S. § 41-804)		Appropriated
Source of Revenue: Charges to agencies for the use of motor pool vehicles.		
Purpose of Fund: To operate the motor vehicle pool.		
Funds Expended	7,290,500	10,151,300
Year-End Fund Balance*	2,222,600	(693,700)
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.		
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	123,400	116,300
Year-End Fund Balance	608,000	491,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	116,900	140,800
Year-End Fund Balance	5,442,600	5,397,800
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	11,915,100	12,857,900
Year-End Fund Balance	2,032,700	763,800
Privatized Lease-To-Own Fund (ADA2495/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges to agencies occupying privatized lease-to-own (PLTO) buildings.		
Purpose of Fund: To operate, maintain, and make annual rent payments on PLTO buildings.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Retiree Accumulated Sick Leave Fund (ADA3200/A.R.S. § 38-616)		Non-Appropriated
Source of Revenue: A 0.40% charge on the total benefit-eligible payroll of each agency within the ADOA personnel system. By statute, the rate may not exceed 0.55% and is set by ADOA with Joint Legislative Budget Committee review.		
Purpose of Fund: To compensate eligible retiring state employees for accumulated sick leave, to pay insurance premiums, and to administer the program. Payments are calculated as a percentage, tiered according to accrual level of hourly salary. Payments to 1 individual shall not exceed \$30,000.		
Funds Expended	14,271,800	14,623,500
Year-End Fund Balance	3,924,300	3,200,800
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.		
Funds Expended	89,124,100	93,046,300
Year-End Fund Balance	75,144,500	72,557,600
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	4,934,000	5,256,100
Non-Appropriated Funds Expended	847,832,100	894,675,300
Year-End Fund Balance	314,574,200	142,662,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Special Events Fund (ADA2503/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Set-up fees for special events on state property.		
Purpose of Fund: To set up special events on state property.		
Funds Expended	34,000	15,400
Year-End Fund Balance	10,600	10,600
Special Services Revolving Fund (ADA4208/A.R.S. § 35-193.02)		Partially-Appropriated
Source of Revenue: 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.		
Purpose of Fund: To provide centralized office services, printing, and other administrative or management services.		
Appropriated Funds Expended	0	592,200
Non-Appropriated Funds Expended	782,500	785,900
Year-End Fund Balance	86,800	107,200
State Employee Travel Reduction Fund (ADA2261/A.R.S. § 41-101.03)		Non-Appropriated
Source of Revenue: Grants by the Maricopa Association of Governments, the State Travel Reduction Planning Office, and the Arizona Department of Environmental Quality.		
Purpose of Fund: To operate and administer a ride-sharing program for the transportation of state employees between home and work.		
Funds Expended	439,000	535,000
Year-End Fund Balance	662,200	662,300
State Surplus Materials Revolving Fund (ADA4214/A.R.S. § 41-2606)		Appropriated
Source of Revenue: State surplus property sales revenues.		
Purpose of Fund: To collect, store, and administer the sale of state surplus property. The majority of revenues are returned to donor agencies. The department retains a service and handling fee.		
Funds Expended	1,928,800	2,947,000
Year-End Fund Balance	378,600	441,900
State Web Portal Fund (ADA2531/A.R.S. § 18-421)		Partially-Appropriated
Source of Revenue: Grants, donations, and web portal revenues, including any fees collected from the sale of certain types of motor vehicle records to commercial customers, less revenues deposited into the Highway User Revenue Fund, as stipulated in A.R.S. § 18-421		
Purpose of Fund: To maintain and upgrade the state's common web portal, including enhancement of existing products and the development of new applications. Monies received from private grants or donations, as well as federal grants, are non-appropriated. Expenditures include a transfer into the Automation Projects Fund of 3,775,000 in FY 2016 and \$5,650,000 in FY 2017. (See the <i>Automation Projects Fund</i> page for more details.)		
Appropriated Funds Expended	3,991,600	4,542,400
Non-Appropriated Funds Expended	0	0
Transfer to Automation Projects Fund	3,775,000	5650,000
Year-End Fund Balance	5,826,100	3,664,300
Statewide ARRA Administration SWCAP Fund (GVA2950/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Indirect federal cost recoveries associated with the statewide cost allocation plan (SWCAP). These funds were transferred to ADOA from the Governor's Office in FY 2012.		
Purpose of Fund: To defray administrative expenses of implementing the federal American Recovery and Reinvestment Act.		
Funds Expended	15,500	0
Year-End Fund Balance	571,500	571,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	504,300	56,200
Year-End Fund Balance	62,600	8,400
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	1,493,400	2,020,100
Year-End Fund Balance	789,900	525,200

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

Arizona Department of Administration - Automation Projects Fund

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
GENERAL FUND TRANSFERS ^{1/}			
AFIS Replacement	18,400,000	0	0
e-Procurement System Replacement	0	3,000,000	0
General Fund Transfer (ADE)	10,400,000	7,300,000	0
General Fund Transfer (DOR)	1,700,000	0	0
General Fund Transfer (DCS)	5,000,000	4,581,600	5,000,000
TOTAL - ALL PROJECTS	35,500,000	14,881,600	5,000,000
FUND SOURCES			
General Fund	35,500,000	14,881,600	5,000,000
SUBTOTAL - Appropriated Funds	35,500,000	14,881,600	5,000,000
TOTAL - ALL SOURCES	35,500,000	14,881,600	5,000,000
INDIVIDUAL PROJECTS - Automation Projects Fund ^{2/}			
Department of Administration			
<i>Full Time Equivalent Positions</i>	75.0	15.0	15.0
AFIS Replacement	15,758,100	0	0
e-Procurement System Replacement	0	12,000,000	0
ASET Initiatives			
SDC/Network and Security Infrastructure	1,528,600	5,700,000	0
Security, Privacy, and Risk	4,604,100	3,248,400	0
Enterprise Architecture	367,200	1,050,000	0
Project Management	1,384,900	1,500,000	1,500,000
E-Government	362,400	1,300,000	0
IT Consolidation Assessment	0	800,000	0
ASET Initiatives Subtotal	8,247,200	13,598,400	1,500,000
Department of Administration Subtotal	24,005,300	25,598,400	1,500,000
Department of Corrections			
AIMS Replacement	3,292,800	8,000,000	0
Department of Economic Security			
Information Technology Security	0	1,294,700	0
Department of Education			
Education Learning and Accountability System	9,123,200	7,300,000	0
Department of Environmental Quality			
E-Licensing	2,827,900	0	0
Department of Child Safety			
CHILDS Replacement	308,500	4,581,600	5,000,000
Department of Revenue			
Enterprise Tax System Assessment	0	1,000,000	0
Tax Analysis Improvements	702,300	0	0
Tobacco Tax System	649,800	0	0
Department of Revenue Subtotal	1,352,100	1,000,000	0
TOTAL - ALL PROJECTS	40,909,800	47,774,700	6,500,000

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

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	40,909,800	47,774,700	6,500,000
SUBTOTAL - Other Appropriated Funds	40,909,800	47,774,700	6,500,000
SUBTOTAL - Appropriated Funds	40,909,800	47,774,700	6,500,000
TOTAL - ALL SOURCES	40,909,800	47,774,700	6,500,000

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.

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

Pursuant to A.R.S. § 18-104, any large-scale information technology (IT) projects in the APF with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from the Information Technology Authorization Committee (ITAC). The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project. Statute also requires budget units to submit quarterly reports from the third-party consultant to ITAC and the JLBC on the project progress within 30 days after the end of the calendar quarter.

Department of Administration

AFIS Replacement

The Baseline includes no funding from the APF in FY 2018 for the replacement of the state's financial and accounting system, the Arizona Financial Information System (AFIS). FY 2016 was the final year of the 4-year project named the Business Re-Engineering Arizona (BREAZ). The new AFIS system went "live" on July 1, 2015.

The FY 2017 budget allows ADOA to use the FY 2015 and FY 2016 BREAZ appropriations through the end of FY 2017. ADOA reports it will spend the remaining \$4,815,300 in FY 2017 to implement additional functionality including travel management and Comprehensive Annual Financial Reporting (CAFR). In addition to the remaining \$4,815,300, the FY 2017 budget requires ADOA to use \$3,103,000 from the unused AFIS contingency to replace the e-procurement system. *(Please see the e-Procurement discussion below and the FY 2015 Appropriations Report for history of BREAZ funding.)*

e-Procurement System Replacement

The Baseline includes no funding from the APF in FY 2018 for the replacement of the state's e-Procurement system. FY 2018 adjustments would be as follows:

	FY 2018
Expenditure Alignment	GF \$(3,000,000)
	OF (12,000,000)

The Baseline includes a decrease of \$(3,000,000) in the General Fund transfer and a decrease of \$(12,000,000)

^{2/} Represents expenditures from the APF. The FY 2016 Actual column includes expenditures from FY 2015 appropriations in FY 2016.

from the APF in FY 2018 to eliminate the one-time costs for the replacement of the state's e-Procurement system.

In total, the APF appropriation is reduced by \$(12,000,000). This amount consists of \$(3,000,000) from the General Fund and \$(9,000,000) from Other Funds. The \$9,000,000 Other Funds amount consists of one-time charges to other appropriated and non-appropriated funds for transfer to APF. The FY 2017 budget required the JLBC Staff to determine the proportional amount to be transferred from each fund source. *Table 1* includes the allocation by agency and fund source. The allocations are based on the proportional FY 2016 procurement expenditures as captured by total ProcureAZ-to-AFIS transactions, excluding Federal Funds and the General Fund.

In addition, the FY 2017 budget requires ADOA to use \$3,103,000 from the unused AFIS contingency to replace the e-Procurement system. The total cost of the project is expected to be approximately \$15,000,000.

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

ADOA reports that the current system lacks the ability to integrate with AFIS to record purchase order and invoice transactions. In addition, the current system lacks advanced analytic capabilities to track spend data such as contract utilization of cross-agency contracts. At the September 2016 JLBC meeting, the Committee favorably reviewed \$300,000 of the allocation. ADOA has not yet requested review of the remaining project budget.

ASET Initiatives

The Baseline includes \$1,500,000 and 15 FTE Positions from the APF in FY 2018 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The 15 FTE Positions will assist in managing all projects funded from the APF. FY 2018 adjustments would be as follows:

ASET Alignment OF (12,098,400)

The Baseline includes a decrease of \$(12,098,400) from the APF in FY 2018 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2018 \$1,500,000 appropriation will be financed by a transfer from the ADOA Automation Operations Fund.

The \$1,500,000 APF appropriation will fund project management in the ASET office in ADOA. This includes Personal Services and Employee Related Expenditures to manage all projects funded through the APF, and to provide assistance to other state agencies for their IT projects.

The Baseline would also appropriate any remaining FY 2017 ASET project balances for use in FY 2018.

Department of Corrections

AIMS Replacement

The Baseline includes no funding from the APF in FY 2018 for the replacement of the inmate management system at the Department of Corrections (ADC). FY 2018 adjustments would be as follows:

Project Completion OF (8,000,000)

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

The FY 2017 budget includes \$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 2017 appropriation was funded from the following ADC funds:

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

The AIMS system will assist in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system. Of the \$8,000,000 appropriated in FY 2014 and \$8,000,000 appropriated in FY 2015, ADC has expended all \$8,000,000 of the FY 2014 appropriation, and \$5,645,300 of the FY 2015 appropriation. Their plans propose spending \$12,707,200 in FY 2017. These monies would come from the FY 2017 appropriation and the remainder of the FY 2015 appropriation.

A contract has been awarded to a vendor to oversee the modification of a commercial "off the shelf" system to fit the needs of ADC. Of the total project cost of

\$24,000,000, \$16,834,300 is allotted to pay the vendor. The remainder of the project costs include:

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

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

The pilot implementation of the project is scheduled for May 2017, and the full implementation at all prison sites in June 2017.

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

The Baseline would also appropriate any remaining FY 2017 AIMS project balances for use in FY 2018.

Department of Economic Security

Information Technology Security

The Baseline includes no funding in FY 2018 from the APF for IT Security at the Department of Economic Security (DES). FY 2018 adjustments would be as follows:

Project Completion OF (1,294,700)

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

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

In April 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$609,700 for IT security enhancements projects. Of that total, \$487,800 is from the APF and \$121,900 is from Federal Funds. DES 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 Baseline would also appropriate any remaining FY 2017 DES project balances for use in FY 2018.

Department of Education

Education Learning and Accountability System

The Baseline includes no funding from the APF in FY 2018 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 2018 adjustments would be as follows:

Remove One-Time Funding	GF	(7,300,000)
	OF	(7,300,000)

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 that is associated with the enacted FY 2017 budget.

Since FY 2012, ELAS has received \$52,995,000 in funding. Of this amount, the General Fund has provided \$38,900,000.

Prior to FY 2014, ADE used its own funds to administer the project, which included a combination of state General Fund monies (\$5 million per year in FY 2012 and FY 2013), mandatory fees from Arizona universities and community colleges (approximately \$1.5 million per year in FY 2012 and FY 2013), and federal monies (approximately \$7.3 million total).

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

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

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

Delays in vendor certification and development led ADE to pursue a "dual system" in FY 2016, in which the new school payment system ran parallel to the existing SAIS platform, which continued to make school payments in FY 2016.

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

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

ADE reports that as of October 2016, all but one Arizona school were submitting student data through the Arizona Education Data Standards (AzEDS) (a component of ELAS), and that as of September 2016, ADE has begun making school payments based on student counts in AzEDS rather than SAIS.

The department has indicated that its FY 2017 funding will support the ongoing development and operations of the ELAS system, the completion of the transition to the current year funding, the design of new school payment reports, and the continued implementation of tools for the Opt-in SSIS program. ADE reports that development of the new school payment reports will be initialized but not completed in FY 2017.

ADE estimates that an additional \$18.75 million is needed from the General Fund to complete the development of ELAS over the next 3 fiscal years. ADE has requested \$7.5 million of this amount in FY 2018.

In addition to the remaining development costs, ADE estimates an annual need of \$5.9 million for ongoing support and maintenance of ELAS. ADE has requested \$10.1 million of ongoing funding for departmentwide information technology operations, including ELAS, beginning in FY 2018.

The Baseline would also appropriate any remaining FY 2017 ELAS project balances for use in FY 2018.

Department of Environmental Quality

E-Licensing

The Baseline includes no funding from the APF in FY 2018 for E-Licensing. This amount is unchanged from FY 2017.

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

The FY 2018 Baseline continues to appropriate any remaining FY 2016 DEQ project balances for use in FY 2018 (*see the FY 2016 Appropriations Report for history of this funding*).

Pursuant to A.R.S. § 18-104, DEQ contracted with a third-party consultant for project oversight. In the September 2016 report, the vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report and provided 7 recommendations. The report emphasized that DEQ continues to lack an enterprise data management framework and discussed how this remains an obstacle to success. The vendor believes an agencywide strategic vision is needed regarding data management, including analytics and business intelligence. To accomplish this, the vendor recommends creating a DEQ data governance plan board. DEQ has made some progress in developing a data management framework by hiring an Enterprise Data Architect since the last report.

In its FY 2018 budget request, DEQ requested to transfer \$3.2 million from its Emissions Inspection Fund to the APF for myDEQ. To date, the project has been entirely funded

by the Emissions Inspection Fund. (See the Department of Environmental Quality - Vehicle Emissions Inspection Fees section for more information.)

Department of Child Safety

CHILDS Replacement

The Baseline includes \$5,000,000 from APF in FY 2018 to replace the Children’s Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS), also known as a statewide automated child welfare information system (SACWIS). The name of the new replacement system is Guardian. FY 2018 adjustments would be as follows:

Baseline Adjustment	GF	418,400
	OF	418,400

The Baseline includes an increase of \$418,400 from the General Fund and a corresponding increase of \$418,400 from APF in FY 2018 to fund Phase 2 of the CHILDS system replacement project as specified in the Legislature's 3-year spending plan that is associated with the enacted FY 2017 budget.

The Baseline would also appropriate any remaining FY 2017 CHILDS project balances for use in FY 2018. In addition to the \$5,000,000 of FY 2018 funding, DCS also has \$2,781,400 remaining from FY 2017 for total General Fund Phase 2 resources of \$7,781,400 in FY 2018.

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

The replacement system for CHILDS, known as 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. This solution is consistent with recommendations made by Public Consulting Group (PCG), which advised DCS to replace CHILDS in segments instead of purchasing a whole new system.

The total cost for the project was originally estimated to be between \$40,000,000 and \$80,000,000, depending on

the technology approach used during replacement. DCS currently estimates the cost to replace the system will be \$89,000,000 which includes the cost of state staff and overhead. DCS expects that project costs will qualify for a 50% federal match rate.

The FY 2015 budget initially authorized \$5,000,000 from APF for CHILDS replacement. No additional funding was approved in the FY 2016 budget due to slow progress on the project. The FY 2017 budget included an additional \$4,581,600, for a total of \$9,581,600 from APF. Including the 50% federal IV-E match for the project, DCS has been appropriated \$19,163,200 of the \$89,000,000 in estimated project costs through FY 2017.

As of November 2016, The JLBC has favorably reviewed a total of \$6,800,200 of the appropriated APF monies (as well as federal IV-E matching funds in the same amount), including:

- \$313,000 in March 2015 of for Phase 1 Planning, including a feasibility study and system recommendations.
- \$300,000 in June 2016 for development of Requests for Proposals (RFPs) for CHILDS modules.
- \$6,187,200 in September 2016 for contractor awards for the mobile solution, platform, and hosting, as well as the release of additional RFPs.

In its FY 2018 budget submittal, DCS is requesting \$10,841,600 from APF in FY 2018 for CHILDS replacement (in addition to the \$2,781,400 in unspent FY 2017 monies), and expects to expend \$27,098,500 in total funds in FY 2018. The projected FY 2018 costs include contractor awards for the platform, system integration, modules for case management, financial management, provider management, and intake/hotline; the decommissioning of CHILDS; and project overhead costs, such as independent verification and validation (IV & V), program management, and quality management.

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

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

Department of Revenue

Enterprise Tax System Replacement Assessment

The Baseline includes no funding in FY 2018 to assess the replacement of Department of Revenue's (DOR) enterprise tax system. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (1,000,000)

The Baseline includes a decrease of \$(1,000,000) from the APF in FY 2018 for the elimination of one-time funding. In FY 2017, \$1,000,000 was appropriated for this project to assess the feasibility of replacing DOR's enterprise tax system, referred to as the Business Reengineering and Integrated Tax System (BRITS). The \$1,000,000 APF appropriation was financed by a transfer from the Liability Setoff Program Revolving Fund.

DOR has indicated that they do not intend to spend these monies on a BRITS replacement assessment, and will instead continue to use the current system in the near future. The Baseline would revert the FY 2017 APF appropriation back to the Liability Setoff Program Revolving Fund.

* * *

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 described in this section, including the projects' expenditures to date, deliverables, timeline for completion and current status.

For the funding for projects at the Arizona Department of Administration, State Department of Corrections, Department of Child Safety, Department of Economic Security, and Department of Education, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2017 are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2017. The Department of Administration shall report any FY 2018 expenditure of remaining balances from FY 2017 in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee.

DEQ E-licensing Project

For the funding for the Department of Environmental Quality's E-licensing projects, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S § 41-714, from monies appropriated in FY 2016 for the E-licensing projects at the Department of Environmental Quality are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2016. The Department of Administration shall report any FY 2018 expenditure of remaining balances from FY 2016 from the Automation Projects Fund in the department's quarterly report to the Joint legislative Budget Committee.

New Footnotes

DOR Projects

For the funding for the Department of Revenue enterprise tax system replacement assessment, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2017 for the enterprise tax system replacement assessment revert to the Liability Setoff Program Revolving Fund.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning FY 2017 APF projects. The Baseline would also delete footnotes relating to third-party oversight and quarterly reports as this requirement is now in statute. The Baseline would also delete the footnote regarding a one-time assessment.

Other Potential Footnotes

If the Legislature continues to provide funding for the ELAS project in FY 2018, it may choose to extend the following existing footnotes:

The amount of \$7,300,000 is appropriated to the Department of Administration from the Automation Projects Fund established by A.R.S § 41-714, in FY 2017 for implementing, upgrading and maintaining the Student Longitudinal Data System and the Education Learning and Accountability System established pursuant to A.R.S § 15-249.

It is the intent of the Legislature that the appropriation made by subsection E of this section be used first and foremost to complete a significant portion of the replacement of the Student Accountability Information System established by A.R.S § 15-1041. The Department of Education shall provide quantifiable deliverables of the Legislature's intended progress to the Information Technology Authorization Committee established by A.R.S § 41-3521 and to the Joint Legislative Budget Committee before seeking review of the \$7,300,000 FY 2017

expenditure from the Automation Projects Fund, as required by A.R.S § 41-714.

Other Issues

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, the General Fund deposits into the APF are projected to remain unchanged in FY 2019 and FY 2020 at the level of \$5,000,000 for the DCS project. The enacted FY 2017 3-year spending plan only envisioned support for the DCS project beyond FY 2017. These estimates are based on:

CHILDS Replacement

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

The combined FY 2018 Baseline funding, long-term estimates, and prior appropriated funding would result in APF expenditures on CHILDS Replacement of \$24,581,600 by the end of FY 2020 when the project is expected to be complete. DCS currently projects that the state costs will be \$44,500,000 by the end of FY 2020. The enacted FY 2017 3-year spending plan only envisioned General Fund support for CHILDS Replacement beyond FY 2017 at a level of \$5,000,000 annually.

APF Revenues and Transfers

Since the APF’s inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 2* summarizes APF revenues from FY 2016 through FY 2018.

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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	12,183,000	47,774,700
Prior Year Appropriation Expended	28,726,800	23,852,200
Year-End Fund Balance	29,712,100	5,859,900

Table 1

FY 2017 NON-GENERAL FUND E-PROCUREMENT CHARGE 1/

	FY 2017 IT Charge
BUDGET UNITS	
Administration, AZ Department of	
AFIS Collections Fund	600
Air Quality Fund	600
Automation Operations Fund	61,400
Automation Projects Fund	9,900
Capital Outlay Stabilization Fund	75,400
Co-Op State Purchasing Agreement (4213)	3,800
Corrections Fund	100
Emergency Telecommunication Services Revolving (2176)	200
IGA & ISA Fund (2500)	32,700
Information Technology Fund	3,500
Motor Vehicle Pool Revolving Fund	10,700
Oil Overcharge (3171)	100
Personnel Division Fund	14,200
Risk Management Revolving Fund	15,700
Special Employee Health Insurance Trust Fund	4,000
Special Services Revolving	2,200
State Employee Travel Reduction (2261)	1,400
State Surplus Materials Revolving Fund	2,800
State Web Portal Fund	5,100
Telecommunications Fund	2,600
Total - AZ Department of Administration	247,000
Administrative Hearings, Office of	
IGA and ISA (2500)	7,500
Arizona Department of Agriculture	
Administrative Support (2436)	1,300
Air Quality Fund	13,500
Citrus, Fruit and Vegetable Trust (2260)	7,700
Commercial Feed Trust (2012)	4,200
Commodity Promotion (2458)	400
Dangerous Plants, Pests and Diseases Trust (2054)	200
Designated (3011)	6,700
Egg Inspection Trust (2022)	4,900
Fertilizer Materials Trust (2081)	3,600
Livestock and Crop Conservation (2378)	700
Livestock Custody Trust (2065)	2,800
Pest Management (2050)	2,600
Pesticide Trust (2051)	3,900
Protected Native Plant Trust (2298)	1,700
Seed Law Trust (2064)	2,000
Total - Arizona Department of Agriculture	56,200
AHCCCS	
IGA and ISA Fund (2500)	300
Intergovernmental Service (2438)	10,400
Total - AHCCCS	10,700
AZ Commission on the Arts	
Arts Trust, Arizona (3014)	200
Attorney General - Department of Law	
Anti-Racketeering Revolving (2131)	25,100
Antitrust Enforcement Revolving Fund	800
Collection Enforcement Revolving Fund	51,500
Consumer Protection-Consumer Fraud Rev. Fund	15,300
Criminal Case Processing (2461)	100
Indirect Cost Recovery (9000)	13,200
Risk Management Revolving Fund	5,900
Total - Attorney General - Department of Law	111,900
Automobile Theft Authority	
Automobile Theft Authority Fund	500

Barbers, Board of	
Board of Barbers Fund	300
Behavioral Health Examiners, Board of	
Board of Behavioral Health Examiners Fund	100
Child Safety, Department of	
Child Passenger Restraint	3,800
Chiropractic Examiners, State Board of	
Board of Chiropractic Examiners Fund	200
Contractors, Registrar of	
Registrar of Contractors Fund	67,000
Corrections, State Department of	
Alcohol Abuse Treatment Fund	21,200
Community Corrections Enhancement (2395)	7,900
Correctional Industries Revolving, Arizona (4002)	73,700
Corrections Fund	6,800
Inmate Store Proceeds (2505)	353,500
Penitentiary Land Fund	200
Prison Construction and Operations Fund	5,000
State Charitable, Penal and Reformatory Institutions Land Fund	16,100
State DOC Revolving (2515)	33,100
Transition Program Fund	1,500
Total - State Department of Corrections	<u>519,000</u>
Cosmetology, Board of	
Board of Cosmetology Fund	4,600
Criminal Justice Commission, Arizona	
Criminal Justice Enhancement Fund	4,800
Drug and Gang Prevention Resource Center Fund	100
Total - Arizona Criminal Justice Commission	<u>4,900</u>
Deaf and the Blind, AZ Schools for the	
ASDB Classroom Site (2486)	6,200
Enterprise (4222)	2,300
State Grants (2011)	28,000
Regional Cooperatives (4221)	75,900
Schools for the Deaf and the Blind Fund	600
Trust (3148)	4,400
Total - Arizona State Schools for the Deaf and the Blind	<u>117,400</u>
Deaf and the Hard of Hearing, Comm. for the	
Telecommunication Fund for the Deaf	37,500
Dental Examiners, State Board of	
Dental Board Fund	8,500
Early Childhood Development and Health Board, Arizona	
Early Childhood Development and Health (2542)	36,400
Economic Security, Department of	
Industries for the Blind, Arizona (4003)	68,100
Long Term Care System Fund	94,600
Public Assistance Collections Fund	100
Special Administration Fund	4,700
Spinal and Head Injuries Trust Fund	3,200
Total - Department of Economic Security	<u>170,700</u>
Education, Department of	
Agricultural Youth Organization Special Plate, Arizona (2650)	100
Character Education Special Plate (2522)	300
Department of Education Empowerment Scholarship Account Fund	1,200
Education Commodity (4210)	1,200
Education Learning and Accountability Fund	26,800
Failing Schools Tutoring (2470)	400
Golden Rule Special Plate (2366)	200
IGA and ISA (2500)	7,500
Indirect Cost Recovery (9000)	15,200
Internal Services (4209)	45,400
Professional Development Revolving Fund	7,200
Production Revolving (4211)	20,600
Proposition 301 Fund	24,700
Teacher Certification Fund	3,400
Total - Department of Education	<u>154,200</u>

Emergency & Military Affairs, Dept of	
Emergency Response Fund	1,500
Interagency Service Agreement (2500)	1,800
Indirect Cost Recovery (9000)	400
Morale, Welfare and Recreational (2124)	500
National Guard (2140)	500
Total - Department of Emergency & Military Affairs	<u>4,700</u>
Environmental Quality, Department of	
Emergency Response Fund	1,300
Emissions Inspection Fund	42,800
Employee Recognition (2449)	300
Hazardous Waste Management Fund	1,600
Indirect Cost Recovery Fund	36,100
Monitoring Assistance (2308)	100
Permit Administration	7,300
Recycling Fund	1,700
Solid Waste Fee Fund	1,200
Specific Site Judgment (3006)	200
Underground Storage Tank Fund Revolving Fund	40,400
Voluntary Remediation (2564)	200
Water Quality Assurance Revolving (2221)	23,000
Water Quality Fee Fund	10,900
Total - Department of Environmental Quality	<u>167,100</u>
Exposition and State Fair Board, AZ	
Arizona Exposition and State Fair Fund	38,100
Forestry & Fire Management, AZ Department of	
Cooperative Forestry (2232)	11,500
Funeral Directors and Embalmers, Board of	
Board of Funeral Directors & Embalmers Fund	100
Game and Fish Department, AZ	
Watercraft Licensing Fund	470,700
Gaming, Department of	
Arizona Benefits Fund	59,000
Arizona Benefits Fund Problem Gambling Subaccount	8,500
Racing Regulation Fund	20,500
Racing Regulation Fund - Mixed Martial Arts Account (2393)	1,800
Total - Department of Gaming	<u>89,800</u>
Health Services, Department of	
Arizona State Hospital Fund	6,800
Diagnostic Special Plate (2513)	200
ASH Land Earnings Fund	25,500
Health Services Licensing Fund	17,000
Child Fatality Review Fund	200
Disease Control Research (2090)	5,800
Emergency Medical Services Operating Fund	12,400
Environmental Laboratory Licensure Revolving Fund	2,200
Health Services Lottery (4250)	20,500
Indirect Cost Fund	15,800
Medical Marijuana (2544)	17,500
Newborn Screening Program Fund	38,400
Risk Assessment (2427)	600
Smoke-Free Arizona (2541)	2,500
Vital Records Electronic System Fund	4,400
Total - Department of Health Services	<u>169,800</u>
Historical Society, Arizona	
Preservation and Restoration (2125)	1,000
Permanent Arizona Historical Society Revolving (2900)	75,400
Total- Arizona Historical Society	<u>76,400</u>

Industrial Commission of AZ	
Administrative Fund	159,600
Revolving (2002)	-
Special Fund (2180)	155,300
Total - Industrial Commission of Arizona	<u>314,900</u>
Department of Insurance	
Captive Insurance Regulatory/Supervision (2377)	500
Financial Surveillance (2473)	400
Health Care Appeals (2467)	400
Insurance Examiners' Revolving (2034)	1,300
Total - Department of Insurance	<u>2,600</u>
Juvenile Corrections, Department of	
Criminal Justice Enhancement Fund	3,200
Juvenile Corrections (3024)	-
State Charitable, Penal and Reformatory Institutions Land Fund	6,000
Total - Department of Juvenile Corrections	<u>9,200</u>
Land Department, State	
Off-Highway Vehicle Recreation (2253)	1,800
Resource Analysis Division Revolving (4009)	1,300
Trust Land Management Fund	47,800
Total - State Land Department	<u>50,900</u>
Liquor Licenses & Control, Department of	
Liquor Licenses Fund	500
Lottery Commission, AZ State	
State Lottery Fund	67,900
Medical Board, Arizona	
Arizona Medical Board Fund	96,500
Mine Inspector, State	
Aggregate Mining Reclamation Fund	1,000
Nursing, State Board of	
Board of Nursing Fund	10,500
Parks Board, Arizona State	
Land Conservation (2432)	12,600
Off Highway Vehicle Recreation (2253)	2,900
Partnership (2448)	200
State Lake Improvement (2105)	42,300
State Parks Revenue Fund	102,500
Total - Arizona State Parks Board	<u>160,500</u>
Personnel Board, State	
Personnel Board Subaccount of the Personnel Division Fund	3,400
Pharmacy, AZ State Board of	
Board of Pharmacy Fund	300
Controlled Substances Prescription Monitoring Program (2359)	200
Total - Arizona State Board of Pharmacy	<u>500</u>
Physical Therapy, Board of	
Board of Physical Therapy Fund	200
Pioneers' Home, AZ	
Miners' Hospital Fund	300
State Charitable Fund	1,700
Total - AZ Pioneers' Home	<u>2,000</u>
Postsecondary Education, Commission for	
Family College Savings Program Trust (3121)	700
Postsecondary Education Fund	500
Total - Commission for Postsecondary Education	<u>1,200</u>
Psychologist Examiners, State Board of	
Board of Psychologist Examiners Fund	1,200
Public Safety, Department of	
Anti-Racketeering Revolving (3123)	53,100
Arizona Highway Patrol Fund	100
Automated Fingerprint Identification System Fund	4,400
Capitol Police Administrative Towing (1999)	100
Concealed Weapons Permit Fund	3,000
DPS Licensing Fund (2490)	4,200
DPS Joint Control (2085)	677,400

Fingerprint Clearance Card (2433)	6,200
Fingerprinting Fund, Board of (2435)	5,100
GIITEM Border Security and Law Enforcement Subaccount	3,600
IGA and ISA Fund (2500)	15,000
Indirect Cost Recovery (9000)	2,700
Motor Carrier Safety Revolving (2380)	100
Peace Officers' Training (2049)	6,500
Public Safety Equipment Fund	10,500
Records Processing (2278)	5,900
State Aid to Indigent Defense	600
Total - Department of Public Safety	798,500
Radiation Regulatory Agency	
Laser Safety (2138)	100
State Radiologic Technologist Certification Fund	4,900
Radiation Regulatory Fee Fund	14,300
Total - Radiation Regulatory Agency	19,300
Revenue, Department of	
Department of Revenue Administrative Fund	62,100
IGA and ISA (2500)	21,100
Tobacco Tax and Health Care Fund	100
Total - Department of Revenue	83,300
School Facilities, Board	
ISA & IGA (2500)	100
Technical Registration, State Board of	
Technical Registration Fund	3,200
Transportation, Department of	
Highway User Revenue Fund	4,700
Highways Magazine, Arizona (2031)	100,700
HURF Bond Proceeds Debt Service	213,900
Local Agency Deposits (3701)	99,700
Motor Vehicle Liability Insurance Enforcement Fund	7,000
Regional Area Road (2029)	451,200
Safety Enforcement and Transportation Infrastructure Fund	3,300
State Aviation Fund	43,800
State Highway Fund	3,464,500
Transportation Department Equipment Fund	155,200
Vehicle Inspection & Title Enforcement Fund	10,300
Total - Department of Transportation	4,554,300
Treasurer, State	
State Treasurer's Operating Fund	13,000
Veterans' Services, Department of	
State Veterans' Conservatorship Fund	4,700
State Home for Veterans' Trust Fund	202,500
Total - Department of Veterans' Services	207,200
Veterinary Medical Examining Board	
Veterinary Medical Examining Board Fund	3,800
Water Infrastructure Finance Authority	
Greater Arizona Development Authority Revolving (2311)	700
Water Resources, Department of	
Indirect Cost Recovery (9000)	100
Interagency Service Agreement (2500)	100
Total - Department of Water Resources	200
OPERATING BUDGET TOTAL	8,993,400

Fund numbers are provided for all non-appropriated funds. The intent of the IT charge is for each state agency to pay their proportionate share for the cost of replacing the state's e-Procurement system.

Table 2

Automation Projects Fund

(\$ in thousands)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Beginning Balance	45,827.5	29,712.1	5,859.9
Revenues			
<i>Administration, Department of</i>			
General Fund	2,383.0	3,000.0	
e-Procurement Automation Charges ^{1/}		9,000.0	
Automation Operations Fund	5,700.0	7,420.6	1,500.0
State Web Portal Fund	3,775.0	5,650.0	
Information Technology Fund		527.8	
<i>Corrections, Department of</i>			
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	
<i>Child Safety, Department of</i>			
General Fund		4,581.6	5,000.0
<i>Economic Security, Department of</i>			
Special Administration Fund	936.4	1,294.7	
<i>Education, Department of</i>			
General Fund	5,400.0	7,300.0	
Education Learning and Accountability Fund	1,600.0		
<i>Environmental Quality, Department of</i>			
Emissions Inspection Fund	5,000.0		
<i>Revenue, Department of</i>			
Liability Setoff Program Revolving Fund ^{2/}		1,000.0	
New Revenue	<u>24,794.4</u>	<u>47,774.7</u>	<u>6,500.0</u>
Total Funds Available	<u>70,621.9</u>	<u>77,486.8</u>	<u>12,359.9</u>
Total Expenditures (Current FY Appropriation)	12,183.0	47,774.7	6,500.0
Total Expenditures (Previous FY Appropriation)	<u>28,726.8</u>	<u>23,852.2</u>	<u>0</u>
Total Expenditures	<u>40,909.8</u>	<u>71,626.9</u>	<u>6,500.0</u>
Ending Balance ^{3/}	29,712.1	5,859.9	5,859.9

^{1/} The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-Procurement system.

^{2/} The FY 2018 Baseline 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.

^{3/} The FY 2016 ending balance includes \$3,103,000 of unspent AFIS replacement project contingency funds. The FY 2017 budget requires ADOA to use \$3,103,000 from the unused AFIS contingency to replace the e-Procurement system.

Table 3
Automation Project Fund Expenditure by Appropriation Year and Expenditure Year

	FY 2015 Appropriation			FY 2016 Appropriation			FY 2017 Appropriation			Total Expenditures	
	Appropriation	FY 2015 Expenditures	FY 2016 Expenditures	Balance	Appropriation	FY 2016 Expenditures	FY 2017 Expenditures Estimate	Appropriation	FY 2017 Expenditures Estimate	FY 2016 Expenditures	FY 2017 Expenditures
AFIS Replacement (BREAZ) e-Procurement System Replacement	26,533,000	8,342,600	15,754,100	2,436,300 ^{1/}	2,383,000	4,000	2,379,000	-	12,000,000	15,758,100	4,815,300 12,000,000
ADOA-ASET											
State Data Center	2,900,000	2,460,900	13,700	425,400	2,625,000	1,514,900	1,110,100	5,700,000	5,700,000	1,528,600	6,810,100
Security, Privacy, and Risk	3,125,000	937,100	2,171,400	16,500	3,125,000	2,432,700	692,300	3,248,400	3,248,400	4,604,100	3,940,700
Enterprise Architecture	500,000	69,200	267,300	163,500	500,000	99,900	400,100	1,050,000	1,050,000	367,200	1,450,100
Project Management	2,151,700	369,400	132,100	1,650,200	2,150,000	1,252,800	897,200	1,500,000	1,500,000	1,384,900	2,397,200
E-Government	325,000	5,900	295,100	24,000	1,075,000	67,300	1,007,700	1,300,000	1,300,000	362,400	2,307,700
IT Consolidation Assessment								800,000	800,000	-	800,000
ASET Total	9,001,700	3,842,500	2,879,600	2,279,600	9,475,000	5,367,600	4,107,400	13,598,400	13,598,400	8,247,200	17,705,800
DCS CHILDS Replacement											
DOC AIMS	5,000,000	-	308,500	4,691,500 ^{1/}	-	-	-	4,581,600	4,581,600	308,500	9,273,100
DEQ E-licensing	8,000,000	-	3,292,800	4,707,200 ^{1/}	-	-	-	8,000,000	8,000,000	3,292,800	12,707,200
DES IT Security	6,800,000	3,629,900	2,827,900	342,200 ^{1/}	5,000,000	-	5,000,000	1,294,700	1,294,700	2,827,900	5,342,200
ADE ELAS					936,400	-	-	7,300,000	7,300,000	-	1,294,700
DOR	12,000,000	9,671,700	2,311,800	16,500	7,000,000	6,811,400	188,600	7,300,000	7,300,000	9,123,200	7,488,600
Enterprise Tax System Assessment								1,000,000	1,000,000	-	1,000,000
Tax Analysis Improvements	1,700,000	546,300	702,300	451,400	-	-	-	-	-	702,300	-
Tobacco Tax System	1,000,000	350,200	649,800	-	-	-	-	-	-	649,800	-
DOR Total	2,700,000	896,500	1,352,100	451,400	-	-	-	1,000,000	1,000,000	1,352,100	1,000,000
Total	70,034,700	26,383,200	28,726,800	14,924,700	24,794,400	12,183,000	11,675,000	47,774,700	47,774,700	40,909,800	71,626,900

^{1/} Laws 2016, Chapter 117 allows the FY 2015 appropriation to be spent in FY 2017.

Office of Administrative Hearings

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

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

Operating Budget

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$860,500 and 12 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01 [repealed])		Appropriated
Source of Revenue: Interagency Agreement with AHCCCS.		
Purpose of Fund: To reimburse the Office of Administrative Hearings (OAH) for hearings and associated personnel cost for grievances related to Healthcare Group, which is AHCCCS' health insurance plan for small businesses. The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	709,700	749,500
Year-End Fund Balance*	0	(7,500)

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

Arizona Commission of African-American Affairs

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	69,700	83,100	83,100
Employee Related Expenditures	21,300	25,000	25,000
Professional and Outside Services	13,600	3,000	3,000
Travel - In State	300	0	0
Travel - Out of State	800	1,000	1,000
Other Operating Expenditures	15,700	12,900	12,900
AGENCY TOTAL	121,400	125,000	125,000

FUND SOURCES

General Fund	121,400	125,000	125,000
SUBTOTAL - Appropriated Funds	121,400	125,000	125,000
Other Non-Appropriated Funds	5,200	12,300	12,300
TOTAL - ALL SOURCES	126,600	137,300	137,300

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	5,200	12,300
Year-End Fund Balance	800	3,500

Arizona Department of Agriculture

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	162.9	196.3	196.3
Personal Services	4,383,200	5,489,700	5,489,700
Employee Related Expenditures	1,892,800	2,399,200	2,399,200
Professional and Outside Services	49,200	306,000	306,000
Travel - In State	350,400	649,500	649,500
Travel - Out of State	16,100	36,600	36,600
Other Operating Expenditures	981,800	1,263,100	1,263,100
Equipment	66,500	14,600	14,600
OPERATING SUBTOTAL	7,740,000	10,158,700	10,158,700
SPECIAL LINE ITEMS			
Agricultural Consulting and Training	128,500	128,500	128,500
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Nuclear Emergency Management Fund	215,500	198,400	198,400
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	8,195,500	10,597,100	10,597,100

FUND SOURCES

General Fund	8,195,500	9,162,700	9,162,700
<u>Other Appropriated Funds</u>			
Air Quality Fund	0	1,434,400	1,434,400
SUBTOTAL - Other Appropriated Funds	0	1,434,400	1,434,400
SUBTOTAL - Appropriated Funds	8,195,500	10,597,100	10,597,100
Other Non-Appropriated Funds	11,883,500	13,188,600	13,188,600
Federal Funds	5,132,000	4,907,500	4,907,500
TOTAL - ALL SOURCES	25,211,000	28,693,200	28,693,200

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

Operating Budget

The Baseline includes \$10,158,700 and 194.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,724,300
Air Quality Fund	1,434,400

These amounts are unchanged from FY 2017.

Agricultural Consulting and Training

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

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

Agricultural Employment Relations Board

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

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

Animal Damage Control

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

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

Nuclear Emergency Management Fund

The Baseline includes \$198,434 and 1.88 FTE Positions from the General Fund in FY 2018 for the Nuclear Emergency Management Fund (NEMF). FY 2018 adjustments would be as follows:

New NEMF Assessment **GF** **0**

The Baseline includes no change in FY 2018 for a new NEMF assessment.

Laws 2015, Chapter 132 appropriated \$198,434 and 1.88 FTE Positions from the General Fund in FY 2016 and in FY 2017. As a result, these monies do not appear in the FY 2017 General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs (DEMA), and Department of Agriculture received monies from this bill. (Please see the Department of Emergency and Military Affairs and the Radiation Regulatory Agency narratives for more information.)

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

The Baseline uses the FY 2017 appropriation of \$198,434 as a placeholder for the FY 2018 amount; the final amount will be determined in the 2017 legislative session as part of separate legislation. DEMA has provided recommendations for the FY 2018 and FY 2019 appropriations as outlined in Table 1 below.

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

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

Table 1

Nuclear Emergency Management Fund

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

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

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

Red Imported Fire Ant Control

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

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

* * *

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 2018. The Baseline continues an intent clause that limits additional revenues to \$218,000 to the General Fund, \$113,000 to the Pesticide Trust Fund, and \$26,000 to the Dangerous Plants, Pests, and Diseases Trust Fund.

Other Issues

Division of Pest Management

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$1,695,500 and 30 FTE Positions from the Pest Management Fund in FY 2017 for the Office of Pest Management. Laws 2016, Chapter 221 subsequently transferred the Office of Pest Management

to ADA creating the Division of Pest Management within ADA as of July 1, 2016.

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

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

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

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

Division of Weights and Measures

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

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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	38,000	39,400
Year-End Fund Balance	58,500	58,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Agricultural Consulting and Training Trust Fund (AHA1239/A.R.S. § 5-113)		Partially-Appropriated
<i>Source of Revenue:</i> Legislative appropriations.		
<i>Purpose of Fund:</i> To fund the agricultural consulting and training program established by A.R.S. § 3-109.01. Appropriated expenditures are not displayed in FY 2016 and FY 2017 to avoid double counting of the General Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	200	1,900
Year-End Fund Balance	31,500	29,600
Agricultural Products Marketing Fund (AHA2368/A.R.S. § 3-419)		Non-Appropriated
<i>Source of Revenue:</i> Assessments on the Arizona Leafy Green Products Shipper Marketing Agreement commodities.		
<i>Purpose of Fund:</i> To fund the Arizona Leafy Green Products Shipper Marketing Committee and to ensure compliance with the accepted food safety practices through mandatory government audits.		
Funds Expended	393,000	490,800
Year-End Fund Balance	487,000	355,200
Air Quality Fund (ADA2226/A.R.S. § 49-551)		Appropriated
<i>Source of Revenue:</i> Annual air quality and emissions fees assessed on motor vehicle registrations, as well as legislative appropriations.		
<i>Purpose of Fund:</i> To pay the cost of air quality research, experiments, education, and programs conducted by or for the department.		
Funds Expended	0	1,434,400
Year-End Fund Balance*	0	(13,500)
Aquaculture Trust Fund (AHA2297/A.R.S. § 3-2913)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees resulting from the regulation of aquaculture.		
<i>Purpose of Fund:</i> 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	0	28,300
Beef Council (Livestock Board Collection and Administration) Fund (AHA2083/A.R.S. § 3-1236)		Non-Appropriated
<i>Source of Revenue:</i> \$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.		
<i>Purpose of Fund:</i> For collection and administration costs.		
Funds Expended	348,100	348,000
Year-End Fund Balance	34,700	0
Citrus, Fruit and Vegetable Trust Fund (AHA2260/A.R.S. § 3-447)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees resulting from the assessments and civil penalties relating to the standardization of citrus, other fruits, and vegetables.		
<i>Purpose of Fund:</i> 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	349,800	381,300
Year-End Fund Balance	145,700	120,200
Citrus Trust Fund (AHA2299/A.R.S. § 3-468.04, 3-468.06)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees resulting from the assessment on citrus produced in the state, other charges, and interest.		
<i>Purpose of Fund:</i> 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	43,900	66,800
Year-End Fund Balance	88,300	51,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	275,900	267,800
Year-End Fund Balance	351,000	295,600
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	7,100	12,000
Year-End Fund Balance	14,300	8,900
Cotton Research and Protection Council Fund (AHA2013/A.R.S. § 3-1085)		Non-Appropriated
Source of Revenue: Assessments on each bale of cotton produced in the state, as well as fines and interest earnings.		
Purpose of Fund: To support research programs related to cotton production or protection and to provide a program to refund collected fees as an incentive for boll weevil control.		
Funds Expended	2,384,800	2,928,000
Year-End Fund Balance	3,204,100	2,771,100
Dangerous Plants, Pests and Diseases Trust Fund (AHA2054/A.R.S. § 3-214.01)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund for certification fees and reimbursements for the destruction of dangerous plants, pests, and diseases.		
Purpose of Fund: To prevent the introduction and propagation of, and to control and destroy, dangerous plants, pests, and diseases.		
Funds Expended	40,300	67,500
Year-End Fund Balance	107,300	105,100
Designated Fund (AHA3011/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Fees for laboratory services and phytosanitary certifications (certifying produce that is sent overseas), industry contributions for the Arizona Grown Program, 5% of Beef Council surcharges, a Risk Management grant from the Arizona Department of Administration, and other grants and contributions.		
Purpose of Fund: To administer the purpose for which the fee, grant, or contribution is intended.		
Funds Expended	572,900	740,000
Year-End Fund Balance	709,300	533,600
Egg Inspection Trust Fund (AHA2022/A.R.S. § 3-717)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees from the regulation of eggs and egg products.		
Purpose of Fund: To administer the Egg Inspection Program.		
Funds Expended	1,371,600	1,445,500
Year-End Fund Balance	676,300	662,500
Equine Inspection Fund (AHA2489/A.R.S. § 3-1345.01)		Non-Appropriated
Source of Revenue: Inspection fees for processing ownership and transportation of horses.		
Purpose of Fund: To fund the issuance of horse ownership and transportation certificates.		
Funds Expended	0	0
Year-End Fund Balance	900	1,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Funds (AHA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants. Laws 2016, Chapter 221 also provided a one-time transfer of all unexpended and unencumbered monies remaining in Federal Funds of the Office of Pest Management to the Department of Agriculture.		
Purpose of Fund: As determined by federal law with regard to exotic pest control (e.g., fire ant, gypsy moth, medfly), agricultural chemicals regulation, farm mediation, endangered species, and meat, poultry, and egg inspection. (The meat and poultry inspection amounts are a reimbursement to the General Fund and, therefore, pass through this fund without a net impact on expenditures shown here.)		
Funds Expended	4,971,300	4,587,300
Year-End Fund Balance	466,000	183,200
Federal - State Inspection Fund (AHA2113/A.R.S. § 3-499)		Non-Appropriated
Source of Revenue: Fees for inspection of domestic produce imported from Mexico pursuant to a cooperative agreement with the U.S. Department of Agriculture.		
Purpose of Fund: As determined by a cooperative agreement with the U.S. Department of Agriculture. On July 1, 1996, the Arizona Department of Agriculture became the fiduciary of this program, which monitors produce being imported from Mexico at the Nogales Port of Entry.		
Funds Expended	2,859,400	3,103,800
Year-End Fund Balance	1,793,200	1,481,600
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	339,700	266,900
Year-End Fund Balance	493,100	551,000
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	130,800	149,600
Year-End Fund Balance	234,800	225,600
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	97,400	100,000
Year-End Fund Balance	71,200	71,200
IGA and ISA Fund (AHA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through an interagency agreement with the Office of Pest Management.		
Purpose of Fund: To provide administrative services to the Office of Pest Management including accounting, information technology, human resources, and legal services.		
Funds Expended	1,565,800	0
Year-End Fund Balance	59,600	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Indirect Cost Recovery Fund (AHA9000/A.R.S. § 3-107)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants.		
<i>Purpose of Fund:</i> For indirect costs associated with administration of federal grants.		
Funds Expended	160,700	320,200
Year-End Fund Balance	661,000	503,600
Livestock and Crop Conservation Fund (AHA2378/A.R.S. § 41-511.23)		Non-Appropriated
<i>Source of Revenue:</i> \$2 million annually from the Land Conservation Fund through FY 2011, as established by A.R.S. § 41-511.23.		
<i>Purpose of Fund:</i> 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	478,000	485,400
Year-End Fund Balance	1,114,000	638,500
Livestock Custody Trust Fund (AHA2065/A.R.S. § 3-1377)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with monies resulting from fines assessed for and proceeds resulting from the sale of mistreated or stray livestock.		
<i>Purpose of Fund:</i> To enforce any of the provisions of Title 3, relating to agriculture and dairying.		
Funds Expended	35,400	174,900
Year-End Fund Balance	279,400	172,200
Nuclear Emergency Management Fund (AHA2138/A.R.S. § 26-306.02)		Non-Appropriated
<i>Source of Revenue:</i> An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station.		
<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. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	1,700	0
Pest Management Trust Fund (AHA2050/A.R.S. § 3-3604)		Non-Appropriated
<i>Source of Revenue:</i> Monies collected by the board from the examination and licensing of professional pest control companies and applicators of structural pesticides.		
<i>Purpose of Fund:</i> To examine, license, inspect, and regulate professional pest control companies and applicators of structural pesticides. Laws 2016, Chapter 221 transferred pest management regulation statutes and authorities from Title 32 to Title 3 and established the Division of Pest Management in the Department of Agriculture. Chapter 221 also converted the Pest Management Fund into the Pest Management Trust Fund with a provision that all monies in the fund be continuously appropriated retroactive to June 30, 2016.		
Funds Expended	0	1,580,000
Year-End Fund Balance	0	2,619,700
Pesticide Trust Fund (AHA2051/A.R.S. § 3-350)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees resulting from a portion of pesticide registration fees.		
<i>Purpose of Fund:</i> To regulate pesticides.		
Funds Expended	419,000	395,100
Year-End Fund Balance	479,700	549,700
Protected Native Plant Trust Fund (AHA2298/A.R.S. § 3-913)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees resulting from permits issued for the removal or salvage of protected native plants.		
<i>Purpose of Fund:</i> For the protection of native plants.		
Funds Expended	75,900	83,800
Year-End Fund Balance	48,900	31,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Seed Law Trust Fund (AHA2064/A.R.S. § 3-234)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from seed dealers' and labelers' license fees and penalties.		
Purpose of Fund: To regulate seeds, including all agricultural, vegetable, and ornamental plant seed, transported or offered for sale in this state.		
Funds Expended	56,500	53,900
Year-End Fund Balance	179,600	212,500

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

Arizona Health Care Cost Containment System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,214.3	2,326.3	2,326.3
Personal Services	34,936,100	46,346,800	46,346,800
Employee Related Expenditures	14,910,400	19,172,000	19,172,000
Professional and Outside Services	5,375,700	9,362,600	9,362,600
Travel - In State	64,800	78,500	78,500
Travel - Out of State	22,100	33,500	33,500
Other Operating Expenditures	21,589,600	16,285,000	16,285,000
Equipment	1,284,900	122,300	122,300
OPERATING SUBTOTAL	78,183,600	91,400,700	91,400,700
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	72,084,100	54,874,500	54,874,500
Proposition 204 - AHCCCS Administration	11,199,900	12,639,000	12,639,000
Proposition 204 - DES Eligibility	38,269,500	38,358,700	38,358,700
Medical Services			
Traditional Medicaid Services	3,615,896,900	3,935,885,600	4,032,402,500
Proposition 204 Services	2,474,278,400	2,777,688,100	2,903,006,900
Adult Expansion Services	403,212,000	462,284,600	482,902,300
Children's Rehabilitative Services	250,423,100	275,375,700	270,673,900
KidsCare Services	2,050,800	1,955,000	111,961,100
ALTCS Services	1,300,784,400	1,439,864,300	1,486,262,700
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	960,228,100	1,015,591,300
Medicaid Behavioral Health - Proposition 204 Services	0	612,844,800	649,608,300
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	208,027,400	217,719,100
Medicaid Behavioral Health - Adult Expansion Services	0	77,702,300	77,403,100
Non-Medicaid Seriously Mentally Ill Services	0	78,846,900	78,846,900
Supported Housing	0	5,324,800	5,324,800
Crisis Services	0	16,391,300	16,391,300
Hospital Payments			
Disproportionate Share Payments	5,087,100	5,087,100	5,087,100
DSH Payments - Voluntary Match	38,855,100	19,896,000	0
Rural Hospitals	22,348,600	22,650,000	22,650,000
Graduate Medical Education	163,725,900	296,288,000	265,729,800
Safety Net Care Pool	118,584,600	137,000,000	75,000,000
AGENCY TOTAL	8,594,984,000	11,530,612,900	11,913,834,000
FUND SOURCES			
General Fund	1,145,016,100	1,750,941,400	1,794,980,300
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,612,200	3,563,300	3,655,300
Children's Health Insurance Program Fund	2,424,100	3,674,900	113,681,000
Prescription Drug Rebate Fund - State	105,718,100	113,778,900	113,778,900
Substance Abuse Services Fund	0	2,250,200	2,250,200
TPTF Emergency Health Services Account	18,162,200	18,747,200	19,244,300
TTHCF Medically Needy Account	34,498,500	72,998,200	72,998,200
SUBTOTAL - Other Appropriated Funds	163,415,100	215,012,700	325,607,900
SUBTOTAL - Appropriated Funds	1,308,431,200	1,965,954,100	2,120,588,200

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Expenditure Authority Funds			
County Funds	299,153,500	299,667,700	306,417,000
Federal Medicaid Authority	6,140,839,600	8,383,725,800	8,484,116,600
Hospital Assessment Fund	224,197,600	252,329,100	284,761,900
Nursing Facility Provider Assessment Fund	18,031,200	27,589,400	32,989,400
Political Subdivision Funds	106,506,900	140,887,600	103,147,500
Prescription Drug Rebate Fund - In Lieu of Federal Funds	360,776,400	322,743,500	462,205,700
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	98,906,900	100,000,000	79,000,000
TPTF Proposition 204 Protection Account	38,140,700	37,521,000	40,413,000
SUBTOTAL - Expenditure Authority Funds	7,286,552,800	9,564,658,800	9,793,245,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,594,984,000	11,530,612,900	11,913,834,000
Other Non-Appropriated Funds	31,764,200	92,888,500	92,888,500
Federal Funds	66,182,800	155,248,600	156,625,300
TOTAL - ALL SOURCES	8,692,931,000	11,778,750,000	12,163,347,800

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

Summary

AHCCCS' FY 2018 General Fund spending would increase by \$44,038,900, or a 2.5% increase from FY 2017. This amount includes:

- \$68,169,800 in formula adjustments.
- \$(24,130,900) in other adjustments.

Of the \$44,038,900 increase in FY 2018, \$25,941,800 is for formula and other adjustments in physical care and \$18,097,100 is for formula and other adjustments in behavioral health.

AHCCCS' FY 2018 Hospital Assessment spending would increase by \$32,432,800, or a 12.9% increase. This increase is primarily due to a decrease in tobacco litigation settlement funding available to offset Hospital Assessment spending and a decrease in the federal match for the Adult Expansion population.

As part of the Baseline's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$109,090,300 in FY 2019 above FY 2018 and by \$143,042,800 in FY 2020 above FY 2019. (See *Other Issues* section for more information.)

Below is an overview of FY 2018 formula adjustments and other adjustments. *Table 1* summarizes these changes.

The Baseline does not make any adjustments for increases to contractor spending that result from increases to the state minimum wage under Proposition 206. (Please see the *Other Issues* section in the *Department of Economic Security Narrative* for additional information.)

Table 1

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

Formula Adjustments

FY 2018 Caseload Growth	\$ 54
FY 2018 3.0% Capitation Rate Increase	47
FY 2018 Federal Match Rate Increase	(33)
Subtotal ^{1/}	\$ 68

Other Adjustments

Health Insurer Fee Moratorium	(24)
KidsCare Restoration ^{1/}	0
Subtotal	\$ (24)

Total Spending Change \$ 44

^{1/} AHCCCS reopened the KidsCare program to new applicants in September 2016. The federal government funds all costs of the program in FY 2018. (See the *KidsCare Restoration* section for additional information.)

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, as well as a decrease in tobacco tax collections. The Baseline includes \$68,169,800 in FY 2018 for these adjustments.

FY 2018 Caseload Growth

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

Table 2
JLBC Forecasted Member Months ^{1/}

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

^{1/} The figures represent June 1 estimates.
^{2/} The Children's Rehabilitative Services program is included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCS populations. The Comprehensive Medical and Dental Program is included in Traditional.
^{3/} The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items.
^{4/} Parents and Childless Adults 100%-133% of the federal poverty level (FPL).
^{5/} Enrollment in the KidsCare program resumed in September 2016 (See *KidsCare Restoration* section for more information.)
^{6/} The ALTCS program funded in AHCCCS.
^{7/} In addition, approximately 29,800 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of December 1, 2016.

FY 2018 3.0% Capitation Rate Increase

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

FY 2018 Federal Match Rate Increase

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2018, the FMAP rates will adjust as follows:

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

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

FY 2017 Supplemental

The Baseline includes a \$85,680,600 supplemental increase in FY 2017, including \$59,225,800 in Other Funds and \$26,454,800 in Expenditure Authority Funds. The \$59,225,800 increase in Other Funds is associated with costs of restoring enrollment in the KidsCare program. A large portion of the Expenditure Authority increase is the result of higher-than-budgeted capitation rate increases for the Proposition 204 Childless Adult and Adult Expansion populations in FY 2017.

Although formula adjustments are expected to be associated with \$12.5 million in higher-than-budgeted General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund supplemental. (See the *KidsCare Restoration and Other Issues* sections for additional information.)

Other Adjustments

The Baseline includes savings of \$(24,130,900) from the General Fund in FY 2018 for other adjustments, including a 1-year moratorium on the Federal Affordable Care Act's (ACA) annual health insurer fee.

Health Insurer Fee Moratorium

The ACA placed an \$8 billion nationwide annual fee on the health insurance industry in 2014 that grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. AHCCCS reimburses insurers for fees paid as a result of covering Medicaid enrollees.

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

KidsCare Restoration

The KidsCare program provides health coverage to children in families with incomes between 133% and 200% FPL. Enrollment in the program was frozen on January 1, 2010. Laws 2016, Chapter 112 required AHCCCS to lift the enrollment freeze and request additional federal funding to operate the program. In July 2016, the federal government approved AHCCCS' request to reopen KidsCare.

AHCCCS began accepting new enrollees to the program on September 1, 2016 and had 9,701 members as of December 1, 2016. The JLBC Staff projects that an estimated 33,350 members will be enrolled in the program by June 2017 when fully implemented. This number is projected to grow 1.5% in FY 2018, to a total of 33,850 by June 2018.

The Baseline includes an increase of \$110,006,100 from the Children's Health Insurance Program (CHIP) Fund in FY 2018 to fund services of program enrollees. The Baseline does not include additional funding for administrative costs associated with restoring enrollment. Services and administrative costs of the KidsCare program qualify for a 100% federal match rate in FY 2018. (See the KidsCare line item for additional information.)

Operating Budget

The Baseline includes \$91,400,700 and 1,013.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$29,617,800
Children's Health Insurance Program (CHIP) Fund	1,719,900
Prescription Drug Rebate Fund (PDRF) - State	500,000
Federal Medicaid Authority (FMA)	59,563,000

These amounts are unchanged from FY 2017.

Administration

DES Eligibility

The Baseline includes \$54,874,500 and 885 FTE Positions in FY 2018 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

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

These amounts are unchanged from FY 2017.

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

Proposition 204 - AHCCCS Administration

The Baseline includes \$12,639,000 and 128 FTE Positions in FY 2018 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,073,800
Federal Medicaid Authority	8,565,200

These amounts are unchanged from FY 2017.

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

Proposition 204 - DES Eligibility

The Baseline includes \$38,358,700 and 300.1 FTE Positions in FY 2018 for Proposition 204 - DES Eligibility costs. These amounts consist of:

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

FY 2018 adjustments would be as follows:

Statutory Adjustments	GF	(92,000)
	OF	92,000

The Baseline includes a decrease of \$(92,000) from the General Fund and a corresponding increase of \$92,000

from the BNCF in FY 2018 to reflect an increase of county contributions in FY 2018 as required by A.R.S. § 11-292. (See Table 7 for contributions by county.)

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

Medical Services

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

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

Traditional Medicaid Services

The Baseline includes \$4,032,402,500 in FY 2018 for Traditional Medicaid Services. This amount consists of:

General Fund	902,893,000
County Funds	49,459,600
PDRF - State	105,837,600
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	426,099,500
Federal Medicaid Authority	2,510,485,700

FY 2018 adjustments would be as follows:

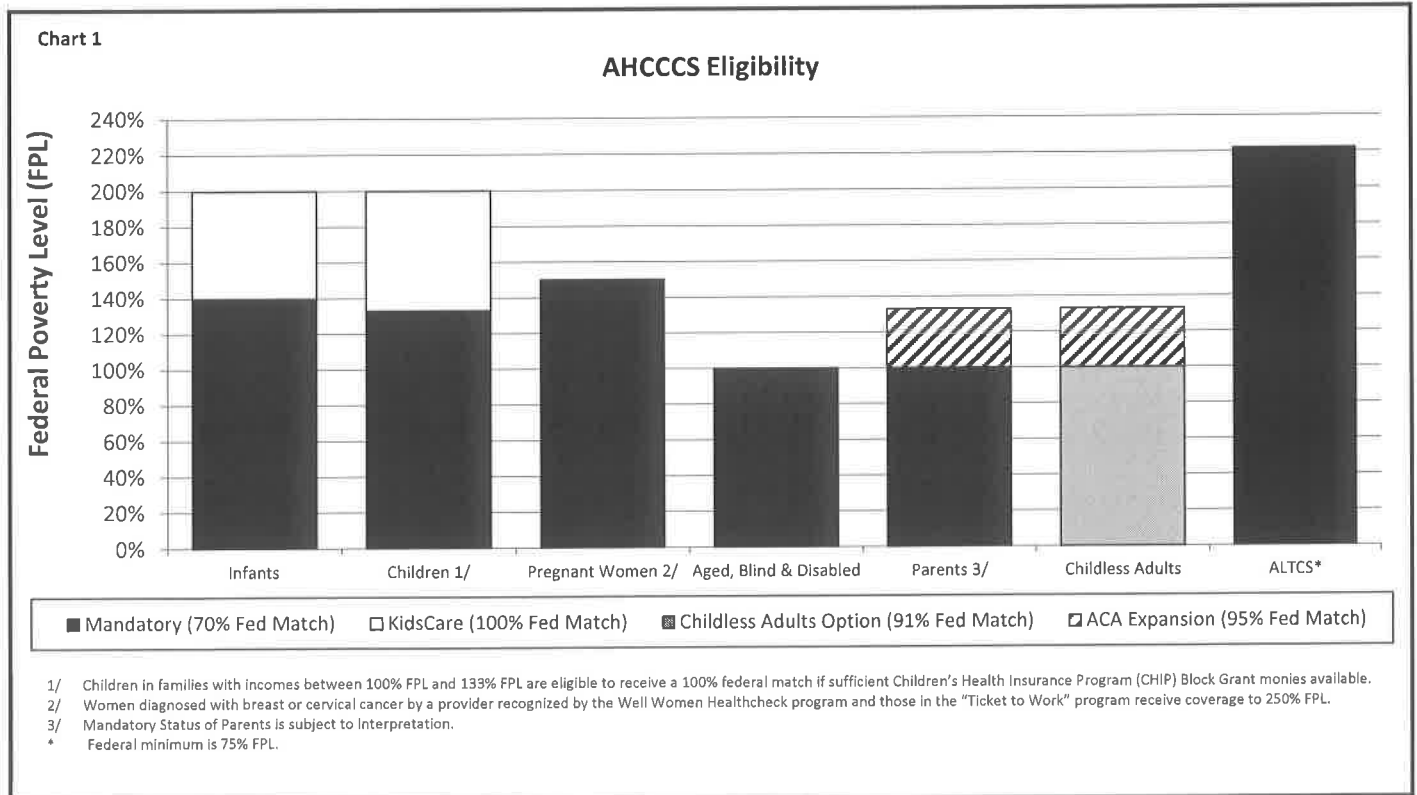
Formula Adjustments	GF	34,729,500
	EA	109,713,100

The Baseline includes an increase of \$144,442,600 in FY 2018 for formula adjustments. This amount consists of:

General Fund	34,729,500
County Funds	(228,100)
Federal Medicaid Authority	109,941,200

The adjustments include:

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



PDRF Increase EA 0

The Baseline includes a \$124,956,300 increase from the Prescription Drug Rebate Fund (PDRF) - In Lieu of Federal Funds and a corresponding decrease from Federal Medicaid Authority in FY 2018. The increase is due to higher-than-expected revenues in PDRF. (See Other Issues section for information about higher-than-expected state PDRF revenues.)

Health Insurer Fee Moratorium GF (14,895,300) EA (33,030,400)

The Baseline includes a decrease of \$(47,925,700) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

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

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

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

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

Proposition 204 Services

The Baseline includes \$2,903,006,900 in FY 2018 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	259,054,100
Tobacco Litigation Settlement Fund	79,000,000
TPTF - Proposition 204 Protection Account	40,413,000
TPTF - Emergency Health Services Account	19,244,300
Federal Medicaid Authority	2,505,295,500

FY 2018 adjustments would be as follows:

Formula Adjustments OF 497,100 EA 143,055,900

The Baseline includes an increase of \$143,553,000 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	(4,655,000)
TPTF - Proposition 204 Protection Account	2,892,000

TPTF - Emergency Health Services Account	497,100
Federal Medicaid Authority	144,818,900

The adjustments include:

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

Settlement Funding Reduction EA 0

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

Health Insurer Fee Moratorium EA (18,234,200)

The Baseline includes a decrease of \$(18,234,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

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

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

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

Adult Expansion Services

The Baseline includes \$482,902,300 in FY 2018 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	25,707,800
Federal Medicaid Authority	457,194,500

FY 2018 adjustments would be as follows:

Formula Adjustments	EA	24,495,700
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The Baseline includes an increase of \$24,495,700 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	19,446,300
Federal Medicaid Authority	5,049,400

FY 2018 adjustments would be as follows:

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

Health Insurer Fee Moratorium	EA	(3,878,000)
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The Baseline includes a decrease of \$(3,878,000) of Federal Medicaid Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. (See the Health Insurer Fee Moratorium section for additional detail.)

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

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

Children’s Rehabilitative Services

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	(1,436,900)
	EA	1,758,200

The Baseline includes an increase of \$321,300 in FY 2018 for formula adjustments. This amount consists of:

General Fund	(1,436,900)
Federal Medicaid Authority	1,758,200

These adjustments include:

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

Health Insurer Fee Moratorium	GF	(1,561,200)
	EA	(3,461,900)

The Baseline includes a decrease of \$(5,023,100) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

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

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

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

KidsCare Services

The Baseline includes \$111,961,100 from the CHIP Fund in FY 2018 for KidsCare Services. FY 2018 adjustments would be as follows:

KidsCare Restoration	OF	110,049,300
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The Baseline includes an increase of \$110,049,300 from the Children’s Health Insurance Program (CHIP) Fund in FY 2018 for restoration of the program. The adjustment includes a projected increase in enrollment, from 9,701 in December 2016 to 33,850 by June 2018, and 3.0% capitation rate growth in FY 2018.

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

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

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

On October 1, 2015, KidsCare began receiving a 100% federal match rate. The 100% federal match will continue through September 30, 2019. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program. Laws 2016, Chapter 112 requires AHCCCS to stop processing all KidsCare applications and notify contractors and members that the program will be terminated if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. (See *Long-Term Budget Impacts section for additional information.*)

ALTCS Services

The Baseline includes \$1,486,262,700 in FY 2018 for ALTCS services. This amount consists of:

General Fund	175,414,000
County Funds	256,957,400
PDRF - State	7,441,300
PDRF - In Lieu of Federal Funds	36,106,200
Nursing Facility Provider Assessment Fund	32,989,400
Federal Medicaid Authority	977,354,400

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	7,753,800
	EA	21,854,400

The Baseline includes an increase of \$29,608,200 in FY 2018 for formula adjustments. This amount consists of:

General Fund	7,753,800
County Funds	7,122,200
Federal Medicaid Authority	14,732,200

These adjustments include:

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

PDRF Increase	EA	0
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The Baseline includes a \$14,505,900 increase from the Prescription Drug Rebate Fund (PDRF) - In Lieu of Federal Funds and a corresponding decrease from Federal

Medicaid Authority in FY 2018. The increase is due to higher-than-expected revenues in PDRF. (See *Other Issues section for information about higher-than-expected state PDRF revenues.*)

Health Insurer Fee Moratorium	GF	(180,900)
	EA	(866,900)

The Baseline includes a decrease of \$(1,047,800) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

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

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

Nursing Facility Payments	EA	17,838,000
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The Baseline includes an increase of \$17,838,000 in FY 2018 to annualize a January 1, 2017 increase in supplemental payments to nursing facilities. This amount consists of:

Nursing Facility Provider Assessment Fund	5,400,000
Federal Medicaid Authority	12,438,000

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

The FY 2017 budget includes \$71,950,100 in supplemental payments to nursing facilities. A footnote, however, appropriates any payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$89,459,800 in supplemental payments in FY 2017, using added funding from the January 1, 2017 increase to assessment rates.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,374 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,910 per person. In addition to state funding, AHCCCS charges assessments on nursing facilities to receive matching Federal Funds that are used to make supplemental payments to facilities for covered expenditures.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2016, AHCCCS estimates that client contributions paid for 5.5% of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to set the amount of and charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. The assessment equals \$15.63 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and \$1.80 per day of care for facilities with more than 43,500 Medicaid bed days. Pursuant to A.R.S. § 36-2999.52, AHCCCS may not increase rates to a level that generates assessment revenues in excess of 3.5% of facilities' net patient revenues.

Behavioral Health Services

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

Medicaid Behavioral Health - Traditional Services

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	20,250,700
	EA	54,653,900

The Baseline includes an increase of \$74,904,600 in FY 2018 for formula adjustments. These amounts consist of:

General Fund	20,250,700
Federal Medicaid Authority	54,653,900

These adjustments include:

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

- 3.0% capitation rate increase.

Health Insurer Fee Moratorium	GF	(6,073,500)
	EA	(13,467,900)

The Baseline includes a decrease of \$(19,541,400) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

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

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

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

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

Medicaid Behavioral Health - Proposition 204 Services

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	1,731,500
	EA	42,777,200

The Baseline includes an increase of \$44,508,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,731,500
Federal Medicaid Authority	42,777,200

These adjustments include:

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

Health Insurer Fee Moratorium	GF	(1,420,000)
	EA	(6,325,200)

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

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

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

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

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	1,948,900
	EA	7,742,800

The Baseline includes an increase of \$9,691,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,948,900
Federal Medicaid Authority	7,742,800

These adjustments include:

- 0% enrollment growth, due to a projected lack of growth in the number of children in the custody of the Department of Child Safety (DCS) in FY 2018.
- Increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

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

The Baseline assumes there will be 17,385 eligible individuals in June 2018. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for CMDP in FY 2018, and it is estimated that 11,167 individuals, or 64.2% of the eligible population, will utilize services.

Medicaid Behavioral Health - Adult Expansion Services

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	3,437,300
	EA	(2,224,200)

The Baseline includes an increase of \$1,213,100 in FY 2018 for formula adjustments. This amount consists of:

General Fund	3,437,300
Federal Medicaid Authority	(2,224,200)

These adjustments include:

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

Health Insurer Fee Moratorium	EA	(1,512,300)
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The Baseline includes a decrease of \$(1,512,300) in Federal Expenditure Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. (See the Health Insurer Fee Moratorium section for additional detail.)

Background – Beginning on January 1, 2014, the Adult Expansion provides Medicaid services for adults from 100%-133% FPL who are not eligible for another Medicaid program. The federal government paid 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

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

Non-Medicaid Seriously Mentally Ill Services

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

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

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

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

Supported Housing

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

Background – This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match

for housing assistance. The program served an average of 1,948 clients per month in FY 2015.

Crisis Services

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

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

These amounts are unchanged from FY 2017.

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

Hospital Payments

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

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding has historically been adjusted for annual changes in prices and the federal match rate.

Federal Reduction in Payments

The ACA would have reduced federal DSH payments nationwide by \$500 million in FY 2014 and gradually increased the reductions to \$5.6 billion by FY 2019. Subsequent federal legislation, though, has delayed and modified the reduction amounts. Under the Medicare Access and CHIP Reauthorization Act of 2015, nationwide DSH payment reductions of \$2.0 billion will begin in FY 2018 and would gradually increase to \$8.0 billion by FY 2024.

The federal Medicaid and CHIP Payment and Access Commission projects Arizona's federal DSH payments will be decreased by (13)% in FY 2018 as a result of the scheduled nationwide reductions. The Baseline similarly assumes a (13)% reduction in federal DSH payments to the state. As a result, the state's total DSH payments are estimated to decrease by \$(24,839,700), from \$163,074,200 in FY 2017 to \$138,234,500 in FY 2018.

Table 3**Disproportionate Share Payments**

	FY 2017	FY 2018
Eligible Funding ^{1/}		
MIHS - CPE	\$113,818,500	\$108,874,800
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{2/}	<u>19,896,000</u>	<u>0</u>
Total Funding	\$163,074,200	\$138,234,500
Net Distribution - Disproportionate Share Payments		
General Fund		
Retain FF of CPE (via MIHS)	\$ 74,605,600	\$ 71,890,300
Retain FF of CPE (via ASH)	<u>19,716,000</u>	<u>19,901,100</u>
Subtotal - General Fund	\$ 94,321,600	\$ 91,791,400
Other Entities		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 99,408,700	\$ 96,878,500
Match	\$ 19,896,000	\$ 0
Total Distributions	\$119,304,700	\$96,878,500

^{1/} Amounts include state and federal match funding.

^{2/} The Baseline continues a footnote that appropriates any payments in excess of \$0 for DSH Voluntary Payments in FY 2018.

Of the \$138,234,500 of eligible DSH funding in FY 2018, \$96,878,500 is distributed according to the allocations described below and listed in *Table 3*. The remaining \$41,356,000 of eligible funding represents existing expenditures used as part of the state match.

General Fund Distributions

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

Section 18 of the FY 2017 Health BRB sets the eligible funding for MIHS at \$113,818,500 in FY 2017. As a result of projected federal reductions to DSH payments, the Baseline reduces this amount to \$108,874,800 in FY 2018. The state will retain \$71,890,300 in Federal Funds in FY 2018 for deposit to the General Fund. The Baseline continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,901,100 in FY 2018.

In total, the Federal Funds drawn down for MIHS and ASH add \$91,791,400 to General Fund revenue in FY 2018. This amount represents a \$(2,530,200) reduction in deposits to the General Fund, relative to FY 2017. While

the Baseline decreases the General Fund distribution as a result of the reduction in Federal Funds, the General Fund appropriation for MIHS could have alternatively been reduced by \$(2,530,200) in FY 2018.

MIHS Distribution

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

Private Hospital Distribution

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

DSH Voluntary Match Distribution

The state allows local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. As a result of reductions to federal DSH payments, the Baseline includes no funding for this distribution in the DSH Payments - Voluntary Match line in FY 2018. The Baseline continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of \$0.

Disproportionate Share Payments

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	(5,800)
	EA	5,800

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

Of the \$5,087,100 of total funds appropriated by the Baseline in the Disproportionate Share Payments line,

\$884,800 represents distributions to private hospitals including \$266,400 from the General Fund and \$618,400 in federal expenditure authority. In FY 2015, there were 30 private hospitals that received DSH payments. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The Baseline includes no funding in FY 2018 for DSH Payments - Voluntary Match. FY 2018 adjustments would be as follows:

Reduced Funding EA (19,896,000)

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

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

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. While the Baseline does not include funding for the line item in FY 2018, it continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of \$0. The Baseline additionally continues provisions from the FY 2017 Health BRB that give priority to eligible rural hospitals when allocating voluntary match DSH payments and that permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$108,874,800 in FY 2018. In FY 2015 there were 9 hospitals that received voluntary match DSH payments.

Rural Hospitals

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

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

FY 2018 adjustments would be as follows:

Formula Adjustments GF (147,200) EA 147,200

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

The FY 2017 Health BRB requires AHCCCS to report any voluntary payments paid to Critical Access Hospitals

(CAHs) by political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding in FY 2017. The Baseline does not include funding for voluntary payments in FY 2018 because the federal government has yet to approve matching payments from political subdivisions for CAHs.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2016, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Graduate Medical Education

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

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

FY 2018 adjustments would be as follows:

Decreased Funding EA (30,558,200)

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

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

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

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

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In FY 2016, 12 hospitals received a total of \$163,725,900 for Graduate Medical Education.

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

Safety Net Care Pool

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

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

FY 2018 adjustments would be as follows:

Decreased Funding EA **(62,000,000)**

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

This amount consists of:

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

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

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed Phoenix Children’s Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017. The federal government has approved the hospital to continue participating in the program through December 31, 2017 while indicating it will end funding for the program after

that date. The Baseline continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of \$75,000,000.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The state General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey.

The amounts included in the Proposition 204 - ~~Acute Care~~ AHCCCS Administration, ~~Proposition 204 - Behavioral Health Administration~~, Proposition 204 - DES Eligibility, Proposition 204 Services and Medicaid Behavioral Health - Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. *(The Baseline consolidates funding for administration of Proposition 204 Acute Care and Behavioral Health in FY 2018 into the Proposition 204 - AHCCCS Administration line.)*

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, 2018 on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the

following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee.

The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2018 to the Attorney General for costs associated with tobacco settlement litigation.

The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2018 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies.

On or before December 31, 2017, and June 30, 2018, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the Administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County for supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The Administration shall also report by fund source the amounts it plans to use to pay for expanded services.

It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities is 9% of the overall capitation rate.

The AHCCCS Administration shall transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill Services line item for FY 2018 to the Department of Health Services for the costs of prescription medications for persons with a serious mental illness at the Arizona State Hospital.

Long-Term Care

Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for persons with developmental disabilities do not count against the long-term care expenditure authority above.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2018 nonfederal costs of providing long-term care system services is \$256,957,400. This amount is included in the Expenditure Authority fund source.

Any supplemental payments received in excess of \$108,974,800 for nursing facilities that serve Arizona Long-Term Care System Medicaid patients in FY 2018, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source.

Payments to Hospitals

The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2018 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 2018 by the AHCCCS Administration in excess of \$0 are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2018 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match and Safety Net Care Pool line items are included in the Expenditure Authority fund source. *(The Baseline amount of Expenditure Authority funding in FY 2018 would be adjusted if funding for the Disproportionate Share Payments - Voluntary Match is higher than expected.)*

Any monies for Graduate Medical Education received in FY 2018, including any federal matching monies, by the AHCCCS Administration in excess of \$265,729,800 are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Any monies received in excess of \$75,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2018, including any federal matching monies, are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Other

On or before January 5, 2018, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received on or before that date since July 1, 2017. On June 30, 2018, the Administration shall report the same information for all of FY 2018.

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 a one-time footnote regarding a supplemental appropriation of Proposition 204-Protection Account funding from AHCCCS to DHS for behavioral health services.

The Baseline would delete a footnote requiring AHCCCS to report on retroactive capitation rate changes made to reimburse insurers for the Affordable Care Act health insurer fee in FY 2018. The Federal Consolidated Appropriations Act of 2016 places a 1-year moratorium on the fee for FY 2018.

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 of funding for all managed care organizations administrative funding levels.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties on December 31, 2018 if the counties' portion of the state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

- As session law, set FY 2018 county Arizona Long Term Care System (ALTCs) contributions at \$256,957,400.
- As session law, set the County Acute Care contributions at \$46,813,400. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 238.
- As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.

Hospitals

- As session law, establish FY 2018 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.
- As session law, continue to require AHCCCS to give priority to rural hospitals in the Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.
- As session law, continue to require that AHCCCS report any Critical Access Hospital Payments made by political subdivisions.

Erroneous Payments

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

Available Funding

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

Reports

- As permanent law, continue to require AHCCCS to submit a report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) by December 1 of 2017 and each year thereafter on the use of emergency departments for non-emergency use by AHCCCS enrollees. *(Previously had been an annual session law provision.)*
- As permanent law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 2 of 2018 and each year thereafter on hospital costs and charges. *(Previously had been an annual session law provision.)*
- As permanent law, continue to require AHCCCS to report to JLBC on or before January 2 of 2018 and each year thereafter on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities.

(Previously had been an annual session law provision.)

The report will include the following information:

- The total number of inpatient psychiatric beds available and the occupancy rate for those beds.
- Expenditures on inpatient psychiatric treatment.
- The total number of individuals in Arizona sent out of state for inpatient psychiatric care.
- The prevalence of “psychiatric boarding,” or the holding of psychiatric patients in emergency rooms for at least 24 hours before transferring them to a psychiatric facility.
- As session law, continue to require AHCCCS to report by November 1, 2017 on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 Health BRB to hospitals.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2017 Supplemental
- Prescription Drug Rebate Fund Balance
- Proposition 206
- Federal Funding for Native Americans
- Medicare Part B Premiums
- AHCCCS CARE Program
- Delivery System Reform Incentive Payments
- Hepatitis C Prescription Drug Coverage
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

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 \$109.1 million in FY 2019 above FY 2018 and \$143.0 million in FY 2020 above FY 2019.

These estimates are based on:

- Overall enrollment growth of 2.0% in FY 2019 and FY 2020.
- Capitation rate growth of 3.5% in FY 2019 and FY 2020.
- An increase in the federal match rate (from 69.73% in FY 2018 to 70.04% in FY 2019 and 70.20% in FY 2020).

- A decrease in the federal match rate for Child Expansion and KidsCare populations (from 100% in FY 2019 to 79.16%, beginning October 1, 2019).
- Resumption of the federal health insurer fee in FY 2019, following a 1-year moratorium in FY 2018. This is projected to increase General Fund spending by \$23.7 million in FY 2019 above FY 2018 and by \$0.6 million in FY 2020 above FY 2019.

Laws 2016, Chapter 112 specifies that the KidsCare program will be terminated if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. The legislative intent appears to have been that KidsCare would be eliminated if the federal match rate fell below 100%. Since the federal match falls to 79.16% in FY 2020, the Baseline assumes that the KidsCare program is eliminated after September 30, 2019.

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

FY 2017 Supplemental

The Baseline includes a FY 2017 supplemental increase of \$85,680,600. *Table 4* shows the supplemental appropriation included in the Baseline by fund source. Of the \$85,680,600, \$59,225,800 is from Appropriated Funds and \$26,454,800 is from Expenditure Authority Funds.

General Fund	\$0
<u>Appropriated Funds</u>	
Children's Health Insurance Program Fund	<u>\$59,225,800</u>
Subtotal	\$59,225,800
<u>Expenditure Authority Funds</u>	
PDRF – In Lieu of Federal Funds	\$137,309,100
Federal Medicaid Authority	<u>(110,854,300)</u>
Subtotal	<u>\$26,454,800</u>
Total Funds	\$85,680,600

While Laws 2016, Chapter 112 required AHCCCS to reopen the KidsCare program, the legislation did not include an adjustment for increased program costs. The Baseline includes \$59,225,800 in supplemental CHIP funding for KidsCare services in FY 2017. The supplemental does not include a funding increase for administrative costs associated with restoring the

program. (See the KidsCare Restoration section for additional information.)

The Baseline additionally includes a net increase of \$26,454,800 in supplemental federal funding. This net amount consists of a \$137,309,100 increase in Prescription Drug Rebate Fund - In Lieu of Federal Funds and a decrease of \$(110,854,300) in Federal Medicaid Authority. The net increase primarily funds greater-than-budgeted FY 2017 Acute Care capitation rate increases for certain populations.

The FY 2017 budget included capitation rate growth of 1.5% while actual acute care rates increased 7.1% for Proposition 204 Childless Adults and 5.1% for the Adult Expansion population. Growth in capitation rates for these populations was partly driven by expanded coverage of Hepatitis C drugs (see the Hepatitis C Prescription Drug Coverage section for additional detail).

Although revisions to FY 2017 estimates are expected to be associated with \$12.5 million in additional General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of supplemental through cash flow.

Any small changes in caseloads or capitation rates could also eliminate the need for any additional General Fund expenditures. For example, as of the time of this writing, AHCCCS had not submitted final FY 2017 behavioral health service capitation rates for JLBC review. Preliminary estimates by the agency would represent a decrease of (1.3)% compared to FY 2016 rates. Due to uncertainty about the final rates, the Baseline assumes behavioral health service capitation rate growth of 2.5% in FY 2017. Using the preliminary estimated decrease of (1.3)% instead of the 2.5% assumption would decrease Baseline General Fund spending estimates by \$(19.7) million in FY 2017, eliminating the current \$12.5 million estimate.

Prescription Drug Rebate Fund Balance

AHCCCS reported an ending balance of \$52.8 million for the state portion of the Prescription Drug Rebate Fund (PDRF) in FY 2016. The agency projects this balance will grow to \$73.3 million by the end of FY 2018, assuming the Baseline's level of spending in FY 2018 (see Table 5).

AHCCCS requests that \$42.1 million of the balance be used on a one-time basis to offset \$41.1 million in General Fund spending and \$1.0 million in County Fund spending in FY 2018. Increasing the fund's appropriation on a one-time basis would obscure the level of ongoing costs in

other state funding sources. The fund balance may alternatively be used to transfer \$42.1 million in state PDRF money to the General Fund as revenue in FY 2018. Transferring any balance from the PDRF for non-Medicaid use would require a statutory change.

Projected Beginning Balance	\$63,064,200
Projected FY 2018 Rebate Collections ^{1/}	<u>124,025,200</u>
Total Revenues ^{1/}	187,089,400
Baseline Disbursements	
Operating Budget	500,000
Traditional Services	105,837,600
ALTCS Services	<u>7,441,300</u>
Subtotal Disbursements	113,778,900
Projected Ending Balance ^{1/}	\$73,310,500
^{1/} Of this total, \$15.6 million represents rebates that would not be available to spend until FY 2019.	

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raises Arizona's minimum wage from \$8.05 to \$10.00 on January 1, 2017 and then gradually increases the rate to \$12.00 by January 1, 2020. After 2020, increases would be tied to inflation. It also requires most employers to provide paid sick leave to their employees. The initiative does not apply to state employees. The initiative, however, could increase costs for AHCCCS contractors, especially for ALTCS providers that employ direct care workers.

In December, the Executive announced its plans to address the costs of Proposition 206 with a 7% provider rate increase for certain home and community-based services providers and a 3.5% increase for nursing facilities beginning January 1, 2017. AHCCCS estimates that the Total Funds cost of the rate increase for the ALTCS Elderly and Physically Disabled program would be \$21.7 million in FY 2017. The associated state cost would be approximately \$3.4 million to the General Fund and \$3.3 million to county contributions. Prior to the initiative's increase in the minimum wage to \$10.50 on January 1, 2018, the full year cost would be approximately \$6.8 million to the General Fund and \$6.6 million to counties. The Executive has not yet announced whether this cost would be addressed through a supplemental or through existing funds.

The Baseline does not include funding for capitation adjustments associated with Proposition 206. *(Please see the Other Issues section in the Department of Economic Security Narrative for additional information.)*

Federal Funding for Native Americans

The federal government provides a higher match rate for certain Medicaid services provided to Native Americans. States may receive 100% federal funding for Medicaid services provided to Native Americans if such services are provided by an Indian Health Services (IHS) facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

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

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

The FY 2017 Health BRB requires AHCCCS to report on the fiscal implications of the guidance on or before December 1, 2016. In that report, AHCCCS did not provide specific savings estimates from the guidance, citing a lack of clarity from the federal government on how to interpret and implement the new rules, as well as the potential administrative burden for providers from care coordination agreements. AHCCCS states it is currently requesting formal guidance from CMS to address these issues.

Medicare Part B Premiums

Medicare Part B premiums will increase 10.0% from \$121.80 per month in 2016 to \$134.00 in 2017 for beneficiaries that are dually enrolled in Medicare and Medicaid. Because AHCCCS pays for the Medicare premiums of dual enrollees, higher Medicare premiums increase AHCCCS' costs. Relative to the FY 2017 budget, the premiums increase AHCCCS' General Fund spending by \$2.6 million in FY 2017, and \$6.0 million in FY 2018.

The FY 2018 Baseline incorporates the \$6.0 million increase.

Approximately 70% of Medicare Part B beneficiaries have their premiums deducted from their Social Security benefits. Federal law prohibits premiums for these individuals from increasing more than the annual increase to their Social Security benefits. Premium increases in excess of adjustments to benefits are added to premiums of the remaining 30% of beneficiaries, which includes Medicaid dual enrollees. The 0.3% inflation adjustment to Social Security benefits in 2017 was insufficient to fund the entire premium estimated for beneficiaries that deduct premiums from their benefits. As a result, premiums that are deducted from Social Security income were only increased 3.9% (from \$104.90 to \$109.00) while premiums charged for Medicaid dual enrollees were increased 10.0% (from \$121.80 to \$134.00) in 2017.

AHCCCS CARE Program

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

- A premium equal to 2% of income.
- Coinsurance charges up to 3% of income, including:
 - \$8 for non-emergency use of an emergency department.
 - \$4 for opioid prescriptions or refills.
 - \$4 for use of brand name drugs when a generic option is available.
 - Up to \$10 for using specialist services without a primary care physician referral.
- Health targets including smoking cessation and wellness exams.
- Referral to employment and job training resources administered by the Department of Economic Security.

The FY 2017 budget included \$(1.4) million in General Fund savings in FY 2017 and \$(1.8) million in FY 2018 for cost sharing provisions. The approved waiver provisions are expected to result in minimal savings. For example, premiums levied under the AHCCCS CARE program fund costs for non-Medicaid services, such as vision plans, chiropractic services or a gym membership. Savings estimates under the FY 2017 budget, however, presumed premiums would offset AHCCCS costs for Medicaid services. The FY 2017 budget additionally included savings for a mandatory \$25 copay for inappropriate emergency room use by all adult enrollees. The AHCCCS CARE program alternatively charges coinsurance for select

services to approximately 70,000 Adult Expansion enrollees. The Baseline does not include any savings associated with the approved AHCCCS CARE program. The federal government did not approve several other provisions of the state's waiver proposal, including:

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

Delivery System Reform Incentive Payments

AHCCCS is seeking approval from the federal government for a proposal to create a Delivery System Reform Incentive Payment (DSRIP) program. DSRIP programs allow state Medicaid agencies to fund provider-led projects that address Medicaid population health.

AHCCCS plans to allocate DSRIP funding to projects to improve integration of behavioral health services and acute care services for adults, children, and individuals transitioning from the criminal justice system. Examples of potential projects include investments in health information technology infrastructure for behavioral health providers, as well as training in trauma-informed care for physicians treating foster children.

In its FY 2018 budget request, AHCCCS estimated that the DSRIP program would be associated with \$1.46 billion in expenditures between FY 2017 and FY 2022, including \$1.42 billion in federal funds and \$42.3 million in funding from counties and universities.

The FY 2017 Health BRB creates a non-appropriated DSRIP Fund that will receive any monies to implement the program if it is approved by the federal government. AHCCCS is required to submit an expenditure plan for review by the Joint Legislative Budget Committee before any monies are deposited into the DSRIP Fund. As of this writing, AHCCCS has not submitted a plan. The Baseline does not include funding for the DSRIP program in FY 2017 or FY 2018.

Hepatitis C Prescription Drug Coverage

Since federal approval of the Hepatitis C drug Sovaldi in December 2013, companies have developed a variety of drugs to treat the disease. New drugs have significantly improved outcomes, generally achieving cure rates of about 90% compared to rates of about 45% using previously available drugs. A typical treatment regimen, though, can cost between \$55,000 to \$95,000, prior to negotiated rebates.

In FY 2015 and FY 2016, AHCCCS limited coverage of Hepatitis C drugs to individuals at the most severe stages of the illness (F3 and F4 on a clinical scale of liver fibrosis) and to those that had not abused drugs or alcohol in the prior 6 months. AHCCCS estimates that 830 members qualified under these criteria and received the drugs in FY 2016. In FY 2017, the agency expanded coverage to those at a less severe stage of the illness (score of F2) and lowered the drug and alcohol use requirement to 3 months. The latest changes to coverage are estimated to expand the number of individuals receiving the drugs annually by 639 members (to 1,469 in total). Covering the additional treatments is estimated to increase General Fund costs by \$2.7 million (\$7.1 million in total state funds) on an annual basis, prior to any rebate savings. These costs are included in the FY 2018 Baseline amounts.

AHCCCS and the federal government have negotiated rebates with manufacturers of Hepatitis C drugs, which may be used to offset a portion of the state's cost of the drugs. Specific negotiated rebate amounts are confidential. One large seller of Hepatitis C drugs, however, has reported that it discounts drugs sold to government programs by more than 50% on average nationwide. The extent of discounts varies by location. The Baseline does not include an increased appropriation from the Prescription Drug Rebate Fund. *(See the Prescription Drug Rebate Balance item in this section for more information.)*

In May 2016, a U.S. District Court judge granted a preliminary injunction that requires Washington to make Hepatitis C drugs available to all Medicaid enrollees. Plaintiffs in the case seeking an injunction argued that the state violated federal Medicaid law by withholding "medically necessary" treatments from members in early stages of the disease. Lawsuits have been filed in numerous other states that currently restrict Medicaid coverage of Hepatitis C drugs.

SMI Funding

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

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

Table 6

JLBC Projected FY 2018 Medicaid Behavioral Health Funding for Integrated SMI

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

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

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in Table 7. The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2016 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2018, this provision provides 4 counties with a total of \$6,813,300 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an

alternative formula specified in statute. In FY 2018, this provision provides 3 counties with a total of \$13,639,700 in relief.

5. If any county could still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2018 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$39.41 in FY 2018). In FY 2018 this provision provides 9 counties with a total of \$9,362,500 in relief.

In FY 2018, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$29,815,500 in relief to 12 counties.

Program Components

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

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2018, the average capitation rate for acute care is expected to be approximately \$354 per member per month (or \$4,246 annually). Of that amount, an

Table 7

County Contributions

County	FY 2017				FY 2018			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$117,400	\$268,800	\$87,300	\$625,200	\$120,500	\$268,800	\$87,300	\$638,300
Cochise	219,100	2,214,800	162,700	4,995,000	224,700	2,214,800	162,700	5,087,800
Coconino	216,100	742,900	160,500	1,877,300	221,700	742,900	160,500	1,916,700
Gila	88,800	1,413,200	65,900	2,112,600	91,100	1,413,200	65,900	2,143,900
Graham	63,100	536,200	46,800	1,303,500	64,700	536,200	46,800	1,516,100
Greenlee	16,200	190,700	12,000	33,500	16,600	190,700	12,000	24,800
La Paz	33,600	212,100	24,900	595,600	34,500	212,100	24,900	506,200
Maricopa	0	19,011,200	0	155,173,500	0	18,783,100	0	160,639,100
Mohave	252,300	1,237,700	187,400	7,948,800	258,800	1,237,700	187,400	8,106,600
Navajo	165,300	310,800	122,800	2,588,200	169,600	310,800	122,800	2,642,400
Pima	1,502,600	14,951,800	1,115,900	39,243,800	1,541,300	14,951,800	1,115,900	39,775,800
Pinal	294,000	2,715,600	218,300	14,899,800	301,600	2,715,600	218,300	14,924,700
Santa Cruz	69,500	482,800	51,600	1,930,900	71,300	482,800	51,600	1,981,000
Yavapai	277,700	1,427,800	206,200	8,391,300	284,900	1,427,800	206,200	8,581,900
Yuma	<u>247,600</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,261,000</u>	<u>254,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,472,100</u>
Subtotal	\$3,563,300	\$47,041,500	\$2,646,200	\$249,980,000	\$3,655,300	\$46,813,400	\$2,646,200	\$256,957,400
Total				\$303,231,000				\$310,072,300

average of \$81 is from state match and \$273 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$94 per member per month (or \$1,123 annually), with an average of \$23 for state match and \$71 for the federal match.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

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

Clawback

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

Tobacco Master Settlement Agreement

The Baseline requires AHCCCS to continue to transfer up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2018 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

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

This adjustment does not include the \$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 of states promised to diligently enforce the provisions and collection of tobacco tax laws within their respective states. In CY 2013, an arbitration panel approved an amended settlement between participating manufacturers and 19 states, including Arizona, to resolve issues relating to the tobacco tax enforcement.

CY 2015 is the first year tobacco tax collections came under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the Baseline will allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter will automate the current manual data entry process, allow delinquent returns and account information to be tracked, and log data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. (*See the Department of Revenue section in this report for more information.*)

Tobacco Tax Allocations

Table 8 is a summary of the tobacco tax allocations.

Table 8

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

	FY 2016	FY 2017
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 6,346,200	\$ 591,300
Transfer In - Tobacco Tax and Health Care Fund	47,474,100	47,508,000
Transfer In - Tobacco Products Tax Fund	25,883,965	25,901,500
Total Funds Available	\$ 79,704,300	\$ 74,000,800
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ 34,498,500	\$ 72,998,200
Total AHCCCS Allocations	\$ 34,498,500	\$ 72,998,200
<i>DHS</i>		
Behavioral Health GF Offset <u>1/2/</u>	\$ 44,002,300	\$ 0
Folic Acid	387,200	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Total DHS Allocations	44,614,500	700,000
Balance Forward	\$ 591,300	\$ 302,600
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 3,352,200	\$ 2,123,200
Transfer In - Tobacco Products Tax Fund	40,263,900	40,291,300
Total Funds Available	\$ 43,616,100	\$ 42,414,500
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	38,140,700	37,521,000
Administrative Adjustments	0	0
Total AHCCCS Allocations	38,140,700	37,521,000
<i>DHS</i>		
Behavioral Health GF Offset <u>2/</u>	3,352,200	0
Total DHS Allocations	3,352,200	0
Balance Forward	\$ 2,123,200	\$ 4,893,500
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 62,400
Transfer In - Tobacco Products Tax Fund	19,173,300	19,186,300
Total Funds Available	\$ 19,173,300	\$ 19,248,700
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 18,162,200	18,747,200
Administrative Adjustments	948,700	0
Balance Forward <u>3/</u>	\$ 62,400	\$ 501,500
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 7,054,500	\$ 7,470,900
Transfer In - Tobacco Tax and Health Care Fund	15,598,600	15,609,800
Transfer In - Tobacco Products Tax Fund	1,917,300	1,918,600
Total Funds Available	\$ 24,570,400	\$ 24,999,300
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 14,855,200	\$ 18,434,700
Leading Causes of Death - Prevention and Detection	2,244,300	2,785,300
Balance Forward	\$ 7,470,900	\$ 3,779,300
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,357,700	\$ 12,765,000
Transfer In - Tobacco Tax and Health Care Fund	3,390,900	3,393,300
Transfer In - Tobacco Products Tax Fund	4,793,300	4,796,600
Total Funds Available	\$ 18,541,900	\$ 20,954,900
<u>Allocations</u>		
Biomedical Research Support <u>4/</u>	\$ 1,496,300	\$ 2,000,000
Alzheimer's Disease Research <u>5/</u>	1,000,000	2,000,000
Biomedical Research Commission	3,280,600	8,729,300
Balance Forward	\$ 12,765,000	\$ 8,225,600

- 1/ Laws 2016, Chapter 117 appropriated \$9,235,300 from the Medically Needy Account to DHS in FY 2016 to provide one-time funding for higher-than-anticipated behavioral health caseload growth in FY 2016.
- 2/ Laws 2016, Chapter 117 permitted AHCCCS to transfer up to \$3,352,200 from the Proposition 204 Protection Account to DHS for behavioral health costs in FY 2016. AHCCCS transferred the full amount in FY 2016, which DHS reported was spent from the Medically Needy Account. The table displays the \$3,352,200 of spending by DHS from the Proposition 204 Protection Account.
- 3/ Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.
- 4/ Laws 2014, Chapter 18 appropriates \$2,000,000 from the Health Research Account to DHS annually from FY 2015 to FY 2019 to distribute to a nonprofit medical research institute headquartered in Arizona. DHS distributes this to the Translational Genomics Research Institute (TGen).
- 5/ Laws 2016, Chapter 117 appropriates \$2,000,000 from the Health Research Account in FY 2017, which includes a one-time funding increase of \$1,000,000 for Alzheimer's disease research.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	2,612,200	3,563,300
Year-End Fund Balance	870,700	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 \$48,600 for a family of 4. Laws 2016, Chapter 112 reopened enrollment in KidsCare, which had been frozen since 2010. The FY 2017 estimates do not reflect additional expenditures associated with increased enrollment. KidsCare enrollees are eligible for 100% Federal Financial Participation through FFY 2019.		
Funds Expended	2,424,100	3,674,900
Year-End Fund Balance	1,757,700	0
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars. 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	299,153,500	299,667,700
Year-End Fund Balance	0	0
Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04)		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 one-time provider-led projects to improve health care delivery for certain AHCCCS populations under the federal Delivery System Reform Payment (DSRIP) program, including children and adults with behavioral health needs, children in out-of-home care, and persons involved in the criminal justice system. The projects will be funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities. Before the initial deposit of monies to the fund, the Administration is submitting an expenditure plan for review by the JLBC. The fund is displayed as Expenditure Authority in FY 2018. Money in the fund will only include state matching monies from IGTs and certified public expenditure for DSRIP. AHCCCS estimates the program will be associated with \$252.0 million in Total Funds in FY 2017, which consists of \$77.5 million in state matching monies and \$174.5 million in federal matching monies. The \$77.5 million estimated state portion consists of \$11.3 million in IGT funding and \$66.2 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 DSRIP program. Due to uncertainty about expected funding and timeline of projects under the program, the Baseline does not display any amounts for the fund in FY 2017 and FY 2018.		
Funds Expended	0	0
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	1,800	1,800
Year-End Fund Balance	2,700	2,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 and Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	44,315,700	45,826,100
Year-End Fund Balance	0	0
Federal Funds (HCA2000 Acute Care/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures. 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 \$40,1073,700 in expenditures in FY 2017, and the Block Grant for Community Mental Health Services, which is anticipated to account for \$11,615,500 in expenditures in FY 2017.		
Funds Expended	1,116,100	53,632,400
Year-End Fund Balance	20,900	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	20,751,000	55,790,100
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 and Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of acute and long term services to eligible populations. Any monies received in excess of the FY 2017 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 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.		
Funds Expended	6,140,839,600	8,383,725,800
Year-End Fund Balance	64,723,000	0
Hospital Assessment Fund (HCA9692/A.R.S. § 36-2901.09)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days.		
Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who becomes eligible for AHCCCS services on January 1, 2014.		
Funds Expended	224,197,600	252,329,100
Year-End Fund Balance	15,830,900	7,915,400
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 2016 Actual	FY 2017 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 2017, the fund will receive \$54.6 million from Maricopa County, \$2.9 million from Pima County, \$0.9 million from Coconino County, \$0.2 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. The FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	58,699,000
Year-End Fund Balance	0	0
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	7,965,000	7,920,300
Year-End Fund Balance	1,189,800	1,062,200
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. Any monies received in excess of the FY 2017 budgeted appropriation for the Nursing Facility Provider Assessment program by the AHCCCS administration in FY 2017, including any federal matching monies, are appropriated to the administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.		
Funds Expended	18,031,200	27,589,400
Year-End Fund Balance	6,633,100	0
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals. Any monies received in excess of the FY 2017 budgeted appropriations for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.		
Funds Expended	106,506,900	140,887,600
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	105,718,100	113,778,900
Funds Expended in Lieu of Federal Funds	360,776,400	322,743,500
Year-End Fund Balance	110,074,700	257,491,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	23,027,400	23,027,400
Year-End Fund Balance	5,957,900	5,957,900
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	2,000,000
Year-End Fund Balance	0	4,230,500
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 was transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	2,250,200
Year-End Fund Balance	0	2,945,400
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	770,000	1,240,000
Year-End Fund Balance	1,302,500	902,500
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	98,906,900	100,000,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Tobacco Products Tax Fund - Emergency Health Services Account* (HCA1304/A.R.S. § 36-776)		Appropriated
<p>Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.</p> <p>Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.</p>		
Tobacco Products Tax Fund - Proposition 204 Protection Account* (HCA1303/A.R.S. § 36-778)		Expenditure Authority
<p>Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.</p> <p>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.</p>		
Tobacco Tax and Health Care Fund* (RVA1306/A.R.S. § 36-771)		Non-Appropriated
<p>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.</p> <p>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.</p>		
Tobacco Tax and Health Care Fund - Medically Needy Account* (HCA1306/A.R.S. § 36-774)		Partially-Appropriated
<p>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.</p> <p>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. The FY 2016 expenditures for behavioral health services from this fund are displayed in the DHS Summary of Funds.</p>		

*See Table 8

Arizona Commission on the Arts

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	0	1,500,000	0
AGENCY TOTAL	0	1,500,000	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	0	1,500,000	0
SUBTOTAL - Other Appropriated Funds	0	1,500,000	0
SUBTOTAL - Appropriated Funds	0	1,500,000	0
Other Non-Appropriated Funds	1,621,800	1,456,000	1,456,000
Federal Funds	836,000	833,000	833,000
TOTAL - ALL SOURCES	2,457,800	3,789,000	2,289,000

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 2018 for deposit into the non-appropriated Arts Trust Fund. FY 2018 adjustments would be as follows:

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

FY 2018

Remove One-Time Funding OF \$(1,500,000)

The Baseline includes a decrease of \$(1,500,000) from the Budget Stabilization Fund in FY 2018 for the elimination of one-time funding. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated this amount from interest income earned on the Budget Stabilization Fund.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 and FY 2017.		
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	215,200	79,900
Year-End Fund Balance	117,300	212,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	1,404,100	1,373,600
Year-End Fund Balance	130,000	106,200
Budget Stabilization Fund (TRA3034/A.R.S. § 35-144)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: Laws 2016, Chapter 117, Section 132 appropriated \$1,500,000 to the Arts Trust Fund from interest income earned on the Budget Stabilization Fund. The Arts Commission transferred these monies into the Arts Trust Fund.		
Funds Expended	0	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	836,000	833,000
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	2,500	2,500
Year-End Fund Balance	2,500	2,500

Board of Athletic Training

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

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	101,600	119,100	119,100
SUBTOTAL - Other Appropriated Funds	101,600	119,100	119,100
SUBTOTAL - Appropriated Funds	101,600	119,100	119,100
TOTAL - ALL SOURCES	101,600	119,100	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	101,600	119,100
Year-End Fund Balance	180,100	199,000

Attorney General - Department of Law

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	583.5	580.7	580.7
Personal Services	29,476,300	32,176,600	32,176,600
Employee Related Expenditures	10,917,900	11,921,600	11,921,600
Professional and Outside Services	349,500	1,210,100	1,210,100
Travel - In State	93,600	93,500	93,500
Travel - Out of State	84,400	67,700	67,700
Other Operating Expenditures	7,094,500	5,516,100	5,516,100
Equipment	461,700	317,900	317,900
OPERATING SUBTOTAL	48,477,900	51,303,500	51,303,500
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	769,300	795,700	795,700
Internet Crimes Against Children Enforcement	0	1,250,000	1,250,000
Federalism Unit	724,200	995,600	995,600
Military Airport Planning	89,000	85,000	85,000
National Mortgage Settlement Distribution	3,152,000	0	0
Risk Management ISA	8,741,600	9,406,700	9,406,700
Southern Arizona Law Enforcement	1,198,600	1,193,000	1,193,000
State Grand Jury	179,700	180,100	180,100
Tobacco Enforcement	227,500	816,000	816,000
Victims' Rights	3,704,700	3,758,900	3,758,900
AGENCY TOTAL	67,264,500	69,784,500	69,784,500
FUND SOURCES			
General Fund	23,496,700	24,664,800	24,664,800
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	158,100	244,300	244,300
Attorney General Legal Services Cost Allocation Fund	2,073,300	2,080,400	2,080,400
Collection Enforcement Revolving Fund	6,803,500	6,845,200	6,845,200
Consumer Protection - Consumer Fraud Revolving Fund	4,170,900	5,575,700	5,575,700
Court-Ordered Trust Fund	3,152,000	0	0
Interagency Service Agreements Fund	14,194,400	16,308,500	16,308,500
Internet Crimes Against Children Enforcement Fund	0	900,000	900,000
Risk Management Revolving Fund	8,741,600	9,406,700	9,406,700
State Aid to Indigent Defense Fund	769,300	0	0
Victims' Rights Fund	3,704,700	3,758,900	3,758,900
SUBTOTAL - Other Appropriated Funds	43,767,800	45,119,700	45,119,700
SUBTOTAL - Appropriated Funds	67,264,500	69,784,500	69,784,500
Other Non-Appropriated Funds	34,660,900	50,199,900	50,199,900
Federal Funds	4,929,400	5,794,500	5,473,500
TOTAL - ALL SOURCES	106,854,800	125,778,900	125,457,900

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 \$51,303,500 and 446.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
General Fund	\$21,976,600
Antitrust Enforcement Revolving Fund	244,300
Attorney General Legal Services Cost Allocation Fund	2,080,400
Collection Enforcement Revolving Fund (CERF)	6,845,200
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	3,848,500
Interagency Service Agreements (ISA) Fund	16,308,500

These amounts are unchanged from FY 2017.

Capital Postconviction Prosecution

The Baseline includes \$795,700 and 6 FTE Positions from the General Fund in FY 2018 for Capital Postconviction Prosecution. These amounts are unchanged from FY 2017.

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

Internet Crimes Against Children Enforcement

The Baseline includes \$1,250,000 in FY 2018 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 2017.

Laws 2015, Chapter 245 established the ICAC Enforcement Fund subject to legislative appropriation and administered by the Attorney General. The intent behind Chapter 245 was to provide \$900,000 in FY 2015 and every year thereafter from the proceeds of lottery games sold from a vending machine in age-restricted areas.

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

If the lottery games do not produce sufficient funds for the \$900,000 and \$100,000 allocations, as was the case in

FY 2015, then unclaimed lottery prize monies will be used to backfill the difference.

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

The FY 2017 budget included 2 new General Appropriation Act footnotes:

- The first requires the Attorney General to submit for JLBC review an expenditure plan for monies in this line item by June 1, 2016. The intent of this provision is to ensure that recipients of ICAC monies will be ready to spend their allotments at the beginning of FY 2017. DCS was subject to a similar footnote in FY 2016.
- The second makes the appropriation in this line item non-lapsing until the end of FY 2018. The intent of this provision is to provide flexibility for recipients of ICAC monies to spend their allotments.

The Baseline would continue these footnotes in FY 2018.

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

Federalism Unit

The Baseline includes \$995,600 and 7 FTE Positions from the CPCF Revolving Fund in FY 2018 for the Federalism Unit. These amounts are unchanged from FY 2017.

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

Military Airport Planning

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

A.R.S. § 26-263 appropriates \$85,000 annually from the General Fund to the Attorney General's Office. Therefore, funding for this line item does not appear in the General Appropriation Act. The legislation sought to preserve the state's military bases by appropriating monies to several state agencies and charging them with certain responsibilities. Monies in this line item pay for the department's duties under the original 2004 legislation, including review and determination of compliance with land use plans.

Risk Management ISA

The Baseline includes \$9,406,700 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2018 for the Risk Management ISA. These amounts are unchanged from FY 2017.

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 2018 for Southern Arizona Law Enforcement. These amounts are unchanged from FY 2017.

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 2018 for the State Grand Jury. These amounts are unchanged from FY 2017.

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 2018 for Tobacco Enforcement. These amounts consist of:

General Fund	84,400
CPCF Revolving Fund	731,600

These amounts are unchanged from FY 2017.

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

In addition to the monies provided in this line item, the Baseline continues to require AHCCCS to transfer \$1,200,000 to the Attorney General for MSA enforcement. As a result, the Baseline includes a total of \$2,016,000 for the Attorney General to enforce the MSA in FY 2018.

Victims' Rights

The Baseline includes \$3,758,900 and 6 FTE Positions from the Victims' Rights Fund in FY 2018 for Victims' Rights. These amounts are unchanged from FY 2017.

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, 2017, the department shall submit an expenditure plan for the FY 2018 Internet Crimes Against Children Enforcement line item for review by the Joint Legislative Budget Committee.

The \$900,000 appropriation from the Internet Crimes Against Children Enforcement Fund and the \$350,000 appropriation from the state General Fund for the Internet Crimes Against Children Enforcement line item are continuing appropriations and are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, through June 30, 2019.

New Footnotes

All monies appropriated to the Litigation Expenses line item in the Department of Child Safety budget shall not be counted towards the Attorney General's Interagency

Service Agreements Fund appropriation in FY 2018.
(Please see *Interagency Service Agreements Fund in the Other Issues* section for more information.)

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the ISA Fund reserve appropriation and report.

STATUTORY CHANGES

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

Other Issues

This section includes information on the following topics:

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

Attorney General Legal Services Cost Allocation Fund

A.R.S. § 41-191.09 requires agencies to pay annually a flat fee to the Attorney General for general legal counsel. The FY 2016 General Appropriation Act set the level of charges at \$1.8 million and specified the charge per agency as required by A.R.S. § 41-191.09. The FY 2017 General Appropriation Act continued language maintaining these charges as required by A.R.S. 41-191.09. The Baseline would reduce these charges by \$(11,000) to eliminate the Department of Agriculture and Geological Survey legal services charge to comply with statutory assessment restrictions. See *Table 1* for a list of agencies and their corresponding FY 2018 Attorney General Legal Services charge.

The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) eliminated the requirement that the JLBC review the funding sources utilized by departments to pay the Legal Services charge. Statute continues to require the department to annually report to the JLBC on the funding sources utilized to pay the charge.

(Please see the *FY 2015 Appropriations Report* for a more detailed history on legal services charges.)

Table 1

FY 2018 Attorney General Legal Services Charges

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

Interagency Service Agreements Fund

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

amount became available upon a report by the Attorney General to JLBC.

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

The Baseline would increase the FY 2018 ISA Fund appropriation to \$16.3 million and 140.2 FTE Positions and would eliminate the \$800,000 and 11 FTE Position reserve appropriation. Additionally, the Baseline includes a new footnote that exempts the Department of Child Safety's litigation costs from inclusion in the ISA Fund appropriated amount. This would be consistent with the current appropriation for the Protective Services Section. These monies are appropriated in the Department of Child Safety budget and do not count against the ISA Fund appropriation.

The Attorney General estimates legal services needs that require a total ISA Fund appropriation of \$17.4 million and 140.2 FTE Positions in FY 2017. The increased need is primarily driven by ISA expansions with the Department of Gaming, Department of Corrections, and Department of Child Safety. Of the \$17.4 million estimated FY 2017 ISA Fund amount, \$1.3 million is attributable to 2 ISAs with the Department of Child Safety. Pursuant to a new footnote in the Baseline, these monies expended from the Litigation Expenses line item in the Department of Child Safety budget will not be included in the ISA Fund appropriation. As a result, assuming no increases to existing ISAs, the net FY 2018 ISA Fund need will be \$16.1 million, which is \$(198,700) less than the FY 2018 Baseline appropriation. *(Please see the Footnotes section for more information.)*

Consumer Restitution and Remediation Revolving Fund

The Attorney General deposits proceeds from consumer protection-related legal settlements into the following funds: 1) the CPCF Revolving Fund; 2) the Consumer Restitution and Remediation Revolving Fund, or 3) the Antitrust Enforcement (AE) Revolving Fund.

The CPCF derives its revenue from any investigative or court costs, attorney fees or civil penalties recovered by the Attorney General as a result of enforcement of either state or federal statutes pertaining to consumer fraud.

The AE Revolving Fund consists of monies recovered by the state as a result of antitrust, restraint of trade, or price-fixing activity enforcement.

In 2013, the Legislature created a new Consumer Restitution and Remediation Revolving Fund (Laws 2013, Chapter 143) that the Attorney General would use for monies collected from lawsuits that are reserved for remediation or restitution. Chapter 143 requires JLBC review of any plans to spend monies from this fund on remediation. In addition, A.R.S. § 41-192 directs any monies resulting from compromises or settlements by or against the state, excluding restitution, reimbursement, or CPCF monies, into the General Fund.

The Attorney General is required by several statutes (A.R.S. § 41-192, A.R.S. § 41-192.02, A.R.S. § 44-1531.01, and A.R.S. § 44-1531.02) to submit quarterly reports to JLBC on the allocation of legal settlement proceeds. These reporting requirements provide legislative oversight on how settlement monies are collected and distributed.

The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation.

The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable persons. Monies in this subaccount up to \$3.5 million are continuously appropriated. Any money collected over that amount is subject to legislative appropriation. The Attorney General must submit an expenditure plan to the JLBC for its review before expending any monies in this subaccount.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Anti-Racketeering Revolving Fund (AGA2131/A.R.S. § 13-2314.01)		Non-Appropriated
<i>Source of Revenue:</i> Forfeitures of property and assets to satisfy judgments pursuant to anti-racketeering statutes.		
<i>Purpose of Fund:</i> To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	15,735,700	22,058,300
Year-End Fund Balance	35,268,600	24,435,200
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	158,100	244,300
Year-End Fund Balance	775,900	755,800
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	1,520,700	1,172,500
Year-End Fund Balance	555,100	270,000
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	2,073,300	2,080,400
Year-End Fund Balance	526,400	248,700
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	3,436,700	3,677,900
Year-End Fund Balance	755,900	378,000
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	6,803,500	6,845,200
Year-End Fund Balance	825,400	2,273,900
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 2016 Actual	FY 2017 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	4,170,900	5,575,700
Year-End Fund Balance	12,384,700	12,134,300
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Non-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: Laws 2013, Chapter 143 established the Consumer Restitution and Remediation Revolving Fund, which is separated into 2 subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Restitution Subaccount is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws.		
Funds Expended	1,742,500	200,000
Year-End Fund Balance	220,400	190,200
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Partially-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: Laws 2013, Chapter 143 established the Consumer Restitution and Remediation Revolving Fund, which is separated into 2 subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Restitution Subaccount is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws. The Consumer Remediation Subaccount consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of a specific, identifiable person. Monies in the Consumer Remediation Subaccount up to \$3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation. The FY 2016 budget directed the transfer of \$5,400,000 of these monies to the General Fund by the end of FY 2016.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	3,500,000
Year-End Fund Balance	7,688,400	9,305,900
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. Laws 2013, Chapter 118 appropriated an estimated \$48,900,000 of the National Mortgage Settlement proceeds to the Attorney General in FY 2013 as a non-lapsing appropriation. The FY 2016 budget, however, directed the transfer of \$15,000,000 of these monies to the General Fund by the end of FY 2015, leaving the Attorney General with an estimated \$33,900,000 from the National Mortgage Settlement proceeds. Prior to the fund transfer, the Attorney General expended \$612,500 in FY 2013 and \$7,610,600 in FY 2014 to provide assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices. The AG spent \$17,418,700 in FY 2015 and \$3,152,000 in FY 2016 for similar purposes. In FY 2017, the Attorney General plans to expend the remaining \$5,106,200 of the non-lapsing appropriation. To avoid double counting, the FY 2017 expenditures are not displayed below. The non-appropriated expenditures in FY 2016 and FY 2017 reflect court-ordered settlements other than the National Mortgage Settlement.		
Appropriated Funds Expended	3,152,000	0
Non-Appropriated Funds Expended	1,727,200	1,693,500
Year-End Fund Balance	14,912,100	8,115,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	21,300	74,300
Year-End Fund Balance	167,000	167,600
Federal Grants (AGA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants awarded by various federal agencies and state agencies which pass through federal monies.		
Purpose of Fund: To be used in accordance with the terms of the individual grants.		
Funds Expended	4,929,400	5,794,500
Year-End Fund Balance	1,462,200	2,953,900
Indirect Cost Recovery Fund (AGA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grant monies and other appropriated and non-appropriated funds.		
Purpose of Fund: To pay administrative costs not directly attributable to any single agency program.		
Funds Expended	3,968,600	7,308,000
Year-End Fund Balance	4,241,100	4,503,700
Interagency Service Agreements Fund (AGA2657/A.R.S. § 41-192)		Appropriated
Source of Revenue: Any monies received by the Attorney General from charges to state agencies for legal services related to interagency service agreements.		
Purpose of Fund: To provide contracted legal services to state agencies and political subdivisions. The FY 2017 budget includes a reserve appropriation from the ISA Fund of \$800,000 and 11 FTE Positions.		
Funds Expended	14,194,400	16,308,500
Year-End Fund Balance	1,646,400	0
Intergovernmental Agreements Fund (AGA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Any monies received from state agencies for specialized projects.		
Purpose of Fund: For costs associated with approved projects.		
Funds Expended	5,329,500	9,249,500
Year-End Fund Balance	3,211,300	1,605,600
Internet Crimes Against Children Enforcement Fund (AGA3217/A.R.S. § 41-199)		Appropriated
Source of Revenue: Pursuant to A.R.S. § 5-554, the fund receives \$900,000 from the proceeds of lottery games that are sold from a vending machine in age-restricted areas. If the lottery games do not produce sufficient funds for the \$900,000 allocation, then unclaimed lottery prize monies will be used to backfill the difference. A.R.S. § 5-554 also directs \$100,000 from the same lottery game revenue to the Victims' Rights Enforcement Fund administered by the Department of Public Safety. <i>(Please see the Department of Public Safety for more detail on the Victims' Rights Enforcement Fund.)</i>		
Purpose of Fund: For the Attorney General to enter into 1 or more intergovernmental agreements to continue the operation of the federally recognized Internet Crimes Against Children Task Force program that coordinates a national network of coordinated task forces that assist federal, state, local, and tribal law enforcement agencies in investigations, forensic examinations, and prosecutions related to technology-facilitated sexual exploitation of children and internet crimes against children.		
Funds Expended	0	900,000
Year-End Fund Balance	1,800,000	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Motor Carrier Safety Revolving Fund (AGA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: This fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28, Chapter 14; and monies received from private grants or donations.		
Purpose of Fund: The Department of Public Safety conducts motor carrier safety investigations, the Motor Vehicle Division of the Department of Transportation administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	0	0
Year-End Fund Balance	32,200	34,900
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	1,130,400	1,251,600
Year-End Fund Balance	1,100	1,100
Risk Management Revolving Fund (AGA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to agencies insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay for the legal services ISA contract between the Attorney General and ADOA.		
Funds Expended	8,741,600	9,406,700
Year-End Fund Balance*	1,219,100	(5,900)
State Aid to Indigent Defense Fund (AGA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, a 14.66% allocation of a 7% penalty assessment on fines, penalties and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and a 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: See <i>Arizona Criminal Justice Commission</i> . The FY 2014 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2013, 1 st Special Session, Chapter 5) permitted the Attorney General to use State Aid to Indigent Defense Fund monies in FY 2014 for capital postconviction prosecution. The FY 2015 (Laws 2014, Chapter 12) and FY 2016 (Laws 2015, Chapter 17) Criminal Justice BRBs continued this practice. The FY 2017 budget shifted this appropriation to the General Fund.		
Funds Expended	769,300	0
Year-End Fund Balance	27,100	0
Victim Witness Assistance Fund (AGA2228/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants from the Victim Compensation and Assistance Fund and the Victims of Crime Act Fund.		
Purpose of Fund: To assist crime victims and surviving family members who are involved in felony cases and appellate matters.		
Funds Expended	48,300	14,300
Year-End Fund Balance	1,600	0
Victims' Rights Fund (AGA3215/A.R.S. § 41-191.08)		Appropriated
Source of Revenue: 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For states and local entities that provide victims' rights services and assistance.		
Funds Expended	3,704,700	3,758,900
Year-End Fund Balance	2,402,400	1,693,500

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

Automobile Theft Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	270,200	317,300	317,300
Employee Related Expenditures	104,100	131,900	131,900
Professional and Outside Services	22,000	19,500	19,500
Travel - In State	3,300	9,000	9,000
Travel - Out of State	4,000	12,500	12,500
Other Operating Expenditures	97,700	122,600	122,600
Equipment	1,700	25,000	25,000
OPERATING SUBTOTAL	503,000	637,800	637,800
SPECIAL LINE ITEMS			
Automobile Theft Authority Grants	4,595,700	4,607,700	4,607,700
Reimbursable Programs	0	50,000	50,000
AGENCY TOTAL	5,098,700	5,295,500	5,295,500

FUND SOURCES

Other Appropriated Funds

Automobile Theft Authority Fund	5,098,700	5,295,500	5,295,500
SUBTOTAL - Other Appropriated Funds	5,098,700	5,295,500	5,295,500
SUBTOTAL - Appropriated Funds	5,098,700	5,295,500	5,295,500
Other Non-Appropriated Funds	30,000	103,000	103,000
TOTAL - ALL SOURCES	5,128,700	5,398,500	5,398,500

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Automobile Theft Authority Grants

The Baseline includes \$4,607,700 from the ATA Fund in FY 2018 for ATA Grants. This amount is unchanged from FY 2017.

This line item funds grants awarded to law enforcement agencies for an auto theft task force, attorneys dedicated to auto theft prosecution, and other law enforcement activities that reduce auto theft. In FY 2017, ATA expects to award approximately \$3,650,000 to the Department of Public Safety (DPS) for the Arizona Vehicle Theft Task Force, which helps to investigate and pursue automobile-related crimes. An additional \$870,200 is expected to be awarded to county attorneys to prosecute automobile

theft-related crimes. Remaining monies would be used for equipment and to provide training. *(Please see the Other Issues section for more information.)*

Reimbursable Programs

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

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

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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.

Automobile Theft Authority grants shall be awarded with consideration given to areas with greater automobile theft problems and shall be used to combat economic automobile theft operations.

The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee 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 Fund

The FY 2017 budget included a one-time appropriation of \$3,000,000 from the ATA Fund for one-time costs of the newly-created Border Strike Task Force (BSTF) within the Department of Public Safety (DPS). This appropriation is intended to be funded from available monies in the ATA Fund balance and will not impact future ATA spending. *(Please see the Department of Public Safety BSTF One-Time line item narrative for more information.)*

Taking into account the one-time funding for the BSTF, the ATA Fund is estimated to have a FY 2017 ending balance of \$1,598,900. The Baseline would continue the FY 2017 ATA Fund operating appropriation amount of \$5,295,500 in FY 2018. When compared to estimated FY 2018 revenues of \$6,173,700, the fund will have a FY 2018 structural surplus of \$878,200 and an estimated FY 2018 ending balance of \$2,477,100.

Automobile Theft Authority Grants

The ATA is appropriated \$4,607,700 from the ATA Fund annually for grants to state and local law enforcement entities. The largest annual recipient of ATA grant monies is the Arizona Vehicle Theft Task Force, which is a multi-agency group overseen by DPS that works specifically on combating auto-theft related crimes. ATA also issues

Vertical Prosecution Grants to county attorneys that are solely dedicated to auto-theft cases, Law Enforcement Grants to local law enforcement agencies for equipment and supplies, Professional Training Grants to pay travel and registration costs associated with going to conferences, and Public Awareness Grants for public education and vehicle identification number etching. Table 1 displays the allocations of grants for FY 2016 and estimated FY 2017 distributions by recipient and category.

ATA Grant Recipients		
Recipient	FY 2016	FY 2017 est. ^{1/}
Arizona Vehicle Theft Task Force (DPS)	\$ 3,650,000	\$ 3,650,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 283,600	\$ 240,700
Pima County Attorney	108,100	211,300
Pinal County Attorney	201,600	173,700
La Paz County Attorney	119,800	85,600
Mohave County Attorney	90,700	94,300
Santa Cruz County Attorney	27,900	64,600
Subtotal	\$ 831,700	\$ 870,200
Law Enforcement Grants		
Chandler Police Department	\$ 24,300	\$ -
Florence Police Department	3,000	-
Gilbert Police Department	11,400	-
Maricopa County Sheriff	4,200	-
Nogales Police Department	50,000	-
Pinal County Sheriff	5,000	-
Subtotal	\$ 97,900	\$ 72,600
Professional Training Grants	\$ 0	\$ 5,000
Public Awareness Grants		
Apache Junction Police Department	\$ 1,200	\$ -
Arizona Department of Insurance	10,000	-
Paradise Valley Police Department	1,200	-
Parker Police Department	1,000	-
Peoria Police Department	2,800	-
Subtotal	\$ 16,200	\$ 9,000
Discretionary Grants	\$ 0	\$ 1,000
TOTAL	\$4,595,800 ^{2/}	\$4,607,800 ^{2/}

^{1/} Represents total allocations as estimated by the Automobile Theft Authority. Specific awards are yet to be determined.
^{2/} Amount does not match actual or appropriated amount due to rounding.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	5,098,700	5,295,500
Year-End Fund Balance	3,720,700	1,426,200
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	30,000	103,000
Year-End Fund Balance	103,000	0

Board of Barbers

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

FUND SOURCES

Other Appropriated Funds

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

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

Operating Budget

The Baseline includes \$370,700 and 4 FTE Positions from the Board of Barbers Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	307,100	370,700
Year-End Fund Balance	585,000	625,300

Board of Behavioral Health Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	809,500	900,400	900,400
Employee Related Expenditures	315,500	316,700	316,700
Professional and Outside Services	200,000	267,100	267,100
Travel - In State	7,400	7,400	7,400
Travel - Out of State	5,900	6,000	6,000
Other Operating Expenditures	192,300	236,500	236,500
Equipment	1,500	25,000	25,000
AGENCY TOTAL	1,532,100	1,759,100	1,759,100

FUND SOURCES

Other Appropriated Funds

Board of Behavioral Health Examiners Fund	1,532,100	1,759,100	1,759,100
SUBTOTAL - Other Appropriated Funds	1,532,100	1,759,100	1,759,100
SUBTOTAL - Appropriated Funds	1,532,100	1,759,100	1,759,100
TOTAL - ALL SOURCES	1,532,100	1,759,100	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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$1,759,100 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,532,100	1,759,100
Year-End Fund Balance	1,807,700	1,968,900

State Board for Charter Schools

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	621,500	681,200	681,200
Employee Related Expenditures	239,600	272,500	272,500
Professional and Outside Services	21,000	45,700	45,700
Travel - In State	2,100	5,000	5,000
Travel - Out of State	5,600	5,500	5,500
Other Operating Expenditures	131,600	172,300	172,300
Equipment	2,900	3,000	3,000
AGENCY TOTAL	1,024,300	1,185,200	1,185,200
FUND SOURCES			
General Fund	1,024,300	1,185,200	1,185,200
SUBTOTAL - Appropriated Funds	1,024,300	1,185,200	1,185,200
Other Non-Appropriated Funds	49,300	29,000	29,000
TOTAL - ALL SOURCES	1,073,600	1,214,200	1,214,200

AGENCY DESCRIPTION — The board reviews and approves charter school applications, including renewal applications, and monitors the schools that it sponsors for compliance with provisions of their individual charters. It consists of the Superintendent of Public Instruction, 6 members of the general public, 2 members of the business community, a charter school teacher, a charter school operator, and 3 members of the Legislature who serve as advisory members. Currently the board oversees 539 charter schools.

Operating Budget

* * *

The Baseline includes \$1,185,200 and 14 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Charter Arizona Online Instruction Processing Fund (CHA2319/A.R.S. § 15-183W)		Non-Appropriated
Source of Revenue: Consists of fees collected and administered by the State Board for Charter Schools.		
Purpose of Fund: To fund the processing of contract amendments for charter schools participating in Arizona online instruction.		
Funds Expended	3,000	3,000
Year-End Fund Balance	3,000	3,000
Implementation Project Fund (CHA2025/A.R.S § 15-182)		Non-Appropriated
Source of Revenue: Consists of funds from private donations and Governor's Office of Education Innovation.		
Purpose of Fund: To fund the creation of the board's Performance Framework, automation of the academic dashboard development, improvements to online modules, conferences, and training.		
Funds Expended	0	0
Year-End Fund Balance	5,500	5,500

SUMMARY OF FUNDS**FY 2016
Actual****FY 2017
Estimate**

New Charter Application Processing Fund (CHA2568/A.R.S. § 15-183.01)**Non-Appropriated****Source of Revenue:** Consists of fees collected and administered by the State Board for Charter Schools.**Purpose of Fund:** To fund the processing of applications submitted for new charters.**Funds Expended**

46,300

26,000

Year-End Fund Balance

91,300

91,300

Department of Child Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,057.1	3,193.1	3,193.1
Personal Services	99,696,500	56,078,100	56,078,100
Employee Related Expenditures	42,133,000	31,625,400	31,625,400
Professional and Outside Services	14,962,000	15,465,500	15,465,500
Travel - In State	2,490,100	2,994,100	2,994,100
Travel - Out of State	454,400	5,000	5,000
Other Operating Expenditures	34,551,000	8,447,400	8,447,400
Equipment	2,212,800	1,181,800	1,181,800
OPERATING SUBTOTAL	196,499,800	115,797,300	115,797,300
SPECIAL LINE ITEMS			
Additional Operating Resources			
Caseworkers	0	100,617,700	100,617,700
Backlog Privatization	2,700,000	2,700,000	2,700,000
New Case Aides	0	3,060,600	3,060,600
Attorney General Legal Services	21,471,800	25,416,800	25,416,800
General Counsel	140,100	155,500	155,500
Inspections Bureau	2,486,000	2,470,100	2,470,100
Internet Crimes Against Children	350,000	0	0
Litigation Expenses	2,867,600	0	0
Office of Child Welfare Investigations	7,371,300	10,611,100	10,611,100
Overtime Pay	12,298,500	8,370,000	8,370,000
Records Retention Staff	595,600	592,900	592,900
Retention Pay	630,600	1,707,000	1,707,000
Training Resources	5,150,000	5,150,000	5,150,000
Out-of-Home Placements			
Adoption Services	206,008,400	225,698,100	225,698,100
Emergency and Residential Placement	103,294,600	98,900,100	98,900,100
Foster Care Placement	58,563,900	65,595,500	65,595,500
Grandparent Stipends	888,600	1,000,000	1,000,000
Independent Living Maintenance	4,139,100	4,660,000	4,660,000
Permanent Guardianship Subsidy	11,715,100	12,516,900	12,516,900
Support Services			
DCS Child Care Subsidy	49,339,500	45,159,400	45,159,400
In-Home Preventive Support Services	36,278,400	0	0
Intensive Family Services	8,500,000	0	0
In-Home Mitigation	0	28,988,100	28,988,100
Preventive Services	0	15,148,300	15,148,300
Out-of-Home Support Services	207,730,700	198,272,500	198,272,500
AGENCY TOTAL	939,019,600	972,587,900	972,587,900
FUND SOURCES			
General Fund	399,165,900	379,179,400	379,179,400
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	1,459,300	1,459,300	1,459,300
Children and Family Services Training Program Fund	207,900	207,100	207,100
Federal Child Care and Development Fund Block Grant	27,000,000	27,000,000	27,000,000
Federal Temporary Assistance for Needy Families Block Grant	149,323,900	149,472,700	149,472,700

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Risk Management Revolving Fund	2,867,600	0	0
SUBTOTAL - Other Appropriated Funds	180,858,700	178,139,100	178,139,100
SUBTOTAL - Appropriated Funds	580,024,600	557,318,500	557,318,500
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	358,995,000	415,269,400	415,269,400
SUBTOTAL - Expenditure Authority Funds	358,995,000	415,269,400	415,269,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	939,019,600	972,587,900	972,587,900
TOTAL - ALL SOURCES	939,019,600	972,587,900	972,587,900

AGENCY DESCRIPTION — The department investigates reports of child abuse and neglect, promotes the safety of a child in a stable family or other out-of-home placement in response to allegations of abuse or neglect, works with law enforcement regarding reports that include criminal conduct allegations, and coordinates services to achieve and maintain permanency on behalf of children in the child welfare system.

Summary

DCS' General Fund spending would remain unchanged in FY 2018.

As part of the FY 2018 budget process, the Legislature will need to address the following issues:

- Allocation of backlog privatization funding (*See Backlog Privatization line item for additional information.*)
- Triggered funding for new case aides and overtime pay (*See New Case Aides and Overtime Pay line items for additional information.*)
- Allocation of retention pay (*See Retention Pay line item for additional information.*)
- Benchmarks for hiring, caseworker caseloads, the backlog, open reports, and out-of-home children (*See Footnotes section for information on the current benchmarks.*)
- New audits of DCS (*See Other Issues for more information.*)
- Line item transfers (*See Other Issues for more information.*)

Other Funding

ADOA was also appropriated \$4,581,600 from the General Fund in FY 2017 through the Automation Projects Fund for the Children's Information Library and Data Source (CHILDS) replacement project. The Baseline includes an additional \$5,000,000 for CHILDS replacement in FY 2018. (*Please see ADOA - Automation Projects Fund section for details regarding this information technology project.*)

Operating Budget

The Baseline includes \$115,797,300 and 1,311.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$57,797,800
Federal TANF Block Grant	16,928,000
Child Safety Expenditure Authority	41,071,500

These amounts are unchanged from FY 2017.

Additional Operating Resources

Caseworkers

The Baseline includes \$100,617,700 and 1,406 FTE Positions in FY 2018 for caseworkers. These amounts consist of:

General Fund	36,199,500
Children and Family Services Training Program Fund	207,100
Federal TANF Block Grant	30,000,000
Child Safety Expenditure Authority	34,211,100

These amounts are unchanged from FY 2017.

Monies in this line item fund caseworker positions I, II, III and IV, including salary, benefits, other operating expenses and in-state travel.

(*Please see the Other Issues section for more information on caseworker hiring and workload.*)

Backlog Privatization

The Baseline includes \$2,700,000 from the General Fund in FY 2018 for Backlog Privatization. This amount is unchanged from FY 2017.

Background - On June 2, 2014, DCS reported 13,024 backlog cases. "Backlog case" essentially means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days.

Monies in this line item provide funding for private contractors to assist DCS in addressing the backlog of non-active cases. A footnote in the FY 2017 General Appropriation Act requires JLBC review of DCS' expenditure plan for proposed private contractor awards. In June 2016, JLBC favorably reviewed DCS' plan to expand an existing contract with Southwest Human Development (SWHD) to reduce the backlog, releasing \$2,700,000 of FY 2016 backlog privatization monies. In September 2016, DCS reported to JLBC that it expected to spend \$500,000 of that amount for the contract with SWHD, and requested to spend the remaining \$2,200,000 on contracted permanency services.

JLBC favorably reviewed DCS' plan, with the provisions that the contracted permanency services would only proceed after the backlog is reduced to below 1,000 cases and DCS' compliance with associated reporting requirements. As of November 2016, DCS has not submitted a plan for review for the expenditure of the \$2,700,000 of FY 2017 backlog privatization funding.

Relative to the 13,024 June 2, 2014 backlog cases, DCS had initially either activated the cases or closed them. In terms of current activity, the 10,751 backlog cases on March 2016 consisted of 1,026 relapsed June 2, 2014 backlog cases and 9,725 post-June 2, 2014 backlog cases. By November 2016, total backlog cases had fallen to 3,714, including 222 relapsed June 2, 2014 cases. DCS is projecting that the backlog will be eliminated by the end of January 2017. If DCS is successful in meeting the benchmark for backlog cases, the Legislature may consider alternative uses for backlog privatization funding for the remainder of FY 2017 and in FY 2018.

New Case Aides

The Baseline includes \$3,060,600 and 34 FTE Positions in FY 2018 for New Case Aides. These amounts consist of:

General Fund	2,490,400
Child Safety Expenditure Authority	570,200

These amounts are unchanged from FY 2017.

Monies in this line item fund 34 new case aides. In addition, 256 case aides were being funded from the operating budget in May 2016.

The Baseline continues a footnote stipulating that this funding is only available to the department after JLBC review of private contractor awards. The Legislature may consider modifying this requirement depending on the allocation of backlog privatization funding in FY 2018.

Attorney General Legal Services

The Baseline includes \$25,416,800 and 276.2 FTE Positions in FY 2018 for Attorney General Legal Services. These amounts consist of:

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

These amounts are unchanged from FY 2017.

Monies in this line item fund the attorneys and support staff in the Attorney General's Protective Services Section (PSS). Attorney General staff represents DCS in dependency, guardianship, severance and adoption proceedings throughout the state. This line item does not include funding for the Attorney General's defense of DCS in ongoing class action litigation. (*Please see the Litigation Expenses Special Line Item for additional information.*)

General Counsel

The Baseline includes \$155,500 and 1 FTE Position from the General Fund in FY 2018 for General Counsel. These amounts are unchanged from FY 2017.

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

Inspections Bureau

The Baseline includes \$2,470,100 and 31 FTE Positions in FY 2018 for the Inspections Bureau. These amounts consist of:

General Fund	1,327,000
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	593,400

These amounts are unchanged from FY 2017.

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 2018 for Litigation Expenses. This amount is unchanged from FY 2017.

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 services 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. DCS reports that *A.D. v. Washburn* is at the discovery stage of litigation.

The FY 2017 budget included \$2,867,600 from the Risk Management Revolving Fund in FY 2016 for litigation expenses associated with both cases. The appropriation is non-lapsing until June 30, 2018, and DCS is using the funds to pay for an interagency service agreement (ISA) with the Attorney General for its legal defense, expert witnesses, discovery costs, and other expenses.

In September 2016, DCS and the Attorney General's Office amended the ISA to add 2 attorneys and 1 legal assistant for the *B.K. v. McKay* case, resulting in a total of 8 legal staff working on the 2 cases. As a result of the ISA amendment, DCS is expecting its litigation expenses funding to be fully expended before the end of FY 2018.

Office of Child Welfare Investigations

The Baseline includes \$10,611,100 and 127 FTE Positions in FY 2018 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,509,100
Child Safety Expenditure Authority	1,102,000

These amounts are unchanged from FY 2017.

Monies in this line item fund OCWI, which investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of October 2016, the department had hired 80 of the 127 appropriated FTE Positions.

Overtime Pay

The Baseline includes \$8,370,000 in FY 2018 for Overtime Pay. This amount consists of:

General Fund	2,593,900
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,916,600

These amounts are unchanged from FY 2017.

Monies in this line item fund overtime pay for DCS. The Baseline continues a footnote states that 75% of this funding is only available to the department after JLBC review of private contractor awards. The Legislature may consider modifying this requirement depending on the allocation of FY 2018 backlog privatization funding.

Records Retention Staff

The Baseline includes \$592,900 and 5 FTE Positions in FY 2018 for Records Retention Staff. These amounts consist of:

General Fund	496,900
Child Safety Expenditure Authority	96,000

These amounts are unchanged from FY 2017.

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

Retention Pay

The Baseline includes \$1,707,000 from the General Fund in FY 2018 for Retention Pay. This amount is unchanged from FY 2017.

This funding provides retention pay of \$1,000 for 18 months of employment and \$3,000 for 36 months of employment. Retention pay is a one-time lump sum payment upon meeting the longevity requirements. In June 2016, DCS discontinued retention pay for new hires. In its FY 2018 budget submittal, DCS is requesting that this funding be reallocated to a new performance bonus program and for salary increases for caseworkers with 3 or more years of experience.

Training Resources

The Baseline includes \$5,150,000 in FY 2018 for Training Resources. This amount consists of:

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

These amounts are unchanged from FY 2017.

DCS has agreements with Arizona State University (ASU) and Northern Arizona University (NAU) to educate potential caseworkers. As part of that agreement, the federal government provides Title IV-E funding for the universities' social work programs while the universities provide the state match. The federal match rate is 75%. The majority of the funding in this line is for social work programs at ASU and NAU while the remainder is for student scholarships.

Students receive scholarships that cover their tuition, books, and university fees. Scholarship degrees include a Bachelors of Social Work (BSW) or a Masters of Social Work (MSW). The post-graduation DCS work requirement for scholarship students is equal to the length of the academic scholarship. For example, a scholarship student in the 2-year MSW program would be required to work at DCS for 2 years; a senior year-only BSW scholarship student would be obligated to work for 1 year at DCS, although BSW students can receive scholarships starting in their junior year.

The 2-year MSW scholarship value is about \$36,000 (\$11,000 stipend and \$25,000 tuition/fees). Students who withdraw from the scholarship, do not fulfill their contractual obligation, or do not meet the employment requirement of DCS at the time of hiring are technically required to repay DCS the scholarship amount. Of the 19

forfeited social work scholarships since 2012, however, 16 had not been repaid, nor was DCS actively pursuing their repayment.

The Legislature appropriated \$150,000 from the General Fund in FY 2015 to streamline and shorten the classroom training of caseworkers. DCS also operates a training academy. The training academy is funded out of the operating budget.

Out-of-Home Placements

Adoption Services

The Baseline includes \$225,698,100 in FY 2018 for Adoption Services. This amount consists of:

General Fund	75,965,800
Federal TANF Block Grant	20,445,700
Child Safety Expenditure Authority	129,286,600

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 23,083 clients received adoption subsidies; the average monthly cost for FY 2016 was \$746. At that monthly cost, the Baseline funds 25,264 total placements in FY 2018.

Background – The program subsidizes the adoption of children who otherwise would entail high financial risks to prospective parents because of physical, mental, or emotional disorders or who would be otherwise difficult to place in adoption because of age, sibling relationship, or racial or ethnic background. The funding provides for maintenance subsidies, special services subsidies, expenditures related to the legal process of adopting a child, and adoption home recruitment costs.

Emergency and Residential Placement

The Baseline includes \$98,900,100 in FY 2018 for Emergency and Residential Placement. This amount consists of:

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

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 528 children received emergency placement services while 2,418 children received residential (non-foster care) placement services. At an average monthly cost of \$2,803 per

emergency placement and \$3,079 per residential placement, funding in this line is sufficient for an average monthly caseload of 488 emergency placements and 2,234 residential placements in FY 2018.

Background – The Emergency and Residential Placement line provides funding for 1) short-term placement until a more permanent placement can be arranged and 2) behavioral or other therapeutic residential treatment.

Foster Care Placement

The Baseline includes \$65,595,500 in FY 2018 for Foster Care Placement. This amount consists of:

General Fund	30,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	28,434,900

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 7,065 clients received licensed foster care services; the average monthly cost for FY 2016 was \$680. At an average monthly cost of \$680 per foster placement, funding in this line is sufficient for an average monthly caseload of 8,041 foster care placements in FY 2018.

On average, another 6,581 children received services from unlicensed foster caregivers, most of whom are relatives. Unlicensed foster caregivers are not eligible for maintenance subsidies funded in this line item, but may receive allowances and other support services funded in the Out-of-Home Support Services line item. Unlicensed foster caregivers who are grandparents may also be eligible for a monthly stipend. *(Please see Grandparent Stipends line item for additional information.)*

Background – The Foster Care Placement line item provides funding for the placement of children in the child welfare system into foster homes. This line item only includes the cost of the maintenance payments, not additional support services.

Grandparent Stipends

The Baseline includes \$1,000,000 from the General Fund in FY 2018 for Grandparent Stipends. This amount is unchanged from FY 2017.

Caseload – In FY 2016, an average of 876 clients received a \$75 monthly stipend. At \$75 monthly, the appropriation is sufficient for 1,111 clients in FY 2018.

Background – The program provides a monthly stipend per child to an unlicensed foster grandparent or great-grandparent who has an income that does not exceed 200% of the Federal Poverty Level, does not receive TANF Cash Benefits, and does not receive a permanent guardianship subsidy.

Independent Living Maintenance

The Baseline includes \$4,660,000 in FY 2018 for Independent Living Maintenance. This amount consists of:

General Fund	2,969,300
Child Safety Expenditure Authority	1,690,700

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 534 clients received independent living maintenance services; the average monthly subsidy for FY 2016 was \$626. At \$626 monthly, the appropriation is sufficient for 620 total placements in FY 2018.

Background – These youths are living on their own and are either enrolled in a postsecondary program or employed. Besides the stipends funded in this line item, the Independent Living program also provides training and support services to children who will likely reach the age of 18 while in out-of-home care. The Out-of-Home Support Services line item funds these support services. The services provided include life skills training, educational support and assistance, an education training voucher, employment assistance, counseling, allowances and financial incentives for reaching certain milestones, voluntary foster care, after care services, health care, post-secondary education and training, and other services. In FY 2016, the program spent \$4,993,000 on non-stipend independent living services.

Permanent Guardianship Subsidy

The Baseline includes \$12,516,900 in FY 2018 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	10,573,900
Federal TANF Block Grant	1,943,000

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 2,569 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2016 was \$381. At \$381 monthly,

the funding in this line item is sufficient to fund 2,739 total placements in FY 2018.

Background – The Guardianship Subsidy program supports permanent placements for children who cannot return home and for whom adoption is not an option.

The guardianship subsidy is intended to be only a partial reimbursement for expenses involved in the care of the child. The funding only provides for maintenance subsidies, which are provided to assist with the expenses involved in addressing the special needs of the child.

Support Services

DCS Child Care Subsidy

The Baseline includes \$45,159,400 in FY 2018 for the DCS Child Care Subsidy. This amount consists of:

General Fund	7,000,000
Federal CCDF Block Grant	27,000,000
Child Safety Expenditure Authority	11,159,400

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 9,903 children received DCS child care; the average monthly subsidy for FY 2016 was \$405. At \$405 monthly, the funding in this line item is sufficient for an average monthly caseload of 9,290 children in FY 2018.

Background – Monies in this line item fund child care for children in the DCS system. DES continues to administer the state’s child care program, so this funding is passed through to DES. Children who qualify for the DCS child care subsidy are not subject to a time limit, copay, or waiting list. DCS child care is provided for children in licensed foster care, unlicensed foster care and their own homes who are receiving preventive services. *(Please see the Child Care Subsidy line item in the DES narrative for other state child care funding.)*

In-Home Mitigation

The Baseline includes \$28,988,100 and 1 FTE Position in FY 2018 for In-Home Mitigation. These amounts consist of:

General Fund	15,794,000
Child Abuse Prevention Fund	1,459,300
Federal TANF Block Grant	5,911,200
Child Safety Expenditure Authority	5,823,600

These amounts are unchanged from FY 2017.

Monies in this line item fund interventions for children experiencing maltreatment. The interventions include substance abuse treatment, case management, family support services, reunification services, interpreter services, lab services, parent aide services, counseling, transportation, moderate and intensive in-home services, the housing subsidy, and emergency funding.

Preventive Services

The Baseline includes \$15,148,300 in FY 2018 for Preventive Services. This amount consists of:

General Fund	4,000,000
Child Safety Expenditure Authority	11,148,300

These amounts are unchanged from FY 2017.

Monies in this line item fund programs targeted at families in need to alleviate identified problems and prevent escalation. The targeted interventions include the Healthy Families and Building Resilient Families programs.

Out-of-Home Support Services

The Baseline includes \$198,272,500 in FY 2018 for Out-of-Home Support Services. This amount consists of:

General Fund	56,933,200
Federal TANF Block Grant	46,340,100
Child Safety Expenditure Authority	94,999,200

These amounts are unchanged from FY 2017.

Caseload – For September 2016, the department reported 18,046 out-of-home children were receiving support services.

Background – The Out-of-Home Support Services line item provides support services for out-of-home clients, in the categories displayed in Table 1. This line item and the In-Home Mitigation line item fund Arizona Families F.I.R.S.T. *(Please see the FY 2017 Appropriations Report for more information.)*

The Out-of-Home Support Services line item also provides full coverage of the medical and dental expenses of foster children. The General Fund monies in this CMDP provide medical services to children who are not eligible for coverage through the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS also provides behavioral health services for foster children.

Table 1 shows DCS' actual FY 2016 expenditures for in-home, out-of-home, and preventive services. The current CHILDS system has limitations that prevent a clear distinction between expenditures for children receiving In-Home Preventive Support Services and children receiving Out-of-Home Support Services. In August 2016, there were 1,676 in-home cases.

Table 1	
In-Home and Out-of-Home Support Services FY 2016 Actual Expenditures by Service Category	
<u>Services</u>	<u>Amount</u>
Parent Aide	\$ 75,248,400
CMDP	42,795,100
Foster Home Recruitment	33,030,100
Transportation	20,858,400
Allowances ^{1/}	11,791,600
Healthy Families	10,715,100
In-Home ^{2/}	9,859,600
Substance Abuse Treatment	9,390,000
Behavioral Health Services	9,045,500
Intensive Family Services	8,505,400
Lab Services	6,689,700
Independent Living	4,993,000
Other	<u>5,533,500</u>
Total ^{3/}	\$248,455,400

^{1/} Includes a clothing allowance, personal allowance, and special allowance. Some examples of special allowances are emergency clothing, special needs, books/education, graduation, and diapers.

^{2/} In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources

^{3/} Data as of September 2016.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Resources

The Department of Child Safety shall provide training to any new child safety FTE Positions before assigning to any of these employees any client caseload duties.

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

The appropriation for the Office of Child Welfare Investigations is solely for the costs of employees directly hired by the Office of Child Welfare Investigations. At least 30 days before any transfer into or out of the Office of Child Welfare Investigations line item, the department shall report the proposed transfer to the Director of the Joint Legislative Budget Committee.

Out-of-Home Placements

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

The amount appropriated for Grandparent Stipends shall be used for a monthly stipend for a grandparent or any level of great-grandparent if a dependent child is placed in that person's care pursuant to department guidelines.

Support Services

It is the intent of the Legislature that the amount appropriated for the Preventive Services and In-Home Mitigation line items be used for families whose children are at risk of out-of-home placement due to abuse, neglect or dependency and the amount appropriated for the Out-of-Home Support Services line item be used for children in out-of-home placements.

Departmentwide

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.

- 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, 2017, and on or before the last day of every calendar quarter through June 30, 2018, the Department of Child Safety shall present a report for review by the Joint Legislative Budget Committee on the progress made in increasing the number of filled FTE Positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children. The report shall include the number of backlog cases, the number of open reports, the number of out-of-home children and the caseworker workload on March 31, 2016 in comparison to the latest quarter. The report shall provide the number of backlog cases by disposition, including the number of backlog cases in the investigation phase, the number of backlog cases associated with out-of-home placements and the number of backlog cases associated with in-home cases. *(This footnote will need to be updated for the FY 2018 budget.)*

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. *(These benchmarks will need to be updated for the FY 2018 budget.)*

For backlog cases, the department's quarterly benchmarks are as follows: 10,000 cases as of September 30, 2016, 7,000 cases as of December 31, 2016, 4,000 cases as of March 31, 2017 and fewer than 1,000 cases as of June 30, 2017 and thereafter. *(These benchmarks will need to be updated for the FY 2018 budget.)*

For open reports, the department's benchmark is to have fewer than 13,000 open reports as of June 30, 2017 and thereafter. *(This benchmark will need to be updated for the FY 2018 budget.)*

For out-of-home children, the department's benchmark is to reduce the number of children in out-of-home care by

an average of an additional 2.0% every quarter with respect to the out-of-home care population as of December 31, 2016. It is the intent of the Legislature that the out-of-home care population be below 17,500 and that the cumulative reduction as compared to the population as of December 31, 2016 be 11.4% on or before June 30, 2018. *(These benchmarks will need to be updated for the FY 2018 budget.)*

If the Department of Child Safety has not submitted the quarterly report within 30 days after the last day of the calendar quarter, the Director of the Joint Legislative Budget Committee shall inform the General Accounting Office of the Department of Administration, which shall withhold 2.0% of the department's operating lump sum quarterly budget allocation until the quarterly report is submitted.

Beginning on the 7th day of the month following the effective date of this act and on the 7th day of each month thereafter through June 30, 2018, the Department of Child Safety shall issue to the Governor, the Chairpersons of the House of Representatives Appropriations and Children and Family Affairs Committees and the Senate Appropriations and Health and Human Services Committees and the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting a report on new hires and separations. The report shall include the total number of FTE Positions funded and the total number of FTE Positions filled on 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.

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.

The Overtime Pay appropriation includes a total of \$2,610,700 from the state General Fund, \$3,859,500 from the federal Temporary Assistance for Needy Families Block Grant and \$1,929,800 from Child Safety Expenditure Authority. The Backlog Privatization appropriation includes a total of \$2,700,000 from the state General Fund. The New Case Aides appropriation includes \$2,500,000 from the state General Fund and \$577,700 from Child Safety Expenditure Authority to hire additional case aides. Of these amounts, a total of \$652,700 from the state General Fund, \$964,900 from the federal Temporary Assistance for Needy Families Block Grant and \$482,500 from the Child Safety Expenditure Authority in the Overtime Pay appropriation are available to the department on July 1, 2017. Before expending any remaining monies in the Overtime Pay appropriation or any monies in the Backlog Privatization and New Case Aides appropriations, the department shall submit for review by the Joint Legislative Budget Committee a report on private contractor awards to address the backlog. After the report is reviewed by the Joint Legislative Budget Committee, the remaining \$1,958,000 from the state General Fund, \$2,894,600 from the federal Temporary Assistance for Needy Families Block Grant and \$1,447,300 from the Child Safety Expenditure Authority in the Overtime Pay appropriation, along with \$2,700,000 from the state General Fund in the Backlog Privatization appropriation and \$2,500,000 from the state General Fund and \$577,700 from Child Safety Expenditure Authority in the New Case Aides appropriation, are available to the department. *(This footnote will need to be updated for FY 2018 budget.)*

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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes related to the following issues:

- DCS' "bridge loan" authority from the Budget Stabilization Fund and associated reporting requirements.

- Reporting requirements regarding the Moss-Adams Audit.
- Implementation of changes to risk assessment procedures recommended by the Auditor General.
- Reports on DCS' administrative staffing levels.
- Attorney General Legal Services structural shortfall.
- Litigation Expenses 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, 2018 on their collaborative efforts to address child welfare issues of common concern.
- As session law, require the Auditor General to complete 3 annual audits of DCS in FY 2018 *(please see Other Issues for more information)*.

Other Issues

This section includes information on the following topics:

- Auditor General Recommendation
- Title IV-E Waiver
- Line Item Transfers
- Caseworker Hiring
- Caseworker Workload
- TANF Block Grant
- DCS Reporting Requirements
- ADOA-DCS Start-up Funding

Auditor General Recommendation

The FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18), required the Auditor General to report on Department of Child Safety's permanency practices on or before September 30, 2016.

After a child is placed in out-of-home care, DCS is responsible for helping to find a permanent placement for that child. A permanent placement could include reunification with family, adoption, or permanent legal guardianship.

Findings

The department is required to participate in juvenile court hearings that determine permanency decisions for out-of-home children. The audit found that DCS caseworkers sometimes submit court reports that are late, not sufficiently detailed, or that do not clearly highlight progress on case plan goals. For example, the audit cited

a 2016 informal analysis of court reports in Maricopa County which found that 32% of DCS court reports were submitted late and 6% of reports were not submitted at all.

Department policy also requires DCS caseworkers to attend Foster Care Review Board (FCRB) reviews. The FCRB makes recommendations to the juvenile courts on achieving permanency for each child. The audit found that DCS caseworkers only attended between 57% and 65% of FCRB reviews in each month since June 2015. The department performs kinship searches to identify relatives with whom out-of-home children may stay temporarily. The audit found that DCS caseworkers do not always document their searches for kin, which may result in duplicative efforts. In addition, DCS' family locate unit had a backlog of 452 kinship search requests from caseworkers in September 2016.

Recommendations

The audit recommends that DCS track and analyze court report submission dates, develop guidance regarding supervisory review of court reports to ensure adequate detail is included, work with the juvenile courts to better present case plan progress in court reports, and develop policies and procedures to improve caseworker attendance at FCRB reviews.

For kinship searches, the audit recommends that DCS establish a monitoring process for documentation of these searches, establish a formal timeframe to process requests, and transfer some requests to other DCS staff.

DCS did not agree to the recommendations listed above. The department claims that measuring timeliness for submissions of court reports without tracking data from the courts is not possible, the current court report template complies with statute and administrative code, and that caseworker attendance at FCRB reviews is not required by state or federal law. For the kinship search recommendations, DCS claims that the recommendations would not increase the percentage of children placed with kin, and that the percentage of children placed with kin in Arizona (42.2%) is already above the national average of 22.2%.

The audit also recommended that DCS continue to implement existing plans related to permanency practices: 1) reducing time before permanency is achieved 2) timeliness of filing Termination of Parental Rights (TPR) petitions for children with a permanency goal of adoption 3) retention and recruitment of foster homes and 4) increasing foster children's connections to their family and community. DCS agreed to implement these recommendations.

Prior Audits

The Auditor General has completed DCS audits on the following issues in the last 5 years:

- Permanency Practices
- Differential Response
- Safety and Risk Assessment Practices
- Chapin Hall Independent Review
- Comparison of Reports
- Emergency and Residential Placements
- Transportation Services
- Foster Home Recruitment Contracts
- In-Home Services

The FY 2017 Human Services BRB (Laws 2016, Chapter 123) requires the Auditor General to complete audits of DCS' administrative staffing level by February 1, 2017, recruitment and training of staff by September 30, 2017, and DCS' Families F.I.R.S.T. substance abuse treatment program by March 31, 2018.

The Baseline would require 3 new audits as part of the FY 2018 budget. The Legislature will have to decide on appropriate topics for these audits during session.

Title IV-E Waiver

In September 2014, the U.S. Department of Health and Human Services (HHS) granted DCS' request for a federal Title IV-E waiver focused on reducing the length of stay for children in congregate care. Congregate care includes emergency shelters, group homes and residential treatment centers. "IV-E" refers to the section of federal law authorizing federal government payment of foster care and related expenses.

As shown in *Table 7*, Title IV-E funding has been the state's primary source of federal funding for children placed outside the home in the child welfare system. Title IV-E funding is traditionally uncapped, so there is no limit on the amount of IV-E monies the state can draw down for qualifying expenses. In exchange for accepting a capped allocation of IV-E funding, HHS will allow DCS to use IV-E monies for a broader set of services, including in-home services. DCS began operating under the waiver in July 2016.

Line Item Transfers

DCS' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative

Table 2

DCS FY 2016 General Fund Line Item Transfers

	FY 2016 <u>Appropriation</u> ^{1/}	Line Item <u>Transfer</u> ^{3/}	FY 2016 <u>Actuals</u>	FY 2017 <u>Appropriation</u>
Operating Budget ^{2/}	\$91,349,800	\$1,091,200	\$92,441,400	\$93,997,300
OCWI	9,562,700	(3,100,000)	6,462,600	9,509,100
General Counsel	156,100	(14,800)	140,100	155,500
Retention Pay	1,707,000	(1,076,400)	630,600	1,707,000
Adoption Services	69,965,800	(3,200,000)	66,765,800	75,965,800
Emergency and Residential Placement	43,328,000	100,000	43,428,000	41,028,000
Permanent Guardianship Subsidy	10,472,300	(320,000)	9,972,100	10,573,900
Grandparent Stipends	1,000,000	(100,000)	888,600	1,000,000
Out-of-Home Support Services	<u>82,304,900</u>	6,620,000	<u>88,735,200</u>	<u>56,933,200</u>
GF Subtotal	309,846,600		309,464,400	290,869,800
All Other Line Items	<u>92,566,200</u>		<u>92,569,100</u>	<u>88,309,600</u>
GF Grand Total	\$402,412,800		\$402,033,500	\$379,179,400

^{1/} FY 2016 Appropriation includes the elimination of the payment deferral and the lump-sum supplemental allocated across line items.

^{2/} FY 2017 Appropriation figures include Operating budget and Caseworkers line item.

^{3/} Reflects line item transfers made as of September 2016.

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 Baseline would continue this footnote in FY 2018.

Table 2 above shows the transfers of General Fund monies made by DCS between line items in FY 2016. DCS transferred a total of \$7.8 million in FY 2016. The Out-of-Home Support Services line item received \$6.6 million of these transfers, and the operating budget received another \$1.1 million. The largest decreases from were Adoption Services and Office of Child Welfare Investigations (OCWI).

The largest difference between FY 2016 actual expenditures net of transfers and the FY 2017 appropriation is in the Out-of-Home Support Services line item. The FY 2017 General Fund appropriation of \$56.9 million for Out-of-Home Support Services is \$(31.8) million less than actual General Fund spent in that line item in FY 2016. Most of the decrease is associated with the removal of one-time funding for addressing the backlog, eliminating the payment deferral, and the FY 2016 lump-sum supplemental. However, in its November Monthly Financial Report, DCS is projecting a General Fund shortfall of \$(18.4) million in Out-of-Home Support Services. The Legislature will need to determine whether to address the potential shortfall in Out-of-Home Support Services and whether to retain FY 2016 transfers as part of the FY 2018 budget process.

Caseworker Hiring

The Legislature has funded 1,406 caseworkers (direct line staff). Table 3 displays DCS progress in hiring these staff. As of November 2016, DCS had filled 1,343 of these positions, or (63) fewer filled positions than the funded amount. Most of the unfilled positions are case-carrying caseworkers. About 17% of direct line staff, or 233 positions, are in training.

Table 3

<u>Direct Line Staff Type</u>	DCS Caseworker Hiring		<u>Difference</u>
	<u>Funded Positions</u>	<u>Nov. 2016</u>	
Case-Carrying Caseworkers	1,190	1,042	(148)
Caseworkers in Training	140	233	93
Hotline Staff	76	68	(8)
Total	1,406	1,343	(63)

Caseworker Workload

DCS established revised caseload goals during the May 2014 Special Session. The caseload standard is to have no more than 13 cases per investigator, 33 cases for in-home case managers, and 20 cases for out-of-home case managers. Based on data reported by the department, caseworker workload remains above the caseload standards. Due to numerous methodological challenges, however, it is difficult to compare caseworker workload across offices.

TANF Block Grant

The federal TANF Block Grant can be deposited into the federal Social Services Block Grant (SSBG); once deposited, the monies are spent on DCS programs. The federal government caps the amount of TANF Block Grant monies that can be transferred to the SSBG at 10%. The Baseline would continue a footnote in the General Appropriation Act allows DCS to make this transfer of TANF monies in the Out-of-Home Support Services, Emergency and Residential Placement, and Foster Care Placement line items to the SSBG. This amount is estimated at \$20,141,300 in FY 2017. The transfer to SSBG provides additional funding flexibility to DCS.

DCS Reporting Requirements

DCS provides a number of reports to the Governor and Legislature, including:

- Semi-Annual Child Welfare Report - tracks program performance measures
- Semi-Annual Financial & Program Accountability Report - tracks program performance measures
- Monthly Program Report - tracks program performance measures
- 30th of the Month Report - focuses on potential funding shortfalls during the current fiscal year
- Healthy Families Annual Report - home visitation program for at-risk families with young children
- Report on bridge loan elimination
- Report on backlog privatization
- Reports on administrative staff
- Monthly report on hiring and separations
- Report on potential deficiencies related to DCS' financial processes
- Report on Housing Assistance
- Independent Living Report
- Review of foster home requirements
- Behavioral Health Report
- Quarterly Benchmark Report - tracks caseworker hiring, backlog elimination, open reports, foster children and caseworker workload
- Summary of DCS Grants
- Community Advisory Committee Quarterly Report
- Joint Investigations Report
- OCWI Line Item Fund Transfer Report
- CHILDS Independent Third-Party Consultant Report
- Kinship Foster Care Report
- Arizona Families F.I.R.S.T. Report
- Expedited Substance Abuse Treatment Fund Report

- Report on the Implementation of Auditor General Recommendations
- Intensive Family Services Expenditure Plan

In addition to these reports, DCS provides a number of different reports to the federal government and other groups, such as Casey Family Programs and Chapin Hall.

In an effort to streamline DCS' reports, Laws 2014, 2nd Special Session, Chapter 1 requires JLBC, OSPB, and DCS to make recommendations on DCS report consolidation by September 1, 2016. The JLBC Staff recommended that DCS and OSPB develop a consolidated executive proposal to modify existing reports by December 31, 2016 for consideration by the Legislature in the 2017 regular session.

ADOA-DCS Start-Up Funding

The Arizona Department of Administration (ADOA) was originally appropriated \$19,500,000 for one-time costs associated with the establishment of DCS. The FY 2017 General Appropriation Act made the remaining \$4,403,900 available through the end of FY 2017. The Baseline includes no transitional funding in FY 2018 for the creation of the Department of Child Safety. *(Please refer to the FY 2017 Appropriations Report for additional information.)*

Table 4

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

<u>Staffing</u>	<u>FY 2013/2014</u>	<u>FY 2015</u>	<u>FY 2015 SS</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total (FY 17 Above FY 12)</u>
Child Safety Staff (caseworkers & others)	\$17.7 ^{2/}	\$15.3	\$6.2	(\$1.2) ^{3/}	\$2.5	\$40.5
Central Administrative Staff	0.0	0.0	0.0	0.0	6.7	6.7
Child Safety Staff Pay Raise/Retention Stipend	1.0	0.0	1.7	0.0	0.0	2.7
OCWI Staff	2.3	1.8	5.3	0.1	0.0	9.5
Records Retention Staff	0.0	0.5	0.0	0.0	0.0	0.5
Child Safety Legal Staff	1.5	see '16	0.0	1.0	5.0	7.5
Internal Legal Counsel	0.0	0.0	0.2	0.0	0.0	0.2
Inspections Bureau	0.0	0.0	2.2	(0.2) ^{3/}	0.0	2.0
<u>Residential Placements</u>						
Congregate Care	13.0	0.0	0.0	(5.1) ^{4/}	8.0	15.9
Congregate Care Backfill	0.0 ^{5/}	0.0	6.5	0.0	0.0	6.5
Foster Care	4.8	0.0	0.0	2.7 ^{4/}	2.3	9.8
Grandparent Stipends	1.0	0.0	0.0	0.0	0.0	1.0
Permanent Guardianship	2.4	0.0	0.0	1.0	0.1	3.5
Adoption Services	19.9	6.0	0.0	7.0	6.0	38.9
<u>Services</u>						
Intensive Family Services/In-Home Mitigation	5.0	3.5	0.0	0.0	5.0	13.5
Support Services	4.0	5.6	0.0	4.4 ^{4/}	12.5	26.5
Child Care	9.0	0.0	0.0	0.0	2.0	11.0
<u>Backlog</u>						
Privatization	0.0	0.0	0.0	2.7	0.0	2.7
Action Determination	0.0	0.0	0.2	(0.2)	0.0	0.0
Investigation	0.0	0.0	4.2	(4.2)	0.0	0.0
Out-of-Home Care Placement	0.0	0.0	6.8	(2.3)	0.0	4.5
Out-of-Home Care Services	0.0	0.0	7.6	(2.5)	0.0	5.1
In-Home Care Services	0.0	0.0	4.2	(1.4)	0.0	2.8
<u>Other</u>						
Training Resources	0.0	0.0	0.2	0.0	0.0	0.2
Internet Crimes Against Children	0.0	0.0	0.4	0.0	(0.3)	0.1
Partial Deferral Payoff	0.0	0.0	3.0	(3.0)	0.0	0.0
Federal Funds Backfill	18.5	0.0	0.0	0.0	0.0	18.5
Contingency	10.5	0.0	0.0	0.0	0.0	10.5
Statewide Adjustments	0.0	0.0	0.0	(0.7)	(0.7)	(1.4)
Eliminate Payment Deferral	0.0	0.0	0.0	11.0	(11.0)	0.0
Lump Sum Supplemental	0.0	0.0	0.0	32.3	(32.3)	0.0
TANF Swap	0.0	0.0	0.0	0.0	(4.0)	(4.0)
Non-General Fund Solutions	0.0	0.0	0.0	0.0	(25.0)	(25.0)
Total - DCS Agency	110.8	32.7	48.7	41.4	(23.2)	210.2
<u>Other Agency Funding</u>						
New Agency One-Time Funding (ADOA) ^{6/}	0.0	19.5	0.0	(19.5)	0.0	0.0
CHILDS Replacement (ADOA)	0.0	5.0	0.0	(5.0)	4.6	4.6
Judiciary - Dependency Caseload Growth	0.0	0.0	0.0	0.0	3.0	3.0
Auditor General	0.0	0.0	0.3	(0.3)	0.0	0.0
Total ^{7/}	\$110.8	\$57.1	\$48.8 ^{8/}	\$16.6	(\$15.6)	\$217.7

^{1/} Each year shows the increase over the prior fiscal year. The FY 2015, FY 2016 and FY 2017 amounts are General Fund, while the FY 2014 and FY 2013 amounts include General Fund and Long Term Care System Fund.

^{2/} The \$5.7 million supplemental (Laws 2014, 2nd Regular Session) is not shown so as not to double count the funding.

^{3/} Represents elimination of one-time equipment funding.

^{4/} Foster care savings policy of \$(2.0) million consists of \$(5.1) million in congregate care, \$2.7 million in foster care, and \$0.4 million in support services.

^{5/} The \$5.1 million supplemental (Laws 2014, 2nd Special Session) is not shown so as not to double count the funding.

^{6/} Total appropriation of \$25.0 million subsequently reduced to \$19.5 million.

^{7/} Numbers do not add due to rounding.

^{8/} Excludes \$0.8 million for the Legislative Council Ombudsman.

Table 5

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

	<u>FY 2013</u>	<u>Part 1</u>	<u>Part 2</u>	<u>FY 2015</u>	<u>FY 2015 SS</u> ^{3/}	<u>FY 2017</u>	<u>Total Change</u> ^{4/}
		<u>FY 2014</u> ^{1/}	<u>FY 2014</u> ^{2/}				
Central Administrative Staff	-	-	-	-	-	60	60
Caseworkers/Hotline Staff	50	93	126	32	54	-	355
OCWI Staff	28 ^{5/}	-	-	20	73	-	121
Assistant Program Managers	4	2	4	-	2	-	12
Unit Supervisors	-	16	20	6	10	-	52
Case Aides	-	23	30	9	15	-	77
Records Retention Staff	-	-	-	5	-	-	5
AG Legal Staff via DCS	-	22	-	-	-	42	64
AG Legal Staff (Direct) ^{6/}	-	-	-	12	-	-	12
In-House Counsel	-	-	-	-	1	-	1
Inspections Bureau	-	-	-	-	21	-	21
Support Staff/Other	-	16	12	3	9	34	74
Subtotal - New	82	172	192	87	185	136	854
Transferred Staff	-	-	-	-	99 ^{7/}	-	99
Subtotal - New and Transferred	82	172	192	87	284	136	953
Total Child Safety Staff	N/A	N/A	N/A	N/A	N/A	N/A	3,193

^{1/} Represents original FY 2014 budget.

^{2/} Represents FY 2014 supplemental in 2nd Regular Session.

^{3/} Reflects 2nd Special Session.

^{4/} Total change in FTE Positions since FY 2012.

^{5/} The agency indicates that 34 OCWI staff were hired.

^{6/} Shifted to DCS in FY 2016.

^{7/} Represents administrative staff transferred from DES, including 10 Inspections Bureau Staff.

Table 6

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

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Reports of Child Maltreatment</u>
2008	\$509.9	34,989
2009	\$487.6	33,186
2010	\$448.9	33,839
2011	\$478.8	34,904
2012	\$561.2	40,517
2013	\$625.8	44,119
2014	\$710.9	45,368
2015 ^{1/}	\$846.2	51,075
2016 Actual ^{2/}	\$939.0	49,135
2017 Appropriation ^{3/}	\$972.6	TBD

^{1/} Excludes \$25.0 million for start-up funding appropriated to ADOA, \$5.0 million for CHILDS replacement, \$0.8 million for the Ombudsman and \$0.3 million for the Auditor General. Includes \$1.2 million for Attorney General expenses appropriated to the Attorney General.

^{2/} Excludes \$0.8 million for the Ombudsman.

^{3/} Excludes \$4.6 million for CHILDS Replacement and \$3.0 million for Judiciary caseload growth.

Table 7

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

Federal Fund Source 1/	Operating Budget		New Case Aides		Attorney General		Inspections Bureau		OCWI		Overtime Pay		Records Retention		Training Resources	
AHCCCS	\$12.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
AIPP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAN Basic	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBCAP	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee IL	0.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSBG	0.0	5.5	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B I CWS	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPCV	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPSS	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-E	20.0	16.1	0.6	0.6	0.0	0.0	0.7	0.7	1.6	1.9	0.1	5.0	0.0	0.0	5.0	0.0
Over/(Under) Allocated Authority	6.8	6.5	0.0	0.0	5.2	(0.2)	(0.5)	(0.4)	\$1.1	\$1.9	\$0.1	\$5.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$41.1	\$34.2	\$0.6	\$0.6	\$6.7	\$0.6	\$0.6	\$1.1	\$1.1	\$1.9	\$0.1	\$5.0	\$0.0	\$0.0	\$0.0	\$0.0

Table 7

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

<u>Federal Fund Source 1/</u>	<u>Adoption Services</u>	<u>Emergency & Residential</u>	<u>Foster Care</u>	<u>Independent Living</u>	<u>Child Care</u>	<u>In-Home Mitigation</u>	<u>Preventive Services</u>	<u>Out-of-Home Services</u>	<u>Total</u>
AHCCCS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$54.5
AIPP	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
CAN Basic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
CBCAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.5
Chafee IL	0.0	0.0	0.0	1.5	0.0	0.0	0.0	3.1	5.1
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	6.1
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	4.4
SSBG	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	12.7
IV-B I CWS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6
IV-B II FPCV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
IV-B II FPSS	0.5	0.0	0.0	0.0	0.0	5.6	0.0	0.0	6.8
IV-E	123.8	35.9	25.8	0.0	14.7	0.0	0.0	20.0	266.2
Over/(Under) Allocated Authority	1.0	(0.2)	2.6	0.2	(3.5)	0.2	0.4	28.4	46.5
Total	\$129.3	\$41.5	\$28.4	\$1.7	\$11.2	\$5.8	\$11.1	\$95.0	\$415.3

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,459,300	1,459,300
Year-End Fund Balance	966,800	945,900
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	240,500	477,200
Child Safety Expedited Substance Abuse Treatment Fund (CHA2421/A.R.S. § 8-812)		Non-Appropriated
Source of Revenue: Appropriations from the state General Fund.		
Purpose of Fund: To provide expedited drug treatment to guardians and parents when a dependency case plan calls for treatment. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Child Safety Expenditure Authority (CHA2009/A.R.S. § 41-101.01)		Expenditure Authority
Source of Revenue: All non-appropriated funds and Federal Funds for the Department of Child Safety, excluding the Federal Temporary Assistance for Needy Families Block Grant, the Federal Child Care and Development Fund, the Client Trust Fund, and the Economic Security Donations Fund.		
Purpose of Fund: To fund the Department of Child Safety.		
Funds Expended	358,995,000	415,269,400
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	207,900	207,100
Year-End Fund Balance	277,000	160,600
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	6,214,600	7,767,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	223,300	228,300
Federal CCDF Block Grant (CHA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs and policies that promote parental choice; providing consumer education to help parents make informed choices on child care; providing child care to welfare recipient parents; and implementing health, safety, licensing, and registration standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. DES has a separate allocation of CCDF.		
Funds Expended	27,000,000	27,000,000
Year-End Fund Balance	27,741,200	27,741,200
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	149,323,900	149,472,700
Year-End Fund Balance	100	100
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	2,867,600	0
Year-End Fund Balance	0	0

State Board of Chiropractic Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	174,400	220,200	220,200
Employee Related Expenditures	62,900	65,400	65,400
Professional and Outside Services	48,300	40,600	40,600
Travel - In State	0	3,600	3,600
Travel - Out of State	3,000	5,400	5,400
Other Operating Expenditures	102,900	89,900	89,900
Equipment	9,200	26,000	26,000
AGENCY TOTAL	400,700	451,100	451,100

FUND SOURCES

Other Appropriated Funds

Board of Chiropractic Examiners Fund	400,700	451,100	451,100
SUBTOTAL - Other Appropriated Funds	400,700	451,100	451,100
SUBTOTAL - Appropriated Funds	400,700	451,100	451,100
TOTAL - ALL SOURCES	400,700	451,100	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	400,700	451,100
Year-End Fund Balance	235,300	190,500

Citizens Clean Elections Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
Other Non-Appropriated Funds	4,343,300	10,423,400	10,423,400
TOTAL - ALL SOURCES	4,343,300	10,423,400	10,423,400

AGENCY DESCRIPTION — As authorized by a 1998 ballot initiative, the Citizens Clean Elections Commission (CCEC) provides full public funding to qualified candidates who agree to abide by the commission's guidelines. To qualify for funding, participating candidates must adhere to spending and contribution limits, and gather \$5 qualifying contributions from district constituents who are registered voters. Participating candidates also agree to attend required debates. The commission is not subject to legislative appropriation.

Other Issues

Clean Elections Fund Transfer to the General Fund

Pursuant to a 1998 ballot proposition (A.R.S. § 16-954B), the CCEC is instructed to return excess monies to the General Fund if it determines that anticipated revenues exceed anticipated expenses. The CCEC determines this on an annual basis by projecting revenues and expenses over the next 4 years and designating monies above the amount needed to meet current and future expenses as "excess monies" to be transferred to the General Fund. The most recent transfer was in FY 2012, when \$10 million was transferred to the General Fund. For a complete list of Citizens Clean Elections Fund transfers to the General Fund, please see *Table 1*.

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	10,000,000
Total	\$74,952,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Citizens Clean Elections Fund (ECA2425/A.R.S. § 16-949)		Non-Appropriated
Source of Revenue: Election-related civil penalties; civil and criminal fine and penalty surcharges; "qualifying contributions" on behalf of candidates who seek public campaign funding. Prior to FY 2013, the commission also generated revenues from a check-off box on state income tax forms and tax credits. Laws 2012, Chapter 257 repealed those provisions.		
Purpose of Fund: To fund administrative costs of the Citizens Clean Election Commission, campaigns of candidates who qualify for public campaign funding under A.R.S. § 16-950, and activities pertaining to voter education.		
Funds Available		
Balance Forward	22,821,300	26,313,300
Revenue:		
Court Assessments	7,790,200	7,790,200
Qualifying Contributions	44,700	45,500
\$5 Check Off Box	400	0
Total Funds Available	30,656,600	34,149,000
Expenditures:		
Operating Funds Expended	4,025,800	8,618,400
Candidate Funding	317,500	1,805,000
Funds Expended	4,343,300	10,423,400
Transfer Out to General Fund	0	0
Year-End Fund Balance	26,313,300	23,725,600

Arizona Commerce Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	16,500,000	11,500,000	11,500,000 ^{1/}
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	26,800,000	21,800,000	21,800,000 ^{2/}
FUND SOURCES			
General Fund	26,800,000	21,800,000	21,800,000
SUBTOTAL - Appropriated Funds	26,800,000	21,800,000	21,800,000
Other Non-Appropriated Funds	7,117,600	8,577,800	7,751,000
Federal Funds	3,402,300	1,518,400	1,518,400
TOTAL - ALL SOURCES	37,319,900	31,896,200	31,069,400

AGENCY DESCRIPTION — The Arizona Commerce Authority (ACA) promotes economic, community, and workforce development. The Authority's duties include: support statewide for business expansion and attraction; workforce development and job training; online assistance for new business start-ups; tax credit administration.

Operating Budget

The Baseline includes \$10,000,000 from the General Fund in FY 2018 for the operating budget. This amount is unchanged from FY 2017.

Of the \$10,000,000 FY 2016 operations allocation, ACA expended \$9,227,100 in FY 2016.

Arizona Competes Fund Deposit

The Baseline includes \$11,500,000 from the General Fund in FY 2018 for deposit into the Arizona Competes Fund. This amount is unchanged from FY 2017.

Prior to FY 2016, the Arizona Competes Fund received an annual appropriation of \$21,500,000 in income tax withholding from the General Fund. Additionally, the fund also received a non-appropriated deposit of \$3,500,000 in lottery revenues and an average of \$1,600,000 in Corporation Commission securities fees for a total annual deposit of \$26,600,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduced the General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In FY 2017 and each year thereafter, the deposit is reduced by \$(10,000,000) to \$11,500,000.

Laws 2016, Chapter 372 made several changes to the Arizona Competes Fund including:

- Redirecting the Corporation Commission filing fees to the newly-created Office of Economic Opportunity.
- Extending the lapsing date for the Arizona Competes Fund to July 1, 2018.
- Mandating that at least 30% of monies appropriated to the Arizona Competes Fund be used for rural and small business grants.
- Requiring that a further 25% of the monies appropriated to the Arizona Competes Fund be reserved for businesses not located in Maricopa County with preference given to a county located on the Arizona-Mexico border, a county in which a military facility is located, or projects on tribal lands. The 25% allocation is no longer reserved for these purposes after March 31 of each fiscal year.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$127,798,100 deposited into the Arizona Competes Fund from FY 2012 through FY 2016, ACA has expended \$25,859,200 through June 30, 2016. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) included a transfer of \$75,000,000 from the fund balance in FY 2016. (Please see Other Issues section for list of award recipients.)

Mexico City Trade Office

The Baseline includes \$300,000 from the General Fund in FY 2018 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2017.

Monies in this line item are used to lease a 2-story building in central Mexico City that serves as the Mexico City Trade Office and hire 4 contract workers to run the office. In the past, ACA partnered with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer the office. In FY 2015, the other partners provided \$135,000 to help fund the office. In FY 2016, however, no additional funds were provided. Currently, ACA does not fund any other trade offices.

* * *

FOOTNOTES

Standard Footnotes

Pursuant to A.R.S. § 43-409, \$21,500,000 of state General Fund withholding tax revenues is allocated in FY 2018 to the Arizona Commerce Authority, of which \$10,000,000 is credited to the Arizona Commerce Authority Fund established by A.R.S. § 41-1506, and \$11,500,000 is credited to the Arizona Competes Fund established by A.R.S. § 41-1545.01.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the submission of a report by ACA regarding the progress made towards implementing the Auditor General's recommendations included in their September 2015 audit of the agency.

Other Issues

ACA Responsibilities

A.R.S. § 41-1502 established ACA in place of the Department of Commerce. ACA's main purpose is to attract and retain business in Arizona and is governed by a board of directors. In addition to attracting businesses, ACA is responsible for the following functions:

- Arizona 21st Century Fund Administration and Fund
- Arizona Fast Grant Program
- Arizona Innovation Accelerator Fund
- Arizona Step Grant Program
- Capital Investment Incentives (Angel Investment) Program
- Commercial Solar Energy Tax Credit Applications
- Computer Data Center Tax Exemptions
- Energy Reduction Grant
- Environmental Technology Assistance Program
- Governor's Council on Workforce Policy Member (*Eliminated effective January 1, 2017*)
- Healthy Forest Enterprise Incentives Program

- International Operations Center Incentives
- Job Training Program and Fund (*Eliminated effective January 1, 2017*)
- Military Reuse Zone Tax Credit
- Private Activity Bonds (*Moved to Office of Economic Opportunity in FY 2017*)
- Qualified Energy Conservation Bonds
- Qualified Facility Tax Credit
- Quality Jobs Tax Credit
- Renewable Energy Tax Incentive Program Applications
- Research and Development Refundable Tax Credit
- Small Business Investment Tax Credit
- Solar Tax Credit

Prior to FY 2016, ACA received \$31.5 million in income tax withholding from the General Fund annually. Of that amount, \$10.0 million was deposited into the Arizona Commerce Authority Fund for ACA operational expenses and \$21.5 million was deposited into the Arizona Competes Fund. Beginning in FY 2016, the Arizona Competes Fund deposit was reduced to \$16.5 million with a further reduction to \$11.5 million being implemented in FY 2017 and beyond. In accordance with statute, the General Appropriation Act allocates these monies to ACA. Both funds are non-appropriated.

Additionally, ACA receives an annual deposit of \$3.5 million in lottery revenues to the Arizona Competes Fund. Combining General Fund and lottery revenues, ACA will have \$15.0 million in new resources in FY 2018 to provide grants to help attract, expand, or retain businesses in Arizona.

Arizona Competes Fund Expenditures

A.R.S. § 41-1545.01 established the Arizona Competes Fund beginning in FY 2012 with an annual deposit of \$21.5 million in income tax withholding monies from the General Fund and an additional appropriation of \$3.5 million in lottery tax revenues. Due to subsequent statutory changes, the General Fund deposit was reduced to \$16.5 million in FY 2016 and is further reduced to \$11.5 million in FY 2017 and beyond. The fund also received revenues from Corporation Commission securities fees which have averaged approximately \$1.6 million per year. In FY 2017 these fees are permanently redirected to the Office of Economic Opportunity Operations Fund.

Through June 30, 2016, the Arizona Competes Fund received \$127.8 million in total revenues and made \$41.9 million in commitments. Of these commitments, \$25.9 million has been expended through June 30, 2016 with recipients displayed in *Table 1*. Currently, 3 types of grants are awarded from the fund: 1) Competes Fund

grants awarded to businesses that are expanding in or relocating to Arizona; 2) Arizona Innovation Challenge grants for early-stage start-up companies; and 3) Rural Economic Development grants that are awarded to local governments to improve infrastructure and attract businesses.

<u>Recipients</u>	<u>Total</u>
Competes Fund Grants for Expansion/Relocation	
Acceler8 Technologies Corporation	\$1,000,000
Clear Energy Systems, Inc.	1,000,000
General Motors, LLC	822,000
GoDaddy, Inc.	1,500,000
Hot Chalk	12,500
JDA Software, Inc.	350,000
Maverick Healthcare Services, Inc.	783,900
Northern Trust Corporation	1,000,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
United Healthcare Services, Inc.	2,000
Zoc Doc	15,000
Total Competes Fund Grants	\$10,043,800
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Amber Alert GPS	250,000
appsFreedom, Inc.	250,000
Athena Wireless Communications, Inc.	250,000
Beacon Biomedical, Inc.	125,000
BeckonCall, Inc.	125,000
CampusLogic, Inc.	175,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
Clear Demand, Inc.	250,000
ClearVoice Inc.	75,000
Contatta, Inc.	245,000
Deliver IT, Inc.	250,000
EndoVantage	250,000
eVisit, LLC	200,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	250,000
Iron Horse Diagnostics, Inc.	247,000
Kutta Radios, Inc.	249,500
LawLytics	250,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	250,000
NuvOx Pharma, LLC	225,000
Paraffin International, Inc.	115,000
ParkX, LLC	250,000

<u>Recipients</u>	<u>Total</u>
Photon Medical Communications LLC	250,000
Picominc	250,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	250,000
Rbar Organic, LLC	225,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
RevolutionParts, Inc.	225,000
RightBio Metrics Inc.	213,800
Serious Integrated, Inc.	250,000
Smart Clinic, LLC	125,000
Spotlight Software, LLC	172,500
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	250,000
The Medical Memory, LLC	175,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	248,000
Total Arizona Innovation Challenge Grants	\$10,450,200
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Coolidge	369,200
Flagstaff	195,000
Globe	265,500
Greater Yuma Economic Development Corporation	432,500
Kingman	170,000
Mohave County	500,000
Nogales	500,000
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Sahuarita	250,000
Verde Valley Wine Consortium, Inc.	255,300
Wickenburg	250,000
Winslow	92,800
Yuma	296,300
Yuma County	500,000
Total	\$5,365,200
Total Arizona Competes Fund Grants	\$25,859,200

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Application Fees Fund (CAA3005/A.R.S. § 41-1504)		Non-Appropriated
Source of Revenue: A processing fee equal to 1% of the relevant tax credit being refunded per tax credit application.		
Purpose of Fund: To provide funding for staff to determine if taxpayers who qualify for a tax credit for increased research activities qualify for other income tax refunds.		
Funds Expended	0	738,900
Year-End Fund Balance	1,045,300	485,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Commerce Authority Fund (CAA2547/A.R.S. § 41-1506)		Non-Appropriated
Source of Revenue: An annual deposit of \$10,000,000 in corporate income tax withholding revenues, gifts, grants, and other donations. Expenditures are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$9,227,100 in FY 2016.		
Purpose of Fund: To fund the operating costs of the Authority.		
Funds Expended	0	0
Year-End Fund Balance	1,285,500	1,285,500
Arizona Commerce Authority Carryover Fund (CAA1001/A.R.S. § 41-1504)		Non-Appropriated
Source of Revenue: The remaining \$13,991,325 in left-over funds transferred from various funds belonging to the Arizona Department of Commerce and any residual FY 2011 revenue collected in FY 2012.		
Purpose of Fund: To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
Funds Expended	112,300	1,547,700
Year-End Fund Balance	2,822,600	1,286,900
Arizona Commerce Authority Local Communities Fund (EPA2498/A.R.S. § 41-1505.12)		Non-Appropriated
Source of Revenue: Tribal contributions from gaming revenue. The Tribal-State Gaming Compact dictates that 12% of revenues received by the state be utilized for government services benefiting the general public. The tribes can grant funds directly to communities or deposit revenues into the CEDC Local Communities Fund. Any monies remaining in this fund at the end of FY 2011 were transferred to the Arizona Commerce Authority Carryover Fund. Beginning in FY 2012, any remaining revenues to this fund were redirected to the Arizona Commerce Authority Carryover Fund.		
Purpose of Fund: To provide grants to cities, towns and counties for government services that benefit the general public including public safety, the mitigation of impacts of gaming or the promotion of commerce and economic development. All grant applications must have a written endorsement of a nearby Indian tribe to receive an award from the commission.		
Funds Expended	0	106,300
Year-End Fund Balance	106,300	0
Commerce Development Bond Fund (CAA2196/A.R.S. § 41-1504)		Partially-Appropriated
Source of Revenue: Filing fees and charges for services related to the provision of a registry of bond allocations.		
Purpose of Fund: To pay for the review and approval of all corporate bond financing related to the construction of multi-family apartments, sanitariums, clinics, medical hotels, retirement homes, skilled nursing facilities and life-care centers.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	5,500	5,700
Year-End Fund Balance	241,800	273,100
Arizona Competes Fund (CAA2548/A.R.S. § 41-1545.01)		Non-Appropriated
Source of Revenue: 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. The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12) reduced the FY 2016 income tax withholding deposit from \$21,500,000 to \$16,500,000. The bill also included an additional reduction of \$(5,000,000) to the income tax withholding deposit in FY 2017 and each year thereafter for a total annual deposit of \$15,000,000. Expenditures of the income tax withholding revenues are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$8,573,900 in FY 2016.		
Purpose of Fund: To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
Funds Expended	0	0
Year-End Fund Balance	26,982,500	39,846,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Corporation for Skilled Workforce Fund (CAA1002/A.R.S. § 41-1502)		Non-Appropriated
<i>Source of Revenue:</i> Pass-thru federal funding to the Department of Economic Security.		
<i>Purpose of Fund:</i> To fund the Re-inventing Arizona's Human Services System which helps the Arizona Commerce Authority, Department of Education, the Community Colleges, and the Department of Economic Security to coordinate efforts to align Arizona's human capital development efforts with its economic growth and job creation efforts.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Donations Fund (CAA3189/A.R.S. § 41-1504)		Non-Appropriated
<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	36,000	178,800
Year-End Fund Balance	178,800	0
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	2,182,000	1,354,300
Year-End Fund Balance*	(621,400)	(226,900)
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	1,220,300	164,100
Year-End Fund Balance	17,711,700	18,244,100
Job Training Fund (CAA1237/A.R.S. § 41-1544)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, gifts, grants, interest earned on investments and, primarily, proceeds from a 0.1% employers' wage tax. The FY 2015 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) repealed the job training tax effective December 31, 2015 and redirects unencumbered monies in the fund as of December 31, 2016 to the Unemployment Compensation Fund and General Fund. Tax revenues collected and interest earned on the fund in FY 2016 were \$3,891,500 and \$428,900, respectively.		
<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 small and rural businesses.		
Funds Expended	6,963,800	6,000,400
Year-End Fund Balance	34,823,600	0

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

Arizona Community Colleges

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,206,000	4,670,000	4,589,600
Coconino	1,771,200	1,756,400	1,731,100
Gila	368,100	315,200	298,400
Graham	2,175,600	2,249,700	2,288,300
Mohave	1,524,000	1,315,000	1,195,500
Navajo	1,582,100	1,606,000	1,649,000
Pinal	1,903,500	1,724,700	1,621,400
Santa Cruz	57,300	81,200	96,800
Yavapai	890,300	800,200	639,400
Yuma/La Paz	2,702,500	2,690,100	2,622,100
<i>Subtotal - Operating State Aid</i>	18,180,600	17,208,500	16,731,600
STEM and Workforce Programs State Aid			
Cochise	1,150,000	1,008,200	986,400
Coconino	423,200	418,000	409,000
Gila	160,900	142,500	136,500
Graham	569,500	595,200	609,000
Mohave	577,700	505,200	462,500
Navajo	345,500	353,700	369,100
Pinal	96,500	96,500	96,500
Santa Cruz	53,100	61,400	67,000
Yavapai	805,700	774,400	717,000
Yuma/La Paz	867,300	864,000	845,500
<i>Subtotal - STEM and Workforce Programs State Aid</i>	5,049,400	4,819,100	4,698,500
Equalization Aid			
Cochise	4,332,800	4,878,400	5,210,200
Graham	14,538,800	14,695,800	15,028,600
Navajo	5,849,400	6,081,500	6,672,100
<i>Subtotal - Equalization Aid</i>	24,721,000	25,655,700	26,910,900
Rural County Allocation	2,523,400	2,730,600	2,730,600
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800
Tribal Community Colleges	2,625,000	2,625,000	2,625,000
AGENCY TOTAL	54,373,200	54,312,700	54,970,400

FUND SOURCES

General Fund	54,373,200	54,312,700	54,970,400
SUBTOTAL - Appropriated Funds	54,373,200	54,312,700	54,970,400
Other Non-Appropriated Funds	18,166,000	18,991,700	18,991,700
TOTAL - ALL SOURCES	72,539,200	73,304,400	73,962,100

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 \$16,731,600 from the General Fund in FY 2018 for Operating State Aid. FY 2018 adjustments would be as follows:

	FY 2018
Enrollment Changes	GF \$(476,900)
The Baseline includes a decrease of \$(476,900) from the General Fund in FY 2018 to fund the statutory formula for Operating State Aid.	

This amount funds statutory formula costs for a (830), or (2.8%), decrease in Full Time Student Equivalent (FTSE) students in rural community colleges (see Table 1). The (830) net FTSE decrease consists of a (790) FTSE decrease in non-dual enrollment students and a (40) FTSE decrease in dual enrollment students. A.R.S. § 15-1466.01 requires dual enrollment students be funded at 50% for state aid purposes. Dual enrollment refers to high school students who are enrolled in community college courses for both high school and community college credit.

As permanent law, the FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16) eliminated Operating State Aid for Maricopa and Pima.

Background – With the exception of Maricopa and Pima, the Operating State Aid Special Line Items provide each community college district with funds for continuing operating and maintenance expenses pursuant to A.R.S. § 15-1466. The Operating State Aid formula adjusts state aid in an amount that reflects changes in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the change in the most recent year’s actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. (For FY 2018, the last actual FTSE data was from FY 2016.)

STEM and Workforce Programs State Aid

The Baseline includes \$4,698,500 from the General Fund in FY 2018 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). FY 2018 adjustments would be as follows:

Enrollment Changes	GF (120,600)
The Baseline includes a decrease of \$(120,600) from the General Fund in FY 2018 to fund STEM and Workforce Programs State Aid.	

As session law, the FY 2017 Higher Education BRB (Laws 2016, Chapter 130) suspended the program’s funding

Table 1

Community College Enrollment

<u>District</u>	<u>FY 2015 FTSE</u>	<u>FY 2016 FTSE</u>	<u>Percentage Change</u>
Cochise	6,338	6,195	(2.3)%
Coconino	2,066	2,007	(2.9)%
Gila	702	667	(5.0)%
Graham	2,897	2,951	1.9 %
Mohave	2,554	2,347	(8.1)%
Navajo	1,853	1,940	4.7 %
Pinal	4,069	3,900	(4.2)%
Santa Cruz	293	319	8.9 %
Yavapai	3,849	3,585	(6.9)%
Yuma/La Paz	<u>5,433</u>	<u>5,313</u>	<u>(2.2)%</u>
Total	30,054	29,224	(2.8)%

formula in A.R.S. § 15-1464 for FY 2017 and instead funded the amounts specified in the General Appropriation Act, which totaled \$4,819,100. That amount provides full formula funding for all rural districts in FY 2017 except for Pinal, which is limited to \$96,500 in STEM and Workforce Aid.

The Baseline continues to fully fund the formula for all rural districts except for Pinal, which has been kept flat at \$96,500. If Pinal was fully funded it would cost an additional \$714,100.

As permanent law, the FY 2016 Higher Education BRB eliminated STEM and Workforce Programs State Aid for Maricopa and Pima.

Background – The STEM and Workforce Programs Special Line Items provide the community college districts with funds for partnerships, faculty, technology equipment, student services, facilities, and property needs pursuant to A.R.S. § 15-1464.

The STEM and Workforce Programs State Aid formula provides per capita funding to districts other than Maricopa and Pima based on the district’s size and the most recent year’s actual audited FTSE. The statutory formula provides \$210 per FTSE for districts with 5,000 or less FTSE or \$160 per FTSE for districts with greater than 5,000 FTSE.

Equalization Aid

The Baseline includes \$26,910,900 from the General Fund in FY 2018 for Equalization Aid. FY 2018 adjustments would be as follows:

Property Value Changes	GF 1,255,200
The Baseline includes an increase of \$1,255,200 from the General Fund in FY 2018 to reflect increased formula costs	

for funding Equalization Aid due to assessed valuation changes. Detail of specific district changes is shown in *Table 2*.

District	FY 2017	Year-over- Year Change	FY 2018
Cochise	\$ 4,878,400	\$331,800	\$ 5,210,200
Graham	14,695,800	332,800	15,028,600
Navajo	<u>6,081,500</u>	<u>590,600</u>	<u>6,672,100</u>
Total	\$25,655,700	\$1,255,200	\$26,910,900

Background – The Equalization Special Line Items provide additional state aid to community college districts with property tax bases that are less than the minimum assessed value specified in A.R.S. § 15-1402. Under the Equalization Aid formula, the minimum assessed valuation is revised by the average change in actual assessed valuation for the most recent year for all rural districts with populations of less than 500,000 persons. For the FY 2018 Equalization Aid formula calculation, the minimum assessed valuation increased 1.1% to \$1.29 billion. (See *Table 3* for the calculation of the growth rate.)

Equalization Aid is paid based on the difference between the minimum assessed valuation and the most recent actual assessed valuation for the district. Equalization Aid is calculated at the lesser of \$1.37 per \$100 of the district’s assessed valuation or the district’s levy rate.

As noted in *Table 3*, the average rural district assessed value increased by 1.1%, in TY 2016. In comparison, Cochise declined by (1.2)%, Graham declined by (5.3)%, and Navajo declined by (3.6)%. By declining more than the average district, Cochise, Graham, and Navajo qualify for more aid.

In any one year a district’s equalization assistance will depend on 1) whether the district falls below the minimum threshold (\$1.29 billion in FY 2018) and 2) whether the district’s change in assessed value was less than the rural districts’ average and 3) the applicable tax rate.

Rural County Allocation

The Baseline includes \$2,730,600 from the General Fund in FY 2018 for Rural County Allocation. This amount is unchanged from FY 2017.

Background – The Rural County Allocation Special Line Item facilitates payment to community college districts for students enrolled from counties that are not a part of an

District	TY 2015 Primary AV	TY 2016 Primary AV	TY 2015- 2016 % Growth
Cochise*	\$ 920,583,400	\$ 909,774,000	(1.2)%
Graham*	203,987,400	193,098,400	(5.3)%
Navajo*	832,770,200	803,062,500	(3.6)%
Coconino	1,537,418,200	1,569,812,800	2.1 %
Mohave	1,685,788,500	1,696,200,000	0.6%
Pinal	2,057,547,500	2,119,750,900	3.0 %
Yavapai	2,279,183,400	2,344,409,900	2.9 %
Yuma/LaPaz	<u>1,322,095,300</u>	<u>1,316,941,500</u>	<u>(0.4) %</u>
Total	\$10,839,373,900	\$10,953,050,400	1.1 %
Minimum AV	\$1,276,674,500	\$1,290,079,600	1.1 %

* These districts qualify to receive Equalization Aid under the state funding formula.

established community college district. If a county is not part of a community college district, it is responsible for the cost of their students attending community college in another county. A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost for these counties and then the state will withhold these counties’ sales tax revenues to offset that cost; therefore there is no net General Fund impact. The FY 2016 expenditure of \$2,523,400 was offset by corresponding reductions in the counties’ sales tax apportionment. The payments made on behalf of the counties are not included in county expenditure limits established in the Arizona Constitution. The county payments are partially offset by a state subsidy. (See next line item.)

Each year, the amount is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required by A.R.S. § 15-1469D to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. In May 2016, the JLBC Staff reported the amount to be \$2,730,600 for FY 2017.

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

Rural County Reimbursement Subsidy

The Baseline includes \$1,273,800 from the General Fund in FY 2018 for Rural County Reimbursement AV Subsidy. This amount is unchanged from FY 2017.

This funding partially offsets the cost to counties that are not part of an established community college district. The funding is appropriated to Apache and Greenlee Counties.

The FY 2018 Baseline allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The Baseline includes \$2,625,000 from the General Fund in FY 2018 for Tribal Community Colleges. This amount is unchanged from FY 2017.

Background – A.R.S. § 42-5031.01 allows any qualifying tribal community college to receive \$1,750,000, or 10% of the Transaction Privilege Tax (TPT) revenues collected from all sources located on the reservation, whichever is less. These monies provide tribal community colleges with funding for maintenance, renewal, and capital expenses. A.R.S. § 42-5031.01 also allows any additional technical college located on the same reservation to receive \$875,000, or 5% of the TPT revenues collected from sources located on the reservation, whichever is less. Actual amounts for FY 2018 will depend on FY 2018 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

This funding is limited to tribes that enter into a compact with the Executive. The FY 2016 Higher Education BRB extended the deadline for tribes to enter into a compact from September 1, 2012 to September 1, 2017. Diné College and Navajo Technical College on the Navajo Nation are the only schools that currently qualify to receive TPT revenues. The only other existing tribal community college in Arizona is Tohono O’Odham Community College. If Tohono O’Odham enters into a compact with the Executive before September 1, 2017 it would receive roughly \$138,700, which is 10% of the total FY 2016 TPT collections from the reservation.

Laws 2016, Chapter 148 increased the term of an initial compact from 10 to 20 years and changed the time of a JLBC review required for a compact renewal from the last year of the term to the fourth year prior to the expiration of the term. The Navajo Nation compact is set to expire in 2020. If the Navajo Nation enters into a new 20-year compact with the Executive, the next JLBC review would be in 2036.

The Baseline assumes that \$1,750,000 will be distributed to Diné College and \$875,000 will be distributed to Navajo Technical College in FY 2018. These amounts represent 10% and 5%, up to \$1,750,000 and \$875,000, respectively, of the estimated TPT revenues to be collected in the Navajo reservation in FY 2018.

* * *

FORMAT — District-by-District Special Line Items

FOOTNOTES

Standard Footnotes

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

STATUTORY CHANGES

The Baseline would, as session law, continue to suspend the STEM and Workforce Programs funding formula for FY 2018 and specify the funding in the General Appropriation Act, which for Pinal would equal \$96,500.

Other Issues

Long-Term Budget Impacts

Beyond FY 2018 Baseline changes, the JLBC Staff estimates that Community College statutory caseload changes will require an additional \$1,045,900 in FY 2019 and an additional \$1,200,000 in FY 2020 for Equalization Aid. It assumes no funding changes in either year for Operating State Aid or STEM and Workforce Programs State Aid.

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).
- Net Assessed Value (NAV) growth of 1.5% in FY 2019 and 2.0% growth in FY 2020 for counties overall, but a (0.5)% NAV decline in both years for the 3 counties that receive Equalization Aid based on past trends. This would cause NAV in those 3 districts to grow farther from the statewide NAV average for rural counties in both years, entitling them to more Equalization Aid in both years.

Community College Revenue Sources

In addition to state General Fund monies, Arizona’s community colleges receive revenues from a number of other sources, including student tuition and fees, local property taxes, grants, and other monies generated by the colleges. Of the total, the community colleges receive 2.6% of their revenues (excluding bond proceeds) from state aid.

Table 4

Total Estimated Community College Revenues – FY 2017

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other ^{1/}	FY 2017 Total ^{2/}	FY 2016 Total ^{3/}	% Change from FY 2016
Cochise	\$10,556,600	\$8,615,300	\$20,754,900	\$14,481,800	\$1,142,900	\$55,551,500	\$51,614,100	7.6%
Coconino	2,174,400	8,170,700	9,755,000	6,683,700	946,300	27,730,100	26,129,900	6.1%
Gila ^{4/}	457,700	1,400,000	4,335,100	130,300	375,000	6,698,100	5,276,100	27.0%
Graham	17,540,700	7,963,800	5,941,300	9,350,800	9,205,100	50,001,700	43,935,000	13.8%
Maricopa	-	274,647,700	529,423,900	272,524,400	47,135,700	1,123,731,700	976,335,900	15.1%
Mohave	1,820,000	7,958,300	22,539,100	8,592,500	896,100	41,807,100	41,216,500	1.4%
Navajo	8,041,200	4,700,000	14,362,000	6,046,300	2,943,700	36,093,200	36,098,500	0.0%
Pima	-	48,183,000	107,347,000	58,012,000	5,494,000	219,036,000	201,169,000	8.9%
Pinal	1,821,200	14,000,000	50,672,000	25,600,000	1,845,000	93,938,200	90,158,400	4.2%
Santa Cruz ^{4/}	142,600	0	1,530,000	25,000	11,200	1,708,800	1,627,700	5.0%
Yavapai	1,574,600	10,751,000	47,978,300	13,474,000	4,288,700	78,066,600	76,703,100	1.8%
Yuma/La Paz	<u>3,554,100</u>	<u>14,233,000</u>	<u>34,576,400</u>	<u>19,905,100</u>	<u>4,396,000</u>	<u>76,664,600</u>	<u>83,404,000</u>	<u>(8.1)%</u>
Total	\$47,683,300	\$400,622,800	\$849,215,000	\$434,825,900	\$78,679,700	\$1,811,026,700	\$1,633,668,200	10.9 %

^{1/} Includes auxiliary programs, interest income, workforce development funds, and transfers.

^{2/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are estimated to be \$2,210,678,500 for FY 2017.

^{3/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,735,253,100 for FY 2016.

^{4/} Gila Provisional Community College contracts with Graham County's Eastern Arizona College in order to provide degree programs. Therefore, Gila's tuition and fee revenues are collected by Graham according to their contract agreement. Santa Cruz Provisional Community College contracts with Cochise County's Community College in order to provide degree programs. Therefore, Santa Cruz's tuition and fee revenues are collected by Cochise according to their contract agreement.

For FY 2017, base operating revenues from all sources are estimated to be \$1,811,027,600, which would be an increase of 10.9% from FY 2016. (See Table 4 for a summary of FY 2017 total revenue estimates.)

Property taxes are the single largest revenue source for the community colleges, accounting for 45.4% of their revenues. There are 2 types of property taxes: primary and secondary. For the community colleges, primary property taxes are levied for operating purposes and secondary property taxes are levied to pay for capital outlay expenses. Each community college district determines its primary and secondary property tax rates. (See Table 5 for a summary of FY 2017 property tax rates.)

In November 2012, Arizona voters approved Proposition 117, which requires primary and secondary taxes to be levied on the same tax base. Previously, taxes were levied on 2 valuations: full cash value and limited property value. Proposition 117 requires all property taxes to be levied on the limited property value.

Proposition 117 also capped annual property value increases on any single parcel of real property to 5% starting in FY 2016. The existing 2% "levy limit" remains in place. Under A.R.S. § 42-17051, community colleges are allowed to collect 2% more in property tax revenues annually, not including revenue from new construction. Any increase over 2% requires voter approval, unless the district has foregone increases in prior years and consolidates those increases into a single year.

Table 5

Community College Tax Rates – FY 2017

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2016
Cochise	\$2.29	\$0.00	\$2.29	5.1 %
Coconino	0.49	0.13	0.62	1.8 %
Gila	0.87	0.00	0.87	2.5 %
Graham	3.08	0.00	3.08	6.6 %
Maricopa	1.24	0.23	1.47	(1.9)%
Mohave	1.33	0.00	1.33	2.8 %
Navajo	1.79	0.00	1.79	2.6 %
Pima	1.37	0.00	1.37	0.3%
Pinal	2.29	0.34	2.63	(0.9)%
Santa Cruz	0.49	0.00	0.49	5.6 %
Yavapai	1.84	0.21	2.06	(1.6)%
Yuma/La Paz	2.25	0.37	2.63	2.6 %

Long term property value growth has been approximately 5%. From that perspective, Proposition 117 would tend to reduce the year-to-year volatility in property tax values rather than reduce the dollar amount of long term revenues. However, the property tax base might grow more slowly under Proposition 117 because the property tax values would not be able to increase by more than 5% to offset the years that experience growth that is less than 5%.

To the extent that the property value grows more slowly because of Proposition 117, the community colleges could still generate the same level of revenue by increasing their tax rates.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 22.1% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2017 weighted average tuition (weighted for each district's proportion of the statewide FTSE count) is \$2,544 if a full-time student attends for 30 hours a year. The FY 2017 amount represents an increase of 3.0% from FY 2016. (See Table 6 for FY 2017 resident tuition and fee rates.)

Table 6

Community College Resident Tuition and Fees – FY 2017

<u>District</u>	<u>Cost Per Credit Hour</u>	<u>Annual Cost ^{1/}</u>	<u>% Change from FY 2016</u>
Cochise	\$79	\$2,370	2.6%
Coconino	102	3,060	10.9%
Gila	80	2,400	15.4%
Graham	80	2,400	15.4%
Maricopa	86	2,580	2.4%
Mohave	88	2,640	0.0%
Navajo	70	2,100	2.9%
Pima	85	2,550	3.7%
Pinal	84	2,520	2.4%
Santa Cruz	79	2,370	2.6%
Yavapai	79	2,370	5.3%
Yuma/La Paz	80	2,400	2.6%
Weighted Average	\$85	\$2,544	3.0%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

Community colleges also receive grants and "other" revenue from a variety of sources. Combined, they account for approximately 28.3% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science Foundation, and Health and Human Services. Revenue listed in the "other" category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Total Community College Expenditures

Table 7 shows total budgeted FY 2017 community college expenditures. In FY 2017, total budgeted expenditures are \$2,213,367,100. As mentioned previously, base operating revenues for FY 2017 are \$1,811,026,700; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,210,679,400. Of the total \$2,213,367,100 in expenditures, \$1,586,666,800, or 72%, of these expenditures are from the community colleges' General and Restricted Funds. This includes about \$499,238,300, or 23%, for instruction and \$281,986,800, or 13%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are \$175,168,700, or 8% of the total. Plant Fund expenditures, which generally include capital costs, are \$220,998,600, or 10% of the total. The remaining \$230,776,300 is for debt service.

Community College Expenditure Limitation - Laws 2016, Chapter 58 modified the method for calculating community college expenditure limits, excludes certain types of expenditures from counting against the limit, and allows for an adjustment to the base expenditure limit.

The expenditure limit is determined by the Economic Estimates Commission (EEC) by adjusting the FY 1980 base limit by changes in estimated FTSE and inflation. Districts are required to submit FTSE estimates annually to the EEC, which uses those estimates to calculate new expenditure limits annually. Chapter 58 requires that districts use the same FTSE calculation method for the EEC submissions as the FTSE calculation for state aid, except that enrollment in career and technical education courses receives an additional weight. Chapter 58 permits districts to submit 1 of the 3 following options as FTSE estimates to the EEC:

- The most recent audited FTSE count for the expenditure limit calculation.
- The average of the 5 most recent audited FTSE counts for the expenditure limit calculation.
- A FTSE count that exceeds the most recent audited FTSE count for the expenditure limit calculations by up to 5% if the actual FTSE count 45 days after classes begin in the current fall semester exceeds the actual FTSE count 45 days after classes began in the previous fall semester.

As session law, Chapter 58 permits districts to submit the average of the 10 most recent audited FTSE counts until FY 2020.

The Auditor General is required to separately audit the expenditure limit FTSE calculation and provide a report to the JLBC by October 15 of each year.

Expenditures that count against the expenditure limits generally consist of operating costs of the districts excluding funds generated from tuition, fees, Federal Funds, bond proceeds, debt service, and state capital funding. Chapter 58 allows districts to exclude expenditures from the following revenue sources as counting against their expenditure limit: grants and donations, research and development royalty, licensing and profit-sharing agreements, entrepreneurial and commercial activities, auxiliary fees, and goods and

Table 7

Community Colleges - FY 2017 Budgeted Expenditures

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$499,238,300	23%
Public Service	32,227,000	2%
Academic Support	154,454,800	7%
Student Services	161,620,600	7%
Institutional Support	281,986,800	13%
Operation & Maintenance	110,244,800	5%
Scholarships/Grants	321,566,600	14%
Contingency	<u>25,327,900</u>	<u>1%</u>
Subtotal	\$1,586,666,800	72%
Auxiliary Enterprises Fund	\$ 175,168,700	8%
Plant Fund	220,998,600	10%
Debt Service	<u>230,533,000</u>	<u>10%</u>
Total	\$2,213,367,100	100%

services through a contract with a political subdivision or tribal government.

Chapter 58 also allows district boards to refer to the voters in the district a permanent change in the base limit used to determine the expenditure limitation. The resolution for a base limit adjustment must include the current base limit, the proposed base limit, the increase in expenditure limit capacity that would be generated by the adjustment, and a rationale for the request.

Community College Tuition Financing Districts

Laws 2015, Chapter 306 renamed provisional community college districts established after December 31, 2014, to *community college tuition financing districts* and specified that the county board of supervisors will serve as the governing board to any community college tuition financing district. Gila and Santa Cruz are the only existing provisional districts and they were both established before December 31, 2014.

An area that wishes to form a community college but does not meet the minimum assessed valuation or population requirements in A.R.S § 15-1402 may form a tuition financing district. A tuition financing district is required to contract with an existing community college district to provide instruction and services to students.

Tribal College Dual Enrollment Program Fund

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) increased the maximum amount of unclaimed lottery prize monies that may be deposited annually into the Tribal College Dual Enrollment Program Fund to \$250,000 from the prior maximum of \$160,000. These monies are accounted for in the Arizona Department of Education budget.

The Tribal College Dual Enrollment Program Fund is allocated 15% of unclaimed lottery prize monies, subject to legislative appropriation, plus any appropriations, gifts, grants, devices and other contributions. The fund is administered by the Department of Education and is used to compensate tribal colleges for tuition and fees that are waived to allow high school students to attend tribal college classes on campus and online.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Community College District Collegiate Special Plate Funds (varies by account/A.R.S. § 15-1447)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of the special plate fees, and interest earnings.		
Purpose of Fund: All monies in the fund shall be used for academic scholarships.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	775,200	768,700
Year-End Fund Balance	0	0
Workforce Development Accounts (varies by account/A.R.S. § 15-1472)		Non-Appropriated
Source of Revenue: Three percent of collections from the 0.6% education sales tax, after debt service on state school facilities revenue bonds has been paid. This funding was authorized by voter approval of Proposition 301 in the November 2000 General Election.		
Purpose of Fund: To fund workforce development and training activities at the community college districts. From FY 2002 to FY 2014, the first \$1,000,000 is to be distributed to bring the state into compliance with the matching capital requirements for new community college campuses prescribed in A.R.S. § 15-1463.		
Funds Expended	17,390,800	18,223,000
Year-End Fund Balance	0	0

Constable Ethics Standards and Training Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
Other Non-Appropriated Funds	246,300	497,700	497,700
TOTAL - ALL SOURCES	246,300	497,700	497,700

AGENCY DESCRIPTION — The board establishes and enforces the code of conduct for constables throughout the state. The board also administers funding for constable training and equipment. The Arizona Association of Counties currently manages the board's administrative responsibilities. The board receives fees from every writ collected on behalf of a Justice of the Peace.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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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	246,300	497,700
Year-End Fund Balance*	206,600	(291,100)

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

Registrar of Contractors

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	105.6	105.6	105.6
Personal Services	4,124,100	5,670,600	5,670,600
Employee Related Expenditures	1,670,100	2,296,400	2,296,400
Professional and Outside Services	232,200	405,300	405,300
Travel - In State	215,500	505,100	505,100
Travel - Out of State	5,300	11,800	11,800
Other Operating Expenditures	1,864,500	2,158,300	2,158,300
Equipment	68,500	100,300	100,300
OPERATING SUBTOTAL	8,180,200	11,147,800	11,147,800
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	381,000	1,017,600	1,017,600
AGENCY TOTAL	8,561,200	12,165,400	12,165,400

FUND SOURCES

Other Appropriated Funds

Registrar of Contractors Fund	8,561,200	12,165,400	12,165,400
SUBTOTAL - Other Appropriated Funds	8,561,200	12,165,400	12,165,400
SUBTOTAL - Appropriated Funds	8,561,200	12,165,400	12,165,400
Other Non-Appropriated Funds	3,206,600	4,666,800	4,666,800
TOTAL - ALL SOURCES	11,767,800	16,832,200	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

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

Office of Administrative Hearings Costs

The Baseline includes \$1,017,600 from the Registrar of Contractors Fund in FY 2018 for Office of Administrative Hearings (OAH) Costs. This amount is unchanged from FY 2017.

FOOTNOTES

Standard Footnotes

Any transfer to or from the amount appropriated for the Office of Administrative Hearings Costs line item requires review by the Joint Legislative Budget Committee.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	8,561,200	12,165,400
Year-End Fund Balance	9,863,100	4,874,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	3,206,600	4,666,800
Year-End Fund Balance	9,547,000	9,496,500

Corporation Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9
Personal Services	15,579,300	16,648,600	16,648,600
Employee Related Expenditures	5,921,000	6,109,500	6,109,500
Professional and Outside Services	710,600	235,500	235,500
Travel - In State	97,600	146,600	146,600
Travel - Out of State	135,500	141,000	141,000
Other Operating Expenditures	3,288,500	2,633,700	2,633,700
Equipment	201,200	245,000	245,000
OPERATING SUBTOTAL	25,933,700	26,159,900	26,159,900
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	397,300	397,300
Corporations Division Database Upgrade	0	2,000,000	0
Securities Division Database Upgrade	668,100	0	0
Utilities Audits, Studies, Investigations & Hearings	66,000	380,000	380,000
AGENCY TOTAL	26,667,800	28,937,200	26,937,200
FUND SOURCES			
General Fund	608,100	2,611,600	611,600
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	49,600	49,900	49,900
Investment Management Regulatory and Enforcement Fund	711,400	708,900	708,900
Public Access Fund	6,051,900	6,558,800	6,558,800
Securities Regulatory and Enforcement Fund	5,516,100	4,909,600	4,909,600
Utility Regulation Revolving Fund	13,730,700	14,098,400	14,098,400
SUBTOTAL - Other Appropriated Funds	26,059,700	26,325,600	26,325,600
SUBTOTAL - Appropriated Funds	26,667,800	28,937,200	26,937,200
Other Non-Appropriated Funds	13,700	0	0
Federal Funds	988,700	825,000	825,000
TOTAL - ALL SOURCES	27,670,200	29,762,200	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 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$611,600
Arizona Arts Trust Fund	49,900
Investment Management Regulatory and Enforcement Fund	708,900

Public Access Fund	6,161,500
Securities Regulatory and Enforcement Fund	4,909,600
Utility Regulation Revolving Fund	13,718,400

These amounts are unchanged from FY 2017.

Corporation Filings, Same-Day Service

The Baseline includes \$397,300 and 2 FTE Positions from the Public Access Fund in FY 2018 for Corporation Filings,

Same-Day Service. These amounts are unchanged from FY 2017.

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

Corporations Division Database Upgrade

The Baseline includes no funding in FY 2018 for Corporations Division database software. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (2,000,000)

The Baseline includes a decrease of (\$2,000,000) from the General Fund in FY 2018 for the elimination of one-time funding used to replace database and document imaging systems in the Corporations Division.

Monies are being used to replace 2 outdated database and document imaging systems in the Corporations Division. The new software includes imaging and accounting components which allow the public to submit documents and payments online. Laws 2016, Chapter 117 exempts this funding from lapsing until June 30, 2018.

Utilities Audits, Studies, Investigations & Hearings

The Baseline includes \$380,000 from the Utility Regulation Revolving Fund in FY 2018 for Utilities Audits,

Studies, Investigations & Hearings. This amount is unchanged from FY 2017.

Monies in this line item allow the commission to hire outside consultants to provide professional expertise and advice to the Utilities Program staff.

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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 2018 if the commission has not established a same-day service pursuant to section A.R.S. § 10-122.

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

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning General Fund appropriation for the Corporations Division Database Upgrade. The footnote made this appropriation non-lapsing until June 30, 2018.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	49,600	49,900
Year-End Fund Balance	800	800
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	988,700	825,000
Year-End Fund Balance	3,653,400	3,861,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
IGA and ISA Fund (CCA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	2,800	0
Year-End Fund Balance	2,900	2,900
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	711,400	708,900
Year-End Fund Balance	1,470,400	1,411,500
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	6,051,900	6,558,800
Year-End Fund Balance	1,559,500	947,800
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	5,516,100	4,909,600
Year-End Fund Balance	6,785,300	815,600
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	13,730,700	14,098,400
Year-End Fund Balance	4,195,200	2,247,300
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	10,900	0
Year-End Fund Balance	65,600	66,600

State Department of Corrections

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9,534.0	9,541.0	9,541.0
Correctional Officer Personal Services	306,423,300	323,972,400	323,972,400
Health Care Personal Services	2,652,100	2,829,400	2,829,400
All Other Personal Services	61,467,400	64,353,500	64,353,500
Personal Services Subtotal	370,542,800	391,155,300	391,155,300
Employee Related Expenditures	196,365,000	205,952,700	205,952,700
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	53,719,800	15,565,600	15,565,600
Health Care All Other Operating Expenditures			
Professional and Outside Services	946,000	1,275,000	1,275,000
Travel - In State	15,700	20,000	20,000
Travel - Out of State	9,800	10,000	10,000
Other Operating Expenditures	760,100	700,400	700,400
Equipment	12,800	15,000	15,000
Health Care Operating Subtotal	1,744,400	2,020,400	2,020,400
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	7,384,300	7,281,700	7,281,700
Travel - In State	241,600	297,700	297,700
Travel - Out of State	65,000	119,700	119,700
Food	39,195,500	41,748,000	41,748,000
Other Operating Expenditures	105,568,200	112,325,100	112,325,100
Equipment	3,694,000	3,732,200	3,624,000
Non-Health Care Operating Subtotal	156,148,600	165,504,400	165,396,200
OPERATING SUBTOTAL	778,520,600	780,198,400	780,090,200
SPECIAL LINE ITEMS			
Leap Year	929,100	0	0
Radio Equipment	0	2,800,000	0
Private Prison Per Diem	132,969,000	164,317,100	171,407,900
Inmate Health Care Contracted Services	135,251,900	149,837,100	149,837,100
AGENCY TOTAL	1,047,670,600	1,097,152,600	1,101,335,200
FUND SOURCES			
General Fund	1,016,632,100	1,046,682,600	1,053,665,200
<u>Other Appropriated Funds</u>			
Alcohol Abuse Treatment Fund	253,500	555,500	555,500
Corrections Fund	14,528,500	30,317,800	27,517,800
Penitentiary Land Fund	979,200	979,300	979,300
Prison Construction and Operations Fund	11,685,700	13,686,300	13,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	1,797,000	1,861,500	1,861,500
State Education Fund for Correctional Education	394,500	669,500	669,500
Transition Program Fund	1,400,100	2,400,100	2,400,100
SUBTOTAL - Other Appropriated Funds	31,038,500	50,470,000	47,670,000
SUBTOTAL - Appropriated Funds	1,047,670,600	1,097,152,600	1,101,335,200
Other Non-Appropriated Funds	48,851,300	50,789,700	50,789,700
Federal Funds	6,423,000	7,059,300	7,059,300
TOTAL - ALL SOURCES	1,102,944,900	1,155,001,600	1,159,184,200

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 increases ADC’s General Fund spending by \$6,982,600, or 0.7% in FY 2018. The changes include:

- \$7,090,800 for the annualizing the cost of opening 1,000 new medium male beds in FY 2017.
- \$(108,200) to remove one-time equipment costs.

As part of the budget’s 3-year spending plan, ADC’s General Fund costs are projected to increase by \$812,700 in FY 2019 above FY 2018, and to increase by \$1,625,400 in FY 2020 above FY 2019.

Operating Budget

The Baseline includes \$780,090,200 and 9,541 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$769,416,400
Alcohol Abuse Treatment Fund	555,500
Corrections Fund	3,000,800
Penitentiary Land Fund	100
Prison Construction and Operations Fund	3,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	361,500
State Education Fund for Correctional Education	669,500
Transition Program Fund	2,400,100

FY 2018 adjustments would be as follows:

Remove One-Time Equipment GF (108,200)

The Baseline includes a decrease of \$(108,200) from the General Fund in FY 2018 for the removal of one-time equipment costs for the private prison monitoring and a reentry planner issues added in the FY 2017 budget.

The FY 2017 General Appropriation Act appropriated \$200,000 from the Transition Program Fund for this purpose and assumed an additional \$1,600,000 in savings from the refinancing of an existing prison capital lease were transferred from the Private Prison Per Diem line item to the operating budget for the operation of a Maricopa County Community Corrections Center (MCCCC). The MCCCC provides short-term beds for prisoners needing intensive treatment and inmates that have violated the conditions of their release that face a short-term sanction stay. ADC currently operates a

similar facility in Tucson. These additional monies are included in the FY 2017 and FY 2018 operating budget totals. *(Please see the Kingman Refinancing discussion for further details.)*

Radio Equipment

The Baseline includes no funding in FY 2018 for radio equipment. FY 2018 adjustments would be as follows:

Remove One-Time Equipment OF (2,800,000)

The Baseline includes a decrease of \$(2,800,000) from the Corrections Fund in FY 2018 for the removal of one-time equipment costs for the replacement of old radios.

The department owns 10,079 radios, and 25% of the radios are over 10 years old. This money was used to replace obsolete radios.

Private Prison Per Diem

The Baseline includes \$171,407,900 in FY 2018 for Private Prison Per Diem. This amount consists of:

General Fund	145,911,700
Corrections Fund	24,517,000
Penitentiary Land Fund	979,200

FY 2018 adjustments would be as follows:

Annualize Bed Cost GF 7,090,800

The Baseline includes an increase of \$7,090,800 from the General Fund in FY 2018 for annualizing the cost of 1,000 new private male medium custody beds opened in FY 2017. The beds cost a total of \$24,189,300, of which \$17,098,500 was appropriated in FY 2017.

With the refinancing of the Kingman facility, ADC adjusted the per diem at the Kingman facility from \$60.10 to \$40.37. This per diem change includes \$2,500,000 for increasing the pay of employees at the facility. After accounting for the provider increase, the refinancing is estimated to save \$6,289,500. Of these net savings, \$2,700,000 was transferred to the Inmate Health Care Contracted Services line item for an inflation increase and \$1,600,000 to the operating budget for the MCCCC, leaving \$1,989,500 of unallocated savings. The state purchased this facility with the refinancing.

As part of the Kingman refinance, the state issued traditional lease-purchase financing to purchase the facility. In order to more accurately display the level of spending related to private prison facilities, the \$17,463,300 debt service amount paid by the state is retained in the Private Prison Per Diem line item rather than being moved to the department's operating budget. *(For more detailed information on Kingman, please see the Other Issues section.)*

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) authorized the department to issue Requests for Proposals (RFP) for up to 2,000 male medium security beds at new or existing contracted bed facilities. The department was authorized to award a contract or contracts to open up to 1,000 beds on July 1, 2016, and the remaining 1,000 beds could be awarded with specific legislative authorization. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) repeals the authority for the Legislature to authorize the remaining 1,000 beds.

The FY 2017 Criminal Justice BRB provided conditional authorization for 1,000 male medium beds if the male inmate state daily population exceeded the April 22, 2016 level of 38,762 by 1,000 prisoners by November 30, 2016. If the 39,762 male inmate level was reached, ADC had the option to present their plans before the Joint Committee on Capital Review (JCCR) on or before December 31, 2016.

As of November 30, 2016, ADC reported 38,418 male inmates, or 1,344 short of the trigger level. As a result, the conditional authorization will not be utilized.

Background – Monies in this line item are paid to private prison contractors for housing and providing medical care to Arizona inmates in 8,538 beds under contract and operational by June 30, 2017. Private prison beds are considered permanent beds. ADC will usually own the facilities after a specified amount of time (typically 20 years) because the per diem rate includes a portion of the facilities' purchasing cost. Two private prison contracts are solely for management services. The lease-purchase payments for the one site financed by the state are included in this line item, and the state owns the Marana facility outright. Administrative expenses related to monitoring private prison contracts are included in the department's operating budget.

Inmate Health Care Contracted Services

The Baseline includes \$149,837,100 in FY 2018 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	138,337,100
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 2017.

A FY 2017 General Appropriation Act footnote states the money appropriated in the budget is sufficient to fund a 4% increase for the fourth year of ADC's contract with its health care vendor. With the increase, the per diem was increased from \$11.60 to \$12.06 retroactive to March 2016. The full FY 2017 cost of this adjustment was \$2,700,000. ADC funded this cost by transferring savings from the refinance of a private prison facility at Kingman. *(For more detailed information on Kingman, please see the Other Issues section.)*

The Baseline does not include projections for the new contract that would begin on March 2018. There is currently an RFP for a new contract.

The FY 2018 budget presumes that the department will recover \$6,000,000 in savings annually for Medicaid reimbursement of the costs of outside health care. Any savings above \$6,000,000 can be used to offset growth in the prison population. For FY 2016, ADC received a total of \$10,701,400 in savings. These annual savings were from services rendered in FY 2014, FY 2015, and FY 2016. For FY 2017, the Baseline does not presume any additional savings beyond the \$6,000,000. *(For more detailed information on inmate health care, please see the FY 2017 Appropriations Report.)*

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$12.06. The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department's operating budget. Additional monies from Medicaid reimbursement of hospital stays outside prison facilities augment funding in this line item. *(See above.)* A General Appropriation Act footnote requires review of any changes to the per diem. The contract can be amended for changes to scope, and the vendor may request adjustments for inflation.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

The State Department of Corrections shall provide a report on bed capacity to the Joint Legislative Budget Committee for its review on or before August 1, 2017. The report shall reflect the bed capacity for each security classification by gender at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30, 2016 and June 30, 2017 and the projected capacity for June 30, 2018, as well as the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds. If the department develops a plan subsequent to its August 1 report to close state-operated prison rated beds or cancel or not renew contracts for privately operated prison beds, the State Department of Corrections shall submit a bed plan detailing the proposed bed closures for review by the Joint Legislative Budget Committee before implementing these changes.

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.

New Footnotes

Of the amount appropriated for the Private Prison Per Diem Special Line Item, \$17,463,300 shall be used for the purpose of making a debt service payment on the financing agreement authorized by Laws 2016, Chapter 119, Section 24.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote stating the intent of the Legislature that the FY 2017 appropriation included sufficient monies to fund a 4% adjustment for the fourth year of the contract.

STATUTORY CHANGES

The Baseline would, as session law, continue to require the department to report FY 2017 actual expenditures, FY 2018 estimated expenditures, and FY 2019 requested expenditure amounts for each line item as delineated in the prior year when the department submits its FY 2019 budget request pursuant to A.R.S. § 35-113.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Automation Projects Fund - Arizona Inmate Management System
- Proposition 123
- Prison Construction and Operations Fund Shortfall
- Transition Program
- ASP - Kingman Refinance
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall

Long-Term Budget Impacts

Beyond FY 2018 budget changes for ADC, the budget estimates that policy changes approved in the FY 2017 budget will require an additional \$812,700 in FY 2019 above FY 2018, and \$1,625,400 in FY 2020 over FY 2019. This estimate assumes the opening of 1,000 private medium custody beds opening in September 2016 and does not assume the opening of any additional beds in FY 2017, FY 2018, or FY 2019. *(Please see Private Prison Per Diem line item for further details.)*

Automation Projects Fund - Arizona Inmate Management System

The FY 2017 budget included the transfer of \$8.0 million from department funds to the Automation Projects Fund (APF) in FY 2017 for the replacement of the Adult Inmate Management System (AIMS). The FY 2017 Criminal Justice BRB provided authorization for monies from the Special Services Fund to be transferred for use in this project.

The replacement of the system is estimated to cost a total of \$24.0 million over 3 years. The APF received a transfer of \$8.0 million in FY 2014 and \$8.0 million in FY 2015 from department funds for the project. The FY 2017 General Appropriation Act allows the department to expend the FY 2015 monies in FY 2017. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Proposition 123

As a beneficiary of the Arizona State Land Trust, ADC receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

ADC received a total of \$2,835,100 in its land trust funds, Penitentiary Land Fund and the State Charitable, Penal, and Reformatory Institutions Land Fund, in FY 2015.

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

The JLBC Staff projects that the Penitentiary Land Fund will have an FY 2017 ending balance of \$5,172,300. The fund will have estimated revenues of \$2,594,100 in FY 2018, compared to a Baseline appropriation of \$979,300.

The JLBC Staff projects that the State Charitable, Penal, and Reformatory Institutions Land Fund will have an FY 2017 ending balance of \$5,355,700. The fund will have estimated revenues of \$2,862,300 in FY 2018, compared to a Baseline appropriation of \$1,861,500.

(Please see the Land Department narrative for more information.)

Prison Construction and Operations Fund Shortfall

The Baseline currently appropriates \$13,686,300 from the Prison Construction and Operations Fund (PCOF). The appropriation is allocated for food and health care. The projected level of FY 2018 revenue is \$12,637,700. The department estimates a fund balance of \$(809,200) if there is no reduction in the PCOF appropriation and a related shift to another fund source.

Transition Program

Under the Transition Program, eligible prisoners are released 90 days before their release date if they have met behavioral standards. The FY 2017 Criminal Justice BRB expanded eligibility of the Transition Program Fund to include DUI convictions and made the following changes:

- Allows participation of prisoners that committed a DUI.
- Changes the behavioral qualification provisions so that prisoners must be classified as minimum or medium custody, not have been found in violation of any major violent rule during the inmate's current period of incarceration or in violation of any other major rule within the previous 6 months.
- Clarifies that multiple minor rule violations cannot equal a major rule violation.
- Participants no longer need to be current on restitution payments.

Laws 2016, Chapter 153 provided an additional \$596,000 from the Transition Program Fund for this purpose. The FY 2018 Baseline retains this funding.

ASP - Kingman Refinance

The FY 2017 Criminal Justice BRB allowed the Arizona Department of Administration (ADOA) with the participation of ADC to enter into a new financing agreement in FY 2017 to refinance the existing Kingman capital lease. With the Kingman contract, a portion of the per diem was designated to pay for the debt service for the facility. The arrangement qualified as a capital lease, and was reported as part of the state's debt obligation.

Due to a high interest rate, refinancing allowed for cost savings. This legislation included a provision that the proposed agreement and expenditure of any cost savings be submitted to the JCCR. Further, any agreement was to generate savings of at least \$25 million over the lifetime of the agreement. By executing a lease-purchase agreement, the state lowered the state's debt service payments since the new agreement was at a lower interest rate.

At the JCCR meeting on June 16, 2016, ADOA and ADC received a favorable review for the refinancing agreement. The state purchased the \$137.4 million buildings and facility through a lease-purchase agreement. The annual debt service payment is approximately \$17.4 million during most years. Over the 9-year term, the state will pay \$145.1 million at a projected 2% interest rate. The new financing agreement is projected to generate \$79.3 million in total savings through FY 2025.

The savings are allocated as follows in the FY 2018 Baseline:

- Kingman Adjustment - ADC increased the per diem rate to the vendor on an annual basis by \$2.5 million. This money was used for a raise for the vendor's employees. The new per diem rate of \$40.37 included funding for this increase.
- ADC Health Care Adjustment - As noted in the Inmate Health Care Contracted Services line item, this transfer funded an increase to the inmate health care per diem at state-run facilities from \$11.60 to \$12.06 at a net ongoing cost of \$2.7 million for inflation.
- Maricopa County Community Corrections Center - ADC transferred \$1.6 million of the savings for the MCCCC. The facility provides short-term beds for prisoners needing intensive treatment and inmates that have violated the conditions of their release that face a short-term sanction stay. ADC currently operates a similar facility in Tucson.

ADC is estimated to have approximately \$1,989,500 in ongoing unallocated savings in the Private Prison Per Diem line item. As a JCCR provision, ADC is to report the use of unallocated savings to the JLBC 30 days prior to expenditure.

Bed Capacity Issues

Inmate Growth Rate

During FY 2016, the inmate population increased by 291 from 42,611 to 42,902. This continued the moderate growth seen in FY 2015.

During the first half of FY 2017, the inmate population has declined. As of November 30, 2016, the total inmate population was 42,370. This is a decrease of (532) inmates since June 30, 2016.

The FY 2017 budget assumed inmate growth of 75 prisoners per month in FY 2017, or approximately 900 annually (744 male inmates and 156 female inmates). Growth has been lower than expected so far during FY 2017.

Given the population decrease and low possibility of the department adding 900 inmates in the next 6 months, the FY 2018 Baseline assumes no growth for FY 2017.

For FY 2018 to FY 2020, the Baseline assumes annual growth of 360 inmates.

Table 1 details the projected annual population growth rate by custody and gender each year during FY 2018 to FY 2020:

<u>Custody</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Minimum	72	12	84
Medium	168	24	192
Close	48	12	60
Maximum	24	0	24
Total	312	48	360

As with the overall growth rate assumptions, the projections by gender and custody level may need further revision in light of growth and the availability of temporary beds.

Bed Capacity

In measuring ADC's ability to house its inmate population, there are 2 methods of defining bed capacity:

- "Rated" beds are permanent and were originally designed for housing prisoners. This amount was 38,133 public and private prisons on June 30, 2016, an increase of 48 from the 38,085 on June 30, 2015. This increase came from the addition of 48 male maximum custody beds at ASPC - Eyman. With the addition of 1,000 new male medium private beds during fall 2016, the projected number of rated beds for FY 2018 is 39,133 as shown on Table 4.
- Operating Capacity represents "rated" beds plus temporary beds. The latter may be located in areas not originally intended for housing prisoners or double-bunked beds in areas intended for single bed

cells. From June 2011 to June 2014, the range of temporary beds available was 5,129 to 5,842. During FY 2016, the department increased its total operating capacity by 320 beds, from 43,689 to 44,009. As of June 30, 2016, public and private prisons have a total of 5,876 temporary beds, an increase from 5,604 as of June 30, 2015. This increase came from the addition of 272 temporary beds. ADC projects 5,996 temporary beds in use at the end of FY 2017 as shown on *Table 4* for a total operating capacity of 45,129. The projected operating capacity for FY 2018 is expected to remain the same at 45,129.

In addition, special use beds are employed for investigative detention, disciplinary isolation, maximum behavior control, mental health observation, or medical inpatient care. Due to their short-term usage, these beds are not counted as part of ADC’s operational capacity. The number of special use beds in public and private prisons was 1,692 as of June 30, 2016, 3 beds more than on June 30, 2015.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A FY 2018 General Appropriation Act footnote continues to require the department to provide a report to the JLBC for its review regarding bed counts and reasons for changes in the number or classification of beds; this footnote also clarifies when the department needs to provide closure plans to the JLBC for its review after submitting the bed plan above.

Bed Surplus/Shortfall

During FY 2016, the inmate population increased by 291 inmates. At the end of FY 2016, the department had a total rated bed shortfall of (4,769). After adjusting for the 5,876 temporary beds in the overall ADC system, the rated bed shortfall became a 1,107 bed surplus as shown in *Table 3*.

Presuming no inmate growth in FY 2017, the projected rated bed shortfall in FY 2017 is (3,769). With a total of 5,996 temporary beds, this becomes an operational surplus of 2,227.

Presuming an annual growth of 360 inmates in FY 2018, the rated bed shortfall is projected at (4,129) by June 30, 2018. The operating capacity is a bed surplus of 1,867, assuming 5,996 temporary beds.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum), and by gender. While there is an overall projected operational capacity of 1,867 beds in June 2018, that estimate reflects a male surplus of 1,625 and a female surplus of 242. Within the 1,625 male surplus, there are differences by classification. For example, there is a projected male minimum custody surplus of 421, a male medium custody surplus of 476, and male close custody surplus of 385, and male maximum custody surplus of 343 as shown in *Table 2*.

Custody	FY 2016	FY 2017	FY 2018	FY 2019
Minimum	493	493	421	349
Medium	144	644	476	308
Close	(67)	433	385	337
Maximum	<u>247</u>	<u>367</u>	<u>343</u>	<u>319</u>
Total	817	1,937	1,625	1,313

The FY 2018 projections include a department shift of 500 medium custody beds to close custody at APSC - Eyman in FY 2017.

For FY 2019, *Table 2* assumes a growth rate of 360 with growth rate assumptions by gender and custody level based on current data from ADC for FY 2018. There would be an overall male custody beds surplus of 1,313 beds, with a surplus at every custody level

The FY 2017 Criminal Justice BRB eliminated the option for the State Legislature to authorize the remaining 1,000 beds of the RFP issued in May 2015. Instead, the Criminal Justice BRB included conditional authorization for 1,000 additional private male medium beds if the male population is 1,000 higher than the April 22, 2016 population of 38,762 by November 30, 2016 and ADC receives approval from the JCCR. As of November 30, 2016, the male population was reported at 38,418, or 1,344 short of the trigger level. (For additional discussion, please see the Private Prison Per Diem line item.)

Table 3

Fiscal Year-End Operating Capacity

State	FY 2016 Actual			FY 2017 Estimate			FY 2018 Estimate		
	Rated	Temporary	Operating	Rated	Temporary	Operating	Rated	Temporary	Operating
			Capacity			Capacity			Capacity
Douglas	1,925	433	2,358	1,925	433	2,358	1,925	433	2,358
Eyman	3,976	1,407	5,383	3,976	1,527	5,503	3,976	1,527	5,503
Florence	3,440	697	4,137	3,440	697	4,137	3,440	697	4,137
Perryville	4,202	96	4,298	4,202	96	4,298	4,202	96	4,298
Phoenix	552	168	720	552	168	720	552	168	720
Lewis	5,104	868	5,972	5,104	868	5,972	5,104	868	5,972
Safford	1,453	416	1,869	1,453	416	1,869	1,453	416	1,869
Tucson	4,605	517	5,122	4,605	517	5,122	4,605	517	5,122
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma	4,350	420	4,770	4,350	420	4,770	4,350	420	4,770
Subtotal	31,233	5,238	36,471	31,233	5,358	36,591	31,233	5,358	36,591
Private (Per Diem)									
Kingman (\$40.37)	3,400	108	3,508	3,400	108	3,508	3,400	108	3,508
Phoenix West (\$49.28)	400	100	500	400	100	500	400	100	500
Marana (\$46.69)	500	-	500	500	-	500	500	-	500
Florence West (\$44.98 - 55.79)	600	150	750	600	150	750	600	150	750
Florence II (\$67.22)	1,000	280	1,280	1,000	280	1,280	1,000	280	1,280
Eloy (\$65.43)	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$66.35)				1,000		1,000	1,000		1,000
Subtotal ^{1/} _{2/}	6,900	638	7,538	7,900	638	8,538	7,900	638	8,538
Total - All Beds ^{3/}	38,133	5,876	44,009	39,133	5,996	45,129	39,133	5,996	45,129
State Prison Population	35,584		35,584	35,584		35,584	35,776		35,776
Female	4,028		4,028	4,028		4,028	4,076		4,076
Male	31,556		31,556	31,556		31,556	31,700		31,700
Private Prison Population									
Male	7,318		7,318	7,318		7,318	7,486		7,486
Total Population ^{4/}	42,902		42,902	42,902		42,902	43,262		43,262
Bed Surplus/(Shortfall)	(4,769)		1,107	(3,769)		2,227	(4,129)		1,867
Male	(4,963)		817	(3,963)		1,937	(4,275)		1,625
Female	194		290	194		290	146		242
Bed Surplus / (Shortfall) (% of Beds)	-11%		3%	-9%		5%	-10%		4%

^{1/} The base rate for the private (per diem) bed rate for each facility is listed. ADC may be charged a lower rate due to amendments or contract provisions that grant lower rates for temporary beds or beds used over an occupancy threshold. Marana and Kingman are management only contracts.

^{2/} In FY 2017, 1,000 private medium custody beds opened by January 2017. The beds are displayed in the table.

^{3/} Excludes special use beds totaling 1,692 as of June 30, 2016.

^{4/} The chart excludes prisoners awaiting transfer from county jail.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Alcohol Abuse Treatment Fund (DCA2204/A.R.S. § 31-255)		Appropriated
Source of Revenue: The lesser of \$0.50 per hour or 67% of wages earned by inmates convicted of driving under the influence (DUI) offenses. The average charge for inmate labor is \$0.56 per hour.		
Purpose of Fund: To provide alcohol abuse treatment and rehabilitation services for DUI inmates. The FY 2016 General Appropriation Act transferred \$250,000 into the General Fund.		
Funds Expended	253,500	555,500
Year-End Fund Balance	1,152,100	996,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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. The FY 2016 General Appropriation Act transferred \$500,000 into the General Fund. The FY 2017 General Appropriation Act transfers \$1,000,000 to the Automation Projects Fund for the replacement of the inmate management system.		
Funds Expended	38,717,300	37,871,000
Year-End Fund Balance	9,428,000	9,242,800
Community Corrections Enhancement Fund (DCA2395/A.R.S. § 31-418)		Non-Appropriated
Source of Revenue: A portion (30%) of a monthly supervision fee of at least \$65 paid by the prisoner. The departments may require payment of a lesser amount. Beginning in FY 2013, revenues also include a monthly drug testing fee pursuant to Laws 2012, Chapter 208. The department has not yet implemented the fee.		
Purpose of Fund: To pay for costs related to community corrections.		
Funds Expended	306,500	402,000
Year-End Fund Balance	351,800	351,800
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	19,400	3,000
Year-End Fund Balance	3,100	3,100
Corrections Fund (DCA2088/A.R.S. § 41-1641)		Appropriated
Source of Revenue: Luxury taxes on alcohol and tobacco products. The fund receives 20% of the monies collected from spirituous liquor and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund per A.R.S. § 42-3106. A.R.S. § 42-3104 designates that the fund receives 50% of all general tax rate collections from the tax on tobacco products.		
Purpose of Fund: For the construction, major maintenance, lease-purchase or lease of correctional or state-operated juvenile facilities. The Legislature may also appropriate monies in this fund for the operation of these facilities. A.R.S. § 41-1641 authorizes an annual transfer of \$2,500,000 from the Corrections Fund to the Department of Corrections Building Renewal Fund. The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) establishes ADC as the administrator of the Corrections Fund. The FY 2016 General Appropriation Act transferred \$1,250,000 into the General Fund. The FY 2017 General Appropriation Act transfers 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).		
Funds Expended	14,528,500	30,317,800
Year-End Fund Balance	15,615,400	6,760,800
Department of Corrections Building Renewal Fund (DCA2551/A.R.S. § 41-797)		Appropriated
Source of Revenue: Monies transferred annually from the following funds: Inmate Store Proceeds Fund (\$500,000), Special Services Fund (\$500,000), Arizona Correctional Industries Revolving Fund (\$1,000,000), and Corrections Fund (\$2,500,000). Also includes monies from a visitation background check fee and a 1% fee on inmate deposits.		
Purpose of Fund: For capital projects and preventive maintenance (up to 8% of the annual expenditures). The FY 2016 General Appropriation Act transferred \$1,500,000 into the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	4,843,100	753,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	6,423,000	7,059,300
Year-End Fund Balance	537,900	537,900
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	18,300	167,700
Year-End Fund Balance	2,982,200	3,272,100
Inmate Store Proceeds Fund (DCA2505/A.R.S. § 41-1604.02)		Non-Appropriated
Source of Revenue: Profit resulting from the privatization of inmate stores.		
Purpose of Fund: For inmate activities, incentive pay increases for Corrections Officers, equipment to enhance safety for both department personnel and inmates or other official needs as required, at the discretion of the Director of ADC. A.R.S. § 41-1604.02 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2016 General Appropriation Act transferred \$2,500,000 into the General Fund. The FY 2017 General Appropriation Act transfers \$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.		
Funds Expended	5,073,700	5,230,000
Year-End Fund Balance	3,415,100	1,900,000
Interagency Service Agreement Fund (DCA2500/A.R.S. § 41-1604)		Non-Appropriated
Source of Revenue: Intergovernmental agreements between ADC and other state and local entities.		
Purpose of Fund: To be used as specified in the grant or agreement. Estimated expenditures of \$24,000,000 transferred from the Automation Projects Fund for the Arizona Inmate Management System replacement automation project are not displayed to avoid double counting.		
Funds Expended	58,200	56,000
Year-End Fund Balance	1,318,400	4,400
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 transfers \$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.		
Funds Expended	979,200	979,300
Year-End Fund Balance	3,675,200	5,172,300
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	11,685,700	13,686,300
Year-End Fund Balance	1,288,000	234,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Prisoner Spendable Accounts Fund (DCA2428/A.R.S. § 31-230)		Non-Appropriated
Source of Revenue: Monies received by a prisoner and that are not required to be deposited into another account.		
Purpose of Fund: To pay court-ordered restitution pursuant to A.R.S. § 13-603. Each month, a minimum of 20%, or the balance owed on the restitution amount, up to a maximum of 50% of the monies available in the prisoner's spendable account.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Special Services Fund (DCA3187/A.R.S. § 41-1604.03)		Non-Appropriated
Source of Revenue: Profits from canteens, hobby shops, and commissions on telephone service. Current revenues are primarily from the telephone service commission estimated at \$8,000,000 for FY 2017, and \$180,000 from the earned interest from the inmate trust account.		
Purpose of Fund: For the benefit, education, and welfare of committed offenders, and operating expenses of canteens and hobby shops. A major portion of the Special Services Fund is maintained in banks outside the state treasury system, and the transactions are not processed through the Arizona Financial Information System. As a result, the information for this fund is reported on an accrual accounting basis. A.R.S. § 41-1604.03 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2016 General Appropriation Act transfers \$2,000,000 into the General Fund. 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 FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) permits the department to transfer money from this fund for the replacement of the inmate management system.		
Funds Expended	2,767,100	4,360,000
Year-End Fund Balance	8,267,200	7,223,400
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 transfers \$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.		
Funds Expended	1,797,000	1,861,500
Year-End Fund Balance	4,497,100	5,355,700
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 FY 2016 General Appropriation Act transferred \$1,072,000 into the General Fund. The FY 2017 General Appropriation Act transfers \$500,000 to the Corrections Fund for the replacement of radios.		
Funds Expended	1,890,800	2,700,000
Year-End Fund Balance	0	2,349,500
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	394,500	669,500
Year-End Fund Balance	923,800	760,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
State Employee Recognition Gifts/Donations Fund (DCA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity, or major life event of department employees.		
Funds Expended	0	0
Year-End Fund Balance	200	200
Transition Program Fund (DCA2379/A.R.S. § 31-284 and A.R.S. § 31-254)		Appropriated
Source of Revenue: Revenue from 5% allocation of wages (if available after other obligations) from inmates not convicted of DUI earning under \$2.00 per hour and from the cost savings from the implementation of a transition program as calculated by A.R.S § 31-285. The source of revenue for the cost savings is the State DOC Revolving Fund that receives a share of tax revenue collected from liquor.		
Purpose of Fund: To pay for costs related to the administration of the Transition Program and for transition program services. Laws 2016, Chapter 153 appropriates \$596,000 from the Transition Program Fund to the Department of Corrections for the cost of expanding the Transition Program. The FY 2017 General Appropriation Act increases the appropriation by an additional \$200,000 for the costs of operating a reentry center in Maricopa County.		
Funds Expended	1,400,100	2,400,100
Year-End Fund Balance	1,544,600	1,716,900

Board of Cosmetology

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	24.5	24.5	24.5
Personal Services	783,600	827,600	827,600
Employee Related Expenditures	356,700	400,700	400,700
Professional and Outside Services	165,000	165,000	165,000
Travel - In State	51,600	51,600	51,600
Travel - Out of State	9,300	9,300	9,300
Other Operating Expenditures	367,500	340,200	340,200
Equipment	10,800	10,800	10,800
AGENCY TOTAL	1,744,500	1,805,200	1,805,200

FUND SOURCES

Other Appropriated Funds

Board of Cosmetology Fund	1,744,500	1,805,200	1,805,200
SUBTOTAL - Other Appropriated Funds	1,744,500	1,805,200	1,805,200
SUBTOTAL - Appropriated Funds	1,744,500	1,805,200	1,805,200
TOTAL - ALL SOURCES	1,744,500	1,805,200	1,805,200

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

* * *

The Baseline includes \$1,805,200 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,744,500	1,805,200
Year-End Fund Balance	8,347,500	10,855,200

County Funding

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
General Fund	6,000,500	14,000,500	6,000,500
SUBTOTAL - Appropriated Funds	6,000,500	14,000,500	6,000,500
TOTAL - ALL SOURCES	6,000,500	14,000,500	6,000,500

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services.

Assistance to Counties

The Baseline includes \$6,000,500 from the General Fund in FY 2018 for assistance to counties. FY 2018 adjustments would be as follows:

FY 2018

Remove One-Time Funding **GF** **\$(8,000,000)**

The Baseline includes a decrease of \$(8,000,000) from the General Fund in FY 2018 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 2017 General Appropriation Act designated this FY 2017 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 2016 Criminal Justice BRB required that each county pay their proportional share of \$12,000,000 according to their population in the 2010 Decennial Census. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) reduced this amount to \$11,260,000 to reflect savings realized from a decline in the DJC population. The FY 2017 budget included a one-time increase of \$8,000,000 from the General Fund for distribution to counties to offset counties' contributions for the costs of DJC. *(Please see the Department of Juvenile Corrections section for details regarding these county cost sharing requirements.)*

The remaining \$6,000,500 distribution is appropriated to the Arizona Department of Administration (ADOA) and is allocated equally among all counties with a population of less than 200,000 according to the 2010 Decennial Census (see Table 1). This includes all counties except Mohave, Yavapai, Pinal, Pima, and Maricopa. Each county receives \$550,050. An additional \$500,000 is allocated to Graham County on an ongoing basis. These appropriations are in a

separate section of the General Appropriation Act apart from the main ADOA appropriation.

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

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 2018, 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, 2017. *(Please see Other Issues for prior use of this provision.)*

Other Issues

County Flexible Revenue Report

The FY 2017 Revenue BRB (Laws 2016, Chapter 125) allows counties with a population of less than 250,000 according to the 2010 Decennial Census to use any source of county revenue, up to \$1,250,000, for purposes other than the purpose of the revenue source to meet a county obligation for FY 2017. Counties using the authority under Chapter 125 were required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2016.

Of the 12 eligible counties, 5 reported using the flexibility:

- Apache County: \$1.2 million from the Community College District, Library District, and juvenile detention to the General Fund and Jail District for law enforcement and the jail;
- Coconino County: \$493,700 from the Jail District to the General Fund for facility maintenance, technology

- replacement, phone system migration, the DUI/Drug Court, and overtime payments to sworn officers;
- La Paz County: \$596,500 from Vehicle License Tax disbursements and the Waste Tire Fund to the General Fund to cover the structural deficit;
- Navajo County: \$1.2 million from the Library District and Flood Control District to the General Fund for general expenditures;
- Yuma County: \$51,000 from the Highway User Revenue Fund and 4 special taxing districts to the General Fund for long-term planning and the cleaning and maintenance of the South County facility.

The following 7 eligible counties did not utilize this provision:

Cochise, Gila, Graham, Greenlee, Mohave, Santa Cruz, and Yavapai Counties.

Table 2 shows the utilization of the county flexibility language since FY 2013.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Apache	\$ 900,000	\$ 500,000	\$ 500,000	\$ 400,000	\$ 1,200,000	\$ 3,500,000
Cochise			36,700	23,000		59,700
Coconino				634,800	493,700	1,128,500
Gila						-
Graham						-
Greenlee						-
La Paz			5,012,500	992,500	596,500	6,601,500
Maricopa						-
Mohave	6,980,300					6,980,300
Navajo	864,700	580,300	1,430,300	1,200,000	1,200,000	5,275,300
Pima						-
Pinal	8,940,800			1,000,000		9,940,800
Santa Cruz	550,000					550,000
Yavapai						-
Yuma	14,700	56,000	29,700	10,200	51,000	161,600
Total	\$ 18,250,500	\$ 1,136,300	\$ 7,009,200	\$ 4,260,500	\$ 3,541,200	\$ 34,197,700

*Reporting to JLBC began in FY 2009. Does not include estimates for counties that did not report to JLBC.

Arizona Criminal Justice Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	351,200	611,600	611,600
Employee Related Expenditures	106,000	206,300	206,300
Professional and Outside Services	112,600	227,200	227,200
Travel - In State	5,300	11,300	11,300
Travel - Out of State	6,700	20,000	20,000
Other Operating Expenditures	76,000	157,800	157,800
Equipment	11,100	16,900	16,900
OPERATING SUBTOTAL	668,900	1,251,100	1,251,100
SPECIAL LINE ITEMS			
State Aid to County Attorneys	934,500	973,700	973,700
Victim Compensation and Assistance	3,660,600	4,220,600	4,220,600
AGENCY TOTAL	5,264,000	6,445,400	6,445,400

FUND SOURCES

Other Appropriated Funds

Criminal Justice Enhancement Fund	509,400	646,600	646,600
Drug and Gang Prevention Resource Center Fund	159,500	604,500	604,500
State Aid to County Attorneys Fund	934,500	973,700	973,700
Victim Compensation and Assistance Fund	3,660,600	4,220,600	4,220,600
SUBTOTAL - Other Appropriated Funds	5,264,000	6,445,400	6,445,400
SUBTOTAL - Appropriated Funds	5,264,000	6,445,400	6,445,400
Other Non-Appropriated Funds	5,927,300	7,126,500	5,274,500
Federal Funds	7,218,600	10,302,900	8,156,500
TOTAL - ALL SOURCES	18,409,900	23,874,800	19,876,400

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 2018 for the operating budget. These amounts consist of:

	FY 2018
CJEF	\$646,600
Drug and Gang Prevention Resource Center Fund	604,500

These amounts are unchanged from FY 2017.

State Aid to County Attorneys

The Baseline includes \$973,700 from the State Aid to County Attorneys Fund in FY 2018 for State Aid to County Attorneys. This amount is unchanged from FY 2017.

This line item provides funding for the various offices of county attorneys throughout Arizona to improve the processing of criminal cases. The line item receives funds from a 15.44% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals. The Arizona Criminal Justice Commission (ACJC) is required to distribute the monies to each county based on a composite index formula using Superior Court felony filings and county population.

Victim Compensation and Assistance

The Baseline includes \$4,220,600 from the Victim Compensation and Assistance Fund in FY 2018 for Victim Compensation and Assistance. This amount is unchanged from FY 2017.

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.

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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 2018 from the State Aid to County Attorneys Fund established by A.R.S. § 11-539 are appropriated to the State Aid to County Attorneys Program. Before the expenditure of any State Aid to County Attorneys Fund monies in excess of \$973,700, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee.

All Victim Compensation and Assistance monies received by the Arizona Criminal Justice Commission in excess of \$4,220,600 in FY 2018 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance monies in excess of \$4,220,600 in FY 2018, the Arizona Criminal Justice Commission 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 ACJC to report to JLBC regarding noncompliance with the reporting requirements contained in A.R.S. § 13-2314.01H and A.R.S. § 13-2314.03H.

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 2017 for DPS.

The State Aid to Indigent Defense Fund receives funding from a 14.66% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals.

Prior to FY 2012, ACJC was required to distribute the Indigent Defense monies to each county based on a composite index formula using Superior Court felony filings and county population. Since that time, the fund has been used for other purposes. The FY 2016 year-end fund balance, including the appropriations to the Attorney General and DPS, was \$66,600. The projected FY 2017 year-end fund balance, including the appropriation to DPS, is \$177,300. In FY 2018, projected annual revenues are \$803,200, sufficient to fund the \$700,000 DPS appropriation.

Anti-Racketeering Revolving Fund Report

A.R.S. § 13-2314.01 and A.R.S. § 13-2314.03 require the Attorney General and departments and state agencies, including counties, that use the Anti-Racketeering Revolving Fund (ARRF) to report quarterly to ACJC on the sources of all monies and all expenditures. The statutes further require ACJC to compile reports into a single comprehensive annual report and submit them by September 30 each year. This comprehensive report had not been provided in an annual format to the recipients established in statute for several years. The FY 2017 budget included a new footnote requiring ACJC to submit a report by August 31, 2016 on the reasons for the noncompliance with these statutorily-required reports.

In August 2016, ACJC reported to JLBC that, even though it posted quarterly reports to its website instead of providing a comprehensive annual report to the statutory recipients, it believed it was previously in compliance with statute. However, ACJC, noted that it would stop providing quarterly reports and instead submit a single comprehensive annual report to the statutory recipients in order to be in compliance with statute.

In October 2016, ACJC submitted its comprehensive annual report on ARRF to the statutory recipients. ACJC reported that, in FY 2016, the ARRF received revenues totaling \$63.6 million and had expenditures totaling \$66.1 million (including monies from prior year balances). Revenues for investigating and prosecuting agencies were highest in Maricopa County in FY 2016 at \$32.7 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2016 with \$33.4 million in ARRF monies spent.

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 2016 Actual	FY 2017 Estimate
Criminal Justice Enhancement Fund (JCA2134/A.R.S. § 41-2401)		Appropriated
Source of Revenue: A 1.57% allocation of the Criminal Justice Enhancement Fund (CJEF). <i>(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.)</i> 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	509,400	646,600
Year-End Fund Balance	2,014,100	368,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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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 2016</u>	<u>FY 2017</u>	<u>% of CJEF</u>	<u>Approp.</u>
Funds Transferred ^{1/ 2/}				
Attorney General				
AZ Prosecuting Attorneys Advisory Council (4)	1,102,800	1,102,800	3.03	no
County Attorneys (7)	3,470,200	3,470,200	9.35	no
Victim's Rights Implementation (13)	2,988,600	2,988,600	7.68	yes ^{3/}
AZ Criminal Justice Commission				
Operation Costs (10)	571,400	571,400	1.57	yes
Victim Compensation (14)	1,674,200	1,674,200	4.60	yes ^{3/}
Department of Public Safety				
Crime Lab Assessment Fund (12)	916,500	916,500	2.30	yes ^{3/}
Crime Lab Operations Fund (11)	3,586,400	3,586,400	9.00	yes ^{3/}
DNA Identification System (6)	510,100	510,100	1.28	yes ^{3/}
Fingerprinting Identification System (1)	2,574,200	2,574,200	6.46	yes
Peace Officers' Training Fund (3)	6,630,800	6,630,800	16.64	no
State/Local Grants (6)	2,901,000	2,901,000	7.28	^{4/}
Department of Juvenile Corrections (2)	597,500	597,500	1.61	yes
State Treasurer				
County Sheriffs (9)	4,277,400	4,277,400	11.70	no
Supreme Court				
Case Processing (8)	2,398,900	2,398,900	6.02	yes
Juvenile Crime (5)	3,725,800	3,725,800	9.35	yes
Community Punishment Program (15)	<u>848,800</u>	<u>848,800</u>	2.13	yes
Total Funds Transferred ^{5/}	38,774,500	38,774,500		

^{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	5,927,300	7,126,500
Year-End Fund Balance	2,014,100	1,971,200

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Drug and Gang Prevention Resource Center Fund (JCA2280/A.R.S. § 41-2402)		Appropriated
Source of Revenue: 1.31% of fee collections and filings in the Superior Court, 1.31% of notary bond fees, and public and private gifts or grants, excluding federal monies.		
Purpose of Fund: To fund the Arizona Youth Survey, a statutorily required survey of 8th, 10th, and 12th grade students in schools across Arizona. The survey measures alcohol and drug use, gang affiliation, and weapons within schools. Laws 2016, Chapter 24 also permitted the fund to be used for the Statistical Analysis Center.		
Funds Expended	159,500	604,500
Year-End Fund Balance	1,952,600	878,100
Federal Grants (JCA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To improve the criminal justice records system in Arizona; to fund state and local correction and detention agencies' substance abuse programs for incarcerated offenders; and to provide support dealing with criminal justice issues.		
Funds Expended	7,218,600	10,302,900
Year-End Fund Balance	5,875,500	5,122,000
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	934,500	973,700
Year-End Fund Balance*	0	(128,100)
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, legal defenders and contract indigent counsel for the processing of criminal cases. However, the FY 2015 and the FY 2016 Criminal Justice Budget Reconciliation Bills (Laws 2014, Chapter 12 and Laws 2015, Chapter 17) notwithstanding this statute and permit the Attorney General and Department of Public Safety to use the State Aid to Indigent Defense monies to fund capital postconviction prosecution activities and operational costs associated with the Arizona Counter Terrorism Information Center, respectively. The FY 2017 budget shifted this appropriation to the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	66,600	177,300
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	3,660,600	4,220,600
Year-End Fund Balance	4,172,700	3,413,800

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

Arizona State Schools for the Deaf and the Blind

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
PROGRAM BUDGET			
Administration/Statewide	4,010,600	4,010,600	4,010,600
Phoenix Day School for the Deaf	10,022,700	10,054,500	10,215,700
Preschool/Outreach Programs	4,351,600	4,486,800	4,486,800
Regional Cooperatives	1,001,400	1,001,400	1,001,400
Tucson Campus	13,470,700	13,502,500	13,502,500
AGENCY TOTAL	32,857,000	33,055,800	33,217,000
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	17,599,900	17,504,500	17,504,500
Employee Related Expenditures	8,094,800	8,044,300	8,044,300
Professional and Outside Services	2,162,000	2,361,600	2,361,600
Travel - In State	89,900	89,500	89,500
Travel - Out of State	54,800	54,400	54,400
Food	5,000	5,000	5,000
Other Operating Expenditures	4,112,600	4,258,500	4,258,500
OPERATING SUBTOTAL	32,119,000	32,317,800	32,317,800
SPECIAL LINE ITEMS			
School Bus Replacement	738,000	738,000	738,000
Voucher Fund Adjustment	0	0	161,200
AGENCY TOTAL	32,857,000	33,055,800	33,217,000
FUND SOURCES			
General Fund	21,378,100	21,378,100	21,378,100
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,478,900	11,677,700	11,838,900
SUBTOTAL - Other Appropriated Funds	11,478,900	11,677,700	11,838,900
SUBTOTAL - Appropriated Funds	32,857,000	33,055,800	33,217,000
Other Non-Appropriated Funds	15,960,100	15,859,300	15,859,300
Federal Funds	2,079,000	2,079,000	2,079,000
TOTAL - ALL SOURCES	50,896,100	50,994,100	51,155,300

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 October 2016, ASDB served approximately 1,940 children: 404 students in the K-12 programs (138 in Tucson and 266 in Phoenix), 98 children in preschools, 348 infant/toddlers in regional areas, and 1,090 children through the 5 existing regional cooperatives.

Operating Budget

The Baseline includes \$32,317,800 and 541.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$20,640,100
Schools for the Deaf and the Blind Fund	11,677,700

These amounts are unchanged from FY 2017.

Assistive Technology Devices GF 0

The Baseline includes no change in funding from the General Fund in FY 2018 for assistive technology devices. The Baseline includes a total of \$253,100 from the General Fund in FY 2018 for this equipment, which may include: electronic dictionaries for visually impaired students, mobile classroom computer labs for visually disabled students, interactive whiteboards for hearing impaired students, and computer and software upgrades for computers used by visually impaired students.

Foundation for Blind Children OF 0

The Baseline maintains funding in FY 2018 for the preschool program at the Foundation for Blind Children at the previously appropriated level of \$1,054,100.

School Bus Replacement

The Baseline includes \$738,000 from the General Fund in FY 2018 for School Bus Replacement. This amount is unchanged from FY 2017.

Monies in this line item are used for the purchase of new school buses. According to the School Facilities Board rules for ASDB, a gasoline-powered bus should be replaced after 10 years or 150,000 miles.

Voucher Fund Adjustment

The Baseline includes \$161,200 from the ASDB Fund in FY 2018 for enrollment changes. FY 2018 adjustments would be as follows:

Enrollment Change OF 0

The Baseline includes no change in funding from the ASDB Fund in FY 2018 for enrollment change. ASDB's FY 2017 appropriation assumed an enrollment of 510 students. Based on recent monthly data, the FY 2017 student enrollment is projected to be 511 students (virtually the same as the budgeted count). ASDB is projected to receive approximately \$11,677,700 in special education voucher funding in FY 2017. This amount has not been adjusted for FY 2018 as the FY 2017 revised enrollment estimate is effectively the same as the budgeted FY 2017 enrollment figure.

These estimates are based on enrollment trends shown in *Table 1. (Please see Other Issues for additional enrollment information.)*

Base Level Increase OF 161,200

The Baseline includes an increase of \$161,200 from the ASDB Fund in FY 2018 for a base level increase. A.R.S. § 15-901.01 requires annual increases in the per pupil "Base Level" in the Basic State Aid (BSA) formula. That BSA base

level also serves as the base level for the ASDB Voucher Fund formula, so BSA base level increases also increase ASDB's voucher funding. The Baseline increases the BSA base level by 1.37% in FY 2018, which results in additional FY 2018 funding of \$161,200.

Background – Special education voucher monies in the ASDB Fund represent ASDB's reimbursement from the Arizona Department of Education (ADE) for educational costs based on its enrollment. As with school districts, ASDB's ADE funding is determined by statutory formula. The amounts are reflected within a separate line item to give ASDB flexibility in allocating funding changes among its 4 programs.

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FORMAT — Operating Lump Sum with Special Line Items by Program

FOOTNOTES

Standard Footnotes

Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,838,900 in FY 2018, the Arizona State Schools for the Deaf and the Blind shall report to the Joint Legislative Budget Committee the intended use of the monies.

Other Issues

Proposition 123

As a beneficiary of the Arizona State Land Trust, ASDB receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

ASDB received a total of \$424,400 in its land trust fund, the Schools for the Deaf and the Blind Fund, in FY 2015.

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

The fund will have estimated land trust revenues of \$680,700 in FY 2018.

If this causes the ASDB fund to exceed \$11,838,900 in expenditures, ASDB may expend these monies upon reporting to the Joint Legislative Budget Committee. *(See the standard footnote.)*

Enrollment Projections

Table 1 shows average annual enrollment data for ASDB's Tucson, Phoenix, and Preschool campuses since FY 2014. FY 2017 estimates are based on reported enrollment through October 2016. The Baseline assumes that FY 2018 enrollment levels for ASDB will be unchanged from FY 2017.

Table 1 shows a substantial decrease in ASDB's preschool population between FY 2014 and FY 2015. This may have been due, at least in part, to changes to A.R.S. § 15-771A

that now allow charter schools to provide programs for preschool children with disabilities.

	ASDB Average Annual Enrollment			
	FY 2014	FY 2015	FY 2016	FY 2017
Tucson	177	158	138	129
Phoenix	283	274	266	283
Preschool	<u>113</u>	<u>97</u>	<u>98</u>	<u>99</u>
Total	573	529	502	511 ^{1/}

^{1/} Enrollment as of October 2016

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,992,900	1,988,200
Year-End Fund Balance	1,098,900	546,600
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	136,400	136,400
Year-End Fund Balance	179,800	125,100
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	2,079,000	2,079,000
Year-End Fund Balance	659,900	149,200
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 2016 Actual	FY 2017 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	13,386,100	13,290,000
Year-End Fund Balance	3,057,200	4,468,000
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	11,478,900	11,677,700
Year-End Fund Balance	633,700	939,300
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	362,800	362,800
Year-End Fund Balance	150,500	235,900
Trust Fund (SDA3148/A.R.S. § 15-1323)		Non-Appropriated
Source of Revenue: Monies received from private endowment, which are outside the control of the State Treasurer and are held by the ASDB Board.		
Purpose of Fund: Spent at the discretion of ASDB.		
Funds Expended	81,900	81,900
Year-End Fund Balance*	(21,800)	(26,200)

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

Commission for the Deaf and the Hard of Hearing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	15.0	15.0	15.0
Personal Services	894,500	907,900	907,900
Employee Related Expenditures	332,700	337,600	337,600
Professional and Outside Services	714,400	803,900	803,900
Travel - In State	11,400	11,100	11,100
Travel - Out of State	14,900	13,400	13,400
Other Operating Expenditures	1,518,600	2,110,200	2,110,200
Equipment	87,800	125,400	125,400
AGENCY TOTAL	3,574,300	4,309,500	4,309,500

FUND SOURCES

Other Appropriated Funds

Telecommunication Fund for the Deaf	3,574,300	4,309,500	4,309,500
SUBTOTAL - Other Appropriated Funds	3,574,300	4,309,500	4,309,500
SUBTOTAL - Appropriated Funds	3,574,300	4,309,500	4,309,500
TOTAL - ALL SOURCES	3,574,300	4,309,500	4,309,500

AGENCY DESCRIPTION — The agency acts as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public. The agency also administers a statewide telephone access program, the Telecommunication Devices for the Deaf (TDD) Relay Program. The agency licenses interpreters for the deaf and the hard of hearing. The agency is supported by the Telecommunication Fund for the Deaf, which derives monies from the Telecommunication Services Excise Tax.

Operating Budget

The Baseline includes \$4,309,500 and 15 FTE Positions from the Telecommunication Fund for the Deaf in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

* * *

FORMAT — Lump Sum by Agency

Other Issues

Telecommunication Fund for the Deaf

The Telecommunication Fund for the Deaf is the primary funding source for the Commission for the Deaf and the Hard of Hearing. The fund derives its revenue from a 1.1% surcharge on landline telephone bills.

The fund balance has consistently increased over the past 5 years. From FY 2011 to FY 2016 the fund averaged \$5.0 million in annual ongoing revenues in comparison to \$4.1 million in annual expenditures. In FY 2016 the fund had a year-end balance of \$8.2 million. FY 2017 revenues are expected to be \$409,800 above FY 2017 expenditures, with an estimated year-end balance of \$8.6 million.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Commission for the Deaf and the Hard of Hearing Fund (DFA2423/A.R.S. § 36-1945)		Appropriated
Source of Revenue: Grant funds remaining for Native Americans Phase II grant (6.4) was awarded by the Arizona Community Foundation. Grant funds remaining are from the St. Luke's Mental Health grant.		
Purpose of Fund: Grant funds to be used to study hearing loss and needs of Native Americans in the State of Arizona and for programs related to mental health issues.		
Funds Expended	0	0
Year-End Fund Balance	11,600	11,600
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	3,574,300	4,309,500
Year-End Fund Balance	8,202,100	8,574,400

State Board of Dental Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	500,300	547,300	547,300
Employee Related Expenditures	226,000	149,600	149,600
Professional and Outside Services	164,700	299,200	299,200
Travel - In State	3,400	3,200	3,200
Travel - Out of State	6,400	5,500	5,500
Other Operating Expenditures	193,300	186,000	186,000
Equipment	40,100	23,700	23,700
AGENCY TOTAL	1,134,200	1,214,500	1,214,500

FUND SOURCES

Other Appropriated Funds

Dental Board Fund	1,134,200	1,214,500	1,214,500
SUBTOTAL - Other Appropriated Funds	1,134,200	1,214,500	1,214,500
SUBTOTAL - Appropriated Funds	1,134,200	1,214,500	1,214,500
TOTAL - ALL SOURCES	1,134,200	1,214,500	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,134,200	1,214,500
Year-End Fund Balance	4,951,100	5,366,700

Arizona Early Childhood Development and Health Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
Other Non-Appropriated Funds	124,439,900	133,360,200	145,650,700
Federal Funds	3,667,000	8,366,200	7,298,200
TOTAL - ALL SOURCES	128,106,900	141,726,400	152,948,900

AGENCY DESCRIPTION — As authorized by a 2006 ballot initiative (Proposition 203), the Arizona Early Childhood Development and Health Board (ECDHB) is funded from an 80 cents per pack cigarette tax, plus taxes on other tobacco products. The board funds early childhood development programs and services for children prior to kindergarten and their families. The agency is also commonly known as “First Things First.”

Background

Early Childhood Development and Health Fund

Enacted in 2006, Proposition 203 implemented an additional 80 cents per pack cigarette tax to fund ECDHB, also known as “First Things First.” Revenues from the tobacco tax are deposited into the Early Childhood Development and Health (ECDH) Fund and go into 2 accounts: 90% of funds are allocated to the Program Account and 10% of funds to the Administrative Costs Account.

Of the annual Program Account budget set by the board each year, 10% (or 9% of the statewide total) may be spent on statewide programs with the remaining funds allocated to the Regional Councils (81% of the statewide total). Of the amount made available to regions, 60.8% is allocated to the various regions based on the total population aged 5 and under and the population under 5 living below the poverty line. The board uses its discretion to allocate the other 20.2% to regions.

In FY 2016, ECDHB’s largest expenditure was **Child Care Scholarships** at \$59.8 million, as displayed in *Table 1*, serving an average of 5,264 children monthly, down from 7,728 in FY 15. ECDHB increased its child care reimbursement rates in FY 2015, so fewer children were served even though child care expenditures were greater than the prior year.

State-funded child care is provided through 3 agencies: the Department of Economic Security (DES), the Department of Child Safety (DCS), and ECDHB. DES and ECDHB provide child care for lower-income working families, while DCS provides child care for child welfare cases. Beyond requiring lower-income families to accept a DES subsidy if it is available, there is limited interaction between DES and ECDHB on child care. DES child care is offered as only a partial subsidy requiring a family copayment that varies based on a family’s income level.

ECDHB lower-income working child care is offered as a full “scholarship” without a copayment.

Table 1

FY 2016 ECDHB Fund Expenditures by Category
(\$ in Millions)

<u>Expenditure Category</u>	<u>Amount</u>	<u>Percent</u>
Child Care Scholarships	\$ 59.8	48%
Family Support	30.7	25%
Health	13.6	11%
Administration	9.3	7%
Professional Development	5.7	5%
Community Awareness	1.8	1%
Research & Evaluation	2.7	2%
System Coordination	0.8	1%
Total	\$124.4	100%

Since FY 2011, ECDHB child care expenditures have been used to meet federal child care funding requirements. The maintenance-of-effort requirement for the federal Child Care and Development Fund Block Grant (CCDF) is state child care spending of about \$10 million annually. In addition, the state must put up approximately \$20 million in matching funds to draw down the entire CCDF allocation. ECDHB disbursements largely fulfill both of these federal conditions.

Family Support mainly consists of voluntary in-home services for infants, children and their families, focusing on parenting skills, early physical and social development, literacy, health and nutrition; it also includes classes on parenting, food boxes, parent kits, and other services.

The **Health** category provides mental health consultations to teachers and caregivers, oral health services to families, case management to families, child care health consultations to child care providers, obesity prevention to families, prenatal outreach to women and families, and other services.

The **Administration** category funds about 107 filled FTE Positions.

Professional Development includes training, scholarships, and financial incentives for professionals who provide education and early care to children.

Community Awareness is media and community outreach efforts. **Research and Evaluation** spending is used to evaluate the effectiveness of ECDHB programs. **System Coordination** establishes partnerships and expands services and programs for families with young children.

As shown in *Table 2*, the estimated FY 2017 expenditures leave the fund with a projected balance of \$369,165,800 at the end of FY 2017. The board intends to use the balance in future years to offset ongoing revenue losses that may occur if tobacco use (and the corresponding tax collections) continues to decline.

	<u>FY 2015</u> <u>Actual</u>	<u>FY 2016</u> <u>Actual</u>	<u>FY 2017</u> <u>Estimate</u>	<u>FY 2018</u> <u>Estimate</u>
Revenues				
Beginning Balance	\$396.9	\$364.1	\$370.9	\$363.9
Ongoing Revenues	<u>128.2</u>	<u>131.2</u>	<u>126.4</u>	<u>124.3</u>
Total Revenues	\$525.1	\$495.4	\$497.3	\$488.2
Expenditures				
Administrative	\$ 12.9	\$ 12.9	\$ 14.5	\$ 14.5
Program ^{3/}	<u>148.1</u>	<u>111.5</u>	<u>118.9</u>	<u>131.2</u>
Total Expenditures	\$161.0	\$124.4	\$133.4	\$145.7
Ending Balance	\$364.1	\$370.9	\$363.9	\$342.5

^{1/} Data from ECDHB.
^{2/} Numbers may not add due to rounding.
^{3/} Includes \$18.5 million from administrative account carry-forward balances that will be spent on programmatic efforts in FY 2016.

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 2016 Actual	FY 2017 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	364,128,300	370,924,100
Revenue:		
Administrative Costs Account	13,117,000	12,630,000
Program Account	118,052,700	113,670,000
Other (Donations and Grants)	<u>66,000</u>	<u>65,000</u>
Total Funds Available	495,364,000	497,289,100
Expenditures:		
Administrative Expenditures	12,944,200	14,453,700
Programmatic Expenditures	<u>111,495,700</u>	<u>118,906,500</u>
Total Funds Expended	124,439,900	133,360,200
Year-End Fund Balance	370,924,100	363,928,900
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	3,667,000	8,366,200
Year-End Fund Balance	5,907,300	5,280,200

Office of Economic Opportunity

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	0.0	5.0
Personal Services	0	386,200	326,800
Employee Related Expenditures	0	164,300	139,100
Travel - Out of State	0	4,000	4,000
Other Operating Expenditures	0	14,200	14,200
OPERATING SUBTOTAL	0	568,700	484,100
SPECIAL LINE ITEMS			
Small Water Systems Fund Deposit	0	500,000	0
AGENCY TOTAL	0	1,068,700	484,100
FUND SOURCES			
General Fund	0	1,068,700	484,100
SUBTOTAL - Appropriated Funds	0	1,068,700	484,100
Other Non-Appropriated Funds	0	179,345,100	179,345,100
Federal Funds	0	29,967,700	29,967,700
TOTAL - ALL SOURCES	0	210,381,500	209,796,900

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 2018 for the operating budget. FY 2018 adjustments would be as follows:

		FY 2018
One-Time Funding	GF	\$(84,600)

The Baseline includes a decrease of \$(84,600) from the General Fund in FY 2018 for the elimination of a one-time monies used for the development of a regulatory cost model.

Small Water Systems Fund Deposit

The Baseline includes no funding in FY 2018 for a one-time deposit into the Small Water Systems Fund. FY 2018 adjustments would be as follows:

One-Time Funding GF (500,000)

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2018 for the elimination of a one-time deposit into the Small Water Systems Fund.

The FY 2017 General Appropriation Act included provisions exempting the FY 2017 \$500,000 General Fund appropriation from procurement code law, making the appropriation non-lapsing, and requiring the Corporation Commission and WIFA to report to JLBC by August 1, 2017 on the amount of emergency grants made to interim operators of small water systems during FY 2017.

On recommendation of the Corporation Commission, WIFA may approve a grant to repair a small water system or replace infrastructure of a small water system that serves 500 or fewer connections.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would eliminate the footnotes relating to the reporting requirement for, and the non-lapsing nature of, the appropriation for the Small Water Systems Fund.

Other Issues

Office of Economic Opportunity Creation

Laws 2016, Chapter 372 created 3 new governmental entities: the Office of Economic Opportunity (OEO), the Arizona Finance Authority (AFA), and the Arizona Industrial Development Authority (AIDA). AFA is established in OEO and the AFA board serves as the board of AIDA, thus OEO has supervision over all 3 entities. Table 1 below displays the estimated FY 2018 FTE allocations and expenditures for each of the 3 newly-created entities as reported by the agencies.

<u>Recipient</u>	<u>FTE Positions</u>	<u>Total Funds</u>
OEO	30.6	\$ 4,779,400
AFA	19.6	205,017,500
AIDA ^{1/}	3.5	3,120,200
Total	53.7	\$212,917,100

^{1/} AIDA amounts are an estimate as these figures were not reported in the AFA budget. Additionally, AIDA amounts are not reflected in the above agency summary table as those monies will be stored in bank accounts of AIDA rather than in state funds.

OEO

OEO is the central state agency for economic, population, and unemployment statistical analysis, the administering agency for the Workforce Arizona Council, and oversees the newly-created Workforce Data Task Force.

OEO’s statistical analysis arm is comprised of the Employment and Population Statistics unit from the Arizona Department of Administration (ADOA) and an economist from the Governor’s Regulatory Review Council (GRRC). OEO is also required to enter into a memorandum of understanding with the Department of Economic Security (DES) to access unemployment insurance data for research purposes. The employment, population, and unemployment insurance data will be used to help develop analyses that evaluate the state’s competitiveness regarding incentive, tax, and regulatory policy.

The Workforce Arizona Council, transferred from the Arizona Commerce Authority (ACA), will develop a state workforce plan, review statewide policies and programs that affect workforce development, and develop allocation formulas for employment and training grants.

The newly-created Workforce Data Task Force will oversee the development and maintenance of the state workforce evaluation data system. The data collected on the workforce programs will be used by the task force to determine the most efficient ways to allocate funds and enhance performance of existing programs.

OEO’s funding is provided through the transfer of resources tied to the functions shifted to OEO and fees paid to the Corporation Commission for securities filings that were previously deposited into the Arizona Competes Fund. Of these amounts, only the Corporation Commission fees will be deposited into the newly-created OEO Operations Fund. Remaining monies are either appropriated (General Fund), Federal monies that will be accounted for separately, or are being transferred to OEO’s IGA and ISA Fund. In total, \$568,700 from the General Fund and \$4,891,700 in total funds was transferred to OEO. Of that amount, ADOA transferred \$568,700 from the General Fund and \$2,361,400 in total funds. This transfer reflects the following shifts:

ADOA

- Office of Employment and Statistics – The entire office moved to OEO including its 16.6 FTE Positions and funding of \$362,100 General Fund, \$104,600 IGA and ISA Fund, and \$1,688,100 Federal Funds.
- Governor’s Regulatory Review Council – 1 FTE Position and \$206,600 General Fund (\$84,600 of this amount was one-time to help develop a regulatory cost model).

Also included in the \$4,871,900 in total funds transferred to OEO are shifts of \$2,426,300 from ACA and \$104,000 from the Department of Economic Security (DES). These shifts are as follows:

ACA

- Workforce Arizona Council and Workforce Division – The entire Workforce Arizona Council and Workforce Division of ACA transferred along with 4 FTE Positions and \$458,000 in Federal Funds for the operation of these programs.
- Corporation Commission Fees – \$1,968,300 in Corporation Commission filings fees for securities that were previously deposited into the Arizona Competes Fund. These monies fund an estimated 8 FTE Positions.

DES

- Workforce Innovation Opportunity Act Resources – 1 FTE Position and \$104,000 in Federal Funds.

Of these transferred amounts, OEO is estimating annual expenditures of \$4,864,000 in FY 2017 and \$4,779,400 in FY 2018 due to the removal of one-time monies. *Table 2* displays OEO's estimated expenditures for FY 2018 by fund source and transferring agency.

<u>Transferring Agency Fund Source</u>	<u>FY 2018</u>
ADOA	
General Fund	\$ 484,100
IGA & ISA Fund	79,900
Federal Funds	<u>1,685,800</u>
Total ADOA	\$2,249,800
ACA	
Corporation Commission Fees	\$1,968,300
Federal Funds	<u>457,400</u>
Total ACA	\$2,425,700
DES	
Federal Funds	<u>\$103,900</u>
Total DES	\$103,900
OEO TOTAL	\$4,779,400 ^{1/}

^{1/} This amount funds an estimated 30.6 FTE Positions.

The bill also established the Economic Development Fund consisting of any remaining monies in the AFA Operations Fund or AIDA at the end of each prior fiscal year. The Economic Development Fund is estimated to receive a total of \$5,710,500 in FY 2018. Since these monies represent excess balances from state Industrial Development Authorities (IDAs) that were folded into the AIDA, it is estimated that any transfers beyond FY 2018 into the Economic Development Fund will be minimal.

AFA

Additionally, the bill created AFA by consolidating the functions of WIFA and the Greater Arizona Development Authority (GADA) under the authority of the AFA Board and tasking AFA with the administration of the state's Private Activity Bond (PAB) authorization.

WIFA finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities or projects.

GADA helps local governments obtain lower than market interest rates on debt incurred for infrastructure

development and construction by using the GADA Revolving Fund to guarantee loans.

The state's PAB authorization, transferred from ACA, is the annual amount of tax exempt bonds issued by the federal government to the state for certain private industry use. As the state's recipient of the PAB authorization, AFA issues PAB authority to local IDAs to allow the IDAs to issue bonds on behalf of a private entity that will utilize the proceeds for projects such as school or multi-family home construction, mortgage revenue bonds, manufacturing projects, and qualified student loan projects.

Funding for the operational costs of AFA is derived from unrestricted and available monies of WIFA and GADA, bond proceeds from issuances of the AIDA, and gifts and grants. Monies received from these sources are to be deposited into the newly-created AFA Operations Fund.

AFA is expected to oversee \$205,017,500 in expenditures in FY 2018 (*see Table 3*).

<u>Agency/Fund Source</u>	<u>FY 2018</u>
WIFA	
Clean Water Revolving Fund	111,626,900
Drinking Water Revolving Fund	65,458,800
Federal Funds	<u>27,720,600</u>
Total WIFA	\$204,806,300
GADA	
GADA Revolving Fund	<u>\$211,200</u>
Total GADA	\$211,200
AFA	
AFA Operations Fund	NA ^{1/}
AFA TOTAL	\$205,017,500 ^{2/}

^{1/} In FY 2016, the Arizona Commerce Authority collected \$78,100 from bond proceeds. Currently, AFA does not have an estimate for expenditures from this fund.

^{2/} This amount funds an estimated 19.6 FTE Positions.

The AFA is also responsible for the Clean Water Revolving Fund (\$111,626,900) and the Drinking Water Revolving Fund (\$65,458,800). These 2 funds provide loans to political subdivisions and Indian tribes for drinking water facilities and capital improvements at wastewater treatment facilities. Additionally, AFA will also administer Federal Funds (\$27,720,600) that provide water infrastructure loans to local governments and Indian tribes.

AFA will also expend an estimated \$211,200 for 1.7 FTE Positions from the GADA Revolving Fund to oversee the loan and bonding operations of GADA. This amount is small relative to the amounts expended from the Clean Water Revolving and Drinking Water Revolving Funds since the vast majority of the fund balance in the GADA Revolving Fund is used as collateral for the bonds they issue and is only directly loaned out in small amounts. Currently, the fund balance allows locals to bond at a rate of 30:1 while also providing a lower-than-market rate of interest. The FY 2017 estimated ending balance for the GADA Revolving Fund is \$13,269,500 which will allow for bonding of up to \$398,085,000 at the current leverage ratio.

Laws 2016, Chapter 372 establishes the AFA Operations Fund with revenues from legislative appropriations, bond proceeds, gifts, grants, donations, and available monies of WIFA and GADA. Monies in the fund are to be used to cover the expenses of the AFA. AFA has indicated that they do not intend to transfer any available monies from WIFA or GADA to the AFA Operations Fund in FY 2017 or FY 2018. Rather, AFA expects bonding proceeds to be sufficient enough to cover any operational costs of the AFA. Currently, AFA does not have an estimate of the revenues to or expenditures from the AFA Operations Fund for FY 2017 or FY 2018. As a result, the estimated expenditures for the AFA included in *Table 3* can be expected to be higher once information on AFA Operations Fund expenditures is received.

AIDA

Lastly, the bill also authorized AFA to establish and govern the AIDA, which will consolidate the activities of the Arizona Housing Finance Authority, Arizona Health Facilities Authority, and Arizona International Development Authority in addition to issuing PABs for allowable projects not otherwise covered by the other state IDAs. As a result of the consolidation, all of the

existing assets of the 3 state IDAs became assets of AIDA. The shifting of resources from the 3 consolidated IDAs to AIDA allows for 3.5 FTE Positions and estimated expenditures of \$3,120,300 in FY 2018. These estimates are based on prior years' expenditures from the 3 consolidated IDAs as AFA did not provide an estimate of the operational costs of AIDA. Also, these estimated expenditures are not reflected in the OEO summary table as the funds will be deposited into a bank account of AIDA rather than in a state fund.

In addition to these amounts, AIDA will receive a one-time transfer of \$5,929,400 in unobligated monies in FY 2017 from the 3 consolidated state IDAs. We estimate that revenues to AIDA will not fully cover expenditures in FY 2017 which will result in AIDA having an estimated FY 2017 ending balance of \$5,710,500. Laws 2016, Chapter 372 requires that any unobligated monies within AIDA be transferred to the Economic Development Fund at the end of each fiscal year. As a result, we estimate that all of the \$5,710,500 FY 2017 ending balance within AIDA would be transferred to the OEO-administered Economic Development Fund in FY 2018. *(Please see the OEO section of this narrative for more information).* *Table 4* summarizes the estimated FY 2017 and FY 2018 expenditures of AIDA.

<u>Fund Source</u>	<u>FY 2018</u>
AIDA	
IGA & ISA Fund	<u>\$3,120,300</u>
Total AIDA	\$3,120,300 ^{1/2/3/}
<u>1/</u>	This amount funds an estimated 3.5 FTE Positions.
<u>2/</u>	AFA did not provide an estimate for AIDA's FY 2018 expenditures. This amount is an estimate based on prior years' expenditures from the 3 consolidated IDAs.
<u>3/</u>	This amount is not reflected in the OEO summary table as the monies will be deposited into an AIDA bank account rather than a state fund.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 subdivision and Indian tribes. The fund is also used for debt refinancing, bond insurance related to wastewater treatment plants, and for fund administration.		
Funds Expended	0	111,626,900
Year-End Fund Balance	0	159,401,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	0	65,458,800
Year-End Fund Balance	0	43,256,800
Economic Development Fund (EOA3777/A.R.S. § 41-5302)		Non-Appropriated
Source of Revenue: Any unencumbered monies retained by AFA 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	0
Office of Economic Opportunity Operations Fund (EOA9903/A.R.S. § 41-5302)		Non-Appropriated
Source of Revenue: Corporation Commission fees for the offering of securities for sale and the registration of security dealers.		
Purpose of Fund: To fund the operational costs of the office. Laws 2016, Chapter 372 established OEO as the central state agency for economic, population, and unemployment statistical analysis and tasked the office with the administration of the Workforce Arizona Council and Workforce Data Task Force.		
Funds Expended	0	1,968,300
Year-End Fund Balance	0	0
Federal Funds (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	0	29,967,700
Year-End Fund Balance	0	3,000
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. Laws 2016, Chapter 372 established the AFA to oversee the state's private activity bond authorization and the operations of WIFA and GADA.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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. The Greater Arizona Development Authority (GADA) may issue bonds, guarantee debt obligations, and provide technical and financial assistance to political subdivisions, special districts, and Indian tribes. Legislative appropriations to the GADA Revolving Fund may only be used to secure bonds. The state funding only serves as collateral for the loans and is not directly loaned out. The fund was capitalized with \$20,000,000 from the General Fund between FY 1998 and FY 2000. Other revenue to the fund may be used for GADA's operating costs, as well as technical and financial assistance to communities.		
Funds Expended	0	211,200
Year-End Fund Balance	0	13,268,200

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	0	79,900
Year-End Fund Balance	0	24,700
 Small 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.		
Purpose of Fund: To provide emergency grants to repair or replace water infrastructure.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Department of Economic Security

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,147.7	4,218.0	4,289.4
Personal Services	66,864,200	75,767,400	74,458,300
Employee Related Expenditures	30,113,600	34,537,200	33,972,700
Professional and Outside Services	21,656,400	17,240,500	17,240,500
Travel - In State	911,300	935,800	933,500
Travel - Out of State	43,200	83,200	83,200
Other Operating Expenditures	24,353,700	26,017,100	25,893,000
Equipment	3,465,500	4,679,600	4,679,600
OPERATING SUBTOTAL	147,407,900	159,260,800	157,260,800
SPECIAL LINE ITEMS			
Administration			
ABLE Program	0	240,000	0
Attorney General Legal Services	10,105,600	10,996,600	10,996,600
Aging and Adult Services			
Adult Services	7,924,100	8,624,100	7,924,100
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	2,522,600	2,522,600
Domestic Violence Prevention	12,371,200	14,003,700	12,403,700
Benefits and Medical Eligibility			
TANF Cash Benefits	28,299,100	27,736,400	27,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	4,030,600	8,740,200	8,740,200
Developmental Disabilities			
DDD Operating Lump Sum	54,176,700	49,477,100	51,321,800
Case Management - Medicaid	56,468,300	55,347,700	59,019,700
Home and Community Based Services - Medicaid	811,270,700	994,277,300	1,060,242,600
Institutional Services - Medicaid	20,192,500	22,610,900	24,111,000
Medical Services - Medicaid	151,491,200	165,514,500	176,495,500
Arizona Training Program at Coolidge - Medicaid	15,209,500	15,735,100	15,735,100
Medicare Clawback Payments	2,928,700	3,370,600	4,043,000
Case Management - State Only	3,912,700	3,893,700	3,893,700
Home and Community Based Services - State Only	17,096,800	16,913,400	16,913,400
State-Funded Long Term Care Services	27,554,000	27,159,600	26,559,600
Employment and Rehabilitation Services			
JOBS	9,796,200	13,005,600	13,005,600
Child Care Subsidy	84,181,500	98,396,600	98,396,600
Rehabilitation Services	4,799,100	7,249,100	7,249,100
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
Workforce Investment Act Services	32,591,200	51,654,600	51,654,600
AGENCY TOTAL	1,515,778,500	1,768,178,500	1,847,674,000
FUND SOURCES			
General Fund	502,938,100	530,124,400	548,428,900
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	14,791,200	16,632,600	16,632,600
Domestic Violence Services Fund	2,500,000	4,000,000	2,500,000
Federal CCDF Block Grant	93,558,500	107,773,600	107,773,600
Federal TANF Block Grant	70,816,200	72,964,700	72,964,700

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Health Services Lottery Monies Fund	0	700,000	0
Long Term Care System Fund (Non-Federal Matched)	27,901,000	26,559,600	26,559,600
Public Assistance Collections Fund	11,000	421,900	421,900
Special Administration Fund	2,939,700	5,528,700	2,928,700
Spinal and Head Injuries Trust Fund	1,870,000	2,323,700	2,323,700
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
Workforce Investment Act Grant	36,456,400	56,040,200	56,040,200
SUBTOTAL - Other Appropriated Funds	251,844,000	293,945,000	289,145,000
SUBTOTAL - Appropriated Funds	754,782,100	824,069,400	837,573,900
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	28,821,200	42,299,500	42,299,500
Long Term Care System Fund (Federal Match)	732,175,200	901,809,600	967,800,600
SUBTOTAL - Expenditure Authority Funds	760,996,400	944,109,100	1,010,100,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,515,778,500	1,768,178,500	1,847,674,000
Other Non-Appropriated Funds	306,744,000	323,045,700	311,964,900
Federal Funds	1,923,561,600	1,939,158,100	1,939,158,100
TOTAL - ALL SOURCES	3,746,084,100	4,030,382,300	4,098,797,000

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; and Employment and Rehabilitation Services.

Summary

The Department of Economic Security's (DES) FY 2018 General Fund spending would increase by \$18,304,500, or 3.5% above the FY 2017 appropriation. The increase includes Division of Developmental Disabilities (DDD) formula adjustments, as well as removal of one-time funding for the ABLE program and domestic violence shelters.

Operating Budget

The Baseline includes \$157,260,800 and 1,874.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$78,276,300
Child Support Enforcement Administration Fund	13,106,600
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,315,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Public Assistance Collections Fund	331,100
Special Administration Fund	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 2018 adjustments would be as follows:

Remove One-Time Funding OF (2,000,000)

The Baseline includes a decrease of \$(2,000,000) from the Special Administration Fund in FY 2018 to remove one-time funding for Adult Protective Services Caseworkers. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

Administration

ABLE Program

The Baseline includes no funding in FY 2018 for the ABLE Program. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (240,000)

The Baseline includes a decrease of \$(240,000) from the General Fund in FY 2018 to remove one-time funding for the ABLE program. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

Monies in this line item support the administration of ABLÉ 529A accounts, which allow individuals to deduct interest earned on monies deposited into accounts used for qualifying expenses of a physically or developmentally disabled beneficiary. Individuals may contribute up to \$14,000 to an ABLÉ account annually.

Attorney General Legal Services

The Baseline includes \$10,996,600 and 156.9 FTE Positions in FY 2018 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,221,900
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,100
Federal CCDF Block Grant	17,700
Public Assistance Collections Fund	90,800
Special Administration Fund	5,000
Spinal and Head Injuries Trust Fund	2,000
Workforce Investment Act Grant	10,000

These amounts are unchanged from FY 2017.

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The Baseline includes \$7,924,100 from the General Fund in FY 2018 for Adult Services. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (700,000)

The Baseline includes a decrease of \$(700,000) from the Health Services Lottery Monies Fund in FY 2018 to remove one-time funding for in-home services for the elderly provided by the Area Agencies on Aging (AAA). The

Table 1

Services	FY 2018 1/
Adult Protective Contracted Services	\$ 295,100
Supplemental Payments	87,500
Home Care	3,768,800
Older Americans Act	1,742,500
Assessments and Case Management	1,568,300
Respite Care	462,000
Total	\$7,924,100

1/ Numbers do not add due to rounding

enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

This line item provides an array of independent living support to elderly persons, as shown in Table 1.

Community and Emergency Services

The Baseline includes \$3,724,000 from the Federal TANF Block Grant in FY 2018 for Community and Emergency Services. This amount is unchanged from FY 2017.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related to the needs of low-income families and individuals. In FY 2015, this line item provided short-term crisis services to 1,614 households, energy assistance to 34,745 households, and 7,456 households participated in telephone discount programs.

Coordinated Homeless Services

The Baseline includes \$2,522,600 in FY 2018 for Coordinated Homeless Services programs. This amount consists of:

General Fund	873,100
Federal TANF Block Grant	1,649,500

These amounts are unchanged from FY 2017.

In FY 2015, this line item provided emergency shelter services to 9,613 individuals, rapid re-housing services to 1,811 individuals, and homeless prevention services to 93 individuals.

Domestic Violence Prevention

The Baseline includes \$12,403,700 in FY 2018 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Services Fund	2,500,000

FY 2018 adjustments would be as follows:

**Remove One-Time Funding GF (100,000)
OF (1,500,000)**

The Baseline removes one-time funding which was used to fund capital improvements for domestic violence facilities, including \$(100,000) from the General Fund and \$(1,500,000) from the Domestic Violence Services Fund.

The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

In FY 2016, this line item, along with non-appropriated funds, served approximately 7,121 women and children in emergency shelters, 307 women and children in transitional housing, and 13,979 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The Baseline includes \$27,736,400 from the Federal TANF Block Grant in FY 2018 for TANF Cash Benefits. This amount is unchanged from FY 2017.

As of October 2016, DES served a regular TANF Cash Benefits caseload of 19,501 individual recipients. The Baseline assumes a regular caseload level of 17,763 per month. The average cost per person is projected to be \$90. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The Baseline assumes a Diversion caseload of 740 per month. The average Diversion payment per person is projected to be \$772.

Based on the projected enrollment levels, total FY 2018 TANF Cash Benefits including Diversion payments are currently estimated to cost \$26,483,000 or \$(1,254,000) below the budget. The Baseline does not adjust the line item appropriation for this estimate.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives. There is currently a 12-month cumulative lifetime limit on regular TANF Cash Benefits as a result of Laws 2015, Chapter 18. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

Coordinated Hunger Services

The Baseline includes \$1,754,600 in FY 2018 for Coordinated Hunger Services programs. This amount consists of:

General Fund	1,254,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2017.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2016, this funding assisted in the distribution of 4,840,050 congregate meals and 1,700,946 emergency food boxes.

Tribal Pass-Through Funding

The Baseline includes \$4,680,300 from the General Fund in FY 2018 for Tribal Pass-Through Funding. This amount is unchanged from FY 2017.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the cash assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 2 details the sources and uses of the CSEA Fund.

County Participation

The Baseline includes \$8,740,200 in FY 2017 for County Participation. This amount consists of:

CSEA Fund	1,079,100
CSEA Fund (EA)	7,661,100

These amounts are unchanged from FY 2017.

The division contracts with Gila, La Paz, and Navajo Counties to operate child support programs in those counties. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Table 2

CSEA Fund Sources and Uses

<u>Sources</u>	<u>FY 2017</u>
State Share of Retained Earnings	3,291,900
Federal Incentive Payments	6,300,000
Fees	1,962,800
Excess Appropriation Authority ^{1/}	<u>7,492,500</u>
Total	\$19,047,200
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,177,900
Attorney General Legal Services	2,462,600
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,327,600</u>
Total	\$19,047,200

^{1/} This line is the difference between appropriation authority and expected revenues.

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.

Table 3

Primary Disability of Clients Served

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,439	41.6%
At Risk	8,456	22.8%
Autism	8,368	22.6%
Cerebral Palsy	3,254	8.8%
Epilepsy	<u>1,559</u>	4.2%
Total	37,076	

As of June 2016, the Division of Developmental Disabilities serves 37,076 clients, which includes 29,383 clients in the LTC program and 7,693 clients in the state-only portion. The primary disabilities are shown in *Table 3*.

Overall DES Formula Adjustments

The Baseline includes an increase of \$18,644,500 from the General Fund in FY 2018 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2019 and FY 2020 formula changes.)*

As the AHCCCS-authorized provider of DD services, DES receives federal monies through prepaid monthly capitation payments based on rates for types of clients.

FMAP Adjustments

The Baseline includes a decrease of \$(7,344,400) from the General Fund in FY 2018 for an increase in the Federal Medical Assistance Percentage (FMAP). The FMAP is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2018, the Medicaid FMAP is projected to increase to 69.73% (0.57% increase).

FY 2018 Caseload Growth

The Baseline includes a net increase of \$16,522,900 from the General Fund in FY 2018 for DD caseload changes. Compared to June 2017, LTC caseloads are expected to grow by 4.5% to a level of 32,277 by June 2018 (this amount excludes state-only clients.)

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to HCBS, Case Management, and Medical Services, while caseloads for institutional Services and the Arizona Training Program at Coolidge were held flat. All clients are eligible for Medical Services and Case Management as necessary, but not all clients access these services in any particular month.

Table 4

June Long-Term Care Enrollment

<u>Line Item</u>	<u>FY 16</u>	<u>FY 17 Est</u>	<u>FY 18 Est</u>
Home and Community Based Services	26,211	27,586	28,841
Institutional Services	113	113	113
AZ Training Program at Coolidge	86	81	76
Subtotal	<u>26,410</u>	<u>27,780</u>	<u>29,030</u>
Case Management and Medical Services only	<u>2,973</u>	<u>3,107</u>	<u>3,247</u>
Total	29,383	30,887	32,277

FY 2018 Capitation Rate Adjustments

The Baseline includes an increase of \$9,730,300 from the General Fund in FY 2018 for a 2.5% net capitation rate increase beginning July 1, 2017. Capitation rates include adjustments for medical inflation, utilization of services, and other factors.

The capitation adjustment does not include a dedicated provider rate adjustment. The FY 2017 budget provided a 2.5% capitation adjustment and a 1% provider rate increase. Previous budgets included provider rate increases of 2% in FY 2015 and 1.5% in FY 2016. (Please see Other Issues for further discussion of capitation and provider rates.)

Health Insurer Fee Moratorium

The Baseline includes a one-time General Fund decrease \$(936,700) in FY 2018 associated with the moratorium on the ACA Health Insurer Fee in FY 2018. (Please see the AHCCCS narrative for additional information on the moratorium.)

Medicare Clawback

The Baseline includes an increase of \$672,400 from the General Fund in FY 2018 for adjustments associated with Medicare Clawback Payments.

DDD Operating Lump Sum

The Baseline includes \$51,321,800 and 294.3 FTE Positions in FY 2018 for the DDD Operating Lump Sum. These amounts consist of:

General Fund	15,535,100
Long Term Care System Fund	35,786,700

FY 2018 adjustments would be as follows:

Premium Tax Growth	GF	558,400
	EA	1,286,300

The Baseline includes an increase of \$1,844,700 in FY 2018 for growth in the premium tax. This amount consists of:

General Fund	558,400
Long Term Care System Fund	1,286,300

DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS. In FY 2018, the Baseline funds \$27,628,800 for DES' share of premium taxes.

Formula Adjustments	GF	(280,200)
	EA	280,200

The Baseline includes a decrease of \$(280,200) from the General Fund and a corresponding increase of \$280,200

from the Long Term Care System Fund in FY 2018 for a decrease in the federal match rate.

Background – Monies in this line item fund direct DD operating and administrative costs, including the premium tax. This line item does not include departmentwide administration and indirect costs. The Baseline continues a footnote that requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources. (Please see Other Issues for more information about DDD Line Item Transfers.)

To enhance transparency of administrative resources, the JLBC Staff recommends that the FY 2018 budget include separate line items for the premium tax and the DDD Operating budget.

Case Management - Medicaid

The Baseline includes \$59,019,700 and 1,148.3 FTE Positions in FY 2018 for Medicaid Case Management. These amounts consist of:

General Fund	17,834,100
Long Term Care System Fund	41,185,600

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	795,900
	EA	2,876,100

The Baseline includes an increase of \$3,672,000 and 71.4 FTE Positions in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. These amounts consist of:

General Fund	795,900
Long Term Care System Fund	2,876,100

Background – In addition to providing case management services to an estimated 29,570 ALTCS clients receiving direct services, this line item also funds “case management only” services to another 4,356 clients (see Table 4).

The Baseline continues a footnote that requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources. (Please see Other Issues for more information about DDD Line Item Transfers.)

Home and Community Based Services - Medicaid

The Baseline includes \$1,060,242,600 and 94.5 FTE Positions in FY 2018 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	320,375,300
Long Term Care System Fund	739,867,300

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	14,284,600
	EA	51,680,700

The Baseline includes an increase of \$65,965,300 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	14,284,600
Long Term Care System Fund	51,680,700

Background – Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C).

Of the \$1,060,242,600 in this line item, \$1,047,933,900 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

Institutional Services - Medicaid

The Baseline includes \$24,111,000 and 74 FTE Positions in FY 2018 for Medicaid Institutional Services. These amounts consist of:

General Fund	7,285,700
Long Term Care System Fund	16,825,300

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	324,800
	EA	1,175,300

The Baseline includes an increase of \$1,500,100 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	324,800
Long Term Care System Fund	1,175,300

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-ID) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding ATP-C. DES reports that 143 individuals received Medicaid institutional services in FY 2016.

Of the \$24,111,000 in this line item, \$18,545,500 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The Baseline includes \$176,495,500 and 35.4 FTE Positions in FY 2018 for Medical Services. These amounts consist of:

General Fund	53,331,900
Long Term Care System Fund	123,163,600

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	2,380,000
	EA	8,601,000

The Baseline includes an increase of \$10,981,000 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	2,380,000
Long Term Care System Fund	8,601,000

Background – Of the \$176,495,500 in this line item, \$172,017,500 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The Baseline includes \$15,735,100 and 383.7 FTE Positions in FY 2018 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,763,000
Long Term Care System Fund	10,972,100

FY 2018 adjustments would be as follows:

Formula Adjustments	GF	(91,400)
	EA	91,400

The Baseline includes a decrease of \$(91,400) from the General Fund and a corresponding increase of \$91,400 from the Long Term Care System Fund in FY 2018 for formula adjustments. The formula adjustment consists of the federal match rate change.

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-IDs or state-operated group homes (SOGHs). As of June 2016 the caseload at ATP-C was 87. At that caseload, the cost per DD client at ATP-C will be roughly \$180,900.

As permanent law, the FY 2017 Human Services BRB requires DES to annually report a plan and estimated budget to the JLBC for review by November 1 of each year for the closure of ATP-C and associated group homes.

DES is planning to close ATP-C within the next 5 years. The plan for closure is partly in response to federal rules changes that no longer allow group homes to be co-located with an intermediate care facility. As a result, AHCCCS and DES made a preliminary assessment that the group homes at ATP-C would not be able to attain compliance with the rules, which could require the relocation of 23 clients to alternative settings. Following that initial assessment, however, DES decided to undertake a review of the viability of the entire facility. Currently, DES plans to close the SOGHs at ATP-C by June 30, 2019 and the rest of the facility by June 30, 2021.

Medicare Clawback Payments

The Baseline includes \$4,043,000 from the General Fund in FY 2018 for Medicare Clawback Payments. FY 2018 adjustments would be as follows:

Formula Adjustments	GF	672,400
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The Baseline includes an increase of \$672,400 from the General Fund in FY 2018 for formula adjustments associated with Medicare Clawback Payments.

Background – DES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DES is required to make “Clawback” payments to Medicare based on a certain percentage (75% in 2017) of the estimated drug costs.

Case Management - State-Only

The Baseline includes \$3,893,700 and 79.3 FTE Positions from the General Fund in FY 2018 for state-only case

management. These amounts are unchanged from FY 2017.

Background – This line item funds case management services to clients in the state-only DD program. As of June 2016, this line provided services to 7,693 clients. The Baseline continues a footnote that requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - State-Only

The Baseline includes \$16,913,400 and 53.6 FTE Positions in FY 2018 for state-only Home and Community Based Services. These amounts consist of:

General Fund	16,793,400
Special Administration Fund	120,000

These amounts are unchanged from FY 2017.

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also includes funding for state-operated facilities, excluding ATP-C. As of June 2016, there are approximately 7,693 clients in the state-only program.

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 Effective Study (CES) rate as a result of provider rate increases.

Of the \$16,913,400 in this line item, \$10,896,300 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$4,319,000 funds the Arizona Early Intervention Program.

State-Funded Long Term Care Services

The Baseline includes \$26,559,600 and 2 FTE Positions from the Long Term Care System Fund in FY 2018 for State-Funded Long Term Care Services. FY 2018 adjustments would be as follows:

Remove One-Time Funding	OF	(600,000)
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The Baseline includes a decrease of \$(600,000) from the Special Administration Fund in FY 2018 to remove one-time funding for room and board services for DD clients. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

Background – This line item funds a variety of services ineligible for Federal Funds reimbursement from AHCCCS. The most common service provided in this line item is room and board. The program also funds residential and day programs to clients with more severe developmental disabilities. These clients reside in Large Group Living Facilities or other nursing facilities.

Of the \$26,559,600 in this line item, \$26,497,800 funds State-Funded Long Term Care (SFLTC) Services to clients enrolled in the DD program; the other \$61,800 funds program staff. *(Please see Other Issues for further discussion of SFLTC services.)*

Employment and Rehabilitation Services

JOBS

The Baseline includes \$13,005,600 and 93 FTE Positions in FY 2018 for JOBS. These amounts consist of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Workforce Investment Act Grant	2,000,000
Special Administration Fund	1,110,900

These amounts are unchanged from FY 2017.

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Case Management	\$ 9,420,000
Job Training	1,700,600
FLSA Supplement	150,000
Work-Related Transportation	1,435,000
Job Search Stipends	<u>300,000</u>
Total	\$13,005,600

Child Care Subsidy

The Baseline includes \$98,396,600 in FY 2018 for child care subsidies. This amount consists of:

Federal CCDF Block Grant	95,678,800
Federal TANF Block Grant	2,717,800

These amounts are unchanged from FY 2017.

Laws 2016, Chapter 187 extends child care assistance to some current recipients. Previously, once recipient income exceeded 165% of FPL (\$33,100 for a family of 3), they were no longer eligible for child care subsidies. Chapter 187 retained the 165% entry maximum, but allowed clients to remain eligible for services until their income reaches 85% of the state median income (\$41,900 for a family of 3). The law allowed DES to set rules for how long families can receive child care when they are between 165% FPL and 85% of state median income. The law also extended the child care eligibility redetermination period to 1 year from 6 months and added a state-approved quality indicator that the department can use to determine pay levels for child care. These provisions fulfill new federal CCDF reauthorization requirements.

The JLBC Staff estimated that the provisions could expand child care eligibility to more families and increase costs by \$5.3 million, but without additional funds the department would place families on the child care waitlist and manage within their appropriated funding level.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment. DES also processes DCS child care payments but those dollars are in DCS.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which has a 12-month cumulative lifetime time limit.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$336 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$405 per month. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa

rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child's child care costs.

Caseloads – The estimated average number of children receiving child care services in FY 2018 is projected to be 18,027 (see *Table 6*) excluding DCS-related child care. DES initiated a waiting list for the Low-Income Working category of child care services on February 18, 2009. Children must be determined eligible for child care services to be placed on the waitlist. In January 2015, DES released all 5,239 children on the waitlist and notified the families to re-apply for child care. DES then re-established the waitlist for any new applications received after the full release. As of November 2016, approximately 6,769 children are on the waiting list. It is unknown how many of those children remain eligible.

<u>Category</u>	<u>FY 16</u>	<u>FY 17 est</u>	<u>FY 18 est 1/</u>
TANF	2,250	1,733	1,732
Low-Income Working	11,890	12,946	10,550
Transitional Child Care	<u>4,736</u>	<u>5,797</u>	<u>5,745</u>
Total Served	18,876	20,476	18,027

1/ FY 2018 numbers are DES estimates.

Rehabilitation Services

The Baseline includes \$7,249,100 in FY 2018 for Rehabilitation Services. This amount consists of:

General Fund	6,594,400
Spinal and Head Injuries Trust Fund	654,700

These amounts are unchanged from FY 2017.

DES categorizes VR clients into 3 categories: Priority 1, Priority 2 and Priority 3. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 clients. Additional funds included in the FY 2017 budget allowed DES to serve roughly 3,206 Priority 2 clients currently on the waitlist.

Background – This line item funds services for the physically disabled to return them to the workforce. The

federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 11,799 clients at an average Total Funds cost of \$15,647 per client. Administrative expenditures and local match draw down additional federal match.

Third-party partnerships with government and non-governmental agencies provide portions of the state match. These partnerships include the Transition School to Work program, Behavioral Health Services operated out of AHCCCS, and DES' Blind Enterprise Program.

Independent Living Rehabilitation Services

The Baseline includes \$1,289,400 in FY 2018 for Independent Living Rehabilitation Services. This amount consists of:

General Fund	166,000
Spinal and Head Injuries Trust Fund	1,123,400

These amounts are unchanged from FY 2017.

The Independent Living Rehabilitation Services program is expected to serve up to 665 clients in FY 2018 at an average Total Funds cost of \$3,250. In addition to these clients, the division is also expected to serve 100 clients at an average annual cost of \$4,870 per client using federal Social Services Block Grant monies.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The Baseline includes \$51,654,600 from the Workforce Investment Act (WIA) Grant in FY 2018 for the Workforce Investment Act Services line item. These amounts are unchanged from FY 2017.

Background – These monies are the state's allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 95% is allocated to local governments and 5% is retained at the state level.

The allocation of the WIA Grant for workforce related programs in FY 2018 is shown in *Table 7*.

Table 7
FY 2018 WIA Grant Allocations

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$51,654,600
Administration	2,385,900 ^{1/}
AG Legal Services	10,000
JOBS	<u>2,000,000</u> ^{2/}
Total	\$56,050,500

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Benefits and Medical Eligibility

The Operating Lump Sum appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey.

Child Support Enforcement

All state shares of retained earnings, fees and federal incentives in excess of \$16,632,600 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.

Aging and Adult Services

All Domestic Violence Services Fund monies in excess of \$2,500,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$2,500,000 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, 2017. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies.

Developmental Disabilities

The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate

changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee.

Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable.

The department shall report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee any new placement into a state-owned ICF-IID or the Arizona Training Program at the Coolidge campus in FY 2018 and the reason why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before July 15, 2018.

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 September 1, 2017 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2017. The department shall submit an expenditure plan of its staffing levels for review by the Joint Legislative Budget Committee if the department

plans on hiring staff for non-case manager, non-case aide, non-case unit supervisor and non-case section manager positions above the staffing level indicated in the September 1, 2016 report.

Before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee.

Employment and Rehabilitation Services

It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families who qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I.

All Federal Workforce Investment Act monies that are received by this state in excess of \$56,040,200 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.

Departmentwide

The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security pursuant to A.R.S. § 42-5029.

The department 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 would delete footnotes related to the following issues:

- Elimination of the DES payment deferral.
- DES' FY 2016 supplemental appropriation for DDD.
- The FY 2017 DDD provider rate increase.
- A one-time appropriation for capital improvements for domestic violence shelters.
- A reduction in the FY 2016 TANF appropriation for DES.
- One-time borrowing authority from the Budget Stabilization Fund and an accompanying report.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.
- As session law, continue to permit DES to reduce income eligibility levels for all child care programs if the program has insufficient resources. DES would be required to report to JLBC within 15 days of any such change in levels.
- As permanent law, prohibit DES from reducing the Long Term Care System Fund equity transfer to the General Fund by transferring equity to the State Long Term Care System Fund.
- As session law, require DES to transfer \$24,052,400 from the Long-Term Care System Fund to the General Fund on or before June 30, 2017.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- State-Funded Long Term Care Services
- Provider Rates
- Proposition 206
- Appropriation Transfers
- Federal TANF Block Grant

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, DES' General Fund costs are projected to increase by \$26.6 million in FY 2019 above FY 2018 and \$29.5 million in FY 2020 above FY 2019 based on estimated DD formula costs. The DD estimates are based on:

- 4.5% caseload growth in FY 2019 and FY 2020, resulting in caseloads of 33,729 and 35,247 in June 2019 and June 2020, respectively.
- FMAPs of 70.04% and 70.20% in FY 2019 and FY 2020, respectively.
- 2.5% capitation growth for utilization and medical inflation in FY 2019 and FY 2020.

State-Funded Long Term Care Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, as seen in *Table 8*, include client billing revenue from room and board charges, one-time monies, and interest. SFLTC revenues primarily fund the SFLTC Services line item.

DES requires clients using residential programs to contribute a percentage of their income to help cover the cost of their room and board. Laws 2014, Chapter 167 decreased the amount of income DES is allowed to collect from clients for room and board from 88% to 70%, which was estimated to reduce client billing revenue by \$(2.7) million. Additionally, the SFLTC line item has been operating with an ongoing structural shortfall that DES has mitigated with transfers from LTCSF equity, which is no longer available. Any equity accrued to the LTCSF is now required to be transferred to the General Fund so it is no longer available for the SFLTC line item.

DES reports the FY 2016 structural shortfall was \$(6.3) million and projects that the shortfall will increase to \$(7.9) million by FY 2018. The FY 2017 budget includes a one-time increase of \$600,000 from the Special

Administration Fund to the SFLTC line in FY 2017, but the shortfall is still expected to grow to \$(6.5) million.

In past years, DES has partially addressed this shortfall using "equity" from the Long Term Care System Fund. Equity represents DDD capitation revenues received in excess of DDD program expenditures. The FY 2015 Health BRB, 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 of the DDD contract with AHCCCS appears to show that, contrary to legislative intent, DES withheld \$2 million from the equity transfer to the General Fund to address the FY 2016 SFLTC shortfall. The Baseline includes, as permanent law, a provision that would explicitly prohibit DES from adjusting the equity transfer to transfer monies to SFLTC.

Provider Rates

Provider rates are a component of the overall capitation rate. A capitation rate increase, however, does not mean that provider rates will experience the same increase. The capitation rate funds provider rate, inflation, and utilization adjustments so a capitation rate increase of a certain percent does not guarantee a like provider rate increase.

DES has different contracted rates with various types of providers. The divisions recently completed a rate rebase study that compared adopted provider rates with market "benchmark" rates. *Table 9* below shows how the adopted rates compare to the benchmark rates for the top 10 most used DD services. Current rates range from 61% to 100% of the benchmarks. These adopted rates are the result of revised FY 2017 capitation rates which included an overall 1% increase for HCBS providers effective July 1, 2016. DES used the adjustment to provide a 1.0% cross-the-board increase for all HCBS

Table 8

State-Funded Long Term Care Revenues (SFLTC) Sources and Uses

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Sources			
Client Billing Revenue	\$21,665,600	\$22,315,600	\$22,985,000
Interest	1,028,000	1,048,500	1,069,500
Special Admin Fund	-	600,000	-
Other	<u>863,300</u>	<u>869,200</u>	<u>877,900</u>
Total	\$23,556,900	\$24,833,300	\$24,932,400
Uses			
SFLTC Services	<u>29,861,200</u>	<u>31,294,600</u>	<u>32,787,200</u>
Total	\$29,861,200	\$31,294,600	\$32,787,200
Balance ^{1/}	\$ (6,304,300)	\$ (6,461,300)	\$ (7,854,800)

^{1/} As reported by the agency. Actual balance in the fund will not be negative. DES appears to have used \$2 million in LTCSF equity to address the shortfall in FY 2016.

Table 9

**FY 2017 Adopted Rate to Benchmark Rate Ratio
10 Biggest DDD Services**

Service	Ratio	FY 2016 Expenditures (\$ in M)
Group Home	87.71%	\$225.4
Respite	73.21%	83.0
Habilitation	73.79%	83.0
Attendant Care	76.23%	72.4
Day Treatment & Training	98.36%	70.0
Adult Developmental Home	94.13%	41.7
Nursing	80.80%-91.36%	41.1
Day Treatment & Training, Intense	89.56%	29.2
Group Home Room & Board	61.91%-73.65%	21.7
Group Supported Employment	75.75%-100.0%	<u>21.6</u>
Total		\$689.1

services below 100% of the benchmark, excluding room and board.

In a September 2016 report, DES' provider rate consultant concluded that DDD provider rates are adequate and appropriate based on measures of access to services, but are "somewhat inadequate" as measured by how the adopted rates compare to the benchmark rates. The consultant therefore "strongly recommend(s) that any monies that may be available for rate increases be prioritized for those services with adopted to benchmark ratios of less than 80%."

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raises 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 would be tied to inflation. The initiative also requires most employers to provide paid sick leave to their employees.

Although state employees are exempt, Proposition 206 still applies to state contractors. Anecdotal reports suggest that costs for contracted DD providers could increase from the initiative as a result of required wage increases for direct care workers. There could be similar cost increases for providers serving the ALTCS elderly and physically disabled (EPD) population.

In December, the Executive announced its plans to address the costs of Proposition 206 with a 7% provider rate increase for certain home and community-based services providers beginning January 1, 2017. AHCCCS estimates that the Total Funds cost of the rate increase for the ALTCS-DD program would be \$25.1 million in FY 2017. The associated General Fund impact would be approximately \$8 million. The Executive may propose a supplemental appropriation to address this issue.

The FY 2018 Baseline does not address this issue for FY 2017 or FY 2018.

Appropriation Transfers

DES' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review; however, the Baseline continues a footnote requiring DES to submit a report for review to the JLBC before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only,

and DDD Operating Lump Sum line items. The purpose of the footnote is to provide oversight if the department proposes to increase or decrease administrative resources.

In February 2016, DES received JLBC review for a requested transfer of \$10.5 million from the HCBS - Medicaid line to the DDD Operating Budget to align appropriations with FY 2015 expenditures, pay for a premium tax increase, and for contingency funding. DES also requested a transfer of \$5.5 million from the HCBS - Medicaid line to the Case Management - Medicaid line to align appropriations with FY 2015 expenditures and pay for salary adjustments for case managers.

The JLBC favorably reviewed a portion of the requested transfers, which included \$7.3 million for the DDD Operating Budget and \$4.2 million for Case Management - Medicaid to align appropriations with FY 2015 expenditures, pay for the premium tax increase, and pay for case manager salary adjustment for the remainder of FY 2016. The Committee did not favorably review \$2.7 million of unspecified increases for DDD Operating or \$1.3 million for ongoing costs of DD case manager salary adjustments.

Contrary to JLBC review, DES transferred the entire \$10.5 million from the HCBS - Medicaid line to DDD Operating and the entire \$5.5 million from the HCBS - Medicaid line to Case Management - Medicaid. *Table 10* above shows spending for DES line items, net of transfers implemented by DES in FY 2016. On net, the transfers resulted in \$(22.5) million in reduced HCBS expenditures, and corresponding increased expenditures in Operating, Case Management, and other services. The Legislature will have to decide whether to include these transfers in the FY 2018 budget.

Federal TANF Block Grant

The budget appropriates \$222.4 million of the state's Federal TANF Block Grant allocation in FY 2017. *Table 11* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

Table 10

FY 2016 DES Non-DDD Appropriation Transfers

	<u>FY 2016 Final Appropriation</u>	<u>FY 2016 Transfers</u>	<u>Appropriation Post-Transfer</u>	<u>FY 2016 Actual ^{1/}</u>	<u>FY 2017 Estimate</u>
DES Operating	\$ 153,952,100	\$ 3,090,000	\$ 157,042,100	\$ 147,407,900	\$ 159,260,800
General Fund		40,000			
TANF Block Grant		3,500,000			
Child Support Enforcement Fund		(450,000)			
TANF Cash Benefits	35,049,400	(3,500,000)	31,549,400	28,299,100	27,736,400
TANF Block Grant		(3,500,000)			
County Participation	6,740,200	450,000	7,190,200	4,030,600	8,740,200
Child Support Enforcement Fund		450,000			

FY 2016 ALTCS DDD Appropriation Transfers

Operating	\$ 47,835,800	\$ 10,460,000	\$ 58,295,800	\$ 54,176,700	\$ 49,477,100
General Fund		(40,000)			
Long Term Care System Fund		10,500,000			
Case Management	50,968,300	5,500,000	56,468,300	56,468,300	55,347,700
Long Term Care System Fund		5,500,000			
HCBS ^{1/}	942,362,600	(22,500,000)	919,862,600	811,270,700	994,277,300
Long Term Care System Fund		(22,500,000)			
Institutional Services	20,737,300	2,500,000	23,237,300	22,610,900	24,111,000
Long Term Care System Fund		2,500,000			
Medical Services	151,677,700	3,000,000	154,677,700	151,491,200	165,514,500
Long Term Care System Fund		3,000,000			
ATP - Coolidge	15,822,100	1,000,000	16,822,100	15,209,500	15,735,100
Long Term Care System Fund		1,000,000			
Total	\$1,425,145,500		\$1,425,145,500	\$1,290,964,900	\$1,500,200,100

^{1/} Includes \$21,645,500 for FY 2016 supplemental and \$20,000,000 for elimination of DES payment deferral. These estimates do not include FY 2016 administrative adjustments that will be processed in FY 2017.

Table 11

TANF Block Grant Spending

	Actual FY 2016	Estimate FY 2017	Estimate FY 2018
Revenues			
Beginning Balance	\$ 3,709,300	\$ 3,366,100	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues	19,655,600	19,655,600	19,655,600
Total TANF Available	\$ 223,506,200	\$ 223,163,000	\$ 219,796,900
Expenditures			
Department of Child Safety			
DCS Operating	\$ 46,928,100	\$ 16,928,000	\$ 16,928,000
Line Items			
Caseworkers	-	30,000,000	30,000,000
Attorney General Legal Services	99,400	99,400	99,400
Inspections Bureau	549,500	549,700	549,700
Overtime	3,859,500	3,859,500	3,859,500
Adoption Services	20,645,700	20,445,700	20,445,700
Emergency and Residential Placement	16,423,000	16,423,000	16,423,000
Foster Care Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,743,000	1,943,000	1,943,000
In-Home Mitigation/In-Home Preventive Support Services	5,911,200	5,911,200	5,911,200
Out-of-Home Support Services	46,191,400	46,340,100	46,340,100
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 149,323,900	\$ 149,472,700	\$ 149,472,700
Department of Economic Security			
DES Operating	\$ 20,315,500	\$ 20,315,500	\$ 20,315,500
Line Items			
Administration			
Attorney General Legal Services	\$ 106,100	\$ 106,100	\$ 106,100
Aging and Adult Services			
Community and Emergency Services	\$ 3,724,000	\$ 3,724,000	\$ 3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,588,200	6,620,700	6,620,700
Total - Aging and Adult Services	\$ 11,961,700	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 28,299,100	\$ 27,736,400	\$ 27,736,400
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 28,799,100	\$ 28,236,400	\$ 28,236,400
Employment and Rehabilitation Services			
JOBS	\$ 6,916,000	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 9,633,800	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 70,816,200	\$ 72,964,700	\$ 72,964,700
FY 2017 Administrative Adjustments <u>1/</u>		\$ 6,006,500	
TOTAL - STATEWIDE	\$ 220,140,100	\$ 228,443,900	\$ 222,437,400
Ending Balance <u>2/</u>	\$ 3,366,100	\$ (5,280,900)	\$ (2,640,500)

1/ As estimated by the agency.

2/ Actual Ending Balance will not be negative.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Child Restraint Fund (DEA2192/A.R.S. § 28-907)		Non-Appropriated
Source of Revenue: Fines or penalties from parents, guardians, or legal custodians who fail to sufficiently restrain in motor vehicles children under the age of 4 or weighing less than 40 pounds.		
Purpose of Fund: To purchase child passenger restraint systems and provide them to hospitals for loan to indigent persons. Monies in the fund shall not exceed \$20,000. All monies collected over \$20,000 shall be deposited in the Arizona Highway User Revenue Fund. This fund is not administered by the Department of Child Safety.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Partially-Appropriated
Source of Revenue: State Share of Retained Earnings from child support collections, federal incentives, and fees.		
Purpose of Fund: To fund the statewide Child Support Enforcement program.		
Appropriated Funds Expended	14,791,200	16,632,600
Expenditure Authority Funds Expended	28,821,200	42,299,500
Year-End Fund Balance	1,263,800	3,056,600
Client Trust Fund (DEA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	0	1,494,700
Year-End Fund Balance	282,100	1,140,900
Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Consists of client monies, such as Social Security, earnings, etc.		
Purpose of Fund: If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
Funds Expended	142,200	145,100
Year-End Fund Balance	668,500	1,532,000
Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)		Non-Appropriated
Source of Revenue: Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
Purpose of Fund: To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
Funds Expended	19,700	53,200
Year-End Fund Balance	24,400	104,900
Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)		Appropriated
Source of Revenue: A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offences. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions. Laws 2016, Chapter 94 changed the fund name from the Domestic Violence Shelter Fund.		
Purpose of Fund: To fund grants to qualified shelters for victims of domestic violence.		
Funds Expended	2,500,000	4,000,000
Year-End Fund Balance	2,194,900	2,226,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
Funds Expended	53,000	32,800
Year-End Fund Balance	151,900	112,400
Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)		Non-Appropriated
Source of Revenue: Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
Purpose of Fund: To be used by the department for buildings, equipment, and other capital investments.		
Funds Expended	0	245,200
Year-End Fund Balance	346,300	393,400
Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs and policies that promote parental choice; providing consumer education to help parents make informed choices on child care; providing child care to welfare recipient parents; and implementing health, safety, licensing, and registration standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. DCS has a separate allocation of CCDF.		
Funds Expended	93,558,500	107,773,600
Year-End Fund Balance	6,229,400	9,580,600
Federal Grants (DEA2000/A.R.S. § 41-101.01)		Non-Appropriated
Source of Revenue: Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Food Stamp administration, the Social Services Block Grant, and Medicaid.		
Funds Expended	1,923,561,600	1,939,158,100
Year-End Fund Balance	26,228,400	26,365,000
Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. DCS has a separate allocation for TANF.		
Funds Expended	70,816,200	72,964,700
Year-End Fund Balance	3,709,300	0
Health Services Lottery Monies Fund (DEA4250/A.R.S. § 36-108.01)		Partially-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. In FY 2017, \$700,000 was appropriated to DES for Aging Services.		
Appropriated Funds Expended	0	700,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Industries for the Blind Fund (DEA4003/A.R.S. § 41-1975)		Non-Appropriated
Source of Revenue: Proceeds from sales of products of Arizona Industries for the Blind, as well as interest earned on the fund balance.		
Purpose of Fund: To provide funds for the wages and salaries of production workers, inspectors, and other employees necessary for the operation of the training centers, workshops, or home industries; supplies, equipment or other incidental costs.		
Funds Expended	18,888,800	19,770,400
Year-End Fund Balance	2,582,300	3,619,800
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. Laws 2014, Chapter 2 appropriated these monies to ADOA to pay for costs associated with the relocation of the data center operated by DES.		
Funds Expended	7,000,000	0
Year-End Fund Balance	3,000,000	0
Arizona Job Training Fund (DEA1237/A.R.S. § 41-1544)		Non-Appropriated
Source of Revenue: DES collects one-tenth of one percent of taxable wages per A.R.S. § 23-622 from employers for the job training tax and transfers all funds to the Arizona Commerce Authority. The revenue received by DES in this fund is the reimbursement for expenditures incurred for the purpose of collecting the job training tax. The FY 2015 Revenue BRB (Laws 2015, Chapter 10) repealed the job training tax effective December 31, 2015 and redirects unencumbered monies in the fund as of December 31, 2016 to the Unemployment Compensation Fund and General Fund.		
Purpose of Fund: To collect the job training tax.		
Funds Expended	881,100	120,000
Year-End Fund Balance*	39,400	(43,700)
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	732,175,200	901,809,600
Year-End Fund Balance	76,521,700	87,607,000
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	27,901,000	26,559,600
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	38,800	35,000
Year-End Fund Balance	38,200	19,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	11,000	421,900
Year-End Fund Balance	200,200	261,500
Revenue from State or Local Agency Fund (DEA3193/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies received through collections where the program the monies go toward have yet to be identified.		
Purpose of Fund: Temporary account for monies until the benefiting program is identified.		
Funds Expended	1,552,000	2,131,200
Year-End Fund Balance	1,986,800	2,131,200
Special Administration Fund (DEA2066/A.R.S. § 23-705)		Appropriated
Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
Funds Expended	2,939,700	5,528,700
Year-End Fund Balance	8,567,600	4,880,200
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	66,300	59,700
Year-End Fund Balance	0	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	1,870,000	2,323,700
Year-End Fund Balance	2,825,700	3,008,900
Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)		Appropriated
Source of Revenue: Federal reimbursement.		
Purpose of Fund: General operations.		
Funds Expended	1,000,000	1,000,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	277,956,100	298,900,000
Year-End Fund Balance	100,240,600	309,188,800
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	146,000	58,400
Year-End Fund Balance	0	0
Workforce Investment Act Grant (DEA2001/U.S. P.L. 105-220)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
Funds Expended	36,456,400	56,040,200
Year-End Fund Balance	25,180,600	32,193,800
* As reported by agency. Actual ending balance will not be negative.		

State Board of Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	4.0	4.0
Personal Services	552,000	314,400	314,400
Employee Related Expenditures	192,200	125,800	125,800
Professional and Outside Services	251,300	250,500	250,500
Travel - In State	400	10,000	10,000
Travel - Out of State	800	10,000	10,000
Other Operating Expenditures	276,800	358,300	358,300
Equipment	28,300	25,000	25,000
AGENCY TOTAL	1,301,800	1,094,000	1,094,000
FUND SOURCES			
General Fund	1,139,100	1,094,000	1,094,000
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	162,700	0	0
SUBTOTAL - Other Appropriated Funds	162,700	0	0
SUBTOTAL - Appropriated Funds	1,301,800	1,094,000	1,094,000
TOTAL - ALL SOURCES	1,301,800	1,094,000	1,094,000

AGENCY DESCRIPTION — The State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The Board is composed of 11 members: the Superintendent of Public Instruction, the president of a state university or college, 4 lay members, a president or chancellor of a community college district, a charter school administrator, a high school district superintendent, a teacher, and a county school superintendent. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Operating Budget

The Baseline includes \$1,094,000 and 4 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

* * *

FORMAT — Lump Sum by Agency

Other Issues

Clarification of Duties

Laws 2016, Chapter 138 clarified the duties and powers of the Arizona Department of Education (ADE), Superintendent of Public Instruction (SPI) and State Board of Education (SBE) and transferred the teacher investigation unit and associated Teacher Certification Fund appropriation from SBE to ADE (*please see the FY 2017 Appropriations Report for more information*).

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	162,700	0
Year-End Fund Balance	0	0

Department of Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	164.9	171.9	171.9
Personal Services	4,826,800	5,463,800	5,463,800
Employee Related Expenditures	1,734,700	1,962,600	1,962,600
Professional and Outside Services	564,700	427,700	427,700
Travel - In State	17,300	32,800	32,800
Travel - Out of State	21,900	23,600	23,600
Other Operating Expenditures	1,718,900	4,938,600	4,938,600
Equipment	164,000	68,500	68,500
OPERATING SUBTOTAL	9,048,300	12,917,600	12,917,600
SPECIAL LINE ITEMS			
Formula Payments			
Basic State Aid	3,621,149,600	3,723,868,200	3,834,199,000
State Aid Supplement	50,000,000	50,000,000	50,000,000
Current-Year Funding Backfill	0	31,000,000	0
Former District-Sponsored Charter Schools	0	1,148,000	0
K-3 Reading	39,917,300	0	0
Special Education Fund	32,211,300	32,242,100	32,242,100
Other State Aid to Districts	229,800	983,900	983,900
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	353,649,100	391,456,100	386,215,500
Additional State Aid - 1% Cap	13,034,900	7,380,300	24,330,500
Non-Formula Programs			
Accountability and Achievement Testing	16,422,400	16,420,800	16,420,800
Adult Education	4,485,300	4,498,200	4,498,200
Alternative Teacher Development Program	500,000	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Code Writers Initiative Pilot Program	0	500,000	0
College Credit by Examination Incentive Program	0	0	5,000,000
English Learner Administration	6,507,900	6,495,000	6,495,000
Geographic Literacy	0	100,000	0
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000
School Safety Program	2,469,700	3,645,600	3,645,600
State Block Grant for Vocational Education	11,576,300	11,576,300	11,576,300
Teacher Certification	1,771,500	1,828,100	1,828,100
Technology-Based Language Development and Literacy Intervention Pilot Program	0	0	0
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
AGENCY TOTAL	4,168,933,800	4,302,770,600	4,397,063,000
FUND SOURCES			
General Fund	3,939,909,800	4,069,375,800	4,148,687,800
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	398,300	797,900	797,900
Department of Education Professional Development Revolving Fund	276,300	2,700,000	2,700,000
Permanent State School Fund	219,440,500	219,804,200	235,284,600
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	0	500,000	0
Teacher Certification Fund	1,908,900	2,342,700	2,342,700

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
SUBTOTAL - Other Appropriated Funds	229,024,000	233,394,800	248,375,200
SUBTOTAL - Appropriated Funds	4,168,933,800	4,302,770,600	4,397,063,000
Other Non-Appropriated Funds	603,571,700	609,411,100	609,411,100
Federal Funds	1,124,034,400	1,159,279,200	1,159,279,200
TOTAL - ALL SOURCES	5,896,539,900	6,071,460,900	6,165,753,300

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2017 it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts and approximately 430 charter schools in their provision of public education from preschool through grade 12.

Summary

ADE's FY 2018 General Fund Baseline spending would increase by \$79,312,000, or 1.9%. The Baseline includes:

- An increase of \$16,950,200 for higher-than-budgeted 1% Cap costs for FY 2017 ("base adjustment").
- A decrease of \$(12,092,800) for lower-than-budgeted Homeowner's Rebate costs for FY 2017 ("base adjustment").
- An increase of \$87,526,600 for 1.4% Average Daily Membership (ADM) growth in FY 2018.
- An increase of \$21,000,000 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$79,519,800 for a 1.37% inflator.
- A decrease of \$(58,082,100) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$6,852,200.
- A decrease of \$(16,032,700) to offset higher available endowment earnings under Proposition 123.
- A decrease of \$(31,000,000) to eliminate one-time funding for a current-year funding backfill.
- A decrease of \$(18,100,000) to phase out remaining small school weight funding for multi-site charter schools.
- A decrease of \$(1,800,000) to complete the elimination of Joint Technical Education District (JTED) funding for students who have already graduated from high school.
- A decrease of \$(1,148,000) to eliminate one-time funding for former district-sponsored charter schools.
- An increase of \$818,800 for Empowerment Scholarship Accounts (ESAs).
- An increase of \$5,000,000 for first-year funding of the college credit by examination incentive program (A.R.S. § 15-249.06).

- A decrease of \$(100,000) for one-time funding for Geographic Literacy.

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$135,121,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. (See *Other Issues for more information.*)

Operating Budget

The Baseline includes \$12,917,600 and 85.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,905,100
Department of Education Empowerment Scholarship Account Fund	797,900
Department of Education Professional Development Revolving Fund	2,700,000
Teacher Certification Fund	514,600

These amounts are unchanged from FY 2017.

The Baseline would continue to include \$797,900 from the Department of Education Empowerment Scholarship Account Fund (DEESAF) in the department's operating budget for FY 2018 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402.

The DEESAF is funded with monies retained from students' ESAs pursuant to A.R.S. § 15-2402C. That law allows ADE to retain up to 5% of each student's ESA funding for program administration, which for FY 2017 would be as much as \$2,300,000 (an estimated \$46,000,000 in ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer to fund the latter's costs for ESA fund

Table 1

FY 2018 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2017 Appropriation	\$3,504,064,000
Enrollment Growth @ 1.4%	87,526,600
Higher Average Cost Per Pupil	21,000,000
1.37% Inflator	79,519,800
Property Taxes from New Construction	(58,082,100)
Endowment Earnings	(16,032,700)
Multisite Charter Small School Weights	(18,100,000)
JTED Enrollment – No Graduates	(1,800,000)
Empowerment Scholarship Accounts	818,800
FY 2018 Baseline ^{1/}	\$3,598,914,400
Permanent State School Fund	
FY 2017 Original	\$ 219,804,200
FY 2017 Base Adjustment	(552,300)
FY 2017 Revised	\$ 219,251,900
Estimated FY 2018 Growth ^{2/}	16,032,700
FY 2018 Baseline	\$ 235,284,600
Prop 301 Sales Tax (no change) ^{3/}	\$ 86,280,500
Local Property Taxes ^{3/}	
FY 2017 Base - estimated	\$2,441,750,200
Property Taxes from New Construction	58,082,100
Non-State Aid Formula Changes	15,043,700
FY 2017 Estimated ^{4/}	\$2,514,876,000
Grand Total (all sources) ^{1/ 5/ 6/}	\$6,435,355,500

- ^{1/} Does not reflect reductions of \$(31,000,000) for Current-Year Funding Backfill and \$(1,148,000) for Former District-Sponsored Charter Schools, which are reflected in separate line items apart from Basic State Aid.
- ^{2/} Under Proposition 123.
- ^{3/} Non-appropriated, so excluded from appropriated totals.
- ^{4/} An estimated \$410,546,000 of this total will be funded by the state through Homeowner’s Rebate and 1% cap funding.
- ^{5/} Statutory formula cost would be approximately \$401,846,100 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the Baseline on a session law basis, including the impact on non-state aid districts.
- ^{6/} Does not include \$50,000,000 for State Aid Supplement, which is appropriated to a separate line item apart from Basic State Aid.

processing. The actual expenditure, however, is subject to legislative appropriation. (See *State Treasurer Baseline for State Treasurer’s ESA administration funding.*) (See *Empowerment Scholarship Accounts policy issue under Basic State Aid for more information regarding Empowerment Scholarship Account Administration.*)

The Baseline also would continue to include \$2,700,000 from the Department of Education Professional Development Revolving Fund (DEPDRF) in the department's operating budget for FY 2018 for professional development activities provided by the department pursuant to A.R.S. § 15-237.01. A.R.S. § 15-237.01 establishes the DEPDRF and requires the department to deposit into it any tuition monies generated by its professional development courses.

Formula Programs

Basic State Aid

The Baseline includes \$3,834,199,000 in FY 2018 for Basic State Aid. This amount consists of:

General Fund	3,598,914,400
Permanent State School Fund	235,284,600

The \$3,834,199,000 total does not include \$86,280,500 in “additional school day” funding from Proposition 301 that will be allocated through Basic State Aid in FY 2018 because those monies are non-appropriated (see Table 1). It also excludes local property taxes that will help fund K-12 formula costs for FY 2018, as they also are non-appropriated. In addition, it excludes formula monies for the State Aid Supplement established by Proposition 123, as they are appropriated through a separate line item apart from Basic State Aid.

(See *Other Issues for background information regarding the Basic State Aid formula.*)

FY 2018 adjustments would be as follows:

Enrollment Growth **GF 87,526,600**
 The Baseline includes an increase of \$87,526,600 from the General Fund in FY 2018 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.4% in FY 2018 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Table 2

Fiscal Year	K-12 ADM (unweighted) ^{1/}			Change	% Change
	District ^{2/}	Charter ^{3/}	Total		
2011	914,952	119,321	1,034,273	(12,552)	(1.2)%
2012	909,530	131,993	1,041,523	7,250	0.7%
2013	910,476	140,199	1,050,675	9,152	0.9%
2014	912,920	152,158	1,065,078	14,403	1.4%
2015	920,225	160,946	1,081,171	16,093	1.5%
2016	922,809	170,210	1,093,019	11,848	1.1%
2017 est	926,556	180,091	1,106,647	13,628	1.25%
2018 est	931,783	190,075	1,121,858	15,211	1.4%
2019 est	937,972	199,959	1,137,931	16,073	1.4%
2020 est	944,161	209,993	1,154,154	16,223	1.4%

- ^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Numbers shown for FY 2014 and FY 2015 have been adjusted by JLBC Staff in an attempt to compensate for data anomalies caused by charter conversions for those fiscal years. Numbers for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).
- ^{2/} Includes district-sponsored charter schools.
- ^{3/} Excludes district-sponsored charter schools.

Higher Average Cost Per Pupil GF 21,000,000

The Baseline includes an increase of \$21,000,000 from the General Fund in FY 2018 for growth in the average Basic State Aid cost per pupil for FY 2018. The average cost per pupil increases annually due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students, although they do not receive local bond and override funding. Special education students receive "add on" funding that increases their average per pupil costs.

The \$21,000,000 estimate includes \$9,000,000 for charter school pupils and \$10,500,000 for special education students in FY 2018. The charter estimate assumes that board-sponsored charter schools will grow by approximately 9,000 ADM in FY 2018 and receive approximately \$1,000 more per pupil than non-charter pupils (9,000 X \$1,000 = \$9,000,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 3,000 ADM in FY 2018 (see Table 3) and an average per pupil base level "add on" of \$3,500 (3,000 X \$3,500 = \$10,500,000). The assumed \$3,500 base level amount is "add on" in nature for special education pupils because it is in addition to base level funding that they generate under the "main" (non-special education) part of the Basic State Aid formula.

Table 3

Fiscal Year	Special Education ADM (weighted) ^{1/}				%
	Districts	Charters	Total	Change	
2011	88,633	5,189	93,822	6,268	7.2%
2012	92,738	5,858	98,596	4,774	5.1%
2013	95,887	6,522	102,409	3,813	3.9%
2014	95,024	7,698	102,722	313	0.3%
2015	105,690	9,135	114,825	12,103	11.8%
2016	105,187	9,731	114,918	93	0.1%
2017 est	107,587	10,331	117,918	3,000	2.6%
2018 est	109,987	10,931	120,918	3,000	2.5%
2019 est	112,387	11,531	123,918	3,000	2.5%
2020 est	114,787	12,131	126,918	3,000	2.4%

^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Excludes "Group B" category that only receives funding weight of 0.003 (309 additional "weighted" students for FY 2016) and students enrolled at ASDB.

1.37% Inflation Adjustment GF 79,519,800

The Baseline includes an increase of \$79,519,800 from the General Fund in FY 2018 for a 1.37% 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 1.37% inflation

adjustment would result in a base level of \$3,685.45 for FY 2018 versus \$3,635.64 for FY 2017.

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the "base level or other components of the Revenue Control Limit" (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The assumed FY 2018 adjustment is 1.37%, which equals the currently projected GDP price deflator for calendar year 2016. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32. (See the FY 2016 Appropriations Report for background information regarding the related *Cave Creek, et. al. v Ducey* lawsuit.)

Property Taxes from New Construction GF (58,082,100)

The Baseline includes a decrease of \$(58,082,100) from the General Fund in FY 2018 due to a projected 2.4% increase in statewide Net Assessed Value (NAV) from new construction in FY 2018. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$58,082,100 in FY 2018. It also will decrease state costs by \$(58,082,100), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls ("existing property") is expected to increase by 1.4% in FY 2018, resulting in a net 3.8% NAV increase for new construction and existing property combined for FY 2018.

The projected 1.4% NAV increase for existing property will not affect net QTR or SETR collections in FY 2018 because A.R.S. § 41-1276 (the "Truth in Taxation" or "TNT" law) requires the QTR and SETR to be adjusted each year in order to offset NAV changes for existing properties. As a result, the QTR will decrease to \$4.10 (from \$4.16 currently) and the SETR will decrease to \$0.4941 (from \$0.5010 currently) in FY 2018 in order to offset the estimated 1.4% NAV increase for existing property (see Table 4).

Table 4

Tax Rate	TNT Tax Rates	
	FY 2017	FY 2018
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0793	\$2.0508
• Unified districts and elementary districts not located within a high school district	\$4.1586	\$4.1016
• State Equalization Tax Rate (SETR)	\$0.5010	\$0.4941

On a related note, Proposition 117 from the November 2012 General Election, capped annual growth in property

values at 5% starting in FY 2016. (See the FY 2016 Appropriations Report for more information.)

Endowment Earnings Base Adjustment OF (552,300)

The Baseline includes a decrease of \$(552,300) from the Permanent State School Fund in FY 2018 for an endowment earnings base adjustment. The FY 2017 budget assumed that Proposition 123 would increase the amount of K-12 endowment earnings available for Basic State Aid for FY 2017 by \$172,444,700, but the actual increase based on updated data is \$171,892,400 (\$552,300 less). The base amount of endowment earnings from FY 2017 therefore will be \$(552,300) less than amount originally budgeted for FY 2017.

Endowment Earnings Growth GF (16,032,700) OF 16,032,700

The Baseline includes a decrease of \$(16,032,700) from the General Fund and increase of \$16,032,700 from the Permanent State School Fund in FY 2018 for endowment earnings funding for Basic State Aid. This assumes that K-12 endowment earnings from the State Land Department and State Treasurer combined under Proposition 123 will equal \$235,284,600 for FY 2018, which would be \$16,032,700 more than the \$219,251,900 revised total assumed for FY 2017 (see Table 5).

Source	FY 2017 revised	FY 2018	Change
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	<u>171,892,400</u>	<u>187,925,100</u>	<u>16,032,700</u>
Total	\$219,251,900	\$235,284,600	\$16,032,700

^{1/} K-12 Endowment Earnings also help fund School Facilities Board debt service and the Classroom Site Fund (see Table 11).
^{2/} The October 2015 Special Session increased the state trust land distribution percentage in the State Constitution from 2.5% to 6.9% (an increase of 4.4%) if voters approved Proposition 123 in May 2016, which did occur.

A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000. Of that total, an estimated \$47,359,500 will be used for Basic State Aid for FY 2018 and \$24,903,500 will be used for SFB debt service.

All endowment earnings above \$72,263,000 go to the Classroom Site Fund established by A.R.S. § 15-977, except that Laws 2015, 1st Special Session, Chapter 1 appropriates for Basic State Aid any increase in State Treasurer land trust distributions from the new 4.4% distribution starting in FY 2016. (See the FY 2017

Appropriations Report for more information on the October 2015 Special Session and Proposition 123.)

The estimated \$235,284,600 in K-12 endowment earnings for FY 2018 assumes that debt service costs for State School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in prior years in order to fund deficiencies correction in public schools will remain at \$24,903,500 for FY 2018 based on input from SFB, which would be unchanged from the currently budgeted level. This would keep the amount of land trust monies available to fund Basic State Aid from the original 2.5% distribution rate unchanged for FY 2018 at \$47,359,500.

Multisite Charter Small School Weight Reduction GF (18,100,000)

The Baseline includes a decrease of \$(18,100,000) from the General Fund in FY 2018 to complete a phase out of small school weight funding for multisite charter schools in FY 2018. Multisite charters schools generally are charters schools with common organizational or governance structures.

The FY 2016 K-12 Education BRB (Laws 2015, Chapter 15) originally reduced small school weight funding for most multisite charter schools by 33% for FY 2016, 67% for FY 2017 and 100% for FY 2018 and beyond unless their combined student counts were less than 600 for grades K-8 or high school. The FY 2017 K-12 Education BRB, however, froze the reduction at 33% for one more year (FY 2017), while still allowing full elimination of small school weights for multisite charters for FY 2018.

The FY 2016 budget assumed that the phase out would reduce Basic State Aid costs by \$(6,500,000) in FY 2016 and by an additional \$(6,500,000) in FY 2017 and \$(7,000,000) in FY 2018 for a total reduction of \$(20,000,000) over 3 years. In October 2016, however, the department estimated that the savings would be approximately \$(8,900,000) for FY 2016 and \$(27,000,000) upon full implementation based on revised data.

The FY 2017 budget therefore assumed an ongoing savings of \$(8,900,000) rather than \$(6,500,000) from this issue for FY 2016. For FY 2018, the Baseline assumes an additional savings of \$(18,100,000), which equals the difference between ADE's full implementation estimate of \$(27,000,000) and the \$(8,900,000) savings already assumed in ADE's base budget (\$27,000,000 - \$8,900,000 = \$18,100,000).

Small school weights are authorized by A.R.S. § 15-943, paragraph 1. They generate additional funding per pupil for eligible entities that have fewer than 600 ADM pupils

in Grades K-8 or high school. Small school weights vary depending on a district or charter's student count and can increase their Base Support Level funding by up to 32%. Only isolated districts with fewer than 100 high school students, however, qualify for the highest small school weights (A.R.S. § 15-943).

JTED Funding for High School Graduates **GF (1,800,000)**

The Baseline includes a decrease of \$(1,800,000) from the General Fund in FY 2018 for Basic State Aid funding for JTED students who have already graduated from high school.

The FY 2017 K-12 Education BRB prohibits JTEDs from including high school graduates in their ADM counts, with certain short-term exceptions. For FY 2016 it allowed any high school graduate under age 21 to remain in their JTED's ADM counts. For FY 2017 it is allowing any high school graduate under age 21 who was enrolled in a JTED program on February 1, 2016 to remain in their JTED's ADM counts in FY 2017 until they finish the program or through the end of FY 2017, whichever occurs first. High school graduates who were not enrolled in a JTED program on February 1, 2016 must be excluded from JTED ADM counts starting in FY 2017.

The prohibition on high school graduates is reducing Basic State Aid costs by an estimated \$(1,000,000) in FY 2017 and will reduce them by an additional estimated \$(1,800,000) in FY 2018 for a total assumed ongoing savings of \$(2,800,000) starting in FY 2018. The estimated savings is greater starting in FY 2018 because no exceptions to the new prohibition are allowed after FY 2017.

On a related note, the FY 2017 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2017 by funding their state aid at 95.5% of the full funding amount apart from unrelated District Additional Assistance (DAA) suspensions. This is suspending an estimated \$1,897,900 of JTED formula funding for the East Valley Institute of Technology (EVIT), West-MEC and the Pima County JTED for FY 2017. The Baseline would continue this suspension for FY 2018.

A.R.S. § 15-393 allows a Joint Technical Education District (JTED) to receive up to 0.75 ADM (versus 0.25 ADM in most situations) for each student who attends a JTED "centralized campus" or "leased centralized campus." A.R.S. § 15-393R4 allows the latter to be located at a school district or charter school if the site is leased at fair market value and if the lease is approved by the Joint Committee on Capital Review (JCCR). The JCCR approval

requirement was made permanent by Laws 2016, Chapter 4. It otherwise would have expired under prior law after December 31, 2016. To date, only 2 JTEDs have sought JCCR approval for JTED leases.

Rollover **GF 0**

The Baseline includes no change from the General Fund in FY 2018 for the K-12 rollover. This would continue to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2018) state aid payments until the following fiscal year (now FY 2019).

The FY 2018 rollover 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 2018, which would continue it at the \$930,727,700 level.

As a result of the continuing rollover, the 12 monthly payments that "large" school districts receive in FY 2018 would again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2016, Chapter 117 advance appropriated \$930,727,700 from the General Fund in FY 2018 in order to fund the \$930,727,700 deferred obligation from FY 2017. Those monies, therefore, will not appear in the FY 2018 General Appropriation Act. The Act, however, would advance appropriate \$930,727,700 from the General Fund in FY 2019 in order to fund the deferred FY 2018 obligation.

A continued \$930,727,700 rollover for FY 2018 would include \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover, \$350,000,000 for the additional FY 2010 rollover and \$(21,900,000) to exempt districts with less than 600 students.

Additional Assistance Suspensions **GF 0**

The Baseline includes no change from the General Fund in FY 2018 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 2018.

School districts will receive approximately \$73,000,000 of DAA funding in FY 2018, including \$5,000,000 self-funded by non-state aid districts under current estimates. Without the continuing suspension they instead would receive approximately \$455,000,000 in DAA funding, including approximately \$32,000,000 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded)

of \$450.76 to \$601.24 per pupil depending on the pupil's grade level and the size of their school district.

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 are able to fully fund their K-12 formula costs with local property taxes because of their strong local property tax base.

The FY 2018 K-12 Education BRB also would continue to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2018.

**Empowerment Scholarship GF 818,800
Accounts**

The Baseline includes an increase of \$818,800 from the General Fund in FY 2018 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This includes an estimated \$377,800 for trend line ESA caseload growth and \$441,000 for increased ESA eligibility under Laws 2016, Chapter 112. The latter now allows ESA recipients with disabilities to remain eligible for ESA funding until they reach age 22 if they meet eligibility criteria established by the department under the Act.

The \$377,800 estimate for trend line ESA caseload growth assumes an increase of 1,325 ESAs for FY 2018 apart from Chapter 112, which would be the same increase currently estimated by the department for FY 2017. It also assumes that 95% of the new ESAs will go to students who otherwise would attend public schools and 5% to all other pupils (primarily private and home school students), since the ESA eligibility law (A.R.S. § 15-2401) requires most ESA recipients to be prior year public school pupils.

In addition, it assumes that 58% of new ESAs will go to students with disabilities based on preliminary FY 2017 data. It also assumes different per pupil costs or savings for different types of ESA students based on formula modeling. For example, it assumes an average per pupil savings of \$(2,700) for special needs students from charter schools, but an average per pupil cost of \$5,700 for non-special needs students from private or home schools.

The \$441,000 estimate for increased ESA eligibility under Laws 2016, Chapter 112 assumes that 18 students between the ages of 19 and 22 who otherwise would be ineligible for ESAs in FY 2018 will continue to receive ESA funding in FY 2018 under that law. This assumes an average per pupil cost of \$24,500 for these students,

which is the estimated average ESA cost for pupils with disabilities. Chapter 112 pertains only to disabled pupils.

The overall cost of ESAs is projected to increase by \$17,417,100 in FY 2018, growing from \$46,007,500 in FY 2017 to \$63,424,600 in FY 2018 (see Table 6). With the exception of the \$818,800 Baseline increase for this policy issue, this higher estimated cost is expected to be offset by reductions in regular Basic State Aid costs for ESA students who otherwise would be attending public schools.

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,333,700
FY 2016	2,175	\$28,590,800
FY 2017 (est)	3,500	\$46,007,500
FY 2018 (est)	4,825	\$63,424,600

^{1/} Figures shown for FY 2012 through FY 2017 are from ADE as of November 2016. FY 2018 estimates are from the JLBC Staff based roughly on trend line growth. "Total Awards" represent estimated ESA allocations rather than the net General Fund impact of the program after related Basic State Aid savings are deducted. The latter amount is unknown because it would depend in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

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 attended a failing school in the prior year.
- An incoming Kindergartner who resides within the boundaries of a failing school.
- The child of a resident member of the armed forces who is on active duty or was killed in the line of duty.

- A previous ESA participant.
- A child who received or was eligible to receive a Displaced or Disabled School Tuition Organization (STO) scholarship in the prior year and who attended a public school full-time for at least 90 days or one full semester in the prior year.
- A child who resides on an Arizona Indian reservation.
- A child of a parent who is legally blind, deaf or hard of hearing (new for FY 2017 pursuant to Laws 2016, Chapter 353).

(Please see the FY 2015 Appropriations Report for historical information on changes in program eligibility.)

Laws 2013, Chapter 250 caps the number of new ESAs approved by the department each year at 0.5% of total public school enrollment through calendar year 2019, or approximately 5,500 new students annually. Current ESA growth is substantially below this level, as the estimated 3,500 ESAs for FY 2017 represent an increase of only 1,325 net students above the FY 2016 level *(see Table 6)*.

Chapter 250 also amended the funding formula for the ESA program to include “. . . an amount that is equivalent to ninety percent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student was attending a charter school.”

Since FY 2015 the department has interpreted this language as providing 90% of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. ADE has estimated that this change causes ESAs to cost about 9% more than apart from this policy, which was approximately \$2,573,200 for FY 2016 (\$28,590,800 estimated ESA cost for FY 2016 *[from Table 6]* X 9% = \$2,573,200).

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the funding designated for each student’s ESA account, of which it is required to transfer one-fifth to the State Treasurer for related administration at the State Treasurer’s office. The retained monies, however, are subject to legislative appropriation and the department’s appropriation of ESA administration for FY 2017 is \$797,900, which is less than the maximum allowed amount of \$1,840,300 (\$46,077,500 from Table 6 X 4% = \$1,840,300). Any “4%” monies that are not appropriated or spent are carried forward in the Department of Education Empowerment Scholarship Account Fund to the next fiscal year. At the end of FY 2016 the fund had a carry-forward balance of \$1,672,500.

The Baseline would continue to appropriate \$797,900 to ADE from the Department of Education Empowerment Scholarship Account Fund in FY 2018 for program administration as part of the department’s overall operating budget *(see Operating Budget narrative above for more information)*.

The Baseline also would continue to appropriate \$79,700 from the State Treasurer Empowerment Scholarship Account Fund in FY 2018 for ESA program administration, which would be unchanged from FY 2017 *(see related narrative in State Treasurer Baseline pages)*.

Laws 2016, Chapter 353 requires the department to accept ESA applications year-round rather than during a period determined by the department under prior law. (For FY 2017, the department accepted ESA applications from January 1, 2016 through April 1, 2016.) It also requires the department to enroll and issue an award letter to eligible ESA applicants within 45 days versus no deadline under prior law and changes other administrative requirements for the program, such as establishing minimum numbers of hours of instruction that Arizona Online Instruction (AOI) students must receive in order to be considered prior public school students for purposes of ESA eligibility and specifying the types of special education services that ESA students with disabilities may purchase with ESA funds.

State Aid Supplement

The Baseline includes \$50,000,000 from the General Fund in FY 2018 for State Aid Supplement funding. This amount is unchanged from FY 2017.

Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 from the General Fund in FY 2016 for State Aid Supplement funding. It also advanced appropriated \$50,000,000 annually for FY 2017 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 for State Aid Supplement funding. The amounts appropriated for all years were contingent on voter approval of Proposition 123, which occurred on May 17, 2016. *(See 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 need to appear in the FY 2018 General Appropriation Act.

In addition, the State Aid Supplement amounts for FY 2016 through FY 2025 will not appear in the General Appropriation Acts for those years, since they already were advance appropriated by Chapter 1.

Current-Year Funding Backfill

The Baseline includes no funding from the General Fund in FY 2018 for Current-Year Funding Backfill. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (31,000,000)

The Baseline includes a decrease of \$(31,000,000) from the General Fund in FY 2018 to eliminate a one-time backfilling of funding reductions that school districts with declining enrollments otherwise would experience in FY 2017 due to the implementation of current year Base Support Level (BSL) funding.

Laws 2015, Chapter 15 established current year BSL funding for school districts starting in FY 2017. The FY 2017 budget did not repeal that provision, but instead provided \$31,000,000 as a one-time backfill for affected school districts.

The \$31,000,000 appropriation was based on an estimated \$(31,000,000) savings for current year BSA funding reported in a December 2015 analysis from the department and is appropriated by Section 141 of the FY 2017 General Appropriation Act. Section 141 stipulates that the department is to allocate the appropriated amount in a manner that backfills the loss of BSL state aid that school districts with declining student counts otherwise would experience in FY 2017 due to the implementation of current-year BSL funding. Section 141 requires the department to make corresponding increases in the budgets of affected school districts that are not eligible for state aid, but those increases will be funded with local Qualifying Tax Rate (QTR) monies rather than state aid.

Section 141 further stipulates that the department shall use monies appropriated for Basic State Aid to make up a shortfall, if any, in Current-Year Funding Backfill monies and shall revert a surplus of those monies, if any, to the General Fund.

(See Eliminate Hold Harmless policy issue under Basic State Aid in the FY 2017 Baseline for more information.)

Former District-Sponsored Charter Schools

The Baseline includes no funding from the General Fund in FY 2018 for Former District-Sponsored Charter Schools. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (1,148,000)

The Baseline includes a decrease of \$(1,148,000) from the General Fund in FY 2018 for Former District-Sponsored Charter Schools in order to eliminate one-time backfill funding. The FY 2017 budget included that funding in order to offset funding reductions that otherwise would occur in FY 2017 due to the elimination of district-sponsored charter schools. The FY 2017 K-12 Education BRB repealed statutory authority for district-sponsored charter schools after FY 2016.

The FY 2017 General Appropriation Act stipulates that the department is to allocate monies appropriated to this line item for FY 2017 to school districts that are eligible for state aid in FY 2017 on a pro rata basis based on the number of ADM pupils who attended district-sponsored charter schools in those districts in FY 2016 and shall increase their budget limits accordingly. It further stipulates that the department shall increase the budget limits of an affected school district that is not eligible for state aid in FY 2017 by an amount equal to the average BSL increase provided per former district-sponsored charter school pupil under this line item for a school district that qualifies for state aid for FY 2017 multiplied by the number of ADM pupils who attended district-sponsored charter schools in the non-state aid school district for FY 2016.

(See Eliminate District Charters policy issue under Basic State Aid in the FY 2017 Baseline for more information.)

Special Education Fund

The Baseline includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2018 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2017.

The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the developmentally disabled operated by DES (A.R.S. § 15-1202). It also funds costs of residential education for students who require a private residential

special education placement, or who are placed in a residential education facility by a state placing agency.

The Baseline amount of \$32,242,100 for the Special Education Fund for FY 2018 is approximately \$1,200,000 more than the currently projected cost of special education vouchers for FY 2017. The Legislature therefore may wish to consider reducing the Special Education Fund appropriation by approximately \$1,200,000 for FY 2017.

In addition, the Special Education Fund had a reported ending balance of \$7,011,900 for FY 2016, which is expected to grow by at least \$1,000,000 for FY 2017. The Legislature therefore also may wish to consider including in the FY 2018 budget a one-time transfer out of the fund of at least \$7,000,000.

Other State Aid to Districts

The Baseline includes \$983,900 from the General Fund in FY 2018 for Other State Aid to Districts. This amount is unchanged from FY 2017.

This amount includes \$880,200 (unchanged) for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The Baseline includes \$386,215,500 from the General Fund in FY 2018 for the Additional State Aid (ASA) - Homeowner's Rebate line item. FY 2018 adjustments would be as follows:

Base Adjustment **GF (12,092,800)**

The Baseline includes a decrease of \$(12,092,800) from the General Fund in FY 2018 in order to reflect lower-than-budgeted costs for the Homeowner's Rebate for FY 2017. The FY 2017 budget assumed that the Homeowner's Rebate would cost 391,456,100 for FY 2017, but the revised estimate is \$379,363,300 (\$12,092,800 less) due to lower-than-budgeted costs for new homes and statutory changes under revised data. Starting point costs for the Homeowner's Rebate for FY 2018 therefore will be \$(12,092,800) less than the FY 2017 appropriation.

New Homes **GF 6,852,200**

The Baseline includes an increase of \$6,852,200 from the General Fund in FY 2018 for increased Homeowner's Rebate costs associated with new home construction. The \$6,852,200 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2018 and that 47.19% of the QTR taxes owed by new homes in FY 2018 will continue to be paid by the state through the Homeowner's Rebate in FY 2018.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 pays 47.19% of each homeowner's QTR taxes, up to a maximum of \$600 per parcel, plus any "1% Cap" costs described below.

Additional State Aid - 1% Cap

The Baseline includes \$24,330,500 from the General Fund in FY 2018 for the Additional State Aid - 1% Cap line item. FY 2018 adjustments would be as follows:

Base Adjustment **GF 16,950,200**

The Baseline includes an increase of \$16,950,200 from the General Fund in FY 2018 in order to reflect higher-than-budgeted costs for the 1% Cap for FY 2017. The FY 2017 budget assumed that the 1% Cap would cost \$7,380,300 for FY 2017, but the revised estimate is \$24,330,500 (\$16,950,200 more) because assumed savings were not realized due to a legal judgment described below. Starting point costs for the 1% Cap for FY 2018 therefore would be \$16,950,200 higher than the FY 2017 appropriation.

The General Appropriation Act for FY 2016 appropriated monies for the 1% cap into a separate line item for the first time that year for greater transparency. In addition, the FY 2016 K-12 Education BRB amended A.R.S. § 15-972 in order to cap state costs for the 1% cap at a maximum of \$1,000,000 per county. The FY 2016 K-12 BRB required the Property Tax Oversight Commission (PTOC) established by A.R.S. § 42-17002 to allocate the loss of state 1% cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% cap exceedance.

In March 2016, the PTOC determined that school districts statewide would forego \$(19,832,900) of state 1% Cap funding for FY 2016 as a result of the new \$1,000,000 limit on state 1% Cap funding per county. This amount included reductions totaling \$(15,804,100) for 7 school districts in Pima County and \$(4,028,800) for 16 school districts in Pinal County (see Table 7).

Table 7
1% Cap Backfill Required by School District for FY 2016

<u>School District</u>	<u>Required Backfill</u>
Pima County	
Tucson Unified	\$15,716,900
Altar Valley Elementary	53,000
Amphitheater Unified	24,000
Marana Unified	8,900
Sahuarita Unified	900
San Fernando Elementary	200
Vail Unified	200
Subtotal	\$15,804,100
Pinal County	
Maricopa Unified	\$2,946,700
Florence Unified	428,300
Coolidge Unified	163,800
Casa Grande Union	150,500
Casa Grande Elementary	100,500
Superior Unified	86,700
Toltec Unified	67,400
Mammoth Unified	50,200
Eloy Elementary	9,900
Apache Junction Unified	9,400
Santa Cruz Valley Union	9,300
Ray Unified	4,700
Stanfield Unified	700
J O Combs Unified	300
Red Rock Elementary	300
Picacho Elementary	100
Subtotal	\$ 4,028,800
Grand Total ^{1/}	\$19,832,900

^{1/} Excludes 8 Maricopa County school districts that collectively would have required \$639,400 of backfill funding for FY 2016. That amount was not backfilled because none of the overlapping taxing jurisdictions for those school districts (county, community college, city or town) had "above average" tax rates for FY 2016, so the latter were not required to provide backfill funding to the 8 affected school districts.

The PTOC further determined that Pima County was required to backfill the entire \$(15,804,100) of foregone 1% Cap funding for FY 2016 for Pima County school districts. For Pinal County, the PTOC determined that the County itself, Central Arizona College and 6 cities and towns in Pinal County collectively were required to backfill \$(4,028,800). The latter total included \$1,693,800 from Pinal County, \$1,271,100 from the City of Maricopa, \$974,000 from Central Arizona College and \$89,900 from 5 other cities and towns (see Table 8).

Pima County sued the state in June 2015 contending that the funding transfers required by the new 1% cap policy were not permissible for a number of reasons. A Superior Court judge granted the plaintiff's Motion for Summary Judgment in the case on May 23, 2016 and issued a signed judgment in favor of the plaintiffs on July 8, 2016. The state did not appeal the signed judgment during the 30-day window for appeals.

Table 8
Required Transfers for FY 2016 By Taxing Jurisdiction

<u>Taxing Jurisdiction</u>	<u>Required Transfer</u>
Pima County	
Pima County	\$15,804,100
Pinal County	
Pinal County	\$1,693,800
City of Maricopa	1,271,100
Central Arizona College	974,000
Town of Superior	46,400
City of Coolidge	29,200
Town of Mammoth	7,000
Town of Queen Creek	6,100
Town of Kearny	1,200
Subtotal	\$4,028,800
Grand Total	\$19,832,900

A footnote in the FY 2017 General Appropriation Act allowed the department to use a portion of its FY 2017 appropriations for Basic State Aid (BSA) or Additional State Aid (ASA) to fund a shortfall in BSA or ASA funding, if any, that occurred in FY 2016. This provision allowed the department to use \$12,223,800 of FY 2017 funding to help cover the shortfall in 1% Cap funding that occurred in FY 2016 because of the final ruling in the 1% Cap lawsuit. This amount was less than the foregone state savings of \$19,832,900 for this issue because surplus funding in other areas of the department's budget for FY 2016 made up the difference.

Background – The Additional State Aid program funds the Homeowner's Rebate and any portion of a homeowner's primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the "1% cap" and pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home's full cash value and was added to the State Constitution in 1980. It applies any time a homeowner's net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner's Rebate is applied.

In practice, the 1% cap historically has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

Beginning in FY 2016, A.R.S. § 15-972K required all taxing jurisdictions that contribute to an exceedance of the 1% cap, as determined by the Property Tax Oversight Commission (PTOC), to share in the excess cost after the state pays a maximum of \$1,000,000 in 1% cap funding per county. (See the FY 2016 Appropriations Report for more information.) That policy, however, has not been implemented because of the litigation described above. As a result, the state was required to pay all 1% Cap costs for FY 2016. The Baseline assumes no change in legal status for this issue for FY 2017 or FY 2018.

Non-Formula Programs

Accountability and Achievement Testing

The Baseline includes \$16,420,800 and 10.6 FTE Positions in FY 2018 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,420,800
Proposition 301 Fund	7,000,000

These amounts are unchanged from FY 2017.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. The State Board of Education awarded the initial contract for this new test in November 2014. ADE reports that it cost \$18,204,000 to administer AzMERIT in FY 2016 and that it will cost approximately \$18,500,000 and \$19,500,000 to administer it in FY 2017 and FY 2018, respectively (see Table 9). ADE indicates that AzMERIT will cost approximately \$1,000,000 more in FY 2018 due to increased field testing to realign it to new English language arts and mathematics standards expected to be approved in December 2016 and because Laws 2016, Chapter 10 requires ADE to implement a new menu of assessments for achievement testing.

The Achievement Testing program, however, also includes components other than AzMERIT testing. It includes AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, test security costs, information technology support and program administration. ADE estimates that the cost of all of these other functions and AzMERIT combined at approximately \$37,600,000 in FY 2018 versus \$31,500,000 for FY 2017 (see Table 9). ADE indicates that the higher expected costs for FY 2018 are due to AzMERIT changes described above, revising the AIMS Science test to align it with new science standards, making the science and AZELLA tests computer-based, and increased test security and

information technology costs associated with the new menu of assessments.

	FY 2017	FY 2018
Estimated Costs ^{1/}		
AzMERIT	\$18.5	\$19.5
AIMS Science Testing	2.8	5.2
Alternative Special Needs Exam	0.2	0.2
AZELLA ^{2/}	7.2	8.0
Test Security	0.0	1.0
Information Technology Support	1.2	2.0
Staff and Administration	1.6	1.7
Total	\$31.5	\$37.6
Estimated Available Funding ^{3/}		
General Fund	\$14.5	\$14.5
Proposition 301 - School Accountability ^{4/}	12.5	9.2
Federal Funds	14.4	14.4
Total	\$41.4	\$38.1

^{1/} ADE estimates for FY 2018 are preliminary.
^{2/} Arizona English Language Learner Assessment (funded through the English Learner Administration line item).
^{3/} Exceeds estimated costs for both years. "Surplus" Proposition 301 monies could be carried forward to subsequent years.
^{4/} Includes carry-forward monies.

The Baseline would continue an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million” allowable appropriation for School Accountability in A.R.S. § 42-5029E7. (See Other Issues for more information regarding this program's use of Proposition 301 monies.)

(See English Learner Administration line item for more information about AZELLA testing.)

(See Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing.)

Adult Education

The Baseline includes \$4,498,200 and 4.3 FTE Positions from the General Fund in FY 2018 for Adult Education. These amounts are unchanged from FY 2017.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are

distributed through a competitive grant process. In FY 2017, 24 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$12,576,500 in federal funding in FY 2017. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The Baseline includes \$500,000 from the General Fund in FY 2018 for an Alternative Teacher Development Program. This amount is unchanged from FY 2017.

The program is authorized by A.R.S. § 15-552, which requires the establishment of an alternative teacher development program for accelerating the placement of highly qualified individuals into low income schools. Monies in the line item are distributed to the Teach for America program.

Arizona Structured English Immersion Fund

The Baseline includes \$4,960,400 from the General Fund in FY 2018 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2017.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$4,107,100 to public schools from the fund in FY 2016.

Code Writers Initiative Pilot Program

The Baseline includes no funding from the State Web Portal Fund in FY 2018 for the Code Writers Initiative Pilot Program. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (500,000)

The Baseline includes a decrease of \$(500,000) from State Web Portal Fund in FY 2018 for the elimination of one-time funding.

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) appropriated \$500,000 in one-time non-lapsing funding from the State Web Portal Fund in FY 2017 for a Code Writers Initiative Pilot Program.

Chapter 124 required the department to allocate program funding on a competitive grant basis with input from the American Indian advisory council to participants who would leverage state monies by also securing non-state funding for the program. Program monies were to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

College Credit by Examination Incentive Program

The Baseline includes \$5,000,000 from the General Fund in FY 2018 for the College Credit by Examination Incentive Program. FY 2018 adjustments would be as follows:

First-Year Funding GF 5,000,000

The Baseline includes an increase of \$5,000,000 from General Fund in FY 2018 for first-year funding for the College Credit by Examination Incentive Program (CCEIP) established by Laws 2016, Chapter 124.

The enacted FY 2017 budget's 3-year spending plan assumed that this program would start in FY 2018 at the \$5,000,000 funding level.

The program provides incentive bonuses to teachers, school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school pursuant to A.R.S. § 15-249.06. The bonus is \$450 per passing score for a student who is enrolled in a school district or charter school where at least 50% of students are eligible for free or reduced price lunches under the federal school lunch program; otherwise, it is \$300 per passing score. Bonuses shall be reduced proportionately if the appropriated amount is insufficient to fully fund them.

English Learner Administration

The Baseline includes \$6,495,000 and 14.5 FTE Positions from the General Fund in FY 2018 for English Learner Programs. These amounts are unchanged from FY 2018.

The program is responsible for administering the Arizona English Language Learner Assessment (“AZELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 120,000 students are expected to take the AZELLA in FY 2017, including 48,000 for initial testing and 72,000 for retesting to see if they should continue to be classified as ELLs.

The English Learner Administration program was originally authorized by Laws 2006, Chapter 4 in order to address the *Flores v. State of Arizona* litigation. The lawsuit was filed in federal court in 1992 by parents of children enrolled in the Nogales Unified School District. Litigation in the case continued until March 2013, when a federal judge dismissed it. Plaintiffs appealed the federal judge's ruling, but in June 2015 the federal appellate court upheld the earlier dismissal. In June 2015 the plaintiff attorneys asked for a rehearing in the case. (See FY 2011 Appropriations Report for additional history on this issue.)

The line item funds costs associated with implementing the English Language Education requirements in A.R.S. § 15-751 through 15-757. Those requirements pertain primarily to additional testing, teacher training and instructional services prescribed for English Learners.

(See the Accountability and Achievement Testing line item narrative for more information.)

Geographic Literacy

The Baseline includes no funding from the General Fund in FY 2018 for Geographic Literacy. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (100,000)

The Baseline includes a decrease of \$(100,000) from General Fund in FY 2018 for the elimination of one-time funding.

The FY 2017 General Appropriation Act appropriated \$100,000 in one-time, non-lapsing funding for the program and required the department to use it to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in this state.

JTED Soft Capital and Equipment

The Baseline includes \$1,000,000 from the General Fund in FY 2018 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2017.

A footnote in the General Appropriation Act for FY 2017 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 would continue the footnote for FY 2018.

School Safety Program

The Baseline includes \$3,645,600 and 3.1 FTE Positions from the General Fund in FY 2018 for the School Safety program. These amounts are unchanged from FY 2017.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.)

The FY 2017 K-12 Education BRB requires \$100,000 of the program's appropriation to be used for a pilot program on school emergency readiness. The FY 2017 K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2017 program by November 1, 2017. The Baseline would continue these 2 BRB provisions.

The FY 2016 K-12 Education BRB required the department to submit a report that summarizes the results of the FY 2016 program by November 1, 2016. That report indicated that the 3 school districts that participated in the pilot program in FY 2016 (Creighton Elementary, Sierra Vista Unified and the Western Maricopa Education Center) accomplished the following: 1) improved emergency management operation plans, 2) enhanced coordination and collaboration of internal district emergency planning team with community response partners, 3) trained staff on emergency operations plans, supported by exercises and drills, and 4) provided the Arizona Critical Terrorism Information Center (ACTIC) with relevant school infrastructure information.

All available state General Fund and Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2015 was the first year of the current cycle.

Program funding is used primarily to pay officer salaries and benefits. Law enforcement agencies typically cover associated costs for police cars, uniforms and equipment. School districts and charter schools typically pay costs for related overhead, supervision and supplies.

State Block Grant for Vocational Education

The Baseline includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2018 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2017.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$25,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Teacher Certification

The Baseline includes \$1,828,100 and 26 FTE Positions from the Teacher Certification Fund in FY 2018 for Teacher Certification. These amounts are unchanged from FY 2017.

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.

Tribal College Dual Enrollment Program Fund

The Baseline includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2018 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2017.

A.R.S. § 15-244.01 establishes the Tribal College Dual Enrollment Program Fund and authorizes it to annually receive 15% of unclaimed lottery prize monies up to \$250,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions. The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes.

(See Arizona State Lottery Commission narrative for more information on lottery funding.)

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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 \$235,284,600 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2018.

Monies derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before expenditure of state General Fund monies.

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

A school district may budget the monies that it receives pursuant to this subsection in either the school district's maintenance and operation fund or unrestricted capital outlay fund. *(This footnote will not appear in the FY 2018 General Appropriation Act as it is already enacted for FY 2016 through FY 2020 by Laws 2015, Chapter 1, 1st Special Session.)*

The department of education shall allocate the appropriated amount in subsections A and B of this section 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 2018 General Appropriation Act as it is already enacted*

for FY 2016 through FY 2025 by Laws 2015, Chapter 1, 1st Special Session.)

Achievement Testing

Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review.

English Learner Administration

The Department of Education shall use the appropriated amount to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of *Flores v. State of Arizona*, No. CIV 92-596-TUC-RCC.

JTED Soft Capital and Equipment

The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts.

Other

The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and is due 30 days after the end of the applicable reporting period.

Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall

post on its website the amount of state aid apportioned to each recipient and the underlying data.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes on the following topics because of their one-time nature:

- Proposition 123 contingency language
- One-time funding for former district-sponsored charter schools
- One-time funding for Geographic Literacy
- Authority for the department to use a portion of its FY 2017 General Fund appropriation to fund a FY 2016 shortfall, if any
- Current-Year Funding Backfill (in Section 141 of FY 2017 General Appropriation Act)
- One-time funding for Department of Education Empowerment Scholarship Account Fund information technology changes.

STATUTORY CHANGES

The Baseline would make the following statutory changes:

Inflation

- As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school "Additional Assistance" amounts (A.R.S. § 15-185B4) by 1.37% for standard inflation.

Additional Assistance

- As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 and reduce budget limits accordingly.
- As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2018 by the amount that would be reduced if they did qualify for state aid for FY 2018 and reduce budget limits accordingly.
- As session law, continue the provision in the FY 2017 budget stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.
- As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.

Joint Technical Education Districts (JTEDs)

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

School Safety

- As session law, continue to stipulate that \$100,000 of the \$3,646,500 School Safety Program appropriation for FY 2018 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.
- As session law, continue to require the department to report results of the pilot program 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 2018 until FY 2019. Appropriate \$930,727,700 in FY 2019 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 2018 revenue estimates that they use for computing their FY 2018 tax rates the rollover monies that they will receive for FY 2018 in July 2018.

College Credit by Examination Incentive Program

- As permanent law, require the department to submit a copy of its statutorily-required report under A.R.S. § 15-249.06 to the Joint Legislative Budget Committee for review.
- As permanent law, require the report to list the amount of award funding received by each school.

Deleted Provisions

The Baseline would delete the following session law provisions due to their one-time nature:

- As session law, clarify for FY 2016 that any student under age 21, including a high school graduate, who is enrolled in a JTED program in FY 2016 may continue to participate in the program and remain in its ADM count through the end of FY 2016.
- As session law, for FY 2017 allow any student under age 21, including a high school graduate, who is enrolled in a JTED program on February 1, 2016 to continue to participate in the program and remain in its ADM count until the student completes the program or through the end of FY 2017, whichever occurs first.

- As session law, amend Laws 2014, Chapter 16, Section 5 in order to clarify that eliminating district-sponsored charter schools does not make affected districts eligible for District Additional Assistance growth funding pursuant to A.R.S. § 15-961B3, which was the original policy intent.
- As session law, also amend the language in Laws 2014, Chapter 16, Section 5 to make that section of law apply to FY 2017 in order to address school districts that still operate district-sponsored charters in FY 2016.
- As session law, repeal, for after FY 2016, language in Laws 2014, Chapter 16, Section 6 that caps ADM in district-sponsored charter schools at 120% of their FY 2013 district-sponsored charter school ADM, since authority for district-sponsored charter schools will be repealed after FY 2016.
- As session law, indicate that it is the intent of the Legislature that school districts that operated district-sponsored charter schools in FY 2016 receive approximately the same amount of incremental charter school funding in FY 2017 that they received in FY 2016.
- As session law, establish a code writer's initiative pilot program and appropriate \$500,000 in non-lapsing funding to it from the state Web Portal Fund.
- As session law, amend Laws 2014, Chapter 17, Section 19 to make monies appropriated for the Technology-Based Language Development and Literacy Intervention Pilot Program for FY 2015 non-lapsing through FY 2017 and FY 2016 monies non-lapsing through FY 2018.
- As session law, change the date for repealing statute pertaining to the Technology-Based Language Development and Literacy Intervention Pilot Program to reflect the extended schedule.

Other Issues

This section includes information on the following topics:

General Issues

- FY 2016 Supplemental
- Long-Term Budget Impacts
- Proposition 301 Funding for School Accountability
- Expenditure Authority

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

Non-Formula Programs

- Education Learning and Accountability System

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

FY 2016 Supplemental

The Baseline proposes \$17,081,200 in supplemental funding from the General Fund in FY 2017 to fund estimated shortfalls in Additional State Aid funding for FY 2017. The proposed total includes \$12,223,800 to replace FY 2017 monies that were used to fund an Additional State Aid shortfall for FY 2016, as permitted by a footnote in the FY 2017 General Appropriation Act, and \$4,857,400 to fund higher-than-budgeted Additional State Aid costs for FY 2017. (*See narrative for the "Additional State Aid – Homeowner's Rebate" and "Additional State Aid – 1% Cap" policy issues for more information.*)

Additional data and analysis are needed in order to determine whether ADE will experience a shortfall or surplus in Basic State Aid funding for FY 2017. This will depend in part on whether the new student data collection system implemented statewide for the first time for FY 2017 ("AzEDS") causes reported ADM counts to be higher or lower than they would have been under the old "SAIS" system, which is unknown. The status of Basic State Aid costs for FY 2017 will become clearer once preliminary 100th Day ADM counts for FY 2017 become available later in the fiscal year.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$135,121,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 9,000 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 2% for both FY 2019 and FY 2020 (currently projected at 2.29% for FY 2019 and 2.23% for FY 2020; statute funds the lesser of 2% or the actual rate).
- New construction NAV growth of 2.5% for both FY 2019 and FY 2020.
- General Fund decreases of \$(14.5) million in FY 2019 and \$(10.3) million in FY 2020 due to growing Land Trust monies from Proposition 123.

- A General Fund decrease of \$(24.9) million in FY 2019 due to the elimination of debt service payments on School Facilities Board Land Trust Bonds authorized by Proposition 301 due to final payoff of those bonds in FY 2018, which frees up land trust monies for Basic State Aid in FY 2019.

Proposition 301 Funding for School Accountability

Proposition 301 from the November 2000 General Election allows the Legislature to appropriate no more than \$7.0 million of Proposition 301 revenues annually for school accountability functions, such as achievement testing, achievement profiles, school report cards, "solution teams" to low-achieving schools and information technology maintenance (A.R.S § 42-5029E7). Prior to FY 2011, the Legislature typically appropriated \$4.7 million of the \$7.0 million each year to a "School Accountability" line item for school accountability functions other than achievement testing and \$2.3 million to an "Achievement Testing" line item for achievement testing costs only.

The FY 2011 budget, however, eliminated the School Accountability line item along with its 31 FTE Positions and instead appropriated the entire \$7.0 million to the Achievement Testing line item in order to reduce General Fund costs for achievement testing by \$(4.7) million as a budget balancing measure. The FY 2013 budget subsequently changed the name of the "Achievement Testing" line item to "Accountability and Achievement Testing" in order to give the department flexibility to spend achievement testing monies on school accountability functions other than testing if sufficient funds were available. The budgets in recent years, however, have presumed that the entire \$7.0 million would be needed for achievement testing.

The department nonetheless has been able to fund some school accountability functions other than achievement testing in recent years with Proposition 301 carry-forward monies that have existed because of lower-than-budgeted costs for achievement testing in the final years of the old Arizona Instrument to Measure Standards (AIMS) contract. For FY 2017, it is spending approximately \$2.2 million of the \$7.0 million on accountability measures other than achievement testing. Unlike in prior years, however, it has moved those monies out of the Accountability and Achievement Testing line item and into its operating budget.

ADE's funding shift permanently reduces funding to the Accountability and Achievement Testing line item by \$(2.2) million. This is not expected to result in a funding shortfall for achievement testing for the foreseeable

future because ADE reports that approximately \$8.1 million of Proposition 301 carry-forward monies that can help fund achievement testing costs existed at the end of FY 2016 and that balance is expected to increase to approximately \$8.6 million by the end of FY 2018 under current estimates. The Baseline nonetheless maintains the full \$7.0 million appropriation of Proposition 301 monies in the Accountability and Achievement Testing line item for FY 2017 and FY 2018, pending further input from members on this issue during the budget process.

The department's FY 2018 budget request also adds 21.6 FTE Positions funded by Proposition 301 into its base budget for FY 2017 versus none in its original FY 2017 budget. The department, however, voluntarily eliminates (11.0) FTE Positions from the General Fund and Teacher Certification Fund combined, resulting in a net increase of 10.6 FTE Positions (21.6 -11.0 = 10.6).

Expenditure Authority

The department's current budget format does not separately display approximately \$600 million of state-authorized funding, including \$550 million from Proposition 301 and \$50 million from the Instructional Improvement Fund. Those monies instead appear as part of the generic "Non-Appropriated Funds" total for the agency.

For purposes of greater transparency, the Legislature may consider separately delineating them as "Expenditure Authority Funds," which would mirror current practice for similar situations in the AHCCCS budget. This budget display would not change these funds' status as non-appropriated and would not limit the expenditure of monies. The enhanced display, however, would clarify how these fund sources supplement the General Fund.

Under this format, the Proposition 301 monies, for example, would be placed in a new Classroom Site Fund line. (See *Proposition 301 narrative below for more information on Proposition 301 funding.*)

Endowment Earnings

In FY 2016, endowment earnings from state trust lands funded approximately \$302.8 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust

lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either "permanent" or "expendable" depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Prior to voter approval of Proposition 123 in May 2016, the State Constitution required the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary's permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor was enacted into law by Proposition 118 in November 2012 and would have been in effect through calendar year 2021, but has now been superseded through FY 2025 by a new 6.9% factor required by Proposition 123. After FY 2025, Proposition 123 reestablishes the 2.5% factor on a permanent basis.

In FY 2016, public schools received \$302.8 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$43.5 million from the Land Department and \$259.3 million from the State Treasurer (see *Table 10*).

Table 10

**Source of K-12 Endowment Earnings By Fiscal Year
(\$ In Millions)**

Source	2015	2016	2017 est ^{1/}	2018 est ^{2/}
Land Department	53.2	43.5	74.4	48.5
Treasurer ^{3/}	76.0	259.3	269.6	294.7
Total	129.2	302.8	344.0	343.2

- 1/ Land Department estimate includes \$25.9 million of forfeited land purchase payments from cancelled contracts (one-time monies).
- 2/ Assumes no change in trust land lease revenues for FY 2018.
- 3/ Growth in FY 2016 due to increasing the distribution percentage from 2.5% to 6.9%.

Table 10 shows that K-12 endowment earnings are estimated to increase to \$344.0 million in FY 2017 and \$343.2 million in FY 2018.

The State Land Department will distribute an estimated \$74.4 million in K-12 endowment earnings for FY 2017 based on partial year data. The actual State Land Department distribution of K-12 endowment earnings for FY 2017 will not be known until after the close of the fiscal year.

Of the \$302.8 million in K-12 expendable earnings generated for FY 2016, \$219.4 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million was used to fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 11). The remaining \$58.4 million was deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4. The latter law dedicates to the Classroom Site Fund all growth in K-12 expendable endowment earnings above the FY 2001 level, which was \$72.3 million. (See Proposition 301 narrative below for more information on the Classroom Site Fund and Proposition 301.)

Proposition 123 Triggers

Proposition 123 allows the state to temporarily suspend future inflation increases during periods of economic slowdown in which sales tax revenue and employment

Table 11

**Use of K-12 Endowment Earnings By Fiscal Year
(\$ In Millions)**

Source	2015	2016	2017 ^{1/}	2018 ^{1/}
Basic State Aid	47.3	219.4	219.3	235.3
SFB Debt Service	25.0	24.9	24.9	24.9
Classroom Site Fund ^{2/}	56.9	58.5	99.8	83.0
Total	129.2	302.8	344.0	343.2

- 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.

both grew more than 1% but less than 2% in the prior year. It would require this suspension if sales tax revenue and employment both grew less than 1%. Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

The proposition also allows the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years. The criteria for reducing the distribution rate would not have been met in the last 10 years, as no 5-year period since 2001 has averaged a lower balance than the preceding 5 years.

Beginning in FY 2026, the proposition allows (but does not require) the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.

(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula “equalizes” formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require “Basic State Aid” monies in order to receive full formula funding.

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district’s student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district’s pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school

district's "equalization base," which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory "Qualifying Tax Rate" (QTR) (A.R.S. § 15-971B) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district's share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base. If the district's combined QTR and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district's formula funding entitlement), or higher if the district is allowed to budget for items outside of its "Revenue Control Limit" (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a "charter," and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and CAA funding. BSL funding for charter schools is determined under the same formula prescribed for traditional public schools in A.R.S. § 15-943. CAA funding amounts are established separately in A.R.S. § 15-185B4 and for FY 2017 (as modified by the FY 2017 K-12 Education BRB) equal \$1,752.10 per pupil for Grades K-8 and \$2,042.04 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Education Learning and Accountability System

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to "collect, compile, maintain and report student level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades 1 through 12 and postsecondary educational programs in this state" (A.R.S. § 15-249A).

Since FY 2015, ELAS funding has been appropriated to the Arizona Department of Administration Automation Projects Fund (APF) rather than ADE. As a result, ELAS funding no longer appears in the ADE Baseline. (Please

see the Arizona Department of Administration - Automation Projects Fund section for more information.)

The FY 2018 Baseline includes no General Fund monies for continued ELAS development, as the \$7.3 million appropriated for ELAS development in FY 2017 was one-time funding.

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (see Table 12).

As shown in Table 12, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction.
- Universities (12% of the remainder after SFB debt service).
- Community colleges (3% of the remainder).
- Tribal Colleges (same formula as community colleges).
- Income tax credit for sales tax paid by low income households (to offset the additional 0.6¢ sales tax rate).
- Additional School Days.
- School Safety and Character Education.
- School Accountability.
- Failing Schools.
- Classroom Site Fund (A.R.S. § 15-977).

Proposition 301 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share equaled \$364.1 million (56.6%) of the \$643.8 million collected for FY 2016 (see Table 12). The Proposition 301 sales tax expires after FY 2021.

Classroom Site Fund

Proposition 301 amended A.R.S. § 37-521B4 in order to dedicate to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72.3 million. In FY 2016, the Classroom Site Fund received approximately \$57.8 million from K-12 endowment earnings, which resulted in total deposits of \$421.9

million (\$364.1 million from the 0.6¢ sales tax + \$57.8 million from endowment earnings = \$421.9 million).

Proposition 123 from the October 2015 Special Session further amended A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the voter-approved 4.4% increase in the trust distribution percentage (from 2.5% previously to 6.9% through FY 2025) to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, will continue to receive all growth in the original 2.5% distribution after FY 2001 to the extent that those earnings plus related earnings from the State Land Department exceeded \$72.3 million. The \$364.1 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2016 does not include approximately \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 12*. Those 2 amounts combined equaled \$466.9 million for FY 2016.

ADE distributed \$327 per pupil from the Classroom Site Fund in FY 2016. Those monies were in addition to funds allocated through the Basic State Aid formula. School districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$332 per pupil for FY 2017. The per pupil distribution for FY 2018 will be determined in March 2017 pursuant to A.R.S. § 15-977G1.

Budget Overrides

Current law permits school districts to exceed statutory budget limits through “budget override” elections. This includes Maintenance and Operation (M&O) overrides (A.R.S. § 15-481E&F), Special Program overrides (A.R.S. § 15-482) and District Additional Assistance overrides (called Capital Overrides prior to FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL. M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2017, 93 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 3 have “Special Program” overrides pursuant to A.R.S. § 15-482, and 22 have District

Table 12

<u>Recipient</u>	<u>Amount</u>	<u>Proposition 301 Monies (FY 2016 Actual) (\$ in Millions)</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	69.6		Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	17.4		Receive 3% of monies after SFB debt service.
Tribal Colleges	0.8		Same formula as for community colleges.
Income Tax Credit	25.0		For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$176.9		
Additional School Days	\$86.3		To add 5 days to K-12 school year (180 days total).
School Safety and Character Education	8.0		\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0		For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5		To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	364.1		Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$466.9		
Grand Total	\$643.8		

Additional Assistance overrides. The total amounts budgeted for overrides for FY 2017 include \$466.0 million for M&O overrides, \$0.9 million for Special Program overrides and \$75.0 million for District Additional Assistance overrides. Grand total override funding for FY 2017 therefore equals \$541.9 million, which is \$78.7 million above the \$463.2 million amount budgeted for all overrides collectively in FY 2016 (see Table 13). (See the School Facilities Board Baseline narrative for a related summary on K-12 Capital Bonding.)

Type of Override	FY 2016	FY 2017	Change
M&O	401.0	466.0	65.0
Special Program	1.2	0.9	(0.3)
Additional Assistance	61.0	75.0	14.0
Total	463.2	541.9	78.7

A.R.S. § 15-249.04 requires ADE to report by November 30 of each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year. The data cited in Table 13 are from the related ADE reports for FY 2016 and FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	132,200	132,200
Year-End Fund Balance	0	1,700
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	122,900	110,900
Year-End Fund Balance*	15,700	(70,200)
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	39,600	25,000
Year-End Fund Balance	0	0
Classroom Site Fund (EDA2471/A.R.S. § 15-977)		Non-Appropriated
Source of Revenue: A portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4.		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	432,461,200	447,102,000
Year-End Fund Balance	64,654,400	64,654,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 program authorized by A.R.S. § 15-2402. ADE also transfers Basic State Aid monies to the State Treasurer each quarter to fund Empowerment Scholarship Accounts for individual students (the total FY 2016 scholarships account transfer was approximately \$27.1 million). The student account monies are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carry forward. (See also the "State Treasurer Empowerment Scholarship Account Fund" in the Summary of Funds for the State Treasurer).		
Appropriated Funds Expended	398,300	797,900
Non-Appropriated Funds Expended	17,600	2,600
Year-End Fund Balance	863,700	1,662,000
Department of Education Intellectual Property Fund (No Fund Number/A.R.S. § 15-231.04)		Appropriated
<i>Source of Revenue:</i> Monies received from the sale or lease of software, computer systems or intellectual property developed by the Department of Education or associated services pursuant to A.R.S. § 41-2752.		
<i>Purpose of Fund:</i> To improve the maintenance, administration and development of the Education Learning and Accountability System established pursuant to A.R.S. § 15-249.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	276,300	2,700,000
Year-End Fund Balance	724,000	716,800
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	191,800	255,300
Year-End Fund Balance	256,600	150,100
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 that are sponsored by donor organizations.		
Funds Expended	57,900	20,000
Year-End Fund Balance	1,000	1,000
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 2017 received \$7,300,000 from the State General Fund, plus any remaining FY 2016 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 the Education Learning and Accountability System (ELAS) pursuant to A.R.S. § 15-249.		
Funds Expended	0	0
Year-End Fund Balance*	(133,000)	1,261,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Failing Schools Tutoring Fund (EDA2470/A.R.S. § 15-241)		Non-Appropriated
<i>Source of Revenue:</i> A portion of the 0.6% Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E8 .		
<i>Purpose of Fund:</i> To fund tutoring for students who attend "failing" schools, pursuant to A.R.S. § 15-241R, and to purchase materials designed to help students meet the Arizona Academic Standards, pursuant to A.R.S. § 15-241CC.		
Funds Expended	593,500	1,411,500
Year-End Fund Balance	1,437,900	1,526,000
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	1,124,034,400	1,159,279,200
Year-End Fund Balance	9,392,700	25,490,400
Federal Grants - American Recovery and Reinvestment Act (ARRA) (EDA2999/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<i>Purpose of Fund:</i> One-time Federal Funds to be used by the department to offset state reductions and enhance funding for programs such as Special Education and Title I.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	176,600	110,000
Year-End Fund Balance	0	61,800
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	3,893,000	3,563,000
Year-End Fund Balance	739,100	1,168,600
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	4,167,100	4,835,400
Year-End Fund Balance	1,431,900	731,300
Instructional Improvement Fund (EDA2492/A.R.S. § 15-979)		Non-Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	53,001,600	50,000,000
Year-End Fund Balance	11,954,800	8,374,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Internal Services Fund (EDA4209/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
Purpose of Fund: Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
Funds Expended	4,694,200	4,539,500
Year-End Fund Balance	1,603,000	2,193,100
Permanent State School Fund (EDA3138/A.R.S. § 37-521)		Partially-Appropriated
Source of Revenue: Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay for debt service on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. Any remaining monies from the \$72,263,000 baseline total are then subject to appropriation to ADE to help fund Basic State Aid pursuant to A.R.S. § 15-971H. Expendable earnings beyond the \$72,263,000 baseline total from FY 2001 are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4, except that expendable earnings above \$72,263,000 that are attributable to Proposition 123 are instead used for Basic State Aid.		
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. <i>(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.)</i>		
Purpose of Fund: To support common schools.		
Funds Expended	219,440,500	219,804,200
Year-End Fund Balance	2,100	2,100
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	1,301,900	1,238,100
Year-End Fund Balance	801,500	567,800
Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7)		Partially-Appropriated
Source of Revenue: A portion of the Proposition 301 sale tax pursuant to A.R.S. § 42-5029E5-7. The appropriated portion of the fund receives "up to \$7 million" monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7. The non-appropriated portion receives monies automatically appropriated by Proposition 301 for additional school days, School Safety and Character Education, plus any unspent "up to \$7 million" monies from the prior year.		
Purpose of Fund: To pay for K-12 Achievement Testing (appropriated) and additional school days, School Safety and Character Education (non-appropriated).		
Appropriated Funds Expended	7,000,000	7,000,000
Non-Appropriated Funds Expended	102,720,600	96,039,600
Year-End Fund Balance	9,594,800	7,811,000
Special Education Fund (EDA1009/A.R.S. § 15-1182)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	7,011,900	11,092,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
State Web Portal Fund (EDA2531/A.R.S. § 41-3506)		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, the K-12 Education BRB (Laws 2016, Chapter 124) establishes a Code Writer's pilot program and appropriates \$500,000 in non-lapsing monies to it from the fund in FY 2017. Monies received from private grants or donations, as well as federal grants, are non-appropriated. Expenditures include a transfer into the Automation Projects Fund of \$3,775,000 In FY 2016. <i>(See the ADOA Automation Projects Fund page for more details.)</i>		
Funds Expended	0	500,000
Year-End Fund Balance	0	0
Structured English Immersion Fund (EDA2535/A.R.S. § 15-756.04)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting General Fund.		
Funds Expended	0	0
Year-End Fund Balance	2,818,300	2,282,300
Student Success Fund (EDA2575/A.R.S. § 15-917 [Repealed])		Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To provide funding to school districts and charter holders based on achievement and improvement on the assigned achievement profile pursuant to A.R.S. § 15-241. This fund was repealed by Laws 2015, Chapter 15.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Teacher Certification Fund (EDA2399/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.		
Purpose of Fund: To provide monies for operation of the department's Teacher Certification program.		
Funds Expended	1,908,900	2,342,700
Year-End Fund Balance*	148,800	(233,600)
Technology-Based Language Development and Literacy Intervention Fund (EDA2579/A.R.S. § 15-217)		Appropriated
Source of Revenue: Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill (Laws 2014, Chapter 17) required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated \$300,000 annually from the new fund in FY 2015 and FY 2016 for the pilot program. Laws 2016, Chapter 124 makes program monies non-lapsing through FY 2018.		
Purpose of Fund: To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
Funds Expended	0	0
Year-End Fund Balance	546,800	0
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. The K-12 Education BRB (Laws 2016, Chapter 124) allows \$250,000 of unclaimed lottery prize monies to be transferred to the fund annually versus \$160,000 previously.		
Purpose of Fund: To provide choice and access to higher education for high school students in this state by compensating tribal colleges for tuition and fees that are waived to allow high school students to attend classes at tribal colleges.		
Funds Expended	0	250,000
Year-End Fund Balance	160,700	160,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	159,900	135,200

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

Department of Emergency and Military Affairs

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
PROGRAM BUDGET			
Administration	1,850,400	1,908,000	1,908,000
Emergency Management	7,390,400	7,690,500	7,690,500
Military Affairs	1,503,300	3,021,000	3,021,000
AGENCY TOTAL	10,744,100	12,619,500	12,619,500
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.6	69.6	69.6
Personal Services	1,573,500	2,106,100	2,106,100
Employee Related Expenditures	556,400	797,700	797,700
Professional and Outside Services	133,400	150,000	150,000
Travel - In State	57,900	5,000	5,000
Travel - Out of State	12,400	23,000	23,000
Other Operating Expenditures	1,386,000	2,482,400	2,482,400
Equipment	303,700	0	0
OPERATING SUBTOTAL	4,023,300	5,564,200	5,564,200
SPECIAL LINE ITEMS			
Emergency Management Assistance Compact Revolving Fund Deposit	300,000	0	0
Emergency Management Matching Funds	1,540,900	1,540,900	1,540,900
Governor's Emergency Fund	3,434,400	4,000,000	4,000,000
Nuclear Emergency Management Fund	1,385,900	1,424,400	1,424,400
Military Airport Planning	59,600	90,000	90,000
AGENCY TOTAL	10,744,100	12,619,500	12,619,500
FUND SOURCES			
General Fund	10,744,100	12,619,500	12,619,500
SUBTOTAL - Appropriated Funds	10,744,100	12,619,500	12,619,500
Other Non-Appropriated Funds	31,200	244,800	150,000
Federal Funds	54,680,700	67,135,800	55,468,900
TOTAL - ALL SOURCES	65,456,000	80,000,100	68,238,400

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 \$5,564,200 and 63.1 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Governor's Emergency Fund

The Baseline includes \$4,000,000 from the General Fund in FY 2018 for the Governor's Emergency Fund. This amount is unchanged from FY 2017.

Under A.R.S. § 35-192, the Governor may, through emergency declarations, authorize up to \$4,000,000 annually from the General Fund for disaster prevention and mitigation without specific appropriation authority. Monies in this line item, therefore, are not included in the General Appropriation Act.

Emergency Management Matching Funds

The Baseline includes \$1,540,900 from the General Fund in FY 2018 for Emergency Management Matching Funds. This amount is unchanged from FY 2017.

Monies in this line item provide funding for the required 1:1 match for the Federal Emergency Management Performance Grant (EMPG) not covered with existing DEMA resources. EMPG monies are allocated to DEMA who then either expends them or passes monies on to other state, county, and municipal agencies to help provide planning, training, and other preparation for natural hazards and emergencies. In FY 2017, DEMA expects to receive \$7,033,400 in EMPG funds.

DEMA utilized the \$1,540,900 General Fund appropriation from this line item, \$717,700 in General Fund monies from the Nuclear Emergency Management Fund line item, and \$729,500 in General Fund monies from the operating budget for a total of \$2,988,100, as a match towards their share of the EMPG. As a result, DEMA will retain \$2,988,100 in EMPG monies for DEMA-specific expenditures.

The remaining \$4,045,300 in federal EMPG monies will be awarded to counties, tribes, and municipalities for their emergency preparedness programs. These funds require a match from local fund sources prior to expenditure.

Nuclear Emergency Management Fund

The Baseline includes \$1,424,377 and 5.5 FTE Positions from the General Fund in FY 2018 for the Nuclear Emergency Management Fund (NEMF). These amounts fund the following adjustments:

		<u>FY 2018</u>
New NEMF Assessment	GF	\$0

The Baseline includes no change in FY 2018 for a new NEMF assessment.

Laws 2015, Chapter 132 appropriated \$1,385,913 and 5.5 FTE Positions from the General Fund in FY 2016 for the NEMF Special Line Item and \$1,424,377 and 5.5 FTE

Positions in FY 2017. As a result, these monies do not appear in the General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs (DEMA), and Department of Agriculture received monies from this bill. *(Please see the Department of Agriculture and Radiation Regulatory Agency narratives for more information.)*

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

The Baseline uses the FY 2017 appropriation of \$1,424,377 as a placeholder for the FY 2018 amount; the final amount will be determined in the 2017 legislative session as part of separate legislation. DEMA has provided recommendations for the FY 2018 and FY 2019 appropriations as outlined in *Table 1* below.

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.

Nuclear Emergency Management Fund						
Agency	FY 2017		FY 2018		FY 2019	
	FTEs	Approp.	FTEs	Rec.	FTEs	Rec.
Emergency and Military Affairs ^{1/}	5.5	\$1,424,377	5.5	\$1,438,465	5.5	\$1,461,602
Radiation Regulatory Agency	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	<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.

Military Airport Planning

The Baseline includes \$90,000 and 1 FTE Position from the General Fund in FY 2018 for Military Airport Planning. These amounts are unchanged from FY 2017.

Prior to receiving a one-time deposit of \$2,500,000 in FY 2015, the Military Installation Fund had received no General Fund appropriation since FY 2011. The FY 2012 General Government BRB eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

As of November 21, 2016, the fund had an unreserved balance of \$3,689,900. The last General Fund appropriation was made in FY 2015 in the amount of \$2,500,000. If DEMA's total expenditure plan is eventually favorably reviewed, it will result in the expenditure of most of the remaining monies in the fund.

Of the monies deposited into the Military Installation Fund, DEMA is required to award 80% to acquire private property, real estate, property rights, and related infrastructure. The remaining 20% is awarded to cities, towns, and counties. The purchasing entity — whether it is the state or a local government — owns the property and state properties are managed by DEMA. Currently, DEMA only awards funding for preservation and enhancement projects, and not land acquisition, to local governments.

* * *

FORMAT — Lump Sum by Program with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The Department of Emergency and Military Affairs appropriation includes \$1,700,000 for service contracts. This amount is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2018 monies remaining unexpended and unencumbered on December 31, 2018 revert to the state General Fund.

STATUTORY CHANGES

The Baseline would, as permanent law, modify A.R.S. § 41-1252 to clarify that the Joint Committee on Capital Review shall review all grants for capital projects before monies are expended.

Other Issues

National Guard State Match

The state provides funding to DEMA that serves as a match to federal grants for the operational and maintenance costs associated with National Guard facilities. These matching funds are for military grants, whereas the Emergency Management Matching Funds line item is for emergency-related grants. These military grants have a matching requirement of 5-50%.

In FY 2016, DEMA was awarded \$28,891,000 in National Guard Military Operations and Maintenance Projects monies, which required matches from the state. Of this amount, \$1,492,400 required a 50% match, or \$746,200; \$3,204,000 required a 25% match, or \$801,000; and \$3,456,000 required a 5% match, or \$172,800, for a total required match of \$1,720,000. DEMA utilized \$528,300 from their non-lapsing FY 2015 state match appropriation in addition to the \$215,000 FY 2016 state match appropriation and \$230,000 in one-time vacancy savings from the Military Affairs appropriation for total available resources of \$973,300. In order to provide an adequate match, the FY 2017 budget provided an FY 2016 supplemental of \$746,700 in General Fund monies to meet the full FY 2016 state match need.

DEMA is estimating their FY 2017 match need will be \$1,700,000. To fund that amount, DEMA is using \$746,700 from the FY 2016 supplemental appropriation continued into FY 2017 plus an added \$738,300 in new FY 2017 monies for a total of \$1,485,000. When combined with the \$215,000 in the original base, DEMA will have a total of \$1,700,000 for state match purposes in FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Camp Navajo Fund (MAA2106/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Federal fees for storage and use of Camp Navajo, a munitions storage depot and National Guard training site.		
Purpose of Fund: To operate and maintain the Camp Navajo National Guard training and storage facility and for the operation and maintenance of National Guard facilities in Arizona. Laws 2015, Chapters 12 and 208 expanded the allowable expenditures of Camp Navajo Fund monies to include the operation and maintenance of National Guard facilities after all budgeted costs for Camp Navajo are met.		
Funds Expended	12,245,900	16,867,500
Year-End Fund Balance	12,787,100	8,937,700
Emergency Management Assistance Compact Revolving Fund (No Fund Number/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 associated incurred by the state while assisting other states with emergencies or natural disasters.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Emergency Response Fund (EVA3031/A.R.S. § 49-132)		Appropriated
Source of Revenue: The fund receives 10% of the department's Hazardous Waste Management Fund's revenues. Laws 2015, Chapter 208 shifted the administration of the fund in FY 2016 from DEMA to ADEQ.		
Purpose of Fund: To develop and administer a hazardous materials emergency management program, equip local emergency planning committees for the development of hazardous materials emergency response teams, and assist local agencies in providing adequate response to emergency situations. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	0	0
Year-End Fund Balance	168,300	166,800
Federal Funds - Emergency (MAA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal program grants. Homeland Security funds received by Arizona after FY 2006 are reported in the Arizona Department of Homeland Security's budget.		
Purpose of Fund: To pay for the federal share of emergency planning, response and management programs.		
Funds Expended	11,516,100	13,445,300
Year-End Fund Balance	76,500	52,600
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	28,891,000	33,907,700
Year-End Fund Balance	2,189,500	2,069,900
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	661,400	1,201,200
Year-End Fund Balance	708,800	516,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Interagency Service Agreement Fund (MAA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Funds from federal grants.		
Purpose of Fund: Support of the agency's centralized personnel plan which allocates support staff costs to National Guard grants and the agency's mail distribution program in addition to agreements within and outside the agency.		
Funds Expended	1,366,300	1,714,100
Year-End Fund Balance	557,900	406,700
Military Installation Fund (MAA1010/A.R.S. § 26-262)		Non-Appropriated
Source of Revenue: The FY 2012 Government Budget Reconciliation Bill (Laws 2011, Chapter 34) eliminated the statutory annual General Fund deposit of \$4,825,000 into the Military Installation Fund; the FY 2015 General Appropriation Act (Laws 2014, Chapter 18), however, provided a one-time deposit of \$2,500,000 into the fund. Currently, the fund's sole revenue source is the collection of interest from the balance in the fund. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: Grants for military installation preservation and enhancement projects as well as costs associated with administering the fund. DEMA must utilize 80% of the monies to acquire private property, real estate, property rights and related infrastructure to preserve, support, or enhance a military installation. Up to 20% of this amount may be awarded to cities, towns, and counties for land acquisition purposes. The remaining 20% is awarded to cities, towns, and counties for military installation preservation and enhancement projects. In addition, \$90,000 is appropriated to the department for the costs associated with 1 FTE Position to administer the fund.		
Funds Expended	0	0
Year-End Fund Balance	3,722,500	199,300
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	26,100	50,000
Year-End Fund Balance	149,000	161,500
National Guard Fund (MAA2140/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Monies appropriated to the fund by the legislature and proceeds, deposited into a separate subaccount, from National Guard facilities that are utilized for commercial purposes. Prior to FY 2016, the fund received monies from the rental or use of armories only, however, Laws 2015, Chapter 208 expanded the property allowed to be utilized for commercial purposes to include all National Guard facilities.		
Purpose of Fund: For general operating expenses of the National Guard and maintenance and capital improvements to any National Guard facility.		
Funds Expended	5,100	194,800
Year-End Fund Balance*	94,800	(500)
National Guard Relief Fund (MAA2349/A.R.S. § 26-183)		Non-Appropriated
Source of Revenue: Monies received from individual contributors who voluntarily donate through the state individual income tax return. Laws 2015, Chapter 208 eliminated the National Guard Relief Fund and the state individual income tax donation and transferred any remaining monies in the fund to the Department of Veterans' Services for distribution to a nonprofit organization that provides financial assistance to Arizona National Guard members and their families.		
Purpose of Fund: To provide assistance to families of National Guard members who are mobilized in support of a contingency operation or state emergency.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Nuclear Emergency Management Fund (MAA2138/A.R.S. § 26-306.02)		Non-Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	8,000	8,000
Statewide Donations Fund (MAA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	0	0
Year-End Fund Balance	0	0

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

Department of Environmental Quality

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	12,822,000	16,495,700	16,495,700
Employee Related Expenditures	4,884,700	7,250,200	7,250,200
Professional and Outside Services	2,601,300	6,424,900	6,424,900
Travel - In State	321,700	431,800	431,800
Travel - Out of State	15,400	111,500	111,500
Other Operating Expenditures	11,969,300	15,143,600	15,143,600
Equipment	217,300	432,700	432,700
OPERATING SUBTOTAL	32,831,700	46,290,400	46,290,400
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	20,160,900	21,119,500	21,119,500
Safe Drinking Water Program	1,579,700	1,800,000	1,800,000
WQARF Priority Site Remediation	7,000,000	9,948,600	7,000,000
AGENCY TOTAL	61,572,300	79,158,500	76,209,900
FUND SOURCES			
General Fund	7,000,000	2,823,600	2,823,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	3,298,300	8,236,400	7,046,600
Emergency Response Fund	43,100	132,800	132,800
Emissions Inspection Fund	25,154,600	32,620,500	30,861,700
Hazardous Waste Management Fund	1,110,000	1,734,600	1,734,600
Indirect Cost Recovery Fund	11,467,800	13,375,200	13,375,200
Permit Administration Fund	5,506,800	7,114,100	7,114,100
Recycling Fund	945,200	1,352,900	1,352,900
Solid Waste Fee Fund	732,200	1,239,000	1,239,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	6,314,300	10,507,400	10,507,400
SUBTOTAL - Other Appropriated Funds	54,572,300	76,334,900	73,386,300
SUBTOTAL - Appropriated Funds	61,572,300	79,158,500	76,209,900
Other Non-Appropriated Funds	33,121,200	86,132,800	56,132,800
Federal Funds	7,616,700	18,120,300	18,120,300
TOTAL - ALL SOURCES	102,310,200	183,411,600	150,463,000

AGENCY DESCRIPTION — The Department of Environmental Quality (ADEQ) enforces air, water, and land quality standards. The department's Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the clean up (remediation) of hazardous waste sites. The Office of Water Quality regulates drinking water and waste water systems, monitors and assesses waters of the state, and provides hydrologic analysis to support hazardous site remediation.

Operating Budget

The Baseline includes \$46,290,400 and 322 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
Air Quality Fund	\$5,361,400
Emergency Response Commission	132,800
Emissions Inspection Fund	5,451,000
Hazardous Waste Management Fund	1,734,600
Indirect Cost Recovery Fund	13,375,200

Permit Administration Fund	7,114,100
Recycling Fund	1,352,900
Solid Waste Fee Fund	1,239,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,507,400

These amounts are unchanged from FY 2017.

Emissions Control Contractor Payment

The Baseline includes \$21,119,500 from the Emissions Inspection Fund in FY 2018 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2017.

Monies appropriated to this line item are used to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the Emissions Inspection Fund. ADEQ then determines the amount due to the contractor, based on the number of vehicles inspected, and makes payments to the contractor on a regular basis.

The Emissions Control Program is operated by an independent contractor in the Phoenix Metropolitan Area and the Tucson Metropolitan Area with the purpose of identifying and repairing polluting motor vehicles. The program is funded through test fees that are charged to motorists at the time of inspection. Statute does not specify a fee level. The Director of ADEQ has the statutory authority to specify the fees required to pay for the full cost of the Vehicle Emissions Inspection Program. The FY 2017 Environment Budget Reconciliation Bill (BRB) reduced 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 Emissions Inspection Fund in FY 2018 for the Safe Drinking Water Program. This amount is unchanged from FY 2017.

The FY 2017 Environment BRB continued to allow the department to use up to \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program. Before any monies in the line item were expended in FY 2017, the department was required to submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for its review. The JLBC favorably reviewed the FY 2017 Safe Drinking Water Expenditure Plan at its September 2016 meeting. ADEQ's expenditures for the Safe Drinking Water Program appear in *Table 1*.

Table 1

Safe Drinking Water Program Costs

<u>Position or Function</u>	<u>Actual FY 2016</u>	<u>Estimated FY 2017</u>
Direct Personnel	\$1,016,500	\$1,114,400
Indirect Cost Fund	454,800	498,600
Contracting	60,700	90,600
Travel	18,700	29,500
Other	29,000	66,900
Total	\$1,579,700	\$1,800,000

WQARF Priority Site Remediation

The Baseline includes \$7,000,000 in FY 2018 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

General Fund	2,823,600
Emissions Inspection Fund	2,491,200
Air Quality Fund	1,685,200

FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (2,948,600)

The Baseline includes a decrease of \$(2,948,600) in FY 2018 to remove one-time funding for WQARF Priority Site Remediation. This amount consists of:

Emissions Inspection Fund	(1,758,800)
Air Quality Fund	(1,189,800)

The FY 2017 budget included \$2,948,600 in one-time funding of Other Appropriated Funds for WQARF Priority Site Remediation. The removal of this one-time funding is being applied proportionally to the Emissions Inspection Fund and the Air Quality Fund.

WQARF is funded in part from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. Funding for this program, therefore, does not appear in the General Appropriation Act. In addition, WQARF generates other revenue from various license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the \$15,000,000 CIT transfer so that, when combined with the WQARF fee-generated revenue, the program receives \$18,000,000 annually.

The FY 2017 Environment BRB continued to notwithstanding these statutory provisions. *Table 2* describes program activity for FY 2016 and FY 2017. In FY 2016, the General Fund allocation was reduced from the statutory amount to \$7,000,000. In FY 2017, the General Fund allocation is further reduced to \$2,823,600, but balances of \$2,875,000 from the Air Quality Fund and \$4,250,000

from the Emissions Inspection Fund are being utilized to increase total WQARF funding to \$9,948,600.

Table 2

WQARF Activity

	Actual FY 2016	Estimated FY 2017
Balance Forward	\$ 3,435,900	\$ 2,766,400
General Fund	7,000,000	2,823,600
Other Revenue	<u>6,102,200</u>	<u>10,363,000</u>
Total Funds Available	\$16,538,100	\$15,953,000
General Fund Expenditures	\$ 7,000,000	\$ 2,823,600
Other Funds Expended	6,641,700	11,997,900
Transfers Out	<u>130,000</u>	<u>440,000</u>
Year-End Fund Balance	\$ 2,766,400	\$ 691,500

The WQARF program is similar to the federal Superfund program in that it is designed to monitor and remediate contaminated groundwater at specified sites. Program expenditures include searching for responsible polluters, conducting risk assessments and remediation feasibility studies, and contracting for remediation services.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Before the expenditure of any monies from the Safe Drinking Water Program line item, the Department of Environmental Quality shall submit an expenditure plan for review by the Joint Legislative Budget Committee.

The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. The department shall submit the FY 2018 report to the Joint Legislative Budget Committee on or before September 1, 2017. This report shall also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. This budget shall specify the monies budgeted for each listed site during FY 2018. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 1, 2017, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table shall include the stage of remediation for each site at the end of FY 2017, indicate whether the current stage of remediation is anticipated to be completed in FY 2018 and indicate the

anticipated stage of remediation at each listed site at the end of FY 2018, assuming FY 2018 funding levels. The department and advisory board may include other relevant information about the listed sites in the table.

Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2019 budget for the Water Quality Assurance Revolving Fund before September 1, 2017, for review by the Senate and House of Representatives Appropriations Committees.

All Permit Administration monies received by the Department of Environmental Quality in excess of \$7,114,100 in FY 2018 are appropriated to the department. Before the expenditure of Permit Administration monies in excess of \$7,114,100 in FY 2018, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,375,200 in FY 2018 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,375,200 in FY 2018, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank Revolving (UST) Fund in FY 2018 for department administrative expenses.
- As session law, continue to suspend the requirement to appropriate \$15,000,000 from the state General Fund to the Water Quality Assurance Revolving Fund. In FY 2018, reduce the General Fund appropriation to \$2,823,600 and appropriate \$2,491,200 from the Vehicle Emissions Inspection Fund and \$1,685,200 from the Air Quality Fund for a total of \$7,000,000.
- As session law, continue to allow \$1,800,000 of the department's Emissions Inspection Fund monies spent on the Safe Drinking Water Program.
- As session law, continue the FY 2017 provision that reduces emissions inspection fees by \$3 in Area A, which includes Maricopa County and portions of Pinal and Yavapai Counties.

Other Issues

Vehicle Emissions Inspection Fees

As shown in *Table 3*, ADEQ estimated the VEI Program generated more in fees than administration of the program in FY 2016.

	Actual FY 2016	Estimated FY 2017	Estimated FY 2018
Revenues			
Balance Forward	\$17,318,000	\$16,262,000	\$9,755,500
Fees	<u>29,730,200</u>	<u>26,764,000</u>	<u>26,764,000</u>
Total Revenues	\$47,048,200	\$43,026,000	\$36,519,500
Expenditures			
Inspections ^{1/}	24,206,500	27,220,500	26,570,500
SDWP	1,579,700	1,800,000	1,800,000
APF	5,000,000	0	0
WQARF	0	<u>4,250,000</u>	<u>2,491,200</u>
Total Expenditures	\$30,786,200	\$33,270,500	\$30,861,700
Total Balance	\$16,262,000	\$ 9,755,500	\$5,657,800

^{1/} Includes \$5.5 million for ADEQ costs in the operating budget in FY 2018.

In recent years, the resulting balances have been utilized for other programs. Between FY 2014 and FY 2016, \$16.8 million in excess revenues were transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund (APF). The FY 2017 budget did not include transfers for this purpose. In FY 2017, ADEQ is using carry-over balances in the APF for the e-licensing project. *(Please see the ADOA - Automation Projects Fund section for more information.)* The appropriations from the Emissions Inspection Fund for the Safe Drinking Water Program (SDWP) were \$1.8 million in FY 2017. In FY 2017, DEQ is utilizing \$4.3 million from the Emissions Inspection Fund for WQARF.

Fees charged in the Phoenix area are often higher than comparable fees in the Tucson area:

- Prior to FY 2017 vehicle owners in the Phoenix area paid \$20.00 for the onboard diagnostic test, while those in the Tucson area pay \$12.25 for the same test. Regardless of location, ADEQ pays its contractor \$13.85 for each diagnostic test. As a result, ADEQ ran a \$6.15 surplus in the Phoenix area and a \$(1.60) deficit in the Tucson area per test.

- Owners of heavy-duty diesel trucks in the Phoenix area paid \$28.00 for each test, while those in the Tucson area pay \$12.25 for each test. Regardless of location, ADEQ pays its contractor \$23.50 for each heavy-duty diesel test. As a result, ADEQ ran a \$4.50 surplus in the Phoenix area and an \$(11.25) deficit in the Tucson area per test.

The FY 2017 Environment BRB reduced emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. This does not affect Area B, which refers to the Tucson Metropolitan Area. Area A's onboard diagnostic test fee is reduced from \$20.00 to \$17.00, its steady state and idle test fee is reduced from \$19.00 to \$16.00, and its heavy-duty diesel test fee is reduced from \$28.00 to \$25.00.

This change is estimated to reduce fees on over 1.2 million tests conducted annually and reduce Emissions Inspection Fund revenues by approximately \$3.7 million annually. *Table 3* shows the estimated revenues and expenditures of the Emissions Inspection Fund after fee reductions and the additional utilization of the fund for WQARF Priority Site Remediation.

In FY 2018, JLBC Staff assumes ongoing funding of \$1.8 million from the Emissions Inspection Fund for SDWP and \$2.5 million of funding from the Emissions Inspection Fund for WQARF.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 program and annual appropriations for the Department of Weights and Measures Oxygenated Fuels and Vapor Recovery programs. <i>(See individual agencies for further description.)</i>		
Funds Expended	3,298,300	8,236,400
Funds Appropriated		
Department of Weights and Measures	1,439,800	1,434,400
Arizona Department of Transportation	74,200	161,700
Arizona Department of Administration (Bus Subsidy)	927,300	927,300
Funds Transferred		
Arizona Department of Administration (Travel Reduction)	400,000	400,000
Year-End Fund Balance	8,433,500	6,460,900
Donations Fund (EVA2449/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Various donations, settlements, and consent decrees.		
Purpose of Fund: To administer the intent of the donation, settlement or decree.		
Funds Expended	4,100	4,400
Year-End Fund Balance	4,700	4,700
Emergency Response Fund (EVA3031/A.R.S. § 49-132)		Appropriated
Source of Revenue: The fund receives 10% of the department's Hazardous Waste Management Fund's revenues. Laws 2015, Chapter 208 shifted the administration of the fund in FY 2016 from DEMA to ADEQ.		
Purpose of Fund: To develop and administer a hazardous materials emergency management program, equip local emergency planning committees for the development of hazardous materials emergency response teams, and assist local agencies in providing adequate response to emergency situations. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	43,100	132,800
Year-End Fund Balance	521,600	635,600
Emissions Inspection Fund (EVA2082/A.R.S. § 49-544)		Appropriated
Source of Revenue: Legislative appropriations, test fees, fleet certificate fees, private grants, donations, and federal grants.		
Purpose of Fund: To pay for enforcement of fleet inspections, exemptions, and certificates of waiver programs; to pay Emissions Inspection program contract and administrative charges, including station auditing, contractor training and certification, and motorist assistance; to pay for the state portion of catalytic converter program costs; and to pay for research studies of the feasibility and effectiveness of new emission control technologies. As session law, the FY 2016 Environmental Budget Reconciliation Bill (Laws 2015, Chapter 13) allows \$1,800,000 of these monies to be spent on the Safe Drinking Water Program in FY 2016. The FY 2016 General Appropriation Act transfers \$5,000,000 from the Emissions Inspection Fund to the Automation Projects Fund to be used for DEQ information technology projects.		
Funds Expended	25,154,600	32,620,500
Year-End Fund Balance	16,262,000	9,712,700
Federal Funds (EVA2000/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Federal grants related to water quality management, Underground Storage Tank enforcement provisions, air pollution control, research projects, and other programs.		
Purpose of Fund: To be used as specified by federal law.		
Funds Expended	7,616,700	18,120,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Hazardous Waste Management Fund (EVA2178/A.R.S. § 49-927)		Appropriated
Source of Revenue: Legislative appropriations, hazardous waste treatment, storage, and disposal permit fees, and hazardous waste generation and transportation fees.		
Purpose of Fund: To pay educational, permitting, planning, and enforcement costs of the Hazardous Waste Program, and to provide administration and state matching funds for federal source reduction grants. A portion of the fund is transmitted to the Emergency Response Fund for staffing and equipping local emergency management agencies. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	1,110,000	1,734,600
Year-End Fund Balance	2,629,700	2,383,600
IGA & ISA Fund (EVA2500/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	5,052,800	7,341,600
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (EVA9000/A.R.S. § 49-115)		Appropriated
Source of Revenue: Monies are generated from assessments to the department's appropriated and non-appropriated funds, including federal grants. At the end of FY 2015, the department switched from using the Indirect Cost Fund (Fund 7000) to the Indirect Cost Recovery Fund (Fund 9000). At the beginning of FY 2016, the remaining fund balance in Fund 7000 was transferred to Fund 9000.		
Purpose of Fund: To pay departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs.		
Funds Expended	11,467,800	13,375,200
Year-End Fund Balance	2,788,600	1,904,100
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	12,700	24,300
Year-End Fund Balance	81,800	77,900
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	5,000	5,000
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	591,500	845,500
Year-End Fund Balance	982,800	746,600
Permit Administration Fund (EVA2328/A.R.S. § 49-455)		Appropriated
Source of Revenue: Permit fees and interest.		
Purpose of Fund: To develop and administer permit programs and to conduct inspections.		
Funds Expended	5,506,800	7,114,100
Year-End Fund Balance	8,814,600	7,233,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Recycling Fund (EVA2289/A.R.S. § 49-837)		Appropriated
Source of Revenue: Landfill disposal (tipping) fees and legislative appropriations.		
Purpose of Fund: For grants to local governments and others developing recycling markets and programs; for public information and assistance on source reduction and recycling; and for revenue collection and fund administration.		
Funds Expended	945,200	1,352,900
Year-End Fund Balance	2,225,100	3,090,000
Solid Waste Fee Fund (EVA3110/A.R.S. § 49-881)		Appropriated
Source of Revenue: Fees, donations, and legislative appropriations.		
Purpose of Fund: To pay solid waste program costs, including waste tire removal expenses, special waste facility staff education, special waste management compliance monitoring, and used oil handling education and enforcement.		
Funds Expended	732,200	1,239,000
Year-End Fund Balance	1,578,900	1,421,400
Specific Site Judgment Fund (EVA3006/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Fines, forfeitures, and penalties paid by parties responsible for site contamination.		
Purpose of Fund: For administration of court settlements, judgments, or consent decrees.		
Funds Expended	0	0
Year-End Fund Balance	684,600	685,700
Underground Storage Tank Revolving (UST Summary) (EVA2271/A.R.S. § 49-1015A)		Partially-Appropriated
Source of Revenue: Laws 2015, Chapter 247 established a newly-revised corrective action program and extended the 1¢ excise tax to January 1, 2024, on which date the tax will be repealed. The bill repealed the following: the State Assurance Account (SAF), the Regulated Substance Fund, and the Grant Account. The Underground Storage Tank (UST) Revolving Fund's allowable uses were redefined, and all unexpended and unencumbered monies from these accounts were transferred to the reorganized UST Revolving Fund.		
Purpose of Fund: To provide partial coverage for permanent closures, leak prevention, and corrective action costs related to leaking underground storage tanks incurred by the department, owners, operators, or political subdivisions. As session law, the FY 2017 Environment BRB (Laws 2016, Chapter 120) permits DEQ to transfer a combined total of \$6,531,000 from the UST Revolving Fund for administrative costs of the department.		
Balance Forward	12,844,500	12,844,500
Revenue	32,636,200	31,200,000
Transfer In (from RSF to UST Revolving Fund per Laws 2015, Chapter 247)	35,232,900	0
Transfer Out	0	0
Funds Available	80,713,600	98,573,700
Appropriated Funds Expended	0	22,000
Non-Appropriated Funds Expended	13,339,900	62,067,200
Legislative Fund Transfers	0	0
Year-End Fund Balance	67,373,700	36,444,100
Voluntary Lawn and Garden Equipment Emissions Reduction Fund (EVA2306/A.R.S. § 49-474)		Non-Appropriated
Source of Revenue: Historically received an annual \$10,000 appropriation for operating costs from the since-abolished UST State Assurance Account (SAF). This fund no longer receives an appropriation.		
Purpose of Fund: To provide vouchers for the retirement of residential and commercial lawn mowers. Residential owners receive a \$100 voucher to be used toward the purchase of an electric mower. Commercial owners receive a \$200 voucher to be used toward the purchase of a mower that generates lower emissions.		
Funds Expended	0	0
Year-End Fund Balance	1,700	1,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Voluntary Remediation Fund (EVA2564/A.R.S. § 49-187)		Non-Appropriated
Source of Revenue: Legislative appropriations, program fees, cost reimbursements, gifts, grants, and donations.		
Purpose of Fund: To pay the department's oversight costs of voluntary clean-ups of contaminated properties, including application, monitoring, and enforcement activities.		
Funds Expended	348,500	588,300
Year-End Fund Balance	348,400	212,600
Voluntary Vehicle Repair & Retrofit Program Fund (EVA2365/A.R.S. § 49-474.03)		Non-Appropriated
Source of Revenue: Legislative appropriations, a \$10 fee on diesel vehicle registrations, gifts, grants and donations.		
Purpose of Fund: To provide monies for local programs intended to repair or retrofit vehicles that fail emissions tests.		
Funds Expended	0	0
Year-End Fund Balance	2,325,500	3,330,200
Water Quality Assurance Revolving Fund (EVA2221/A.R.S. § 49-282)		Non-Appropriated
Source of Revenue: Fees and taxes related to municipal water use, pesticides, fertilizers, hazardous waste, and groundwater withdrawal. As required by A.R.S. § 49-282, \$15,000,000 is to be transferred to WQARF from the Corporate Income Tax. The \$15,000,000 is adjusted at the close of the fiscal year so that when combined with other revenues the fund receives \$18,000,000 annually. This statutory transfer was suspended between FY 2011 and FY 2016 to \$7,000,000.		
Purpose of Fund: For the operation of the WQARF Priority Site Remediation Program. Expenditures include administration, legal support, identification of responsible polluters, community involvement, and contract costs for the clean-up of sites for which no responsible party can be found. There is a transfer of up to \$800,000 to the Department of Water Resources for well inspection and data management. Although this fund is not appropriated, A.R.S. § 49-282 requires the Appropriations Committees to review the annual budget for WQARF.		
Funds Expended	13,771,700	15,261,500
Year-End Fund Balance	2,766,400	668,500
Water Quality Fee Fund (EVA4100/A.R.S. § 49-210)		Appropriated
Source of Revenue: Legislative appropriations and fees received from several water quality protection programs.		
Purpose of Fund: To pay the costs of aquifer protection permit registration, dry well registration, technical review, inspections, and issuance of aquifer protection permits.		
Funds Expended	6,314,300	10,507,400
Year-End Fund Balance	6,259,100	2,769,000

Governor's Office of Equal Opportunity

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	134,400	125,500	125,500
Employee Related Expenditures	49,100	50,900	50,900
Professional and Outside Services	600	5,000	5,000
Travel - In State	100	1,200	1,200
Travel - Out of State	0	4,500	4,500
Other Operating Expenditures	3,100	2,000	2,000
AGENCY TOTAL	187,300	189,100	189,100
FUND SOURCES			
General Fund	187,300	189,100	189,100
SUBTOTAL - Appropriated Funds	187,300	189,100	189,100
TOTAL - ALL SOURCES	187,300	189,100	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.0	7.0	7.0
Personal Services	257,700	400,500	400,500
Employee Related Expenditures	70,500	71,000	71,000
Professional and Outside Services	7,600	9,000	9,000
Travel - In State	13,100	13,100	13,100
Other Operating Expenditures	176,000	148,600	148,600
Equipment	900	800	800
AGENCY TOTAL	525,800	643,000	643,000
FUND SOURCES			
General Fund	525,800	643,000	643,000
SUBTOTAL - Appropriated Funds	525,800	643,000	643,000
TOTAL - ALL SOURCES	525,800	643,000	643,000

AGENCY DESCRIPTION — The State Board of Equalization consists of 33 members. The board hears property tax appeals for Maricopa and Pima Counties. Property tax appeals in other counties continue to be heard by the respective County Boards of Equalization. Of the 33 members, the 13 gubernatorial appointments also hear appeals of centrally-valued properties and equalization orders by the Department of Revenue.

Operating Budget

The Baseline includes \$643,000 and 7 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

Board of Executive Clemency

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	484,600	527,100	527,100
Employee Related Expenditures	185,000	205,400	205,400
Professional and Outside Services	38,800	38,800	38,800
Travel - In State	1,300	5,000	5,000
Other Operating Expenditures	176,300	176,300	176,300
Equipment	6,500	0	0
AGENCY TOTAL	892,500	952,600	952,600
FUND SOURCES			
General Fund	892,500	952,600	952,600
SUBTOTAL - Appropriated Funds	892,500	952,600	952,600
Federal Funds	41,500	43,600	43,600
TOTAL - ALL SOURCES	934,000	996,200	996,200

AGENCY DESCRIPTION — The board consists of 1 full-time chairman and 4 full-time members. The board conducts home arrest, parole, or work furlough release hearings at all adult prison institutions for prisoners convicted prior to January 1, 1994. The board considers executive clemency actions such as pardons, commutations, and absolute discharges for all prisoners convicted on or after January 1, 1994.

Operating Budget

The Baseline includes \$952,600 and 14 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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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, 2017 on the total number and types of cases the board reviewed in FY 2017.

Other Issues

Caseload Data

Pursuant to a footnote in the FY 2017 General Appropriation Act, the board is required to submit a report on its FY 2016 caseload by November 1, 2016.

The board conducted 4,173 case hearings in FY 2016, as described below:

- **Phases 1 and 2 Commutation (501):** After reviewing an inmate's request to have their sentence commuted, the board can decide to deny the request or allow the request to move to a Phase 2 Commutation hearing.
- **Pardon (19):** The board may recommend that the Governor pardon an offender.
- **Absolute Discharge (7):** The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.
- **Modification (8):** The board can recommend to the Governor that an inmate's sentence be modified or commuted.
- **Reprieve (0):** The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.
- **Parole (397):** These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.
- **Violator (3,241):** These hearings are conducted when an offender has violated the terms of community supervision.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Grants (PPA2000/A.R.S. § 31-401)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To be used as specified by the federal grants.		
Funds Expended	41,500	43,600
Year-End Fund Balance	0	0

Arizona Exposition and State Fair Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,488,900	3,591,700	3,591,700
Employee Related Expenditures	1,013,200	1,046,500	1,046,500
Professional and Outside Services	3,769,500	3,793,300	3,793,300
Travel - In State	11,800	5,000	5,000
Travel - Out of State	10,000	7,000	7,000
Other Operating Expenditures	3,014,900	3,069,800	3,069,800
Equipment	18,500	100,000	100,000
AGENCY TOTAL	11,326,800	11,613,300	11,613,300
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Arizona Exposition and State Fair Fund	11,326,800	11,613,300	11,613,300
SUBTOTAL - Other Appropriated Funds	11,326,800	11,613,300	11,613,300
SUBTOTAL - Appropriated Funds	11,326,800	11,613,300	11,613,300
TOTAL - ALL SOURCES	11,326,800	11,613,300	11,613,300

AGENCY DESCRIPTION — The Arizona Exposition and State Fair Board is custodian of the 96-acre State Fairgrounds and Memorial Coliseum properties. The board directs and conducts the annual Arizona State Fair and leases the coliseum and fairgrounds facilities for special events, including the annual Arizona National Livestock Show.

Operating Budget

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The Baseline includes \$11,613,300 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	11,326,800	11,613,300
Year-End Fund Balance	3,376,600	3,707,900

Department of Financial Institutions

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.1	69.1	69.1
Personal Services	2,423,300	2,611,000	2,611,000
Employee Related Expenditures	996,200	1,048,400	1,048,400
Professional and Outside Services	167,300	108,700	108,700
Travel - In State	3,000	3,000	3,000
Travel - Out of State	1,700	2,000	2,000
Other Operating Expenditures	513,600	541,700	541,700
Equipment	104,900	116,400	116,400
OPERATING SUBTOTAL	4,210,000	4,431,200	4,431,200
SPECIAL LINE ITEMS			
Real Estate Appraisal	532,100	815,100	815,100
AGENCY TOTAL	4,742,100	5,246,300	5,246,300
FUND SOURCES			
General Fund	2,904,300	2,978,200	2,978,200
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	532,100	815,100	815,100
Financial Services Fund	1,305,700	1,453,000	1,453,000
SUBTOTAL - Other Appropriated Funds	1,837,800	2,268,100	2,268,100
SUBTOTAL - Appropriated Funds	4,742,100	5,246,300	5,246,300
Other Non-Appropriated Funds	1,203,400	1,388,700	1,079,600
TOTAL - ALL SOURCES	5,945,500	6,635,000	6,325,900

AGENCY DESCRIPTION — The department regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions and banks. Beginning in FY 2016, the department also regulates real estate appraisal entities which were previously overseen by the State Board of Appraisal.

Operating Budget

The Baseline includes \$4,431,200 and 60.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$2,978,200
Financial Services Fund	1,453,000

These amounts are unchanged from FY 2017.

Real Estate Appraisal

The Baseline includes \$815,100 and 9 FTE Positions from the Board of Appraisal Fund in FY 2018 for Real Estate Appraisal. These amounts are unchanged from FY 2017.

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.

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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 expenditures from the state General Fund.

Deletion of Prior Year Footnotes

The Baseline would delete the one-time footnote concerning the reverting of funds in the Real Estate Appraisal line item in the event that the Board of Appraisal Fund is eliminated.

STATUTORY CHANGES

The Baseline would, as session law, continue to allow the department to use the Financial Services Fund for general operating expenditures.

licensing replacement system. The project was initially expected to be completed by the end of FY 2015.

Due to project delays, the expected completion date is currently March 2018. Changes to department business processes have the potential, however, to further delay the project beyond this current estimated completion date. To account for the expanded project timeline, the FY 2015, FY 2016, and FY 2017 Revenue BRBs included provisions to extend the department's spending authority from the fund for an additional year to complete the project.

Other Issues

Tobacco Tax/Master Settlement Agreement

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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Board of Appraisal Fund (BDA2270/A.R.S. § 32-3608)		Appropriated
<i>Source of Revenue:</i> Monies collected by the Department of Financial Institutions from the examination and licensing of real estate appraisers and tax agents. The department retains 90% of these monies and deposits 10% in the General Fund.		
<i>Purpose of Fund:</i> To examine, license, investigate and regulate real estate appraisers and property tax agents, and for board administration. The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) eliminated the State Board of Appraisal and transferred all authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions.		
Funds Expended	532,100	815,100
Year-End Fund Balance	377,300	234,200
Financial Services Fund (BDA1998/A.R.S. § 6-991.21)		Appropriated
<i>Source of Revenue:</i> Loan originator licensing and renewal fees. Similar fees are also deposited in the Mortgage Recovery Fund.		
<i>Purpose of Fund:</i> To supervise and regulate loan originators. The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) allows the department to use this fund for general operating expenditures in FY 2017.		
Funds Expended	1,305,700	1,453,000
Year-End Fund Balance	8,714,600	10,367,600
IGA and ISA Fund (BDA2500/A.R.S. § 6-1241)		Non-Appropriated
<i>Source of Revenue:</i> Monies received through Intergovernmental Agreements with the Attorney General's Office.		
<i>Purpose of Fund:</i> To reimburse the department for expenses related to the examination of money transmitting organizations. The banking examiners work in cooperation with the Attorney General's Office to provide information leading to the criminal conviction of fraudulent money transmitting organizations.		
Funds Expended	81,600	1,100
Year-End Fund Balance	1,100	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	2,213,500	2,305,400
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 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) also allowed the department to continue to use monies from the fund in FY 2017 for an electronic licensing system. Total expenditures on the licensing system in FY 2014, FY 2015, FY 2016 and FY 2017 may not exceed \$850,000.		
Funds Expended	307,800	538,500
Year-End Fund Balance	2,033,500	2,528,300
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	814,000	849,100
Year-End Fund Balance	200,000	200,000

Department of Fire, Building, and Life Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	48.0	0.0	0.0
Personal Services	896,800	0	0
Employee Related Expenditures	372,800	0	0
Professional and Outside Services	53,600	0	0
Travel - In State	120,200	0	0
Travel - Out of State	1,000	0	0
Other Operating Expenditures	535,100	0	0
Equipment	25,700	0	0
OPERATING SUBTOTAL	2,005,200	0	0
SPECIAL LINE ITEMS			
State Fire School	167,900	0	0
AGENCY TOTAL	2,173,100	0	0
FUND SOURCES			
General Fund	2,173,100	0	0
SUBTOTAL - Appropriated Funds	2,173,100	0	0
Other Non-Appropriated Funds	515,200	0	0
Federal Funds	304,700	0	0
TOTAL - ALL SOURCES	2,993,000	0	0

AGENCY DESCRIPTION — The agency enforced safety standards for manufactured homes, mobile homes, and factory-built buildings. The agency also included the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona. Beginning in FY 2017, the responsibilities of the Department of Fire, Building, and Life Safety were transferred to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department.

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transferred the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department, effective July 1, 2016. (Please see FY 2017 Appropriations Report for more information.)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arson Detection Reward Fund (MMA2169/A.R.S. § 41-2167)		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	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Building & Fire Safety Fund (MMA2211/A.R.S. § 41-2173)		Non-Appropriated
Source of Revenue: Intergovernmental agreement with the Department of Environmental Quality and the Department of Health Services. Registration fees charged to fire training school participants.		
Purpose of Fund: The fund is used: a) to implement a fire and life safety inspection program for the removal or installation of storage tanks and to ensure that owners and operators are complying with and reporting environmental releases to the proper agencies; b) to implement a fire and life safety inspection program for all building licenses under Federal Medicaid and Medicare Programs and provide staff to perform inspections; and c) to provide training classes at the local level to address the needs of volunteer firefighters. 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	30,700	0
Year-End Fund Balance	0	0
Condominium and Planned Community Hearing Office Fund (MMA2537/A.R.S. § 41-2198.05)		Non-Appropriated
Source of Revenue: Filing fees and civil penalties arising from disputes between owners and condominium or planned community associations over violations of condominium or planned community documents or violations of regulatory statutes.		
Purpose of Fund: To reimburse the costs of the Office of Administrative Hearings in conducting hearings concerning disputes between owners and condominium or planned community associations. Remaining monies in the fund may be used by the department to offset the costs of administering cases between owners and condominium or planned community associations. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Real Estate by Laws 2016, Chapter 128.		
Funds Expended	19,000	0
Year-End Fund Balance	0	0
Consumer Recovery Fund (MMA3090/A.R.S. § 41-2188)		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	5,800	0
Year-End Fund Balance	0	0
DPS-FBI Fingerprint Fund (MMA2159/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	0	0
Year-End Fund Balance	0	0
Federal Funds (MMA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Housing and Urban Development (HUD) reimbursements for regulatory functions performed by the Office of Manufactured Housing (OMH) on its behalf. Tuition fees for HUD training conducted by OMH staff.		
Purpose of Fund: Pro-rated salaries and related expenses for employees performing related functions. 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	304,700	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Interagency Service Agreement Fund (MMA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies transferred from the State Forester to cover their portion of rent expenses for office space shared with the Department of Fire, Building, and Life Safety.		
Purpose of Fund: To pay rent for office space shared by the Department of Fire, Building, and Life Safety and the State Forester. 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	163,100	0
Year-End Fund Balance	0	0
Manufactured Housing Cash Bond Fund (MMA3722/A.R.S. § 41-2179)		Non-Appropriated
Source of Revenue: Cash deposits made by housing manufacturers and installers prior to the granting of an original license. Applicants must make a cash deposit for each branch location of their operation.		
Purpose of Fund: To compensate consumers in cases where a licensee fails to perform sales or installation agreements or repairs under warranty; and to make payment to the department if the licensee fails to pay any fees or costs owed. 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	0	0
Mobile Home Relocation Fund (MMA2237/A.R.S. § 33-1476.02)		Non-Appropriated
Source of Revenue: Assessments collected from mobile home owners who do not own the land upon which the mobile home is located and interest earnings. Once the fund balance reaches \$8,000,000, assessments will no longer be collected and the only revenue will be from interest. Assessment would resume when the fund balance at the end of a fiscal year is less than \$6,000,000.		
Purpose of Fund: To pay for relocations due to rental increases and to pay premiums and other costs of purchasing insurance coverage for tenant relocation costs due to a change in property use pursuant to A.R.S. § 33-1476.01. If such insurance is not available, or if the insurance costs exceed the amount available from the fund, the fund is used to make direct payments for tenant relocation costs. 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	296,600	0
Year-End Fund Balance	0	0
Trampoline Court Safety Fund (MMA2578/A.R.S. § 41-2170.22)		Non-Appropriated
Source of Revenue: Fees charged to owners of trampoline courts.		
Purpose of Fund: To implement and maintain the registry of trampoline courts operating in Arizona. 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	0	0

Arizona Department of Forestry and Fire Management

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	55.0	67.0	67.0
Personal Services	1,623,300	1,857,000	1,857,000
Employee Related Expenditures	683,900	742,800	742,800
Professional and Outside Services	58,300	0	0
Travel - In State	14,500	15,000	15,000
Travel - Out of State	13,200	15,000	15,000
Other Operating Expenditures	299,000	224,600	224,600
Equipment	7,700	0	0
OPERATING SUBTOTAL	2,699,900	2,854,400	2,854,400
SPECIAL LINE ITEMS			
Environmental County Grants	250,000	250,000	250,000
Fire Suppression	4,000,000	4,085,000	4,065,000
Hazardous Vegetation Removal	685,300	1,350,000	1,350,000
Inmate Fire Crews	629,200	686,200	686,200
One-Time Equipment	0	302,500	0
State Fire Marshal	0	742,600	742,600
State Fire School	0	172,100	172,100
AGENCY TOTAL	8,264,400	10,442,800	10,120,300
FUND SOURCES			
General Fund	8,264,400	10,442,800	10,120,300
SUBTOTAL - Appropriated Funds	8,264,400	10,442,800	10,120,300
Other Non-Appropriated Funds	40,782,600	43,616,800	43,616,800
TOTAL - ALL SOURCES	49,047,000	54,059,600	53,737,100

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). Beginning in FY 2017, the department also includes the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training provided by the department must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona.

Operating Budget

The Baseline includes \$2,854,400 and 42 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Environmental County Grants

The Baseline includes \$250,000 from the General Fund in FY 2018 for Environmental County Grants. This amount is unchanged from FY 2017.

Monies in this line item have been used by Greenlee, Graham, Gila, Navajo, and Apache Counties for environmental projects that impact economic

development in those counties. The Arizona Department of Forestry and Fire Management must approve any project prior to expenditure of the monies.

Including funding from prior years, the department plans to support the following projects in FY 2017:

- \$31,500 for the Four Forest Restoration Initiative, which is a plan to implement effective large scale forest restoration, and for the development and implementation of a successor strategy to the White Mountain Stewardship Contract, which allowed for restoration treatments and round wood and residual biomass supply projects in the White Mountains.
- \$46,500 to address threatened and endangered species issues, with a focus on the Mexican Gray Wolf

recovery and experimental population programs and to conduct a National Environmental Policy Act analyses of other species listing, habitat designation, or recovery programs in eastern Arizona.

- \$56,500 to address watershed restoration issues, with a particular focus on the development and implementation of the Black River Stewardship Agreement project and the restoration of the C.C. Craigin reservoir watershed.
- \$21,000 for the protection, development, and management of Eastern Arizona electrical generation, water collection, and transportation infrastructures.
- \$21,000 to support the retention of existing motorized recreation; the development of an Arizona back county off-highway vehicle connected trails system along the Mogollon Rim; and new recreation opportunities, facilities and recreation-based economic development.
- \$21,000 to support development and implementation of renewable energy production facilities, convert eastern Arizona coal power plants at end of life to natural gas, and other energy-based economic retention and development projects.
- \$21,000 for participation in the development and implementation of comprehensive Natural Resources Management Plans.
- \$46,000 for participation in the development and implementation of an ecologically and economically sustainable management plan for public lands in Arizona and the West.
- \$10,500 for the development and implementation of an effective planning and execution strategy for emerging issues.
- \$25,000 for participation in the development and implementation of long term, sustainable overall Arizona water balance, conservation and augmentation measures, and the preservation of rural and agricultural Arizona interests and economies in the implementation of water rights, conservation measures, and potential shortages.

Fire Suppression

The Baseline includes \$4,065,000 from the General Fund in FY 2018 for Fire Suppression. FY 2018 adjustments would be as follows:

		FY 2018
Remove One-Time Funding	GF	\$(20,000)

The Baseline includes a decrease of \$(20,000) from the General Fund in FY 2018 for the elimination of one-time funding. The FY 2017 budget included \$85,000 for the purchase of Fire Management software. Of that amount, \$65,000 is ongoing and \$20,000 is one-time.

This line item funds fire suppression on state trust land and rural private land. A.R.S. § 37-623.02 provides an annual appropriation of up to \$3,000,000 from the General Fund for fire suppression. Because this authorization is in permanent statute, \$3,000,000 of the \$4,065,000 is not included in the General Appropriation Act.

Hazardous Vegetation Removal

The Baseline includes \$1,350,000 from the General Fund in FY 2018 for a Hazardous Vegetation Removal Program. This amount is unchanged from FY 2017.

This line item funds hazardous material removal programs that treat state and private lands through prescribed burning or thinning of flammable vegetation. This work can be conducted by Arizona Department of Forestry and Fire Management crews or through fuel reduction grants to contractors.

Inmate Fire Crews

The Baseline includes \$686,200 and 13 FTE Positions from the General Fund in FY 2018 for Inmate Fire Crews. These amounts are unchanged from FY 2017.

These monies provide fire-fighting training for 12 inmate fire crews. The crews act as first responders and are used for fuel treatment and fire suppression.

One-Time Equipment

The Baseline includes no funding from the General Fund in FY 2018 for One-Time Equipment. FY 2018 adjustments would be as follows:

Wildland Fire Engine	GF	(112,500)
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The Baseline includes a decrease of \$(112,500) from the General Fund in FY 2018 for the elimination of one-time funding for the purchase of a new wildland fire engine.

Inmate Crew Carrier	GF	(190,000)
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The Baseline includes a decrease of \$(190,000) from the General Fund in FY 2018 for elimination of one-time funding for the purchase of a new inmate fire crew carrier vehicle.

State Fire Marshal

The Baseline includes \$742,600 and 11 FTE Positions from the General Fund in FY 2018 for the State Fire Marshal. These amounts are unchanged from FY 2017.

The Office of the State Fire Marshal enforces the state fire codes and provides training and education for fire personnel and the general public.

Laws 2016, Chapter 128 transferred the State Fire Marshal's Office from the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Safety. *(Please see the Fire, Building and Life Safety narrative for additional information.)*

State Fire School

The Baseline includes \$172,100 and 1 FTE Position from the General Fund in FY 2018 for the State Fire School. These amounts are unchanged from FY 2017.

Monies in this line item mainly go to help subsidize smaller rural volunteer fire departments attending Arizona State Fire School workshops which provide firefighting education. Generally, fire departments pay for tuition, but the firefighters pay for their room and board to attend the 4-day Fire School. The Arizona State

Fire Training Committee, a non-profit organization, coordinates and manages the Fire School. The majority of Fire School workshops take place at the Mesa Convention Center in downtown Mesa with the exception of a few workshops that must be held at designated off-site locations.

Besides \$100,000 for subsidizing these costs, the remaining \$72,100 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

Laws 2016, Chapter 128 transferred this line item from the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Safety. *(Please see the Fire, Building and Life Safety narrative for additional information.)*

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arson Detection Reward Fund (FOA2169/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	0	0
Budget Stabilization Fund (TRA3034/A.R.S. § 35-144)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: Pursuant to A.R.S. § 35-144, as amended by Laws 2016, Chapter 219, monies from the Budget Stabilization Fund may be used to pay for claims for federal reimbursement by the State Forester. Outstanding claims may not exceed \$10,000,000.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Cooperative Forestry Fund (FOA2232/A.R.S. § 37-624)		Non-Appropriated
Source of Revenue: Legislative appropriations, reimbursements from organizations, the public, other levels of government, and state agencies.		
Purpose of Fund: To fund the State Forester's activities, including forestry assistance and wild land fire prevention and suppression on state lands.		
Funds Expended	8,946,900	7,301,300
Year-End Fund Balance	2,261,100	2,045,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Fire Suppression Revolving Fund (FOA2360/A.R.S. § 37-623.02)		Non-Appropriated
Source of Revenue: General Fund appropriations, monies authorized by the Governor's Emergency Council and the Wild Land Fire Emergency Council, civil penalties related to the use of fireworks on state lands and other monies. If the unobligated balance of the fund exceeds \$2,000,000 at the end of any calendar year, the excess shall be transferred to the General Fund. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations.		
Purpose of Fund: To cover the costs of fighting fires on public and private lands.		
Funds Expended	31,835,700	36,315,500
Year-End Fund Balance	3,224,800	1,909,400
Interagency Service Agreement Fund (FOA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies transferred from the State Forester to cover a portion of rent expenses for office space shared with the Department of Fire, Building, and Life Safety.		
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	0	0
Year-End Fund Balance	0	0
Trampoline Court Safety Fund (FOA2578/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	0	0

State Board of Funeral Directors and Embalmers

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	193,500	193,500	193,500
Employee Related Expenditures	71,800	71,800	71,800
Professional and Outside Services	17,900	17,900	17,900
Travel - In State	2,200	2,300	2,300
Other Operating Expenditures	50,700	87,700	87,700
Equipment	100	100	100
AGENCY TOTAL	336,200	373,300	373,300
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Funeral Directors' and Embalmers' Fund	336,200	373,300	373,300
SUBTOTAL - Other Appropriated Funds	336,200	373,300	373,300
SUBTOTAL - Appropriated Funds	336,200	373,300	373,300
TOTAL - ALL SOURCES	336,200	373,300	373,300

AGENCY DESCRIPTION — The board licenses, registers, and regulates embalmers, prearranged funeral salespersons, crematories, and funeral homes. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The Baseline includes \$373,300 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	336,200	373,300
Year-End Fund Balance	420,300	427,600

Arizona Game and Fish Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	13,623,600	15,208,400	15,208,400
Employee Related Expenditures	9,017,800	10,272,500	10,272,500
Professional and Outside Services	1,467,900	1,785,800	1,785,800
Travel - In State	252,900	287,100	287,100
Travel - Out of State	104,300	124,300	124,300
Other Operating Expenditures	10,915,000	13,188,200	12,567,200
Equipment	993,300	372,300	372,300
OPERATING SUBTOTAL	36,374,800	41,238,600	40,617,600
SPECIAL LINE ITEMS			
Watercraft Grants	0	1,000,000	1,000,000
AGENCY TOTAL	36,374,800	42,238,600	41,617,600

FUND SOURCES

Other Appropriated Funds

Capital Improvement Fund	1,000,900	1,001,200	1,001,200
Game and Fish Fund	32,168,600	35,687,600	35,687,600
Game, Non-Game, Fish and Endangered Species Fund	113,200	345,800	345,800
Watercraft Licensing Fund	3,075,900	5,187,800	4,566,800
Wildlife Endowment Fund	16,200	16,200	16,200
SUBTOTAL - Other Appropriated Funds	36,374,800	42,238,600	41,617,600
SUBTOTAL - Appropriated Funds	36,374,800	42,238,600	41,617,600
Other Non-Appropriated Funds	26,844,300	34,086,300	33,333,800
Federal Funds	42,491,100	46,010,700	44,050,200
TOTAL - ALL SOURCES	105,710,200	122,335,600	119,001,600

AGENCY DESCRIPTION — The Arizona Game and Fish Department (AGFD) manages Arizona wildlife populations through the operation of hunting and fishing license programs, enforcement actions for the unlawful taking of game, and wildlife habitat protection and development. A 5-member commission appointed by the Governor oversees department operations.

Operating Budget

The Baseline includes \$40,617,600 and 273.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
Capital Improvement Fund	\$1,001,200
Game and Fish Fund	35,687,600
Game, Non-Game, Fish and Endangered Species Fund	345,800
Watercraft Licensing Fund	3,566,800
Wildlife Endowment Fund	16,200

FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (375,000)

The Baseline includes a decrease of \$(375,000) from the Watercraft Licensing Fund in FY 2018 for the elimination of one-time funding for programs and equipment that curtail the spread of aquatic invasive species. The FY 2017 budget included \$125,000 to purchase 3 new mobile decontamination units and a transport truck and \$250,000 for research with state universities to discover if there are biological, chemical, or other factors that preclude the presence of aquatic invasive species.

Remove One-Time Funding OF (246,000)

The Baseline includes a decrease of \$(246,000) from the Watercraft Licensing Fund in FY 2018 for the elimination of one-time funding to replace the 2 oldest, highest meter-hour boats in the department's watercraft law enforcement fleet.

Watercraft Grants

The Baseline includes \$1,000,000 from the Watercraft Licensing Fund in FY 2018 for the Watercraft Grants line item. This amount is unchanged from FY 2017.

The program awards grants through a competitive grant process to Arizona watercraft enforcement agencies. These grants are used by agencies to expand Operation Under the Influence enforcement efforts, such as purchasing equipment, paying officers' overtime, or funding prevention and education programs.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the footnote regarding the minimum annual salary increase for wildlife management and law enforcement positions.

The Baseline would delete the footnote concerning the exemption from lapsing through FY 2017 of the agency's FY 2016 supplemental, which was included in the FY 2017 budget for increased PSPRS contribution rates.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Big Game Permit Fund (GFA3712/A.R.S. § 17-231)		Non-Appropriated
<i>Source of Revenue:</i> License fees for hunting permits.		
<i>Purpose of Fund:</i> Holding account for license fees from hunters who are unable to obtain big game hunting permits through the lottery system.		
Funds Expended	0	241,800
Year-End Fund Balance	241,800	0
Capital Improvement Fund (GFA2203/A.R.S. § 17-292)		Appropriated
<i>Source of Revenue:</i> Transfers from the Conservation Development Fund.		
<i>Purpose of Fund:</i> To acquire, construct, improve and renovate department facilities.		
Funds Expended	1,000,900	1,001,200
Year-End Fund Balance	32,000	32,000
Conservation Development Fund (GFA2062/A.R.S. § 17-282)		Non-Appropriated
<i>Source of Revenue:</i> A surcharge on hunting, fishing and combination licenses, and trout stamp sales.		
<i>Purpose of Fund:</i> To make debt service payments if the department issues bonds for the purpose of constructing, maintaining, and renovating department facilities.		
Funds Expended	1,231,400	1,007,400
Year-End Fund Balance	1,946,800	2,049,400
Federal Funds (GFA2000/A.R.S. § 17-231)		Non-Appropriated
<i>Source of Revenue:</i> Revenue from federal grants.		
<i>Purpose of Fund:</i> 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	0	0
Year-End Fund Balance	138,500	138,500
Federal Grants - American Recovery and Reinvestment Act (ARRA) (GFA2999/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<i>Purpose of Fund:</i> One-time Federal Funds to be used by the department to fulfill Federal contracts.		
Funds Expended	0	0
Year-End Fund Balance	17,500	17,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Revolving Fund (GFA2028/A.R.S. § 17-406)		Non-Appropriated
Source of Revenue: Funds received from the federal government for deposit and appropriated state matching money.		
Purpose of Fund: For projects approved in compliance with the provisions of the restoration acts known as the Pittman-Robertson Act and the Dingell-Johnson/Wallop-Breaux Act and other wildlife projects in which the cost may be partially or wholly reimbursed from Federal Funds.		
Funds Expended	42,491,100	45,890,300
Year-End Fund Balance	5,798,300	251,800
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	24,000	0
Year-End Fund Balance	49,500	81,200
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	120,400
Year-End Fund Balance	120,400	0
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	32,168,600	35,687,600
Year-End Fund Balance	16,987,400	9,896,800
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	149,500	149,500
Year-End Fund Balance	67,400	92,000
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 Department of Fish and Wildlife.		
Funds Expended	0	41,300
Year-End Fund Balance	41,300	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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
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	3,238,300	2,890,300
Year-End Fund Balance	8,876,000	9,985,700
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	113,200	345,800
Year-End Fund Balance	295,800	151,000
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. Pursuant to Laws 2016, Chapter 224, 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. Chapter 224 requires the commission to submit to the Secretary of State a fund annual report.		
Funds Expended	8,036,600	11,805,100
Year-End Fund Balance	14,769,900	13,128,500
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	4,910,500	6,971,600
Year-End Fund Balance	1,018,400	846,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	114,000
Year-End Fund Balance	114,000	0
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	31,900	31,900
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	1,971,600	2,163,300
Year-End Fund Balance	667,600	279,300
Watercraft Licensing Fund (GFA2079/A.R.S. § 5-323)		Appropriated
Source of Revenue: Registration fees for the licensing and numbering of watercraft, license taxes, and penalty assessments.		
Purpose of Fund: To administer and enforce registration of watercraft and boating safety laws, and to provide any information and education programs relating to boating and boating safety.		
Funds Expended	3,075,900	5,187,800
Year-End Fund Balance	6,246,400	4,013,000
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	6,377,100	7,978,100
Year-End Fund Balance	7,566,200	6,088,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	742,100	525,200
Year-End Fund Balance*	(139,100)	100
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	16,200	16,200
Year-End Fund Balance	2,420,500	2,564,300
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	163,200	198,700
Year-End Fund Balance	140,500	114,000

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

Department of Gaming

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	155.8	155.8	155.8
Personal Services	3,765,000	4,686,100	4,686,100
Employee Related Expenditures	1,493,000	1,564,500	1,564,500
Professional and Outside Services	412,400	441,100	441,100
Travel - In State	250,600	250,700	250,700
Travel - Out of State	27,400	30,000	30,000
Other Operating Expenditures	1,186,700	1,058,600	1,058,600
Equipment	100,400	264,500	264,500
OPERATING SUBTOTAL	7,235,500	8,295,500	8,295,500
SPECIAL LINE ITEMS			
Additional Operating Expenses	0	768,400	768,400
Arizona Breeders' Award	0	200,000	0
Casino Operations Certification	1,622,700	2,081,800	2,081,800
County Fairs Livestock and Agriculture Promotion	1,779,500	1,779,500	1,779,500
Division of Racing	2,468,000	2,886,000	2,886,000
Problem Gambling	1,909,300	2,287,000	2,287,000
AGENCY TOTAL	15,015,000	18,298,200	18,098,200
FUND SOURCES			
General Fund	1,779,500	1,979,500	1,779,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	8,844,800	11,050,900	11,050,900
Racing Regulation Fund	2,468,000	2,886,000	2,886,000
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,622,700	2,081,800	2,081,800
SUBTOTAL - Other Appropriated Funds	13,235,500	16,318,700	16,318,700
SUBTOTAL - Appropriated Funds	15,015,000	18,298,200	18,098,200
Other Non-Appropriated Funds	1,783,900	1,370,000	1,370,000
TOTAL - ALL SOURCES	16,798,900	19,668,200	19,468,200

AGENCY DESCRIPTION - The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is funded by the Arizona Benefits Fund, which receives a portion of tribal gaming revenues to pay for regulation of tribal gaming and prevention of problem gambling. The agency is also responsible for certifying casino employees and vendors working with casinos. The department receives monies from the Tribal-State Compact Fund through casino employee and vendor certification application fees. Beginning in FY 2016, the responsibilities of the Department of Racing were transferred to the Department of Gaming.

Administrative Expenses

The Baseline continues the FY 2017 appropriated spending level of \$9,063,900 for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$768,400 in a separate line item for additional operating budget expenditures.

The department's actual spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's

administration expenses from the Arizona Benefits Fund, excluding Problem Gambling, are limited to the greater of \$8,000,000, or 9% of state tribal gaming revenues.

In FY 2018, 9% of tribal gaming revenues are forecasted to be \$8,167,700. The Baseline includes \$8,167,700 in FY 2018, as 9% of projected revenue is greater than \$8,000,000.

The Baseline provides added flexibility should the Department of Gaming exceed forecasted tribal gaming

revenues. The Baseline includes an added \$768,400 in a separate line item if revenues exceed projections. This would allow the department to expend more of the FY 2018 amount up to \$9,063,900.

Problem Gambling

The 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 2018, 2% of tribal gaming revenues are projected to be \$1,815,100. In that circumstance, the department would not be able to fully expend its appropriation of \$1,987,000 for Problem Gambling from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2018 amount up to \$1,987,000.

Gaming Revenues

From FY 2015 to FY 2016, state gaming revenues grew 2.63% to \$90,752,600. Gaming revenues are expected to have flat growth in FY 2017 and FY 2018 maintaining a level of \$90,752,600. (See Table 1 for more information on projected state revenues and department allocations.)

Operating Budget

The Baseline includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Additional Operating Expenses

The Baseline includes \$768,400 from the Arizona Benefits Fund in FY 2018 for additional operating expenses. The department would be required to report on any new administrative spending. This amount is unchanged from FY 2017.

Monies in this line item are used to align spending with the 9% of projected tribal contributions. The agency may use this additional appropriation for administrative cost of regulating gaming. In FY 2018, these resources will be allocated to the appropriate operating budget line items. (See footnote on additional operating expenses reporting.)

Arizona Breeders' Award

The Baseline includes no funding in FY 2018 for the Arizona Breeders' Award. FY 2018 adjustments would be as follows:

		FY 2018
Remove One-Time Funding	GF	\$(200,000)

The Baseline includes a decrease of \$(200,000) from the General Fund in FY 2018 for the removal of one-time funding. Laws 2016, Chapter 342 appropriated \$200,000 from the General Fund in FY 2017 to restore funding to the Arizona Breeders' Award.

Monies in this line item are deposited in the non-appropriated Arizona Breeders' Award Fund. The fund awards the breeder of every winning horse foaled in the state.

Casino Operations Certification

The Baseline includes \$2,081,800 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2018 for Casino Operations Certification. These amounts are unchanged from FY 2017.

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 2018 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2017.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Division of Racing

The Baseline includes \$2,886,000 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2018 for operating costs associated with the Division of Racing. These amounts are unchanged from FY 2017.

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.

Fund. (See Table 1 for more information on projected state revenues and department allocations.)

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The Department of Gaming shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 1, 2017 on the expected amount and purpose of expenditures from the Additional Operating Expenses line item for FY 2018. The report shall include the projected line item detail.

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 administered by the Office of the Governor.

Problem Gambling

The Baseline includes \$2,287,000 and 5 FTE Positions in FY 2018 for Problem Gambling. These amounts consist of:

Arizona Benefits Fund	1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2017.

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state shall be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The Baseline includes \$1,987,000 for FY 2018 from the Arizona Benefits

Tribal Gaming Distributions Pursuant to Proposition 202^{1/}					
Recipient	Proposition 202 Formula	FY 2015 Actual^{1/}	FY 2016 Actual^{1/}	FY 2017 Projected	FY 2018 Projected
State Government Distribution	88% of total	\$ 88,424,800	\$ 90,752,600	\$ 90,752,600 ^{2/}	\$ 90,752,600 ^{2/}
Local Government Distribution ^{3/}	12% of total	<u>12,057,900</u>	<u>12,375,400</u>	<u>12,375,400</u>	<u>12,375,400</u>
Total	100% of total	\$100,482,700	\$103,128,000	\$103,128,000	\$103,128,000
Allocation of State Government's Share					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 8,167,700	\$ 8,167,700 ^{4/}	\$ 8,167,700 ^{4/}
Department of Gaming Problem Gambling	2%	<u>1,768,500</u>	<u>1,815,100</u>	<u>1,815,100^{5/}</u>	<u>1,815,100^{5/}</u>
Subtotal-Department of Gaming		\$ 9,768,500	\$ 9,982,800	\$ 9,982,800	\$ 9,982,800
Instructional Improvement Fund (Department of Education)	56% of remainder	44,047,600	45,231,200	45,231,200	45,231,200
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	22,023,800	22,615,500	22,615,500	22,615,500
Arizona Wildlife Conservation Fund	8% of remainder	6,292,500	6,461,600	6,461,600	6,461,600
Tourism Fund	8% of remainder	<u>6,292,500</u>	<u>6,461,600</u>	<u>6,461,600</u>	<u>6,461,600</u>
Total		\$ 88,424,900	\$ 90,752,700	\$ 90,752,700	\$ 90,752,700

^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

^{2/} The Baseline projects flat growth in FY 2017 and FY 2018 for tribal contributions to the Arizona Benefits Fund.

^{3/} Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

^{4/} While the FY 2017 appropriation and FY 2018 Baseline include \$9,063,900, A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. This provision is expected to allow the department to expend \$8,167,700 for operating expenditures in FY 2017 and FY 2018, as 9% of projected revenue is greater than \$8,000,000.

^{5/} While the FY 2017 appropriation and FY 2018 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 \$1,815,100 for problem gambling expenditures in FY 2017 and FY 2018.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	8,844,800	11,050,900
Funds Transferred		
Instructional Improvement Fund	45,231,100	46,135,700
Trauma and Emergency Services Fund	22,615,500	23,067,800
Arizona Wildlife Conservation Fund	6,461,600	6,590,800
Tourism Fund	<u>6,461,600</u>	<u>6,590,800</u>
Total Funds Transferred	80,769,800	82,385,100
Year-End Fund Balance	2,686,600	1,819,100
Arizona Breeders' Award Fund (GMA2206/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To provide awards to the breeder of every winning horse foaled in the state.		
Funds Expended	37,600	29,000
Year-End Fund Balance	10,300	14,300
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	30,800	0
Year-End Fund Balance	4,600	37,900
Greyhound and Retired Racehorse Adoption Fund (GMA2015/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: License fees collected from dog breeders, racing kennels, and other operations where greyhounds are raised for dog racing. Additional monies are collected by the horse adoption surcharge that receives 5% of all horse racing related fines.		
Purpose of Fund: To provide funding for grants to non-profit organizations for the promotion and adoption of retired racing greyhounds and horses.		
Funds Expended	2,700	2,300
Year-End Fund Balance	100	100
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	1,691,700	1,320,000
Year-End Fund Balance	70,100	270,100
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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Racing Administration Fund (GMA2018/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund. The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) transfers the balance of \$23,700 in the Racing Administration Fund to the Racing Regulation Fund on or before October 1, 2016.		
Purpose of Fund: To administer the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund.		
Funds Expended	0	0
Year-End Fund Balance	23,700	0
Racing Commission Bond Deposit Fund (GMA3720/A.R.S. § 5-107)		Non-Appropriated
Source of Revenue: The fund holds bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing also deposits all racing and boxing applicant or licensee payments submitted in excess of the amount due into this fund.		
Purpose of Fund: To hold bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing requires racing permittees to post a bond with the Division of Racing each year, which is refunded when the permittee withdraws their permit. Forfeited bonds are deposited in the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	55,600	55,600
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	2,700	500
Year-End Fund Balance	21,100	20,600
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. The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) transfers the balance of \$23,700 in the Racing Administration Fund to the Racing Regulation Fund on or before October 1, 2016.		
Purpose of Fund: To support the mission of the department.		
Funds Expended	2,468,000	2,886,000
Year-End Fund Balance	1,179,100	1,195,600
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	18,400	18,200
Year-End Fund Balance	71,400	90,400
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	1,622,700	2,081,800
Year-End Fund Balance	1,612,400	1,620,100

Arizona Geological Survey

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.9	0.0	0.0
Personal Services	501,000	0	0
Employee Related Expenditures	170,200	0	0
Professional and Outside Services	3,800	0	0
Travel - In State	13,500	0	0
Other Operating Expenditures	233,600	0	0
Equipment	14,700	0	0
AGENCY TOTAL	936,800	0	0
FUND SOURCES			
General Fund	936,800	0	0
SUBTOTAL - Appropriated Funds	936,800	0	0
Other Non-Appropriated Funds	1,132,800	0	0
Federal Funds	2,349,900	0	0
TOTAL - ALL SOURCES	4,419,500	0	0

AGENCY DESCRIPTION — The Geological Survey investigates Arizona's geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The Survey also provides staffing to the Arizona Oil and Gas Conservation Commission, which regulates the drilling and production of oil, gas and other energy resources. Beginning in FY 2017, the Arizona Geological Survey is transferred to the University of Arizona and the staffing for the Arizona Oil and Gas Conservation Commission is transferred to the Department of Environmental Quality.

Operating Budget

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transferred the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. The Agency Consolidation BRB also transferred the administrative and staff support for the Oil and Gas Conservation Commission, which was

previously supplied by the Geological Survey, to the Department of Environmental Quality instead of the University of Arizona. *(Please see the University of Arizona – Main Campus Other Issues section for additional information.)*

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Grants (GSA2000/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Various federal sources including the U.S. Geological Survey, the National Park Service, the Federal Emergency Management Administration, and the National Science Foundation.		
Purpose of Fund: To perform various studies of Arizona's geologic framework and setting.		
Funds Expended	2,349,900	0
Year-End Fund Balance	18,200	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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Geological Survey Fund (GSA3030/A.R.S. § 27-107) Non-Appropriated

Source of Revenue: Made up of monies that are not federal or appropriated. They include state and local grants, fees, contracts, agreements, and Memorandums of Understanding.

Purpose of Fund: To investigate and describe Arizona's geologic setting, to plug abandoned oil and gas wells, and to finance map publication production expenses.

Funds Expended	642,300	0
Year-End Fund Balance	188,400	0

Indirect Cost Recovery Fund (GSA9000/A.R.S. § 35-142) Non-Appropriated

Source of Revenue: These funds apply to a grant, contract, or agreement and represent costs incurred by the state/local agency which are legal obligations and are allowable.

Purpose of Fund: Federal circulars detail the allowable uses of indirect costs. Such items as wages, fringe benefits, necessary office, technical or information technology equipment, and some general government expenses as outlined in the federal circulars.

Funds Expended	490,500	0
Year-End Fund Balance	10,400	0

Office of the Governor

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	7,996,900	6,849,900	6,849,900
SPECIAL LINE ITEMS			
Foster Youth Education Success Program	0	0	1,500,000
AGENCY TOTAL	7,996,900	6,849,900	8,349,900
FUND SOURCES			
General Fund	7,996,900	6,849,900	8,349,900
SUBTOTAL - Appropriated Funds	7,996,900	6,849,900	8,349,900
Other Non-Appropriated Funds	2,398,600	2,361,400	2,361,400
Federal Funds	13,804,600	21,219,300	21,219,300
TOTAL - ALL SOURCES	24,200,100	30,430,600	31,930,600

AGENCY DESCRIPTION — The Governor is the state’s Chief Executive Officer and responsible for the execution of state laws. The Office of the Governor includes the Office for Children, Youth and Families, Office on Aging, Office of Constituent Services, Arizona-Mexico Commission, Northern Office, and Tucson Office.

Operating Budget

The Baseline includes \$8,349,900 from the General Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

	FY 2018
Foster Youth Education Success Program	GF \$1,500,000

The Baseline includes an increase of \$1,500,000 from the General Fund in FY 2018 for the Foster Youth Education Success Program. Laws 2016, Chapter 248, establishes the Foster Youth Education Success Program and the Foster Youth Education Success Fund in the Office of the Governor to improve the educational outcomes of children in Arizona’s foster care system. Monies in the fund are continuously appropriated and do not revert to the General Fund.

Chapter 248 appropriates \$1,000,000 from the General Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund. Chapter 248 also appropriates an additional \$500,000 from the General Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund to be spent when matching amounts, of less than \$500,000 from other public monies, gifts, grants and donations, are collected by the Office of the Governor and deposited in the fund. As a result, these monies do not appear in the General Appropriation Act.

Monies from public sources other than this state, gifts, grants and donations may be spent by the Office of the Governor as they are collected, but an accounting shall be made by the Office of the Governor to the Joint Legislative Budget Committee to determine qualification for the state match. Both appropriations are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

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 2018 is \$10,000 for the purchase of mementos and items for visiting officials.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
County Fairs Livestock and Agriculture Promotion Fund (GVA2037/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center. The direct expenses, less receipts, of the annual Livestock Fair are paid from this fund. Net expenditures for the Livestock Fair are limited to 30% of all receipts deposited to this fund during the preceding fiscal year. All expenditures from this fund must be recommended by the Livestock and Agricultural Committee and approved by the Governor.		
Funds Expended	0	0
Year-End Fund Balance	273,200	279,300
Endowment Partnership Fund (GVA3206/A.R.S. § 41-1105)		Non-Appropriated
Source of Revenue: Public or private gifts, grants and donations. All donations, except those from established non-profit economic development organizations, are limited to \$5,000, per person, each fiscal year.		
Purpose of Fund: This fund was established by Executive Order 92-7, to promote the interests of the state and encourage public service to Arizona by its citizens. Expenditures may include promoting economic development in Arizona, recruiting new industries, appropriate memorabilia or gifts for dignitaries or citizen volunteers, and promoting good working relationships between the various branches of national, state, and local governments.		
Funds Expended	473,600	44,700
Year-End Fund Balance	67,500	47,800
Federal Grants (GVA2000/A.R.S. § 4-101.01)		Non-Appropriated
Source of Revenue: Federal grants for various purposes, including services for women, children's services, and the Office for Drug Policy.		
Purpose of Fund: To provide separate accounting for the administration, supervision and distribution of federal grants made to the Office of the Governor, on behalf of the State of Arizona.		
Funds Expended	13,804,600	21,219,300
Year-End Fund Balance	161,500	0
Foster Youth Education Success Fund (No Fund Number/A.R.S. § 41-108)		Non-Appropriated
Source of Revenue: Monies appropriated to the fund and monies received by the Office of the Governor from any public or private source.		
Purpose of Fund: Improving the educational outcomes of children in this state's foster care system.		
Funds Expended	0	0
Year-End Fund Balance	0	0
IGA and ISA Fund (GVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	504,400	510,800
Year-End Fund Balance	149,000	138,200
Indirect Cost Recovery Fund (GVA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	1,149,100	1,539,400
Year-End Fund Balance	6,501,700	5,762,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	271,500	266,500
Year-End Fund Balance	128,200	128,200

Governor's Office of Strategic Planning and Budgeting

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	22.0	22.0	22.0
Personal Services	1,266,600	1,330,900	1,330,900
Employee Related Expenditures	438,600	361,500	361,500
Professional and Outside Services	156,500	92,500	92,500
Travel - In State	0	100	100
Travel - Out of State	1,600	0	0
Other Operating Expenditures	229,000	207,200	207,200
Equipment	100	1,800	1,800
AGENCY TOTAL	2,092,400	1,994,000	1,994,000
FUND SOURCES			
General Fund	2,092,400	1,994,000	1,994,000
SUBTOTAL - Appropriated Funds	2,092,400	1,994,000	1,994,000
TOTAL - ALL SOURCES	2,092,400	1,994,000	1,994,000

AGENCY DESCRIPTION — The Governor's Office of Strategic Planning and Budgeting advises the Governor in the preparation of the Executive budget and provides the Executive Branch a central resource for the compilation, analysis, and investigation of state fiscal matters. It facilitates a strategic planning process and assists agencies in preparation and execution of their budgets.

Operating Budget

The Baseline includes \$1,994,000 and 22 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Department of Health Services

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,176.7	1,065.5	1,065.5
Personal Services	24,560,600	18,230,700	18,230,700
Employee Related Expenditures	9,916,800	7,729,700	7,729,700
Professional and Outside Services	2,825,300	1,747,000	1,747,000
Travel - In State	414,100	418,800	418,800
Travel - Out of State	50,200	80,200	80,200
Other Operating Expenditures	22,913,500	18,996,300	18,996,300
Equipment	225,700	1,850,500	1,850,500
OPERATING SUBTOTAL	60,906,200	49,053,200	49,053,200
SPECIAL LINE ITEMS			
Arizona State Hospital			
Arizona State Hospital-Operating	57,589,400	60,715,700	60,485,600
Arizona State Hospital-Restoration to Competency	897,100	900,000	900,000
Arizona State Hospital-Sexually Violent Persons	9,135,600	9,639,100	9,639,100
Public Health/Family Health			
Adult Cystic Fibrosis	105,200	105,200	105,200
AIDS Reporting and Surveillance	990,100	1,000,000	1,000,000
Alzheimer's Disease Research	1,125,000	2,125,000	1,125,000
Biomedical Research Support	1,496,300	2,000,000	2,000,000
Pediatric Neurological Autoimmune Disorders Research	0	250,000	0
Breast and Cervical Cancer and Bone Density Screening	984,400	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	534,300	590,700	590,700
Emergency Medical Services Local Allocation	399,000	442,000	442,000
Folic Acid Program	387,200	400,000	400,000
High Risk Perinatal Services	1,887,700	2,543,400	2,543,400
Newborn Screening Program	5,608,800	6,697,300	6,697,300
Nursing Care Special Projects	22,000	100,000	100,000
Poison Control Centers Funding	828,200	990,000	990,000
Nonrenal Disease Management	46,400	198,000	198,000
Renal Dental Care and Nutrition Supplements	225,000	300,000	300,000
Behavioral Health			
Medicaid Behavioral Health - Traditional	890,808,900	0	0
Medicaid Behavioral Health - Proposition 204	564,638,000	0	0
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	185,712,700	0	0
Medicaid Behavioral Health - Adult Expansion Services	70,041,600	0	0
Proposition 204 Administration	8,135,800	0	0
Medicare Clawback Payments	14,228,600	0	0
Medicaid Insurance Premium Payments	34,871,900	0	0
Non-Medicaid Seriously Mentally Ill Services	78,279,400	0	0
Supported Housing	5,207,200	0	0
Crisis Services	16,176,300	0	0
AGENCY TOTAL	2,011,268,300	139,419,000	137,938,900
FUND SOURCES			
General Fund	597,791,200	86,551,700	86,551,700
<u>Other Appropriated Funds:</u>			
Arizona State Hospital Fund	8,813,900	9,562,000	9,562,000
ASH Land Earnings Fund	601,500	880,100	650,000
Capital Outlay Stabilization Fund	1,513,900	1,559,900	1,559,900
Child Fatality Review Fund	94,800	94,700	94,700

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Disease Control Research Fund	0	250,000	0
Emergency Medical Services Operating Fund	4,810,100	5,357,900	5,357,900
Environmental Laboratory Licensure Revolving Fund	696,000	924,200	924,200
Federal Child Care and Development Fund Block Grant	829,000	872,300	872,300
TTHCF Health Research Fund	2,496,300	4,000,000	3,000,000
Health Services Licensing Fund	8,749,200	9,232,300	9,232,300
Indirect Cost Fund	8,030,600	8,546,100	8,546,100
Newborn Screening Program Fund	6,040,600	7,130,100	7,130,100
Nursing Care Institution Resident Protection Fund	22,000	138,200	138,200
Substance Abuse Services Fund	2,250,200	0	0
TTHCF Medically Needy Account	47,966,700	700,000	700,000
Vital Records Electronic Systems Fund	1,112,900	3,619,500	3,619,500
SUBTOTAL - Other Appropriated Funds	94,027,700	52,867,300	51,387,200
SUBTOTAL - Appropriated Funds	691,818,900	139,419,000	137,938,900
<u>Expenditure Authority Funds</u>			
ISA Behavioral Health Services Fund	1,319,449,400	0	0
SUBTOTAL - Expenditure Authority Funds	1,319,449,400	0	0
SUBTOTAL - Appropriated/Expenditure Authority Funds	2,011,268,300	139,419,000	137,938,900
Other Non-Appropriated Funds	123,847,300	74,157,200	74,157,200
Federal Funds	314,815,800	250,195,400	250,195,400
TOTAL - ALL SOURCES	2,449,931,400	463,771,600	462,291,500

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.

Summary

DHS' FY 2018 General Fund spending would remain the same.

The Baseline includes the following reductions:

- \$(1,000,000) for the elimination of one-time funding from the Alzheimer's Disease Research line item.
- \$(230,100) for the elimination of one-time equipment funding from the ASH - Operating line item.
- \$(250,000) for the elimination of one-time funding from the Pediatric Autoimmune Neurological Disorders Research line time.

Operating Budget

The Baseline includes \$49,053,200 and 311.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$19,267,300
Capital Outlay Stabilization Fund	1,559,900

Child Fatality Review Fund	94,700
Emergency Medical Services (EMS) Operating Fund	4,465,900
Environmental Laboratory Licensure Revolving Fund	924,200
Federal Child Care and Development Fund (CCDF) Block Grant	872,300
Health Services Licensing Fund	9,232,300
Indirect Cost Fund	8,546,100
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,619,500

These amounts are unchanged from FY 2017.

Arizona State Hospital

ASH - Operating

The Baseline includes \$60,485,600 and 616.5 FTE Positions in FY 2018 for the ASH operating budget. These amounts consist of:

General Fund	54,169,200
ASH Fund	5,666,400
ASH Land Earnings Fund	650,000

FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (230,100)

The Baseline includes a decrease of \$(230,100) from the ASH Land Earnings Fund in FY 2018 for elimination of one-time purchases of new camera and recording equipment to improve monitoring of patients at ASH.

(Please see the Other Issues section for information on the ASH Fund deficit.)

This line item provides funding for inpatient psychiatric hospitalization services for adult SMI residents. ASH residents that are subject to court-ordered treatment are treated in ASH's civil hospital and residents charged with or serving a sentence for committing a crime are treated in ASH's forensic hospital. In FY 2016, ASH had an average monthly census of 111 patients in its civil commitment unit, 112 patients in its forensic unit, and 97 Sexually Violent Persons (SVP), for a total of 320 patients.

ASH - Restoration to Competency

The Baseline includes \$900,000 from the ASH Fund in FY 2018 for ASH - Restoration to Competency. This amount is unchanged from FY 2017.

The FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH. 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 2016, there was an average monthly census of 4 RTC patients treated at ASH. RTC patients are treated in ASH's forensic unit.

ASH - Sexually Violent Persons

The Baseline includes \$9,639,100 and 112.5 FTE Positions in FY 2018 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,643,500
ASH Fund	2,995,600

These amounts are unchanged from FY 2017.

After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. In FY 2016, ASH had an average monthly census of 97 Sexually Violent Persons (SVPs).

Since FY 2010, counties that have sent SVPs to ASH are responsible for a portion of the daily cost of care. The FY 2017 Health BRB continues to require counties to pay 31% of their total SVP costs in FY 2017. 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 2018 for Adult Cystic Fibrosis Care. This amount is unchanged from FY 2017.

This line item provides contracted care and treatment services through Phoenix Children's Hospital for 20 individuals with cystic fibrosis.

AIDS Reporting and Surveillance

The Baseline includes \$1,000,000 from the General Fund in FY 2018 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2017.

The line item provides \$125,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$875,000 to provide medications under the Arizona AIDS Drug Assistance Program (ADAP), which also receives Federal Funds for the medications. The ADAP program served approximately 1,986 clients in FY 2016.

Alzheimer's Disease Research

The Baseline includes \$1,125,000 in FY 2018 for Alzheimer's Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	1,000,000

FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (1,000,000)

The Baseline includes a decrease of \$(1,000,000) from the TTHCF - Health Research Account in FY 2018 for elimination of a one-time increase in Alzheimer's research funding.

Background – DHS distributes funding in the line item to the Arizona Alzheimer's Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer's disease.

The 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 2018 for Biomedical Research Support. This amount is unchanged from FY 2017.

This line item is funded by Section 128 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). Section 128 appropriates \$2,000,000 annually in FY 2015 through FY 2019 from the TTHCF - Health Research Account. As a result of the Chapter 18 funding, these monies do not appear in subsequent year General Appropriation Acts.

This line item is to provide funding to a nonprofit medical research institute headquartered in Arizona that specializes in biomedical research, conducts molecular epidemiological analyses to assist with disease outbreak investigations, and collaborates with universities, hospitals, and other public and private bioscience and related industries in this state. Section 128 requires the recipient of monies in this line item to submit an annual audit of expenditures of these monies to DHS by February 1 of each year.

DHS distributed monies from this line in FY 2016 to the Translational Genomics Research Institute (TGen), a nonprofit medical research institution headquartered in Arizona. In addition to these monies, Chapter 18

appropriated \$3,000,000 from the General Fund in FY 2015 through FY 2019 to Northern Arizona University (NAU) for biotechnology. NAU allocated its FY 2016 appropriation to TGen. *(Please see the NAU narrative for more information.)*

The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

Pediatric Autoimmune Neurological Disorders Research

The Baseline includes no funding in FY 2018 for distribution of competitive grants for pediatric autoimmune neurological disorders research. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (250,000)

The Baseline includes a decrease of \$(250,000) from the Disease Control Research Fund in FY 2018 for elimination of a one-time appropriation for Pediatric Autoimmune Neurological Disorders research.

Pediatric Acute-onset Neuropsychiatric Syndrome (PANS) involves the rapid development of neuropsychiatric symptoms in children, such as Obsessive Compulsive Disorder, anxiety, and difficulty concentrating. In some children, these symptoms could be the result of autoimmune responses to infectious disease. For example, Pediatric Autoimmune Neurological Disorders Associated with Streptococcal Infections (PANDAS) is a specific type of PANS triggered by a strep infection.

In FY 2017, DHS will distribute monies in this line item to the Arizona Biomedical Research Commission. The commission will evaluate research grant applications related to PANS and PANDAS.

Breast and Cervical Cancer and Bone Density Screening

The Baseline includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2018 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2017.

The Well Woman Healthcheck program provides contracted cancer screenings for women over age 40 who lack health insurance and have incomes less than 250% of the FPL. Women who are diagnosed with breast and cervical cancer through this program are eligible to receive treatment through AHCCCS.

County Tuberculosis Provider Care and Control

The Baseline includes \$590,700 from the General Fund in FY 2018 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2017.

This line item provides reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs.

Emergency Medical Services Local Allocation

The Baseline includes \$442,000 from the EMS Operating Fund in FY 2018 for the Emergency Medical Services Local Allocation line item. This amount is unchanged from FY 2017.

This line item provides funding to 4 regional EMS Councils that distribute funding for EMS training and equipment to cities and towns with a population of fewer than 90,000 people.

Folic Acid Program

The Baseline includes \$400,000 from the TTHCF - Medically Needy Account in FY 2018 for the Folic Acid Program. This amount is unchanged from FY 2017.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth defects. In FY 2016, 33,623 women received folic acid education and multivitamins.

High Risk Perinatal Services

The Baseline includes \$2,543,400 in FY 2018 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
EMS Operating Fund	450,000

These amounts are unchanged from FY 2017.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

Newborn Screening Program

The Baseline includes \$6,697,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2018 for the Newborn Screening Program. These amounts are unchanged from FY 2017.

Background – This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders plus Chapter 171 provisions described below. In FY 2016, the program provided screening for 83,749 newborns. The program also provides follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing.

Laws 2014, Chapter 171 requires DHS to perform hearing tests on all newborns and screen them for critical congenital heart defects (CCHD). Chapter 171 also permits DHS to adopt tests for Severe Combined Immunodeficiencies (SCID) and Krabbe Disease if the department performs a cost benefit analysis and seeks stakeholder input. The law also allows DHS to designate other laboratories as testing facilities for conditions or tests added to the screening program. Prior to the enactment of this law, DHS was required to contract only with the State Health Laboratory.

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee would need to be increased by \$10 to pay for new equipment and other related costs. In June 2015, DHS established new rules for newborn screening that allow the department to screen for SCID if sufficient funding becomes available, but as of October 2016 the screen does not include SCID.

Nursing Care Special Projects

The Baseline includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2018 for special projects related to long-term care facilities. This amount is unchanged from FY 2017.

Background – The Nursing Care Institution Resident Protection Revolving Fund receives deposits from civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications. Historically, DHS’ operating budget has included an ongoing appropriation of \$38,200 from this fund for emergency patient relocation and patient personal property replacement. Additional amounts have been appropriated to fund specific projects

in past fiscal years, including the recently eliminated nursing facility study.

Poison Control Centers Funding

The Baseline includes \$990,000 from the General Fund in FY 2018 for Poison Control Centers. This amount is unchanged from FY 2017.

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS allocated \$647,300 to the University of Arizona Poison Information Center and \$342,700 to the Banner Poison Control Center in FY 2016.

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative. The Board of Pharmacy transferred \$125,000 to the Poison Controls Centers in FY 2016.

Nonrenal Disease Management

The Baseline includes \$198,000 from the General Fund in FY 2018 for Nonrenal Disease Management. This amount is unchanged from FY 2017.

This line item provides funding for medication and other transplant-related services for nonrenal transplant patients who are ineligible for other public assistance programs.

Renal Dental Care and Nutrition Supplements

The Baseline includes \$300,000 from the TTHCF - Medically Needy Account in FY 2018 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2017.

This line item provides pre-operative dental care and ongoing nutritional assistance for low-income renal disease patients. Funding in this line item treats kidney disease and associated kidney damage.

Behavioral Health

The Baseline includes no funding in FY 2018 for Medicaid and Non-Medicaid behavioral health service line items. This amount is unchanged from FY 2017. Laws 2015, Chapter 195 transferred behavioral health services to AHCCCS beginning July 1, 2016.

Through FY 2016, these line items funded 4 types of services: 1) Serious Mental Illness (SMI), 2) Children's Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP).

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Departmentwide

The Department of Health Services shall electronically forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation.

Arizona State Hospital

In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona.

Public Health/Family Health

Of the \$1,125,000 for Alzheimer's Disease Research, \$1,000,000 is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773.

The Department of Health Services may use up to 4% of the amounts appropriated for Nonrenal Disease Management for the administrative costs to implement the program.

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 to use 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, delete the transfer of Health Services Lottery Fund monies from AHCCCS to ASH. Deletion may be reconsidered if lottery monies are used to supplement the ASH Fund in FY 2017 or FY 2018.

Other Issues

This section includes information on the following topics:

- ISA for Behavioral Health Services Fund
- Non-Restorable Dangerous Defendants
- DHS Building Renovation
- Arizona State Hospital Fund Deficit
- Proposition 123

ISA for Behavioral Health Services Fund

The FY 2017 Health BRB (Laws 2016, Chapter 122, Sections 1, 2, and 35) retains the Interagency Service Agreement (ISA) for Behavioral Health Services Fund in DHS until the fund is repealed on September 1, 2020. The bill prohibits DHS from spending the monies in the fund for any purpose except to pay for behavioral health services claims incurred on or before June 30, 2016. As session law, Section 22 allows any unexpended or unencumbered monies in the fund to revert to the General Fund on July 1 of FY 2018, FY 2019, and FY 2020 after any adjustments are approved by AHCCCS and reviewed by JLBC.

Non-Restorable Dangerous Defendants

As session law, the FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) establishes a study committee on incompetent, nonrestorable and dangerous defendants. Such defendants are individuals that have been charged with a crime for which they were found incompetent to stand trial, and after receiving treatment from a restoration to competency program, have been deemed nonrestorable by the court. Under current law,

nonrestorable defendants may be remanded to DHS for civil commitment proceedings, appointed a guardian, or released.

The study committee is required to research and offer recommendations related to the treatment and long-term supervision of dangerous and non-restorable defendants; the Director of DHS and the CEO of the Arizona State Hospital are members of the committee. In December 2016, the committee recommended an extension of the study committee, a review of state programs dealing with the dangerous and non-restorable defendant population to propose Arizona-specific solutions, developing a systemic approach for counties to track the population, and authorizing the continued function of ASU to serve as the committee's research and coordinating center.

The Governor vetoed other legislation, SB 1510, that would have made changes to competency examinations, court-ordered evaluation, and court-ordered treatment for incompetent and non-restorable defendants. In his veto letter, the Governor cited concerns about how the bill would have impacted the licensure of the Arizona State Hospital. The study committee also recommended a review and revision of the provisions in SB 1510.

DHS Building Renovation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) requires the Arizona Department of Administration (ADOA) to allocate \$4,200,000 from its building renewal appropriation to renovate the 1740 West Adams building used by the Department of Health Services.

In June 2016, The Joint Committee on Capital Review (JCCR) favorably reviewed \$500,000 of the \$4,200,000 for demolition, abatement, and engineering design. The remaining \$3,700,000 was deferred until ADOA provided the Committee with a tenant relocation plan pursuant to the FY 2017 Capital Outlay Bill. In September 2016, JCCR held the tenant relocation plan, which included both health and non-health boards, and the remaining \$3,700,000 pending discussion on consolidation of the boards during the legislative session. In December 2016, JCCR favorably reviewed the tenant relocation plan. *(Please see ADOA Capital Outlay section for more information.)*

Arizona State Hospital Fund Deficit

DHS reports that the ASH Fund has ongoing expenses that are higher than its ongoing revenues. *Table 1* below shows actual ASH Fund revenues and spending from FY 2014 to FY 2016. 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 \$5.3 million in FY 2017.

In past years, DHS has offset this deficit by transferring ASH Fund expenses for prescription medications to the Non-Medicaid Seriously Mentally Ill Services line item, but AHCCCS now administers this line item following the behavioral health transfer. The FY 2017 budget included a footnote that requires AHCCCS to transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients. The Baseline continues to require this transfer. *(See the AHCCCS narrative for more information.)*

The FY 2017 budget also transferred \$2,400,000 from the Health Services Lottery Monies Fund to the ASH Fund in FY 2016. The Baseline would not continue the transfer of lottery monies to the ASH Fund. FY 2017 balances will depend on whether the transfer is continued in the budget.

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona State Hospital receives monies generated from lease revenues and proceeds from the land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

The Arizona State Hospital received a total of \$701,000 in its land trust fund, the ASH Land Earnings Fund, in FY 2015.

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

The JLBC staff projects that the ASH Land Earnings Fund will have an FY 2017 ending balance of \$839,700. The fund will have estimated revenues of \$876,200 in FY 2018, compared to a Baseline appropriation of \$650,000.

(Please see the Land Department narrative for more information.)

Table 1
ASH Fund Actual Revenues and Expenditures
(\$ in millions)

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Beginning Balance	\$4.7	\$4.5	\$0.6
Revenue	<u>\$6.9</u>	<u>\$6.4</u>	<u>\$6.9</u>
SVP	\$3.8	\$2.8	\$3.2
RTC	\$1.6	\$1.0	\$0.9
Title XIX	\$1.5	\$0.9	\$1.3
Non-Medicaid SMI	\$0.0	\$1.7	\$1.5
Transfers <u>1/</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$2.4</u>
Total Available	\$11.6	\$10.9	\$9.9
Spending	<u>\$9.4</u>	<u>\$10.3</u>	<u>\$9.2</u>
Ending Balance <u>2/</u>	<u>\$2.2</u>	<u>\$0.6</u>	<u>\$0.7</u>

1/ The FY 2017 General Appropriation Act transferred \$2.4 million from the Health Services Lottery Monies Fund to the ASH Fund.

2/ According to DHS, the Ending Balance does not match the Beginning Balance in the succeeding fiscal year due to transfers of Non-Medicaid SMI monies to the ASH Fund.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) continues to require that all counties pay 100% of the cost of care for Restoration to Competency patients and 31% of the costs of patients in the Sexually Violent Persons (SVP) program.		
Purpose of Fund: To provide treatment of patients at the Arizona State Hospital or to place Arizona State Hospital patients in the community.		
Funds Expended	8,813,900	9,562,000
Year-End Fund Balance*	827,400	(3,756,400)
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	601,500	880,100
Year-End Fund Balance	883,200	839,700
Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund (HSA2513/A.R.S. § 36-119)		Non-Appropriated
Source of Revenue: Revenues from special plate fees and renewals. Of the \$25 fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund.		
Purpose of Fund: For breast and cervical cancer screening and diagnostic and outreach services.		
Funds Expended	0	704,000
Year-End Fund Balance	692,200	185,200
Capital Outlay Stabilization Fund (HSA1600/A.R.S. § 41-792.01)		Appropriated
Source of Revenue: Appropriations from the Arizona Department of Administration Capital Outlay Stabilization Fund and transfers from the Arizona Department of Administration (<i>see Arizona Department of Administration for more detail on Capital Outlay Stabilization Fund</i>).		
Purpose of Fund: Lease-purchase payments for the new state health laboratory (transfers from Arizona Department of Administration are spent for building renewal).		
Funds Expended	1,513,900	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	94,800	94,700
Year-End Fund Balance	201,500	355,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Childhood Cancer and Rare Childhood Disease Research Fund (No Fund Number/A.R.S. § 28-2442, A.R.S. § 36-121)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of Childhood Cancer Research special plate fee and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue Childhood Cancer Research special plates, if a person or entity pays \$32,000 by December 31, 2012. The required implementation fee of \$32,000 was received by the deadline and has been reimbursed to the entity that made the payment to the Arizona Department of Transportation (ADOT). The entity that provided the \$32,000 shall design the Childhood Cancer Research special plates, subject to approval by ADOT. ADOT is to annually deposit these monies, excluding administrative fees, into the DHS-administered Childhood Cancer and Rare Childhood Disease Research Fund. DHS shall allocate monies from the fund to nonprofit health care providers and research institutions throughout the state for Phase I clinical trials relating to pediatric cancer or other rare pediatric diseases.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Disease Control Research Fund (HSA2090/A.R.S. § 36-274)		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 appropriates \$250,000 from this fund for distribution of competitive grants for pediatric autoimmune neurological disorders research.		
Appropriated Funds Expended	0	250,000
Non-Appropriated Funds Expended	2,638,200	2,576,100
Year-End Fund Balance	4,694,300	4,656,700
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	322,600	239,100
Year-End Fund Balance	1,142,900	1,259,800
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	3,100	1,700
Year-End Fund Balance	6,900	8,500
Emergency Medical Services Operating Fund (HSA2171/A.R.S. § 36-2218)		Appropriated
Source of Revenue: The fund receives 48.9% of the Medical Services Enhancement Fund revenues, which are collected from a 13% surcharge on fines charged for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To fund local and state emergency medical services systems.		
Funds Expended	4,810,100	5,357,900
Year-End Fund Balance	5,723,100	5,735,300
Environmental Laboratory Licensure Revolving Fund (HSA3017/A.R.S. § 36-495.15)		Appropriated
Source of Revenue: Fees collected for environmental lab licensure, fees derived from department-sponsored workshops, and monies from gifts, grants, and donations.		
Purpose of Fund: For costs associated with licensing environmental laboratories by the Department of Health Services.		
Funds Expended	696,000	924,200
Year-End Fund Balance	660,300	499,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Child Care and Development Fund Block Grant (HSA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: A portion of the Federal Child Care and Development Block Grant provides the Assurance and Licensure Division with monies for the licensure of child care facilities.		
Funds Expended	829,000	872,300
Year-End Fund Balance	316,100	200,800
Federal Funds (HSA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and reimbursements from the federal government. Federal reimbursement for the Medicaid program is not included in this fund and can be found listed in the Medicaid Services and County Contributions Fund.		
Purpose of Fund: To provide health services in accordance with the terms of each specific grant. In FY 2016, \$55,078,100 in federal grants funded the delivery of behavioral health services. Any federal grants for the delivery of behavioral health services were transferred to AHCCCS on July 1, 2016 in accordance with Laws 2015, Chapters 19 and 195.		
Funds Expended	314,815,800	250,195,400
Year-End Fund Balance	865,400	865,400
Health Services Licensing Fund (HSA1995/A.R.S. § 36-405, A.R.S. § 36-414)		Appropriated
Source of Revenue: Nonrefundable fees for health care institution licensing services and monies from the examination and licensing of hearing and speech professionals.		
Purpose of Fund: For health care institutions' licensing applications, initial license, renewal license and architectural drawing reviews. Pursuant to A.R.S. § 36-1903, revenues from licensing and examination of hearing and speech professionals are deposited into this fund. DHS establishes nonrefundable fees for assurance and licensure. 90% of assurance and licensure fees have been deposited into this fund with the remaining 10% deposited into the General Fund.		
Funds Expended	8,749,200	9,232,300
Year-End Fund Balance	5,549,100	6,873,700
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	9,805,400	9,209,300
Year-End Fund Balance	9,106,100	7,320,200
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 2017, this fund will receive \$12,730,200 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	16,803,100	16,802,600
Year-End Fund Balance	95,500	6,060,100
IGA for County Behavioral Health Services Fund (HSA4503/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: County funds.		
Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse. In FY 2016, the fund received \$55.2 million from Maricopa County and \$3.1 million from Pima County. This fund was transferred from DHS to AHCCCS on July 1, 2016.		
Funds Expended	60,876,600	0
Year-End Fund Balance	346,300	346,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	8,030,600	8,546,100
Year-End Fund Balance	7,104,500	9,605,100
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 but unpaid claims and estimated incurred but unreported claims prior to June 30, 2016. The fund will be repealed August 31, 2020.		
Funds Expended	1,319,449,400	0
Year-End Fund Balance	44,258,100	44,258,100
Internal Services Fund (HSA4202/A.R.S. § 36-108)		Non-Appropriated
Source of Revenue: Charges from other DHS funds.		
Purpose of Fund: Revolving Fund used by DHS warehouse for the purchase of goods.		
Funds Expended	4,300	4,300
Year-End Fund Balance	92,600	63,000
Medical Marijuana Fund (HSA2544/A.R.S. § 36-2817)		Non-Appropriated
Source of Revenue: The fund receives application and renewal fees from medical marijuana dispensaries, civil penalties and private donations.		
Purpose of Fund: To enforce the provisions of Proposition 203 (Arizona Medical Marijuana Act) enacted in the 2010 General Election. The Arizona Medical Marijuana Act regulates dispensation, prescription, and use of medical marijuana, including an electronic registry of dispensary agents, patients and designated caregivers.		
Funds Expended	8,295,400	11,110,600
Year-End Fund Balance	19,874,100	26,973,700
Medical Student Loan Fund (HSA3306/A.R.S. § 15-1725)		Non-Appropriated
Source of Revenue: Monies from legislative appropriations, and loan repayments of principal, interest, and penalties received by the board. These monies are exempt from lapsing. 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	29,200	187,200
Year-End Fund Balance	216,200	78,600
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 29 metabolic and congenital (environmental/inherited) disorders. Every 4 years the department solicits bids for the contracting of these tests. The State Health Lab holds the current contract. In addition, the fund provides monies for follow-up counseling for the parents of affected infants.		
Funds Expended	6,040,600	7,130,100
Year-End Fund Balance	1,528,100	63,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Nursing Care Institution Resident Protection Fund (HSA2329/A.R.S. § 36-446.08)		Appropriated
Source of Revenue: Civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications.		
Purpose of Fund: For the protection of the health and property of residents of nursing care facilities that are found deficient.		
Funds Expended	22,000	138,200
Year-End Fund Balance	2,102,200	2,434,200
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	155,900	237,000
Year-End Fund Balance	987,200	1,070,700
Prescription Drug Rebate Fund (HSA2546/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. In FY 2016, DHS received a supplemental appropriation of \$9,235,300 from the fund for behavioral health services. No monies from the supplemental appropriation were used.		
Funds Expended in Lieu of Federal Funds	0	0
Year-End Fund Balance	0	0
Risk Assessment Fund (HSA2427/A.R.S. § 36-1693)		Non-Appropriated
Source of Revenue: Monies from the Department of Environmental Quality for risk services performed by DHS. The fund may also receive legislative appropriations, gifts, grants, or donations.		
Purpose of Fund: To conduct health effects studies and risk assessments of public health risks from environmental exposure, to evaluate and calculate cleanup standards, to communicate health risks to the public, and for administrative costs of those activities.		
Funds Expended	37,200	60,000
Year-End Fund Balance	39,400	38,900
Serious Mental Illness Services Fund (HSA2464/A.R.S. § 36-503.02 [repealed])		Non-Appropriated
Source of Revenue: Monies appropriated from the Tobacco Litigation Settlement Account, other legislative appropriations and interest earned on these monies. The fund received a one-time appropriation of \$50,000,000 from tobacco settlement funds in FY 2001. The final \$1,100,000 was spent in FY 2005. Laws 2015, Chapter 195 eliminated this fund, and required that any remaining balance revert to the General Fund on July 1, 2016.		
Purpose of Fund: To fund Community Housing, Vocational Rehabilitation, and other recovery support services to persons with serious mental illnesses.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Seriously Mentally Ill Housing Trust Fund (HSA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund 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	1,764,100	0
Year-End Fund Balance	4,230,500	6,268,200
Smoke Free Arizona Fund (HSA2541/A.R.S. § 36-601.01)		Non-Appropriated
Source of Revenue: A 2¢ per pack tax on cigarettes. Any revenues not used by the department to enforce the smoking ban are deposited to the Tobacco Tax Products Fund to be used for education programs to reduce or eliminate tobacco use.		
Purpose of Fund: To enforce the provisions of Proposition 201 (Smoke Free Arizona Act) enacted in the 2006 General Election. The Smoke-Free Arizona Act banned smoking in public places except retail tobacco stores, veteran and fraternal clubs, hotel rooms designated as smoking rooms, and outdoor patios.		
Funds Expended	2,732,100	3,076,000
Year-End Fund Balance	590,500	441,000
Substance Abuse Services Fund (HSA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund was transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.		
Funds Expended	2,250,200	0
Year-End Fund Balance	2,945,400	2,945,400
Tobacco Tax and Health Care Fund - Health Education Account (HSA1308/A.R.S. § 36-772)		Non-Appropriated
Source of Revenue: The account receives 23¢ of each dollar deposited in the Tobacco Tax and Health Care Fund and 2¢ of each dollar in the Tobacco Products Tax Fund.		
Purpose of Fund: Monies are used for community-based education and evaluation, and other programs to discourage tobacco use among the general public, specifically targeting minors and culturally diverse populations. The monies from the Tobacco Products Tax Fund are used for the prevention and detection of the 4 leading causes of death.		
Funds Expended	17,099,500	21,220,000
Year-End Fund Balance	7,054,500	3,543,600
Tobacco Tax and Health Care Fund - Health Research Account (DSA2096/A.R.S. § 36-275, A.R.S. § 36-773)		Partially-Appropriated
Source of Revenue: The fund receives monies from the Health Research Account of the Tobacco Tax and Health Care Fund.		
Purpose of Fund: 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.		
Appropriated Funds Expended	2,496,300	4,000,000
Non-Appropriated Funds Expended	3,280,600	8,729,300
Year-End Fund Balance	10,357,700	5,965,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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. In FY 2016, DHS received a supplemental appropriation of \$3,352,200 from the Tobacco Products Tax Fund in addition to an annual appropriation of \$44,702,300 from the Medically Needy Account. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.

Appropriated Funds Expended	47,966,700	700,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	325,800	47,680,300

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	1,112,900	3,619,500
Year-End Fund Balance	2,697,500	1,055,000

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

Arizona Historical Society

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	51.9	50.9	50.9
Personal Services	1,187,500	1,221,200	1,221,200
Employee Related Expenditures	487,300	505,500	505,500
Professional and Outside Services	67,300	72,100	72,100
Other Operating Expenditures	376,300	315,300	315,300
OPERATING SUBTOTAL	2,118,400	2,114,100	2,114,100
SPECIAL LINE ITEMS			
Arizona Experience Museum	428,200	0	0
Field Services and Grants	66,000	66,000	66,000
Papago Park Museum	544,400	542,800	542,800
AGENCY TOTAL	3,157,000	2,722,900	2,722,900
FUND SOURCES			
General Fund	3,157,000	2,722,900	2,722,900
SUBTOTAL - Appropriated Funds	3,157,000	2,722,900	2,722,900
Other Non-Appropriated Funds	1,264,600	1,171,400	1,136,700
TOTAL - ALL SOURCES	4,421,600	3,894,300	3,859,600

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 \$2,114,100 and 40.4 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Arizona Experience Museum

The Baseline includes no funding in FY 2018 for the Arizona Experience Museum. This amount is unchanged from FY 2017.

(See the University of Arizona - Main Campus section for more information.)

Field Services and Grants

The Baseline includes \$66,000 and a 0.4 FTE Position from the General Fund in FY 2018 for Field Services and Grants. These amounts are unchanged from FY 2017.

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 \$542,800 and 10.1 FTE Positions from the General Fund in FY 2018 for the Papago Park Museum. These amounts are unchanged from FY 2017.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Additional Legislation

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) included the following provisions:

- Required the Arizona Historical Society to fulfill existing Mining, Mineral and Natural Resources Educational Museum obligations, provide the Arizona Geological Survey with a list of inventory, and assist in the transfer of the inventory.

- Transferred to the Arizona Geological Survey all unspent and unencumbered funds received by the Arizona Historical Society for Mining, Mineral and Natural Resources Educational Museum operations.
- Transferred, from Arizona Historical Society to the Arizona Geological Survey retroactive to May 1, 2016, all unencumbered balances and future revenues of the Centennial Special Plate Fund.

Museum Attendance

Table 1
FY 2016 Museum Attendance

<u>Facility</u>	<u>Visitors</u>
Arizona History (Tucson)	11,226
Downtown History (Tucson)	3,269
Fort Lowell (Tucson)	4,248
Sosa Carrillo Fremont (Tucson)	2,384
Sanguinetti House (Yuma)	2,820
Museum at Papago Park (Tempe)	3,602
Pioneer Museum (Flagstaff)	13,527
Riordan Mansion (Flagstaff)	<u>22,000</u>
Total	63,076

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 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.		
Funds Expended	89,600	0
Year-End Fund Balance	305,500	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. § 41-826)		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	571,600	606,300
Year-End Fund Balance	213,800	107,700
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	42,900	41,200
Year-End Fund Balance	27,000	22,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	531,100	499,900
Year-End Fund Balance	884,000	816,100
Private Grants Fund (HIA9449/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Derived from the AHS Foundation, National Endowment for the Humanities, and DeGrazia Foundation. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.		
Purpose of Fund: To be used in accordance with the requirements of each grant.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Restricted Fund (HIA9448/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Private restricted donations. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.		
Purpose of Fund: To be used for specific projects as designated by donor.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	29,400	24,000
Year-End Fund Balance	157,100	133,400

Prescott Historical Society of Arizona

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	489,800	507,800	507,800
Employee Related Expenditures	232,500	241,100	241,100
Professional and Outside Services	1,000	20,000	20,000
Other Operating Expenditures	102,500	55,600	55,600
AGENCY TOTAL	825,800	824,500	824,500
FUND SOURCES			
General Fund	825,800	824,500	824,500
SUBTOTAL - Appropriated Funds	825,800	824,500	824,500
Other Non-Appropriated Funds	605,100	829,800	829,800
TOTAL - ALL SOURCES	1,430,900	1,654,300	1,654,300

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

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The Baseline includes \$824,500 and 13 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	605,100	829,800
Year-End Fund Balance	738,800	1,159,000

Arizona Department of Homeland Security

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
Federal Funds	23,484,300	30,561,100	30,561,100
TOTAL - ALL SOURCES	23,484,300	30,561,100	30,561,100

AGENCY DESCRIPTION — The Arizona Department of Homeland Security distributes funding received from the U.S. Department of Homeland Security to state agencies and local governments to prevent and mitigate acts of terrorism and natural disasters. The department publishes the Arizona Homeland Security Strategy and provides planning assistance to aid in the development of regional response plans for natural disasters or terrorism incidents.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	28,484,300	30,561,100
Year-End Fund Balance	1,025,200	1,011,700

Board of Homeopathic and Integrated Medicine Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	34,300	47,500	34,700
Employee Related Expenditures	20,600	27,900	25,000
Professional and Outside Services	1,000	1,800	1,800
Travel - In State	1,400	2,400	2,400
Other Operating Expenditures	17,000	23,400	23,400
AGENCY TOTAL	74,300	103,000	87,300

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	74,300	103,000	87,300
SUBTOTAL - Other Appropriated Funds	74,300	103,000	87,300
SUBTOTAL - Appropriated Funds	74,300	103,000	87,300
TOTAL - ALL SOURCES	74,300	103,000	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 State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$87,300 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Reduce Appropriation OF **FY 2018**
\$(15,700)

The Baseline includes a decrease of \$(15,700) from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2018 to make revenue more closely match expenditures. The agency has requested this change.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	74,300	103,000
Year-End Fund Balance*	8,900	(14,200)

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

Arizona Department of Housing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	20.0	20.0
Personal Services	173,700	702,500	702,500
Employee Related Expenditures	72,500	273,900	273,900
Professional and Outside Services	5,000	14,700	14,700
Travel - In State	8,000	41,200	41,200
Travel - Out of State	1,700	0	0
Other Operating Expenditures	46,300	90,900	90,900
Equipment	11,200	6,700	6,700
AGENCY TOTAL	318,400	1,129,900	1,129,900
FUND SOURCES			
General Fund	0	811,400	811,400
<u>Other Appropriated Funds</u>			
Housing Trust Fund	318,400	318,500	318,500
SUBTOTAL - Other Appropriated Funds	318,400	318,500	318,500
SUBTOTAL - Appropriated Funds	318,400	1,129,900	1,129,900
Other Non-Appropriated Funds	21,203,800	16,652,500	22,981,800
Federal Funds	76,317,800	81,748,400	87,806,800
TOTAL - ALL SOURCES	97,840,000	99,530,800	111,918,500

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$97 million in federal and non-appropriated state housing and community development funds. The appropriated budget reflects a portion of the agency's administration expenses. The department provides affordable housing opportunities in conjunction with the Arizona Housing Finance Authority. Beginning in FY 2017, the responsibilities of the Office of Manufactured Housing are transferred from the Department of Fire, Building and Life Safety to the Department of Housing.

Operating Budget

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$1,129,900 and 20 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$811,400
Housing Trust Fund	318,500

These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Building and Fire Safety Fund (HDA2211/A.R.S. § 41-4023)		Non-Appropriated
Source of Revenue: Intergovernmental agreement with the Department of Environmental Quality and the Department of Health Services		
Purpose of Fund: This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Housing by Laws 2016, Chapter 128. (Please see Department of Fire, Building and Life Safety narrative for more detail.)		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	0	0
Year-End Fund Balance	0	440,900
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	0	0
Year-End Fund Balance	0	100
Federal Funds (HDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds for affordable housing programs. Laws 2016, Chapter 128 also provided a one-time transfer of \$131,900 in Federal Funds from the Department of Fire, Building and Life Safety to the Department of Housing.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	76,317,800	81,748,400
Year-End Fund Balance	3,013,300	2,627,600
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	476,900	476,900
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.		
Funds Expended	10,660,900	5,590,900
Year-End Fund Balance	6,836,200	8,672,800
Housing Trust Fund (HDA2235/A.R.S. § 41-3955)		Partially-Appropriated
Source of Revenue: Receives \$2,500,000 from the proceeds of the sales of unclaimed property and interest income. Laws 2011, Chapter 28 reduced the annual deposit of unclaimed property revenues to the Housing Trust Fund from \$10,500,000 to \$2,500,000 beginning in FY 2012. The Housing Trust Fund receives its \$2,500,000 annual unclaimed property deposit after the first \$2,000,000 in unclaimed property revenues are distributed to the Department of Health Services Seriously Mentally Ill Housing Trust Fund.		
Purpose of Fund: For expenses related to the provision of affordable housing opportunities to low and moderate income families. The appropriated portion pays for administration expenses, and may not exceed 10% of the Housing Trust monies. The non-appropriated portion of the fund is used for the operation, construction, or renovation of housing facilities for low-income households. The Legislature may transfer monies from the fund to the Housing Development Fund for use on housing projects around state prisons. <i>(See Housing Development Fund detail for additional information.)</i>		
Appropriated Funds Expended	318,400	318,500
Non-Appropriated Funds Expended	3,886,700	7,436,300
Year-End Fund Balance	14,838,000	13,196,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
IGA and ISA Fund (HDA2500/A.R.S. § 41-3952)		Non-Appropriated
Source of Revenue: Funding coming into and held in the IGA/ISA fund is made up of two sources: 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). Any new funds deposited in FY 2017 will be from the entity's mortgage program fee income. All such funds will be transferred out to the Arizona IDA by 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	6,656,200	3,485,800
Year-End Fund Balance	2,020,500	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	0	564,800
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	0	139,500
Year-End Fund Balance	0	7,659,100

Independent Redistricting Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	1,094,000	1,115,300	1,115,300
AGENCY TOTAL	1,094,000	1,115,300	1,115,300
FUND SOURCES			
General Fund	1,094,000	1,115,300	1,115,300
SUBTOTAL - Appropriated Funds	1,094,000	1,115,300	1,115,300
TOTAL - ALL SOURCES	1,094,000	1,115,300	1,115,300

AGENCY DESCRIPTION — Proposition 106, approved by voters in November 2000, established the Independent Redistricting Commission (IRC). The commission consists of 5 members, 4 of which are selected by the House and Senate majority and minority leadership. These 4 members then select the final member, who 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 \$1,115,300 from the General Fund in FY 2018 for the operating budget. This amount is unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

Other Issues

Current Redistricting Cycle Funding

For the first year of the current 2010 redistricting cycle, the Legislature appropriated \$500,000 from the General Fund in FY 2011 for start-up expenses. In FY 2012, the Legislature appropriated \$3,000,000 from the General Fund. Given the commission's legal expenses, these appropriations were insufficient. Laws 2012, Chapter 108 provided the commission with a FY 2012 supplemental General Fund appropriation of \$700,000.

The original FY 2013 General Fund appropriation of \$1,457,300 (including statewide adjustments) was also insufficient to provide for the commission's legal expenses. Laws 2013, Chapter 2 appropriated \$500,000 from the General Fund and Laws 2013, Chapter 158 appropriated \$635,226 from the General Fund in FY 2013.

Laws 2013, 1st Special Session, Chapter 1 appropriated \$1,115,100 from the General Fund for the commission.

Table 1

CY 2010 Redistricting Cycle Appropriations

Fiscal Year	Appropriation
FY 2011 (Laws 2010, 7 th SS, Ch. 1)	\$ 500,000
FY 2012 (Laws 2011, Ch. 24)	3,000,000
FY 2012 (Laws 2012, Ch. 108)	700,000
FY 2013 (Laws 2012, Ch. 294)	1,457,300
FY 2013 (Laws 2013, Ch. 2)	500,000
FY 2013 (Laws 2013, Ch. 158)	635,226
FY 2014 (Laws 2013, 1 st SS, Ch. 1)	1,115,100
FY 2014 (Laws 2014, Ch. 3)	1,462,701
FY 2015 (Laws 2014, Ch. 18)	1,115,300
FY 2016 (Laws 2015, Ch. 8)	1,115,300
FY 2017 (Laws 2016, Ch. 117)	1,115,300
Total	\$12,716,227

Laws 2014, Chapter 3 appropriated a supplemental of \$1,462,701 from the General Fund in FY 2014 for continued operations and legal expenses and made these funds available through FY 2015. Laws 2015, Chapter 8 further extended the availability of the supplemental through FY 2016. Chapter 8 also appropriated \$1,115,300 in FY 2016.

After reverting unused funds from the FY 2015 appropriation at the end of FY 2015, IRC had \$1,161,200 of prior appropriation authority available for use. Those funds, along with the FY 2016 appropriation of \$1,115,300, resulted in total FY 2016 resources of \$2,276,500. Use of the FY 2016 resources was not continued into FY 2017 and the unused portion reverted to the General Fund on July 1, 2016. Laws 2016, Chapter 117 appropriated \$1,115,300 from the General Fund.

These appropriations bring total funding for the current redistricting cycle to \$12,716,227 (see Table 1).

Litigation Status

The Baseline includes funding for one outstanding case (*Leach v. Independent Redistricting Commission*). A second case was resolved in FY 2016 (*Harris v. Independent Redistricting Commission*). Those 2 cases are as follows:

1. *Leach v. Independent Redistricting Commission* – Various individuals are suing IRC in state court alleging IRC did not follow the process laid out in the Arizona Constitution for drawing the Congressional districts. Several motions were filed in Superior Court and the individual commissioners were dismissed as defendants. The case was put on hold pending the resolution of *Arizona Legislature v. Independent Redistricting Commission*, which was resolved by the Supreme Court in June 2015. Summary judgment motions for *Leach v. IRC* have been scheduled for February 10, 2017. If no summary judgment is awarded, the trial will be held from October 23, 2017 to November 2, 2017. A decision for the plaintiff would require a map redraw.
2. *Harris v. Independent Redistricting Commission* – Various individuals sued the IRC in federal district court stating that the population counts of the state's legislative districts are the result of unconstitutional partisan bias. A 3 judge U.S. Court of Appeals panel found in favor of the commission in April 2014. The plaintiffs appealed the case to the U.S. Supreme Court in June 2014. The U.S. Supreme Court heard the case on December 8, 2015 and affirmed in April 2016 the U.S. Court of Appeals ruling, stating that the IRC's methods did not violate the one-person, one-vote principle when drawing the district maps.

Industrial Commission of Arizona

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	235.6	235.6	235.6
Personal Services	9,169,800	9,851,600	9,851,600
Employee Related Expenditures	3,678,500	3,985,600	3,985,600
Professional and Outside Services	1,999,000	2,109,900	2,109,900
Travel - In State	178,000	153,700	153,700
Travel - Out of State	46,200	53,700	53,700
Other Operating Expenditures	3,669,000	3,714,300	3,714,300
Equipment	239,100	12,500	12,500
OPERATING SUBTOTAL	18,979,600	19,881,300	19,881,300
SPECIAL LINE ITEMS			
OSHA Review Board	2,500	0	0
AGENCY TOTAL	18,982,100	19,881,300	19,881,300
FUND SOURCES			
General Fund	2,500	0	0
<u>Other Appropriated Funds</u>			
Administrative Fund	18,979,600	19,881,300	19,881,300
SUBTOTAL - Other Appropriated Funds	18,979,600	19,881,300	19,881,300
SUBTOTAL - Appropriated Funds	18,982,100	19,881,300	19,881,300
Other Non-Appropriated Funds	17,081,200	17,806,800	17,806,800
Federal Funds	2,935,800	3,160,300	3,160,300
TOTAL - ALL SOURCES	38,999,100	40,848,400	40,848,400

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

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 uses the monies for outside legal services related to the administration of the board's activities. The FY 2017 Consolidation Budget Reconciliation Bill (BRB) (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 remains available for the Industrial Commission to expend on OSHA Review Board.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	18,979,600	19,881,300
Year-End Fund Balance	8,291,800	4,642,800
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	2,935,800	3,160,300
Year-End Fund Balance	187,600	349,900
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	77,900	145,000
Year-End Fund Balance	236,800	236,800
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	17,003,300	17,661,800
Year-End Fund Balance	1,220,400	774,200

Department of Insurance

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	95.5	72.3	72.3
Personal Services	2,855,000	3,475,100	3,475,100
Employee Related Expenditures	1,150,200	1,340,200	1,340,200
Professional and Outside Services	248,900	314,000	314,000
Travel - In State	24,700	21,300	21,300
Travel - Out of State	2,600	1,100	1,100
Other Operating Expenditures	720,600	666,200	666,200
Equipment	75,200	6,400	6,400
AGENCY TOTAL	5,077,200	5,824,300	5,824,300
FUND SOURCES			
General Fund	5,077,200	5,824,300	5,824,300
SUBTOTAL - Appropriated Funds	5,077,200	5,824,300	5,824,300
Other Non-Appropriated Funds	19,198,900	19,569,000	99,564,600
Federal Funds	333,800	836,000	166,100
TOTAL - ALL SOURCES	24,609,900	26,229,300	105,555,000

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 \$5,824,300 and 72.3 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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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 2018.

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 and could accomplish that objective in one of several methods. The state could levy large assessments up front or smaller assessments over many years to match the annual fund payouts. While the exact amount of the total assessment is not yet known, the department's current estimate is approximately \$120 million. 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 2016 Actual	FY 2017 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	72,400	500
Year-End Fund Balance	294,400	293,900
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	210,200	398,600
Year-End Fund Balance	491,200	693,600
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	333,800	836,000
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	263,300	586,900
Year-End Fund Balance	552,300	265,000
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	262,800	308,800
Year-End Fund Balance	136,900	130,700

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	600	4,400
Year-End Fund Balance	4,400	0
Insurance Examiners' Revolving Fund (IDA2034/A.R.S. § 20-159)		Non-Appropriated
Source of Revenue: Payments made by insurance companies for costs of financial, rate, and market conduct examinations performed by contract examiners.		
Purpose of Fund: To provide funds for contract examiners' per diem compensation and funds to reimburse contract examiners for travel and living expenses, as approved by the Director of the Department of Insurance. Monies are also used to cover the department's related administrative costs.		
Funds Expended	4,347,800	4,159,900
Year-End Fund Balance	1,700,300	1,739,100
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	1,105,300	1,083,400
Year-End Fund Balance	28,475,700	27,832,300
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	12,911,600	12,944,800
Year-End Fund Balance	244,136,000	233,491,200
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	24,900	81,700
Year-End Fund Balance	134,500	53,400

Judiciary - Supreme Court

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.0	177.0	183.0
Personal Services	5,811,400	6,093,500	6,423,000
Employee Related Expenditures	2,085,300	2,315,600	2,431,800
Professional and Outside Services	153,900	778,600	778,600
Travel - In State	132,600	132,700	132,700
Travel - Out of State	34,900	38,100	38,100
Other Operating Expenditures	3,512,900	4,056,900	4,056,900
Equipment	43,600	0	0
OPERATING SUBTOTAL	11,774,600	13,415,400	13,861,100
SPECIAL LINE ITEMS			
State Aid	4,484,200	5,648,500	5,648,500
County Reimbursements	187,900	187,900	187,900
Automation	16,511,400	19,977,700	19,977,700
WAAS Upgrade	0	948,700	0
State Foster Care Review Board	3,205,100	3,178,500	3,178,500
Court Appointed Special Advocate	2,600,900	2,862,900	2,862,900
Model Court	434,600	437,600	437,600
Domestic Relations	610,400	613,400	613,400
Judicial Nominations and Performance Review	412,400	409,100	409,100
Commission on Judicial Conduct	504,900	498,600	498,600
Felony Pretrial Intervention	0	250,000	0
AGENCY TOTAL	40,726,400	48,428,300	47,675,300
FUND SOURCES			
General Fund	17,875,100	19,219,500	18,716,500
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	294,200	488,900	488,900
Court Appointed Special Advocate Fund	2,681,200	2,943,200	2,943,200
Criminal Justice Enhancement Fund	3,457,700	4,365,200	4,365,200
Defensive Driving School Fund	3,193,400	4,198,500	4,198,500
Health Services Lottery Fund	0	250,000	0
Judicial Collection Enhancement Fund	10,825,000	14,017,900	14,017,900
State Aid to the Courts Fund	2,399,800	2,945,100	2,945,100
SUBTOTAL - Other Appropriated Funds	22,851,300	29,208,800	28,958,800
SUBTOTAL - Appropriated Funds	40,726,400	48,428,300	47,675,300
Other Non-Appropriated Funds	18,073,400	21,599,200	21,599,200
TOTAL - ALL SOURCES	58,799,800	70,027,500	69,274,500

AGENCY DESCRIPTION — The Supreme Court consists of 5 Supreme Court Justices (7 as of January 2017), judicial support staff and the Administrative Office of the Courts (AOC). The Supreme Court, as the state's highest court, has the responsibility to review appeals and to provide rules of procedure for all the courts in Arizona. Under the direction of the Chief Justice, the AOC provides administrative supervision over the Arizona court system.

Operating Budget

The Baseline includes \$13,861,100 and 108.7 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$10,034,300
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 2018 adjustments would be as follows:

Judicial Salary Increase GF 20,300

The Baseline includes an increase of \$20,300 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$10,600 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The Baseline includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes effective January 1, 2018. The funding for the January 1, 2018 increase will be annualized in FY 2019.

Additional Justices GF 425,400

The Baseline includes an increase of \$425,400 and 6 FTE Positions from the General Fund in FY 2018 for the completed phase-in of full-year funding for 2 additional Supreme Court justices and 6 associated support staff. Laws 2016, Chapter 333 expands the number of Supreme Court justices from 5 to 7. At least 3 candidates for each of these positions will be selected by the Commission on Appellate Court Appointments and provided to the Governor for approval. The term for each justice will begin on the first Monday in January 2017.

State Aid

The Baseline includes \$5,648,500 and 3.3 FTE Positions in FY 2018 for State Aid. These amounts consist of:

CJEF	2,703,400
State Aid to the Courts Fund	2,945,100

These amounts are unchanged from FY 2017.

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 2018 for County Reimbursements. This amount is unchanged from FY 2017.

The County Reimbursements line item provides reimbursement to counties for grand jury expenses and for state-funded representation of indigent defendants in first-time capital postconviction relief proceedings. Statute limits reimbursements to counties for grand jury expenses and state-funded representation of indigent defendants in first-time capital postconviction relief proceedings to the amount appropriated for those purposes.

Automation

The Baseline includes \$19,977,700 and 13 FTE Positions in FY 2018 for Automation. These amounts consist of:

General Fund	3,357,100
Court Appointed Special Advocate (CASA) Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	3,492,300
JCEF	11,393,200

These amounts are unchanged from FY 2017.

The Automation line item provides funding for court automation projects throughout the state. The budget includes monies from other Supreme Court and Superior Court line items in the Automation line item to allow for the centralization of Judicial automation expenditures. Going forward, automation costs will be solely funded from the Automation line item. As required by a General Appropriation Act footnote, any additional monies expended from other line items for automation projects are to be transferred to the Automation line item prior to expenditure.

WAAS Upgrade

The Baseline includes no funding in FY 2018 for an upgrade to the Wide Area Application Services (WAAS) equipment within the Courts. FY 2018 adjustments would be as follows:

Eliminate One-Time Funding GF (948,700)

The Baseline includes a decrease of \$(948,700) from the General Fund in FY 2018 for the elimination of one-time funding for an upgrade to WAAS equipment within the Courts.

In 2009, the Supreme Court purchased WAAS equipment to enhance the data transmission capacity and data speed across the Arizona Judicial Information Network (AJIN). AJIN allows various state agencies to receive information from the courts that is necessary for their operations such as driver's license revocations, child support decisions, and other court case information. This one-time funding will allow the Courts to replace all existing WAAS equipment with updated hardware and software.

State Foster Care Review Board

The Baseline includes \$3,178,500 and 40 FTE Positions from the General Fund in FY 2018 for the State Foster Care Review Board. These amounts are unchanged from FY 2017.

The 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 \$2,862,900 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2018 for CASA. These amounts are unchanged from FY 2017.

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 2018 for Model Court. This amount is unchanged from FY 2017.

Monies in this line item represent a pass-through to counties to improve processing of dependency cases. The Superior Court budget includes an additional, one-time appropriation of \$3,000,000 in General Fund monies in FY 2017 to fund operating expenses associated with a surge in dependency cases. *(Please see the Dependency Surge line item in the Superior Court budget for more information.)*

Domestic Relations

The Baseline includes \$613,400 and 4.9 FTE Positions from the General Fund in FY 2018 for Domestic Relations. These amounts are unchanged from FY 2017.

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 2018 for Judicial Nominations and Performance Review. These amounts are unchanged from FY 2017.

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 \$498,600 and 4 FTE Positions from the General Fund in FY 2018 for Commission on Judicial Conduct. These amounts are unchanged from FY 2017.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Felony Pretrial Intervention

The Baseline includes no funding in FY 2018 for the Felony Pretrial Intervention line item. FY 2018 adjustments would be as follows:

Elimination of One-Time Funding OF (250,000)

The Baseline includes a decrease of \$(250,000) from the Health Services Lottery Monies Fund in FY 2018 for the elimination of one-time funding for a Felony Pretrial Intervention program.

The monies in this line item are intended for distribution to the Maricopa County Attorney's Office. The Maricopa County Attorney's Office currently administers a program that allows individuals who are charged with felonies to avoid prosecution by successfully completing a treatment program tailored to their individual needs.

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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, 2017, the Supreme Court shall report to the Joint Legislative Budget Committee on current and future automation projects coordinated by the Administrative Office of the Courts. The report shall include a list of court automation projects receiving or anticipated to receive state monies in the current or next 2 fiscal years as well as a description of each project, the number of FTE Positions, the entities involved and the goals and anticipated results for each automation project. The report shall be submitted in 1 summary document. The report shall indicate each project's total multiyear cost by fund source and budget line item, including any prior year, current year and future year expenditures.

Automation expenses of the Judiciary shall be funded only from the Automation line item. Monies in the operating lump sum appropriation or other line items intended for automation purposes shall be transferred to the Automation Line Item before expenditure.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the amount included in the operating budget for the 2-year phase-in of a 3% pay increase for Supreme Court justices.

The Baseline would delete the footnote concerning the amounts provided in the operating budget for the creation of 2 new Supreme Court justice positions.

Other Issues

Fund Transfers

The Baseline continues \$3,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018. The Supreme Court share of these fund transfers would be \$900,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000
CASA Fund	400,000

The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

These aggregate fund transfers represent a decrease of \$(2,000,000) from the FY 2017 transfer amount of \$5,000,000.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	217,600	261,200
Year-End Fund Balance	414,000	187,300
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	94,900	106,200
Year-End Fund Balance	165,800	78,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	294,200	488,900
Year-End Fund Balance	520,100	361,300
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	2,681,200	2,943,200
Year-End Fund Balance	2,743,500	2,068,900
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	3,457,700	4,365,200
Year-End Fund Balance	2,905,800	2,104,400
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 2016, the AOC spent approximately \$2,740,700 for court automation projects.		
Funds Expended	3,193,400	4,198,500
Year-End Fund Balance	1,052,600	530,900
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	385,800	494,600
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	16,092,700	19,346,900
Year-End Fund Balance	19,798,100	16,472,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Health Services Lottery Fund (HSA4250/A.R.S. § 36-108.01)		Appropriated
<i>Source of Revenue:</i> State Lottery monies.		
<i>Purpose of Fund:</i> 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	0	250,000
Year-End Fund Balance	0	0
Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113)		Appropriated
<i>Source of Revenue:</i> Electronic case filing and access fees; 27.78% of Supreme Court fees, 17.07% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 14.02% to 15.58% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. <i>(See Superior Court for information regarding non-Maricopa Counties.)</i>		
<i>Purpose of Fund:</i> To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. Funds represented here reflect the shift from the Supreme Court budget to the Superior Court budget of monies for probation officer salaries and programs.		
Funds Expended	10,825,000	14,017,900
Year-End Fund Balance	1,698,300	3,563,700
Juvenile Probation Services Fund (SPA2193/A.R.S. § 8-322)		Non-Appropriated
<i>Source of Revenue:</i> Monies appropriated to Juvenile Probation Services - Treatment Services and Juvenile Diversion Consequences and allocated by the AOC.		
<i>Purpose of Fund:</i> To fund programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Arizona Lengthy Trial Fund (SPA2382/A.R.S. § 21-222)		Non-Appropriated
<i>Source of Revenue:</i> The fund consists of fees established by the Supreme Court on court filings paid to the clerk of the Superior Court.		
<i>Purpose of Fund:</i> 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	691,000	685,700
Year-End Fund Balance*	197,800	(120,600)
Public Defender Training Fund (SPA3013/A.R.S. § 12-117)		Non-Appropriated
<i>Source of Revenue:</i> Two dollars of the \$20 surcharge on each person paying a court order penalty, fine, or sanction on a time-payment basis.		
<i>Purpose of Fund:</i> 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	591,400	704,600
Year-End Fund Balance	175,100	87,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	2,399,800	2,945,100
Year-End Fund Balance	194,300	594,000

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

Judiciary - Court of Appeals

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
PROGRAM BUDGET			
Division I	9,964,800	9,963,900	10,007,100
Division II	4,326,700	4,316,500	4,335,000
AGENCY TOTAL	14,291,500	14,280,400	14,342,100
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8
Personal Services	9,666,100	9,898,200	9,943,800
Employee Related Expenditures	3,302,400	3,332,800	3,348,900
Professional and Outside Services	95,300	5,000	5,000
Travel - In State	195,100	189,500	189,500
Travel - Out of State	16,900	15,000	15,000
Other Operating Expenditures	1,015,700	839,900	839,900
AGENCY TOTAL	14,291,500	14,280,400	14,342,100
FUND SOURCES			
General Fund	14,291,500	14,280,400	14,342,100
SUBTOTAL - Appropriated Funds	14,291,500	14,280,400	14,342,100
TOTAL - ALL SOURCES	14,291,500	14,280,400	14,342,100

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 \$14,342,100 and 136.8 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts include \$10,007,100 and 98.3 FTE Positions for Division I and \$4,335,000 and 38.5 FTE Positions for Division II. FY 2018 adjustments would be as follows:

Judicial Salary Increase	GF	FY 2018 \$61,700
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The Baseline includes an increase of \$61,700 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$31,900 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The Baseline includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes effective January 1, 2018. The FY 2018 increase is split

with Division I receiving \$43,200 and Division II receiving \$18,500. The funding for the January 1, 2018 increase will be annualized in FY 2019.

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FORMAT — Operating Lump Sum by Subprogram

FOOTNOTES

Standard Footnotes

Of the 136.8 FTE Positions for FY 2018, 98.3 FTE Positions are for Division I and 38.5 FTE Positions are for Division II.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the amount included in the operating budget for the 2-year phase-in of a 3% pay increase for Court of Appeals judges.

Judiciary - Superior Court

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5
Personal Services	2,304,800	2,237,800	2,237,800
Employee Related Expenditures	863,500	889,500	889,500
Professional and Outside Services	44,100	48,900	48,900
Travel - In State	51,400	44,800	44,800
Travel - Out of State	18,700	11,100	11,100
Other Operating Expenditures	952,500	980,300	980,300
OPERATING SUBTOTAL	4,235,000	4,212,400	4,212,400
SPECIAL LINE ITEMS			
Centralized Service Payments	2,955,800	3,458,000	3,458,000
Judges' Compensation	8,104,900	8,288,500	8,399,500
Adult Standard Probation	15,781,100	16,864,200	17,166,600
Adult Intensive Probation	10,197,700	10,366,900	10,565,100
Community Punishment	1,407,900	2,310,300	2,310,300
Interstate Compact	467,200	427,500	427,500
Drug Court	993,600	993,600	993,600
Juvenile Standard Probation	3,355,500	3,850,600	3,610,400
Juvenile Intensive Probation	5,272,300	5,612,400	5,352,000
Juvenile Treatment Services	19,937,800	19,960,900	19,960,900
Juvenile Family Counseling	490,800	500,000	500,000
Juvenile Diversion Consequences	8,039,300	8,157,800	8,157,800
Juvenile Crime Reduction	1,560,300	3,308,000	3,308,000
Dependency Surge	0	3,000,000	0
Special Water Master	111,300	160,000	160,000
AGENCY TOTAL	82,910,500	91,471,100	88,582,100
FUND SOURCES			
General Fund	73,634,200	79,517,800	76,628,800
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	2,811,900	5,435,200	5,435,200
Drug Treatment and Education Fund	500,200	502,900	502,900
Judicial Collection Enhancement Fund	5,964,200	6,015,200	6,015,200
SUBTOTAL - Other Appropriated Funds	9,276,300	11,953,300	11,953,300
SUBTOTAL - Appropriated Funds	82,910,500	91,471,100	88,582,100
Other Non-Appropriated Funds	6,160,400	3,829,200	3,829,200
Federal Funds	0	1,057,900	1,057,900
TOTAL - ALL SOURCES	89,070,900	96,358,200	93,469,200

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 \$4,212,400 and 55.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$3,879,400
Criminal Justice Enhancement Fund (CJEF)	317,100
Drug Treatment and Education Fund	2,700
Judicial Collection Enhancement Fund (JCEF)	13,200

These amounts are unchanged from FY 2017.

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 2018 for centralized service payments. This amount consists of:

General Fund	3,008,100
JCEF	449,900

These amounts are unchanged from FY 2017.

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for 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 \$8,399,500 and 82 FTE Positions from the General Fund in FY 2018 for Judges' Compensation. FY 2018 adjustments would be as follows:

Judicial Salary Increase	GF	111,000
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The Baseline includes an increase of \$111,000 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$57,500 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The Baseline includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes effective January 1, 2018. The funding for the January 1, 2018 increase will be annualized in FY 2019.

Background – This line item provides funding for the state's 50% share of the salary and Elected Officials Retirement Plan costs for Superior Court Judges. The line item also funds 100% of the costs of Superior Court Judges that elect state benefits, although some opt to

participate in county programs. In the latter circumstance, the county pays 100% of the cost.

A.R.S. § 12-128 requires the state General Fund to pay for one-half of Superior Court Judges' salaries, except for Maricopa County judges. Maricopa County is responsible for 100% of the salary and benefits of its Superior Court Judges. Pursuant to A.R.S. § 12-121, each county receives one judge for the first 30,000 of population. Additional judges may be created for every additional 30,000 person increment upon approval by the Governor.

Probation Programs

The state and non-Maricopa Counties share the costs of probation. For the intensive programs, the state pays 100% of the costs (although the counties may provide offices and other support services). Counties typically contribute through Probation Service Fee collections, outside grants, and office space. Since FY 2004, Maricopa County has assumed the state's share of its probation costs. *(Please see the Other Issues section for more information on probation funding.)*

Adult Standard Probation

The Baseline includes \$17,166,600 in FY 2018 for Adult Standard Probation. This amount consists of:

General Fund	13,392,500
JCEF	3,774,100

FY 2018 adjustments would be as follows:

Salary Realignment	GF	302,400
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The Baseline includes an increase of \$302,400 from the General Fund in FY 2018 for a shift of resources from the Juvenile Standard Probation and Juvenile Intensive Probation line item for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. In addition to the new funding, a total of \$500,600 in existing General Fund monies was transferred from the Juvenile Standard and Juvenile Intensive Probation line items to the adult probation line items to fund a portion of the increased salary costs. This increase will allow for the transfer of \$240,200 from the Juvenile Standard Probation and \$62,200 from the Juvenile Intensive Probation line items to align funding with expenditures. There will be no net change to Superior Court funding.

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 2018 for Adult Intensive Probation. This amount consists of:

General Fund	9,029,900
JCEF	1,535,200

FY 2018 adjustments would be as follows:

Salary Realignment	GF	198,200
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The Baseline includes an increase of \$198,200 from the General Fund in FY 2018 for a shift of resources from the Juvenile Intensive Probation line item for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. In addition to the new funding, a total of \$500,600 in existing General Fund monies was transferred from the Juvenile Standard and Juvenile Intensive Probation line items to the adult probation line items to fund a portion of the increased salary costs. This increase will allow for the transfer of \$198,200 from the Juvenile Intensive Probation line item to align funding with expenditures. There will be no net change to Superior Court funding.

Background – This line item provides funding for a sentencing alternative intended to divert serious, non-violent offenders from prison. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 13-916, 1 team shall not supervise more than 25 intensive probationers at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Community Punishment

The Baseline includes \$2,310,300 in FY 2018 for Community Punishment. This amount consists of:

CJEF	1,810,100
Drug Treatment and Education Fund	500,200

These amounts are unchanged from FY 2017.

Background – This line item provides behavioral treatment services for adult probationers and for enhanced supervision, such as electronic monitoring and specialized probation caseloads. The funding is intended to provide for diversion of offenders from prison and jail, as well as to enhance probation programs, excluding Maricopa County.

The monies in the Community Punishment line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Interstate Compact

The Baseline includes \$427,500 in FY 2018 for Interstate Compact. This amount consists of:

General Fund	334,700
JCEF	92,800

These amounts are unchanged from FY 2017.

Background – This line item provides funding for supervision and intervention to probationers transferring to Arizona and monitors the supervision of probationers transferred to other states from Arizona.

As required by a General Appropriation Act footnote, the monies in the Interstate Compact line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Drug Court

The Baseline includes \$993,600 from the General Fund in FY 2018 for Drug Court programs. This amount is unchanged from FY 2017.

Background – This line item provides funding for juvenile and adult drug courts within the Superior Court throughout the state. It provides funding for prosecuting, adjudicating and treating drug-dependent offenders. Superior Court divisions in 12 counties have implemented

or are planning the implementation of drug courts. These programs utilize drug education, intensive therapy, parent support, case management, socialization alternatives, aftercare and compliance monitoring for drug abstinence.

Juvenile Standard Probation

The Baseline includes \$3,610,400 in FY 2018 for Juvenile Standard Probation. This amount consists of:

General Fund	3,460,400
JCEF	150,000

FY 2018 adjustments would be as follows:

Salary Realignment GF (240,200)

The Baseline includes a decrease of \$(240,200) from the General Fund in FY 2018 for a shift of resources to the Adult Standard and Adult Intensive Probation line items for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. In addition to the new funding, a total of \$500,600 in existing General Fund monies was transferred from the Juvenile Standard and Juvenile Intensive Probation line items to the adult probation line items to fund a portion of the increased salary costs. This reduction will allow for the transfer of \$240,200 to the Adult Standard Probation line item to align funding with expenditures. There will be no net change to Superior Court funding.

Background – This line item provides funding for community supervision services for juveniles placed on standard probation by the Juvenile Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-203B, a juvenile probation officer shall not supervise more than an average of 35 juveniles on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Intensive Probation

The Baseline includes \$5,352,000 from the General Fund in FY 2018 for Juvenile Intensive Probation. FY 2018 adjustments would be as follows:

Salary Realignment GF (260,400)

The Baseline includes a decrease of \$(260,400) from the General Fund in FY 2018 for a shift of resources to the Adult Standard and Adult Intensive Probation line items for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. In addition to the new funding, a total of \$500,600 in existing General Fund monies was transferred from the Juvenile Standard and Juvenile Intensive Probation line items to the adult probation line items to fund a portion of the increased salary costs. This reduction will allow for the transfer of \$62,200 to the Adult Standard Probation line item and \$198,200 to the Adult Intensive Probation line item to align funding with expenditures. There will be no net change to Superior Court funding.

Background – This line item provides funding for a sentencing alternative to divert serious, non-violent juvenile offenders from incarceration or residential care and to provide intensive supervision for high-risk offenders already on probation. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-353B, 1 JIPS team shall not supervise more than an average of 25 juveniles on intensive probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Treatment Services

The Baseline includes \$19,960,900 from the General Fund in FY 2018 for Juvenile Treatment Services. This amount is unchanged from FY 2017.

Background – This line item provides funding to the juvenile courts to meet the requirements of A.R.S. § 8-321 relating to the assignment of youths referred for delinquency or incorrigibility to treatment programs, residential treatment centers, counseling, shelter care and other programs.

The FY 2016 budget moved monies from other Superior Court line items to the Juvenile Treatment Services line item to allow for the centralization of probation treatment services payments. Going forward, juvenile probation treatment service costs will be solely funded from the Juvenile Treatment Services line item. Any additional monies expended from other line items for

juvenile probation treatment services will first be transferred to the Juvenile Treatment Services line item.

As required by a General Appropriation Act footnote, the monies in the Juvenile Treatment Services line item shall be used only as pass-through monies to the counties for their treatment programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Family Counseling

The Baseline includes \$500,000 from the General Fund in FY 2018 for Juvenile Family Counseling. This amount is unchanged from FY 2017.

Background – This line item provides funding to the Juvenile Division of the Superior Court for prevention of delinquency among juvenile offenders by strengthening family relationships. These monies are predominantly for non-adjudicated juveniles and their families and require a 25% county match.

Juvenile Diversion Consequences

The Baseline includes \$8,157,800 from the General Fund in FY 2018 for Juvenile Diversion Consequences. This amount is unchanged from FY 2017.

Background – This program diverts youth from formal court proceedings in order to reduce court costs and prevent re-offending. A juvenile diversion probation officer assigns consequences for the juvenile to complete, such as substance abuse education, graffiti abatement, counseling, or other community service programs. In FY 2016, there were approximately 13,376 juveniles diverted from formal court proceedings. Monies in this line item are distributed to all counties.

As required by a General Appropriation Act footnote, the monies in the Juvenile Diversion Consequences line item shall be used only as pass-through monies to the counties for their diversion programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Crime Reduction

The Baseline includes \$3,308,000 from CJEF in FY 2018 for Juvenile Crime Reduction. This amount is unchanged from FY 2017.

Background – This line item provides funding for the design and implementation of community-based strategies for reducing juvenile crime. Strategies include

prevention, early intervention, effective intermediate sanctions, and rehabilitation. Through a grant process, AOC distributes monies in this line item to approximately 25 public and private entities.

As required by a General Appropriation Act footnote, the monies in the Juvenile Crime Reduction line item shall be used only as pass-through monies to the counties for their crime reduction programs and are not available for AOC expenses.

Dependency Surge Funding

The Baseline includes no funding in FY 2018 for Superior Court processing of dependency cases. FY 2018 adjustments would be as follows:

One-Time Funding	GF	(3,000,000)
The Baseline includes a decrease of \$(3,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for the processing of dependency cases. The FY 2017 appropriation is exempt from lapsing through June 30, 2018.		

The Supreme Court budget also continues to include \$437,600 in General Fund monies in FY 2018 for the improved processing of dependency cases in the Model Court line item. *(Please see the Model Court line item in the Supreme Court narrative for more information.)*

Monies in this line item represent a pass-through to county Superior Courts to assist with the processing of dependency cases.

Special Water Master

The Baseline includes \$160,000 from the General Fund in FY 2018 for the Special Water Master line item. This amount is unchanged from FY 2017.

Background – This line item provides funding for the Special Water Master assigned by the court in 1990 to the Little Colorado River and Gila River water rights adjudications. The adjudication of water rights for the Little Colorado River and Gila River were petitioned in 1978 and 1980, respectively. In FY 2016, 519 water rights claims were filed by individuals, communities, governments, and companies. The Special Water Master conducts hearings for each claimant and makes recommendations to a Superior Court judge.

Pursuant to statute, the costs of the Water Master are funded from claimant fees. If claimant fees are insufficient, statute requires the state General Fund to pay for these expenses in a line item within the Superior

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

* * *

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.

Monies appropriated to Juvenile Treatment Services and Juvenile Diversion Consequences shall be deposited into the Juvenile Probation Services Fund established by A.R.S. § 8-322.

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, 2017, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee the FY 2017 actual, FY 2018 estimated and FY 2019 requested amounts for each of the following:

1. On a county-by-county basis, the number of authorized and filled case carrying probation positions and non-case carrying probation positions, distinguishing between Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive. The report shall indicate the level of state probation funding, other state funding, county funding and probation surcharge funding for those positions.
2. Total receipts and expenditures by county and fund source for the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items, including the amount of Personal Services expended from each revenue source of each account.
3. The amount of monies from the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items that the office does not distribute as direct aid to counties. The report shall delineate how the office expends these monies that are not distributed as direct aid to counties.

All centralized service payments made by the Administrative Office of the Courts on behalf of counties shall be funded only from the Centralized Service Payments line item. Centralized service payments include only training, motor vehicle payments, CORP review board funding, LEARN funding, research, operational reviews and GPS vendor payments. This footnote does not apply to treatment or counseling services payments made from the Juvenile Treatment Services and Juvenile Diversion Consequences line items. Monies in the operating lump sum appropriation or other line items intended for centralized service payments shall be transferred to the Centralized Service Payments line item before expenditure.

All monies in the Adult Standard Probation, Adult Intensive Probation, Interstate Compact, Juvenile Standard Probation and Juvenile Intensive Probation line items shall be used only as pass-through monies to county probation departments. Monies in the operating lump sum appropriation or other line items intended as pass-through for the purpose of administering a county probation program shall be transferred to the appropriate probation line item before expenditure.

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 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.

On or before ~~October 1, 2016~~ FEBRUARY 1, 2018, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee on ~~overall~~ COUNTY APPROVED salary adjustments provided to ~~county~~ probation officers SINCE THE LAST REPORT ON SEPTEMBER 30, 2016 ~~in FY 2017, including total funding adjustments and percentage increases~~. THE REPORT SHALL INCLUDE, BY 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 APPLICABLE YEARS.

3. AVERAGE NUMBER OF PROBATION OFFICERS BY APPLICABLE YEAR.
4. AVERAGE SALARY OF PROBATION OFFICERS FOR EACH APPLICABLE YEAR.

The Administrative Office of the Courts shall compile the information provided by each county for this report.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the one-time appropriation and report for dependency surge funding.

The Baseline would delete the footnote concerning the amount included in the Judges' Compensation line item for the 3% pay increase.

STATUTORY CHANGES

The Baseline would not continue the FY 2017 suspension of county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and the requirement that counties report on reductions in county funding as a result of the elimination of the non-supplanting provisions. The Baseline does not continue this provision due to its lack of utilization.

Other Issues

Fund Transfers

The Baseline continues \$3,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018. The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

The Supreme Court share of these fund transfers would be \$900,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000
CASA Fund	400,000

These aggregate fund transfers represent a decrease of \$(2,000,000) from the FY 2017 transfer amount of \$5,000,000.

Probation Caseloads

The Baseline includes \$31,569,500 in General Fund and \$5,552,100 in Other Fund monies in FY 2018 to support non-Maricopa County adult and juvenile probation caseloads.

In FY 2016, the state appropriated \$29,162,200 in General Fund and \$5,552,100 in Other Fund monies for a total of \$34,714,300 in state resources to support non-Maricopa County adult and juvenile probation caseloads. Actual probation expenditures totaled \$35,073,800 in FY 2016 due to the Administrative Office of the Courts transferring monies from other lines. Additionally, counties provided \$27,267,500 in funding and \$6,370,600 in probation fee revenues for these purposes. *Table 1* below displays total funding and probation officer expenditures from both county and state sources in FY 2016.

In FY 2016 the average non-Maricopa County probation caseload was 18,523. This represents a year-over-year increase of 2.6%. Although aggregate caseloads increased last year, only the Adult Standard category has seen multi-year increases while all other categories continued their multi-year downtrends. *Table 2* shows the caseloads for FY 2014 - FY 2018 by probation category. The FY 2017 and FY 2018 figures represent estimated caseloads derived from the utilization of a multi-year trend line using 18 years of data. The estimated aggregate growth rate for FY 2018 is 0.3% for all probation categories due to estimated decreases in all but the Adult Standard category which is anticipated to increase by 1.8% in FY 2018.

Special Water Master

In FY 2016, revenue and interest to the Gila River water rights adjudication, including a \$145,000 General Fund appropriation, totaled \$152,395 and expenditures were \$94,575 leaving an ending balance of \$181,476. The revenue consists of filing fees paid by claimants initiating water rights claims, interest, and monies appropriated by the Legislature. The FY 2016 budget included a decrease of \$(54,500), or \$145,500 total, due to Laws 2015, Chapter 276 which reduced the Special Water Master appropriation to help backfill a reduction to the Supreme Court's Automation line item.

The FY 2016 revenue, interest and appropriations to the Little Colorado River water rights adjudication totaled \$16,681 and expenditures were \$16,690. The FY 2016 ending balance was \$90,893. Laws 2015, Chapter 276 reduced the annual \$20,000 General Fund appropriation to the Little Colorado River Water Master by \$(5,500) in FY 2016 leaving a total of \$14,500 in General Fund

support. Table 3 displays a history of the revenues and expenditures to the Gila River and Little Colorado River Water Masters from FY 2014 through FY 2018.

Table 1
FY 2016 Non-Maricopa County Probation Funding

	<u>Adult Standard</u>	<u>Adult Intensive</u>	<u>Juvenile Standard</u>	<u>Juvenile Intensive</u>	<u>Total</u>
Probation Officers					
Case Carrying Positions	207.0	101.5	51.4	45.3	405.2
Non-Case Carrying Positions	324.6	53.6	366.8	27.1	772.1
Total Filled Positions	531.6	155.1	418.2	72.4	1,177.3
Probation Line Item Expenditures					
Amount Distributed to Counties	\$16,248,300 ^{1/}	\$10,197,700	\$3,355,500	\$5,272,300	\$35,073,800 ^{2/}
Total Line Item Expenditures	\$16,248,300^{1/}	\$10,197,700	\$3,355,500	\$5,272,300	\$35,073,800^{2/}
County Probation Expenditures					
State General Fund	\$11,899,200 ^{1/}	\$8,583,500	\$3,169,500	\$4,760,300	\$28,412,500
Other State Funds	3,882,900	1,527,500	0	0	5,410,400
County Funding	14,433,800	0	12,833,700	0	27,267,500
Probation Fees	5,902,100	0	468,500	0	6,370,600
Total Expenditures	\$36,118,000	\$10,111,000	\$16,471,700	\$4,760,300	\$67,461,000^{3/}

1/ Includes the Adult Standard Probation and Interstate Compact line item appropriations.
2/ Represents the amount expended by AOC in support of non-Maricopa County probation programs.
3/ Represents the amount expended by the counties from all sources, including current and prior years' monies received from the state.

Table 2
Non-Maricopa County Average Annual Probation Caseloads

	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>
Probation Category					
Adult Standard ^{1/}	13,727	14,556	15,306	15,500	15,773
Adult Intensive	1,363	1,320	1,273	1,253	1,232
Juvenile Standard	1,738	1,717	1,494	1,385	1,228
Juvenile Intensive	511	460	450	400	354
Total Caseload	17,339	18,053	18,523	18,538	18,587

1/ Does not include Interstate Compact participants. In FY 2016 there was an average of 236 individuals in Pima and Yavapai Counties that were funded from the Interstate Compact line item.

Table 3
Special Water Master Funding

	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Estimated^{1/}</u>	<u>FY 2018 Estimated^{1/}</u>
Gila River					
Beginning Balance	\$97,342	\$23,411	\$123,656	\$181,476	\$197,871
Revenues ^{2/}	86,233	211,844	152,395	152,395	152,395
Expenditures	160,164	111,599	94,575	136,000	162,350
Ending Balance	\$23,411	\$123,656	\$181,476	\$197,871	\$187,916
Little Colorado River					
Beginning Balance	\$94,185	\$86,761	\$90,902	\$90,893	\$83,574
Revenues ^{2/}	21,489	23,835	16,681	16,681	18,335
Expenditures	28,913	19,964	16,690	24,000	28,650
Ending Balance	\$86,761	\$90,902	\$90,893	\$83,574	\$73,259

1/ Estimated amounts were provided by the Administrative Office of the Courts.
2/ Includes an annual appropriation of \$74,000 for the Gila River Water Master in FY 2014 and \$200,000 in FY 2015. Laws 2015, Chapter 276 reduced this amount to \$145,500 in FY 2016 and beyond. The Little Colorado River Water Master revenues include an annual appropriation of \$20,000 through FY 2015. Laws 2015, Chapter 276 reduced this amount to \$14,500 in FY 2016 and beyond.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Community Punishment Program Fines Fund (SPA2119/A.R.S. § 13-821)		Non-Appropriated
<i>Source of Revenue:</i> Discretionary fines imposed by the courts on drug offenders.		
<i>Purpose of Fund:</i> To provide drug treatment services to adult probationers through the Community Punishment Program.		
Funds Expended	0	125,000
Year-End Fund Balance	195,200	103,600
Criminal Justice Enhancement Fund (SPA2075/A.R.S. § 41-2401)		Partially-Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> 9.35% of CJEF monies allocated to the courts are used to reduce juvenile crime, 6.02% is used to enhance the court's ability to process criminal and delinquency cases and salaries of Superior Court judges, and 2.13% is used to provide drug treatment services to adult probationers. The portions of the fund dedicated to juvenile crime reduction and drug treatment are included in the Superior Court's budget, while the case processing portion is part of the Supreme Court's budget.		
Appropriated Expenditures	2,811,900	5,435,200
Non-Appropriated Expenditures	1,247,600	0
Year-End Fund Balance	2,702,000	1,246,200
Drug and Gang Enforcement Fund (SPA2074/A.R.S. § 41-2402)		Non-Appropriated
<i>Source of Revenue:</i> Federal grant monies passed through the Arizona Criminal Justice Commission's Drug and Gang Enforcement Fund.		
<i>Purpose of Fund:</i> To fund programs that enhance the ability of the courts to process drug offenses and related cases.		
Funds Expended	0	1,057,900
Year-End Fund Balance	12,600	12,600
Drug Treatment and Education Fund (SPA2277/A.R.S. § 13-901.02)		Partially-Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> To place persons in drug education and treatment programs. Such monies are allocated to Superior Court probation departments according to a formula based on probation caseloads.		
Appropriated Expenditures	500,200	502,900
Non-Appropriated Expenditures	3,537,400	3,701,000
Year-End Fund Balance	2,647,000	1,770,300
Grants and Special Revenue (SPA2084/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Monies provided from various sources, private and public, for specific programs and projects.		
<i>Purpose of Fund:</i> To expend grants as required by the contribution.		
Funds Expended	1,375,400	3,200
Year-End Fund Balance	3,200	1,600
Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113)		Appropriated
<i>Source of Revenue:</i> Electronic case filing and access fees; 27.78% of Supreme Court fees, 17.07% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 14.02% to 15.58% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. Maricopa County retains any probation surcharge imposed in its county.		
<i>Purpose of Fund:</i> To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. Funds represented here reflect the shift from the Supreme Court budget to the Superior Court budget of monies for probation programs.		
Funds Expended	5,964,200	6,015,200
Year-End Fund Balance	1,949,200	780,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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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	9,563,100	3,319,300

State Aid to Detention Fund (SPA2141/A.R.S. § 41-2417) **Non-Appropriated**

Source of Revenue: General Fund monies appropriated by the Legislature.

Purpose of Fund: To provide state assistance to counties in maintaining, expanding, and operating juvenile detention centers. On behalf of the juvenile court, the Administrative Office of the Courts may use monies in the fund to enter into agreements with public agencies or private entities to acquire land for, build, purchase, lease-purchase, lease, maintain, expand, or operate juvenile detention centers. Expenditures from this fund are not displayed to avoid double counting.

Funds Expended	0	0
Year-End Fund Balance	0	0

Department of Juvenile Corrections

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	22,907,700	20,299,900	20,299,900
Employee Related Expenditures	12,947,000	9,598,300	9,598,300
Professional and Outside Services	997,200	979,400	979,400
Travel - In State	125,700	119,900	119,900
Travel - Out of State	10,000	9,500	9,500
Other Operating Expenditures	3,526,400	7,686,700	7,686,700
Equipment	908,500	866,500	866,500
AGENCY TOTAL	41,422,500	39,560,200	39,560,200
FUND SOURCES			
General Fund	25,356,000	24,180,400	24,180,400
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	493,500	531,500	531,500
Department of Juvenile Corrections Local Cost Sharing Fund	12,000,000	11,260,000	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,972,900	2,000,100	2,000,100
State Education Fund for Committed Youth	1,600,100	1,588,200	1,588,200
SUBTOTAL - Other Appropriated Funds	16,066,500	15,379,800	15,379,800
SUBTOTAL - Appropriated Funds	41,422,500	39,560,200	39,560,200
Other Non-Appropriated Funds	114,300	99,700	99,700
Federal Funds	1,226,900	1,224,600	1,224,600
TOTAL - ALL SOURCES	42,763,700	40,884,500	40,884,500

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 \$39,560,200 and 738.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$24,180,400
Criminal Justice Enhancement Fund (CJEF)	531,500
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100
State Education Fund for Committed Youth	1,588,200

These amounts are unchanged from FY 2017.

* * *

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

Fund Shift

The Baseline continues the \$901,400 FY 2017 fund shift from the General Fund to the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2018. The total Land Fund appropriation will continue to be \$2,000,100.

As enacted, the \$901,400 shift was intended as one-time; the State Charitable, Penal and Reformatory Institutions Land Fund is estimated to have sufficient resources to continue this shift in FY 2018. With the passage of Proposition 123 in May 2016, the State Land Trust distribution formula increased from 2.5% to 6.9%. As a result, the State Charitable, Penal and Reformatory Institutions Land Fund will realize aggregate revenues of \$2,862,200 in FY 2018. This amount is more than adequate to allow for the continued \$2,000,100 FY 2018 expenditure level that results from the continued shift. *(Please see Proposition 123 within the Other Issues section for more information on the increased distribution.)*

Local Cost Sharing

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) reduced this amount to \$11,260,000 to reflect savings realized from a decreased housed population, which includes a \$(740,000) reduction in county contributions. *Table 1* displays the estimated payment by county; the Baseline would continue this provision in FY 2018.

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 2017 General Appropriation Act provided a one-time \$8,000,000 General Fund appropriation to the Department of Administration for distribution to counties according to their proportional share of the population as reported by the 2010 decennial census. This amount is meant to offset a portion of the costs paid by counties to DJC for local cost sharing. In 2018, *Table 2* displays the distribution by county. The Baseline does not continue this funding in FY 2018. *(Please see the County Funding narrative for more information on state distributions to counties.)*

County	FY 2017
Apache County	\$ 89,500
Cochise County	164,400
Coconino County	168,300
Gila County	67,100
Graham County	46,600
Greenlee County	10,500
La Paz County	25,700
Maricopa County	4,777,300
Mohave County	250,500
Navajo County	134,500
Pima County	1,226,900
Pinal County	470,300
Santa Cruz County	59,300
Yavapai County	264,100
Yuma County	245,000
TOTAL	\$8,000,000

Proposition 123

As a beneficiary of the Arizona State Land Trust, DJC receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

The Department of Juvenile Corrections received a total of \$1,452,500 in its land trust fund, the State Charitable, Penal and Reformatory Institutions Land Fund, in FY 2015.

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

The JLBC Staff projects that the State Charitable, Penal and Reformatory Institutions Land Fund will have an FY 2017 ending balance of \$2,639,200. The fund will have estimated revenues of \$2,862,200 in FY 2018, compared to a Baseline appropriation of \$2,000,100.

(Please see the Land Department narrative for more information.)

Population Counts

Table 3 lists the DJC population by category. The housed and parole populations within DJC have seen significant decreases in the past 10 years. As illustrated in Table 3, the housed population within DJC has decreased by (47.6)% from FY 2014 through October 2016. The parole population has also decreased significantly, realizing a reduction of (54.1)% over the same period. DJC reports that this decline is due to a reduction in the number of committed youth, an increase in the age of the average offender resulting in shorter incarceration periods, and statutory changes to admissions requirements.

The FY 2016 Criminal Justice BRB altered the requirements for admission to DJC facilities. These changes include an increase in the minimum admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Table 3

DJC Census				
	<u>FY 2014 Average Population</u>	<u>FY 2015 Average Population</u>	<u>FY 2016 Average Population</u>	<u>Population as of October 31, 2016</u>
Housed Population				
Adobe Mountain	351	321	227	184
Parole Population				
Parole	135	127	81	62
Interstate Compact (inside Arizona) ^{1/}	<u>120</u>	<u>114</u>	<u>111</u>	<u>104</u>
Total Parole Population	<u>255</u>	<u>241</u>	<u>192</u>	<u>166</u>
Total DJC Population	606	562	419	350

^{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 no parolees on October 31, 2016.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	493,500	531,500
Year-End Fund Balance	1,149,900	1,250,700
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 Budget Reconciliation Bill (Laws 2016, Chapter 119) reduced the appropriated amount to \$11,260,000.		
Purpose of Fund: To fund the operational costs of DJC.		
Funds Expended	12,000,000	11,260,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	142,800	162,700
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	800	800
Year-End Fund Balance	2,500	3,300
Federal Funds (DJA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Grants.		
Purpose of Fund: For the National School Breakfast and Lunch Program, Special Education, Job Training Partnership Act, substance abuse, and other federal programs.		
Funds Expended	1,226,900	1,224,600
Year-End Fund Balance	368,000	485,100
IGA and ISA Fund (DJA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency agreements.		
Purpose of Fund: To provide training to DJC staff in behavioral therapy, motivational interviewing, and child and family teams, and some supplemental funding for attainment of juvenile treatment goals.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (DJA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay department wide administrative and overhead costs.		
Funds Expended	0	0
Year-End Fund Balance	280,100	280,100
Instructional Improvement Fund (DJA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming received through the Arizona Department of Education (ADE). The ADE Instructional Improvement Fund receives 56% of total shared revenue, as authorized by Proposition 202 from the 2002 General Election. <i>(See ADE section for more information.)</i>		
Purpose of Fund: To fund teacher compensation increases, class size reduction, dropout prevention, and instructional improvement.		
Funds Expended	0	0
Year-End Fund Balance	7,400	7,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	40,800	40,800
Year-End Fund Balance	73,400	95,200
State Charitable, Penal and Reformatory Institutions Land Fund (DJA3029/A.R.S. § 37-525)		Appropriated
Source of Revenue: Earnings on state lands and interest on the investment of the Permanent Land Fund. 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	1,972,900	2,000,100
Year-End Fund Balance	1,919,100	2,639,200
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	1,600,100	1,588,200
Year-End Fund Balance*	68,900	(9,000)
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	55,600	55,600
Year-End Fund Balance	351,000	435,900
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	17,100	2,500
Year-End Fund Balance	15,100	700

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

State Land Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.7	129.7	129.7
Personal Services	6,283,600	7,191,200	7,191,200
Employee Related Expenditures	2,449,100	2,955,300	2,955,300
Professional and Outside Services	987,400	1,373,400	1,373,400
Travel - In State	82,300	100,000	100,000
Travel - Out of State	10,200	20,000	20,000
Other Operating Expenditures	2,795,900	3,328,700	3,328,700
Equipment	117,600	180,000	180,000
OPERATING SUBTOTAL	12,726,100	15,148,600	15,148,600
SPECIAL LINE ITEMS			
CAP User Fees	737,700	769,900	994,400
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	539,400	650,000	650,000
Streambed Navigability Litigation	0	220,000	220,000
AGENCY TOTAL	14,003,200	17,288,500	17,513,000
FUND SOURCES			
General Fund	12,402,200	12,491,400	12,715,900
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	149,400	260,600	260,600
Trust Land Management Fund	1,451,600	4,036,500	4,036,500
SUBTOTAL - Other Appropriated Funds	1,601,000	4,797,100	4,797,100
SUBTOTAL - Appropriated Funds	14,003,200	17,288,500	17,513,000
Other Non-Appropriated Funds	718,400	871,000	871,000
Federal Funds	36,900	15,000	0
TOTAL - ALL SOURCES	14,758,500	18,174,500	18,384,000

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 \$15,148,600 and 129.7 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$11,331,500
Environmental Special Plate Fund	600
Trust Land Management Fund	3,816,500

These amounts are unchanged from FY 2017.

CAP User Fees

The Baseline includes \$994,400 from the General Fund in FY 2018 for Central Arizona Project (CAP) User Fees. FY 2018 adjustments would be as follows:

CAP Rate Adjustment GF 224,500

The Baseline includes an increase of \$224,500 from the General Fund in FY 2018 for revised FY 2017 CAP rates. This assumes that the department will be billed for "capital charges" of \$31 per acre foot on 32,076 acre feet of water in FY 2017 and again in FY 2018 for a total annual charge of \$994,400. This amount would be \$224,500 above the appropriation for CAP user fees for FY 2017 of \$769,900. The FY 2017 appropriation reflected capital

charges of \$24 per acre foot, but CAP rates are not determined until June 15th of each year and the final rate for FY 2017 ended up being \$31 per acre foot. As a result, the Baseline includes a \$224,500 supplemental from the General Fund to cover the higher-than-budgeted FY 2017 rates. *(Please see 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 2018 for this line item. This amount is unchanged from FY 2017.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The Baseline includes \$650,000 in FY 2018 for Natural Resource Conservation Districts (NRCDs). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2017.

Monies in this line item are used to provide for natural resource research, activities, and staff at the state’s 30 NRCDs. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires

the department to include in its budget request up to \$40,000 for each NRCD and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCDs be used to provide grants to NRCD environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCDs. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2016 totaled \$144,500 and will not be able to fund the appropriated amount, which is set at \$260,000. The revenue generated from the Environmental Special Plate Fund has trended downward and license plate sales have not reached \$260,000 since FY 2007.

Streambed Navigability Litigation

The Baseline includes \$220,000 from the Trust Land Management Fund in FY 2018 for Streambed Navigability Litigation. This amount is unchanged from FY 2017.

Pursuant to A.R.S. §§ 37-1123 and 37-1124, the Land Department is required to provide evidence to the Arizona Navigable Stream Adjudication Commission (ANSAC) to help resolve litigation regarding the navigability of watercourses in the state. *(Please see the Arizona Navigable Stream Adjudication Commission narrative for more information.)*

The Land Department uses monies in this line item to fund expert witness services, technical examinations, and associated legal costs incurred in connection with ongoing hearings and appeals processes.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes
 The appropriation includes \$994,400 for Central Arizona Project User Fees in FY 2018. For FY 2018, from municipalities that assume their allocation of central Arizona project water for every dollar received as

reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state general fund in the year that the reimbursement is collected.

Of the amount appropriated for Natural Resource Conservation Districts in FY 2018, \$30,000 shall be used to provide grants to Natural Resource Conservation District environmental education centers.

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 \$172,081,000 in incremental land trust funds to K-12 schools in FY 2016 and \$171,892,400 in FY 2017. It will provide an estimated \$187,925,100 in incremental funds in FY 2018. *(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)*

Proposition 123 also increases distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in total distributions under the 2.5% rate in FY 2015. The 6.9% distribution rate under Proposition 123 increased this amount to \$18,176,200 in FY 2016 and \$20,376,700 in FY 2017. In FY 2018, non-K-12 beneficiaries will receive an estimated \$22,194,100.

In addition to the distributions from the Treasurer, each beneficiary continues to receive lease revenues generated from their land parcels. Including lease revenues, non-K-12 beneficiaries received \$15,845,800 in total land trust monies in FY 2015. These beneficiaries will receive an estimated \$31,527,600 in FY 2018. *(Please see Table 1.)*

K-12 schools, the universities, and the Arizona School for the Deaf and the Blind may expend the additional revenues generated by Proposition 123 without further legislative action. In order for the remaining beneficiaries to expend their increased revenues, however, additional appropriation authority would be required. As shown in *Table 1* below, the accumulated balances and estimated FY 2018 revenues of each of these funds exceeds their respective FY 2018 Baseline appropriations.

FY 2017 Supplemental

The Baseline includes a \$224,500 General Fund supplemental in FY 2017 for CAP User Fees. *(Please see Cap User Fees line item for more information.)*

Table 1

State Land Trust: Non-K12 Beneficiaries' Revenues, Balances, and Appropriation Authority ^{1/}

<u>Beneficiary/Fund</u>	<u>FY 2015 Total Revenue</u> ^{2/}	<u>FY 2017 Ending Balance</u>	<u>FY 2018 Total Revenue</u>	<u>FY 2018 Baseline Appropriation</u>
Universities ^{3/}				
Military Institute	\$ 83,800	*	\$ 121,200	*
Normal Schools ASU/NAU	296,600	*	571,800	*
A & M Colleges	445,100	*	913,900	*
School of Mines	499,800	*	1,056,400	*
University Fund	2,175,400	*	2,682,500	*
U of A Land - 1881	<u>1,659,400</u>	*	<u>6,104,600</u>	*
Subtotal	\$ 5,160,100	*	\$11,450,500	*
School for Deaf and Blind ^{4/}	\$ 424,400	*	\$ 680,700	*
State Hospital	701,000	839,700	876,200	650,000
Legal, Executive, & Judicial Buildings	386,300	3,590,100	792,900	0
Corrections				
Penitentiaries	\$ 1,382,600	\$ 5,172,300	\$ 2,594,100	\$ 979,300
State Charitable (25%)	<u>1,452,500</u>	<u>5,355,700</u>	<u>2,862,300</u>	<u>1,861,500</u>
Subtotal	\$ 2,835,100	\$10,528,000	\$ 5,456,400	\$ 2,840,800
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 4,146,300	\$ 3,684,200	\$ 2,028,900
State Charitable (50%)	<u>2,905,000</u>	<u>4,849,600</u>	<u>5,724,500</u>	<u>4,145,700</u>
Subtotal	4,886,400	\$ 8,995,900	\$ 9,408,700	\$ 6,174,600
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 2,639,200	\$ 2,862,200	\$ 2,000,100
Non-K-12 Beneficiaries Total	\$15,845,800	*	\$31,527,600	*

^{1/} Includes both Treasurer's distributions and lease revenues.

^{2/} FY 2015 revenues reflect the 2.5% Treasurer's distribution rate in effect prior to Proposition 123.

^{3/} University land trust funds are non-appropriated. As a result, Baseline appropriation and balance amounts are not included. (Please see ABOR section for more information.)

^{4/} Arizona School for the Deaf and 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. Laws 2016, Chapter 117 allows monies in this fund to be expended in excess of the appropriated amount. As a result, Baseline appropriation and balance amounts are not included.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
CAP Municipal and Industrial Repayment Fund (LDA2129/A.R.S. § 37-526)		Non-Appropriated
Source of Revenue: Reimbursements to the state for back water payments when cities assume their allocation of Central Arizona Project (CAP) water, legislative appropriations.		
Purpose of Fund: To make CAP water fee payments for urban state trust land. Monies remaining in the fund revert to the General Fund after the CAP subcontract obligations are met.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	44,800	44,800
Environmental Special Plate Fund (LDA2274/A.R.S. § 37-1015)		Appropriated
Source of Revenue: \$17 of the \$25 fee for environmental license plates.		
Purpose of Fund: To provide grants for environmental education projects. Funds Natural Resource Conservation Districts (NRCs) and the education centers they sponsor. An amount of \$5,000 is distributed to each NRC that sponsors an education center. Additionally, funds are distributed to NRCs and education centers based on appropriation.		
Funds Expended	149,400	260,600
Year-End Fund Balance*	43,100	(92,600)
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	36,900	15,000
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	44,300	44,300
Interagency Agreements Fund (LDA2212/A.R.S. § 35-148)		Non-Appropriated
Source of Revenue: Collections from other state agencies for services and products provided by the State Land Department.		
Purpose of Fund: To pay for joint projects based upon interagency agreements with other state agencies.		
Funds Expended	0	0
Year-End Fund Balance	148,200	160,200
Off-Highway Vehicle Recreation Fund (LDA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Land Department receives 5% of the total Off-Highway Vehicle Fund revenue, which consists of fees for off-highway vehicle decals issued by the Department of Transportation and 0.55% of the motor fuel tax revenue.		
Purpose of Fund: To mitigate damage to land, to fund enforcement of off-highway vehicle laws, and for necessary environmental, historical, and cultural clearance or compliance activities.		
Funds Expended	390,300	345,000
Year-End Fund Balance	161,000	89,200
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	109,900	150,000
Year-End Fund Balance	108,800	57,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	217,600	375,000
Year-End Fund Balance	2,589,700	2,464,700
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	600	1,000
Year-End Fund Balance	1,700	2,700
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	1,451,600	4,036,500
Year-End Fund Balance	10,180,100	10,259,000

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

Legislature - Auditor General

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	184.8	184.8
Personal Services	11,235,800	11,235,800	11,235,800
Employee Related Expenditures	4,210,600	4,142,600	4,142,600
Professional and Outside Services	499,100	699,100	499,100
Travel - In State	290,800	290,800	290,800
Travel - Out of State	4,500	4,500	4,500
Other Operating Expenditures	1,125,200	1,126,400	1,126,400
Equipment	567,300	567,300	567,300
AGENCY TOTAL	17,933,300	18,066,500	17,866,500
FUND SOURCES			
General Fund	17,933,300	18,066,500	17,866,500
SUBTOTAL - Appropriated Funds	17,933,300	18,066,500	17,866,500
Other Non-Appropriated Funds	1,956,300	1,960,300	1,960,300
TOTAL - ALL SOURCES	19,889,600	20,026,800	19,826,800

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

* * *

The Baseline includes \$17,866,500 and 184.8 FTE Positions from the General Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding	GF	FY 2018
		\$(200,000)

The Baseline includes a decrease of \$(200,000) from the General Fund in FY 2018 to eliminate one-time funding for an audit of the Arizona Power Authority.

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 2016 Actual	FY 2017 Estimate
Audit Services Revolving Fund (AUA2242/A.R.S. § 41-1279.06)		Non-Appropriated
Source of Revenue: Charges to state budget units, counties, community college districts or school districts for audits or accounting services performed by, or under the supervision of, the Auditor General. A majority of the amounts collected are for federal compliance audits required by the Single Audit Act, as such audited entities are reimbursed by the federal government.		
Purpose of Fund: To conduct audits required under federal law, special audits, or provide accounting services requested by state budget units, counties, community college districts or school districts. Monies in this fund may also be used to pay certified public accountants to conduct audits or provide accounting services.		
Funds Expended	1,956,300	1,960,300
Year-End Fund Balance	598,500	538,200

Legislature - House of Representatives

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	13,686,900	13,201,500	13,201,500
AGENCY TOTAL	13,686,900	13,201,500	13,201,500
FUND SOURCES			
General Fund	13,686,900	13,201,500	13,201,500
SUBTOTAL - Appropriated Funds	13,686,900	13,201,500	13,201,500
TOTAL - ALL SOURCES	13,686,900	13,201,500	13,201,500

AGENCY DESCRIPTION — The House of Representatives is made up of 60 members, 2 of whom are elected from each of the legislative districts. The officers and employees of the House of Representatives consist of the Speaker of the House, a Chief Clerk of the House, and other employees as the House directs.

Operating Budget

The Baseline includes \$13,201,500 from the General Fund in FY 2018 for the operating budget. This amount is unchanged from FY 2017.

* * *

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 2018 is \$1,000 for the purchase of mementos and items for visiting officials.

Legislature - Joint Legislative Budget Committee

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,605,100	1,661,800	1,661,800
Employee Related Expenditures	536,600	601,300	601,300
Professional and Outside Services	82,100	125,000	125,000
Travel - In State	700	500	500
Travel - Out of State	1,100	0	0
Other Operating Expenditures	36,200	97,700	97,700
Equipment	0	2,000	2,000
AGENCY TOTAL	2,261,800	2,488,300	2,488,300
FUND SOURCES			
General Fund	2,261,800	2,488,300	2,488,300
SUBTOTAL - Appropriated Funds	2,261,800	2,488,300	2,488,300
TOTAL - ALL SOURCES	2,261,800	2,488,300	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

* * *

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 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	49.0
Personal Services	2,684,600	2,785,000	2,785,000
Employee Related Expenditures	963,900	958,900	958,900
Professional and Outside Services	26,100	81,600	81,600
Other Operating Expenditures	549,500	767,000	767,000
Equipment	1,194,200	2,800,000	2,800,000
OPERATING SUBTOTAL	5,418,300	7,392,500	7,392,500
SPECIAL LINE ITEMS			
Hearing Loop Installation	0	250,000	0
Ombudsman-Citizens Aide Office	801,100	822,900	822,900
AGENCY TOTAL	6,219,400	8,465,400	8,215,400
FUND SOURCES			
General Fund	6,219,400	8,215,400	8,215,400
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	0	250,000	0
SUBTOTAL - Other Appropriated Funds	0	250,000	0
SUBTOTAL - Appropriated Funds	6,219,400	8,465,400	8,215,400
TOTAL - ALL SOURCES	6,219,400	8,465,400	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 40 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Hearing Loop Installation

The Baseline includes no funding from the Telecommunication Fund for the Deaf in FY 2018 for hearing loop installation. FY 2018 adjustments would be as follows:

FY 2018
Remove One-Time Funding OF \$(250,000)

The Baseline includes a decrease of \$(250,000) from the Telecommunication Fund for the Deaf in FY 2018 for hearing loop installation. Monies in this appropriation fund the one-time installation of looping hearing aid service systems in the House of Representatives and Senate buildings. The looping systems transmit sound from the House and Senate Public Address (PA) systems directly into hearing aids allowing device users to clearly

hear the sound from the PA systems without disruptive background noise. Legislative Council will oversee the installation of the looping system. This one-time appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Ombudsman-Citizens Aide Office

The Baseline includes \$822,900 and 9 FTE Positions from the General Fund in FY 2018 for the Ombudsman-Citizens Aide Office. These amounts are unchanged from FY 2017.

Monies in this line item fund operation of the Ombudsman-Citizens Aide Office, which receives public complaints, investigates administrative acts of agencies, and may present their final opinion and recommendations to the Governor, the Legislature, the office of the appropriate prosecutor or the public, or any combination of these persons. The Ombudsman-Citizens Aide Office also trains public officials and educates the public on the rights of the public and the responsibilities of public agencies under the public access laws.

* * *

FORMAT — Operating Lump Sum with Special Line Items
by Agency

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.

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.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	0	250,000
Year-End Fund Balance	0	0

Legislature - Senate

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	8,165,900	9,408,500	9,408,500
AGENCY TOTAL	8,165,900	9,408,500	9,408,500
FUND SOURCES			
General Fund	8,165,900	9,408,500	9,408,500
SUBTOTAL - Appropriated Funds	8,165,900	9,408,500	9,408,500
TOTAL - ALL SOURCES	8,165,900	9,408,500	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 2018 for the operating budget. This amount is unchanged from FY 2017.

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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 \$9,408,500 for FY 2018 is \$1,000 for the purchase of mementos and items for visiting officials.

Department of Liquor Licenses and Control

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.2	45.2	45.2
Personal Services	1,488,600	1,522,700	1,522,700
Employee Related Expenditures	773,100	786,000	786,000
Professional and Outside Services	77,300	40,400	40,400
Travel - In State	87,800	110,400	110,400
Travel - Out of State	0	3,300	3,300
Other Operating Expenditures	497,900	544,600	544,600
OPERATING SUBTOTAL	2,924,700	3,007,400	3,007,400
SPECIAL LINE ITEMS			
Licensing Replacement System	30,600	0	0
AGENCY TOTAL	2,955,300	3,007,400	3,007,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	2,955,300	3,007,400	3,007,400
SUBTOTAL - Other Appropriated Funds	2,955,300	3,007,400	3,007,400
SUBTOTAL - Appropriated Funds	2,955,300	3,007,400	3,007,400
Other Non-Appropriated Funds	1,071,800	1,076,000	1,076,000
Federal Funds	82,400	0	0
TOTAL - ALL SOURCES	4,109,500	4,083,400	4,083,400

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Licensing Replacement System

The Baseline includes no funding in FY 2018 for a licensing and imaging system. This amount is unchanged from FY 2017.

Monies in this line item are used for the replacement of the licensing and imaging system. The new system integrates both licensing and imaging; enhances tracking, reporting and enforcement mechanisms; and allows the department to accept online license renewals and fee payments.

The department received \$626,700 in FY 2015 and \$400,000 in FY 2016 for a total of \$1,026,700 for the project. The department also received an extension of its spending authority for these appropriations in the FY 2016 and FY 2017 Revenue Budget Reconciliation Bills to complete the project. The department has contracted with a vendor to purchase and replace the old licensing system. The project is expected to be completed in August 2017.

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FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Anti-Racketeering Revolving Fund (LLA2131/A.R.S. § 13-2314.01)		Non-Appropriated
<i>Source of Revenue:</i> Forfeitures of property and assets to satisfy judgments pursuant to state anti-racketeering statutes.		
<i>Purpose of Fund:</i> To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	14,300	13,700
Year-End Fund Balance	0	0
Audit Surcharge Fund (LLA3010/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$30 surcharge on liquor licenses for bars, retail stores, and restaurants.		
<i>Purpose of Fund:</i> To fund an auditor and support staff positions to review revenue requirements for restaurant liquor licenses.		
Funds Expended	179,600	178,800
Year-End Fund Balance	65,500	60,700
DPS-FBI Fingerprint Fund (LLA2159/A.R.S. § 4-112)		Non-Appropriated
<i>Source of Revenue:</i> Fingerprint fees collected as part of the application process.		
<i>Purpose of Fund:</i> Fingerprint fees are transferred to the Department of Public Safety.		
Funds Expended	0	0
Year-End Fund Balance	2,200	2,200
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	410,300	379,300
Year-End Fund Balance	63,100	44,400
Enforcement Surcharge - Multiple Complaints Fund (LLA3011/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$35 surcharge on liquor license renewals.		
<i>Purpose of Fund:</i> To investigate licensees which have been the subject of multiple complaints from neighborhood associations, civic groups, and local governments.		
Funds Expended	467,600	504,200
Year-End Fund Balance	140,700	58,600
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	82,400	0
Year-End Fund Balance	0	0
Liquor Licenses Fund (LLA1996/A.R.S. § 4-120)		Appropriated
<i>Source of Revenue:</i> A portion of the state's liquor license fee revenues, not to exceed the appropriation of the Legislature.		
<i>Purpose of Fund:</i> To pay operating expenses for the Department of Liquor Licenses and Control. Any balance over \$700,000 shall revert to the General Fund at the end of each year.		
Funds Expended	2,955,300	3,007,400
Year-End Fund Balance	0	0

Arizona State Lottery Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	3,765,800	4,812,000	4,812,000
Employee Related Expenditures	1,584,400	1,693,300	1,693,300
Professional and Outside Services	423,700	386,800	386,800
Travel - In State	241,400	271,600	271,600
Travel - Out of State	19,500	16,800	16,800
Other Operating Expenditures	853,000	1,173,200	1,173,200
Equipment	33,300	0	0
OPERATING SUBTOTAL	6,921,100	8,353,700	8,353,700
SPECIAL LINE ITEMS			
Advertising	9,743,600	15,500,000	15,500,000
Charitable Commissions	1,157,200	1,335,200	1,468,700
Instant Tickets	13,317,600	22,143,800	23,481,900
On-Line Vendor Fees	9,343,300	9,625,400	10,019,000
Retailer Commissions	57,025,600	56,267,000	59,080,300
AGENCY TOTAL	97,508,400	113,225,100	117,903,600
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	97,508,400	113,225,100	117,903,600
SUBTOTAL - Other Appropriated Funds	97,508,400	113,225,100	117,903,600
SUBTOTAL - Appropriated Funds	97,508,400	113,225,100	117,903,600
Other Non-Appropriated Funds	571,668,100	539,847,400	567,528,900
TOTAL - ALL SOURCES	669,176,500	653,072,500	685,432,500

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Advertising

The Baseline includes \$15,500,000 from the State Lottery Fund in FY 2018 for Advertising. This amount is unchanged from FY 2017.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The Baseline includes \$1,468,700 from the State Lottery Fund in FY 2018 for Charitable Commissions. FY 2018 adjustments would be as follows:

Tab Ticket Increase	OF	FY 2018
		\$133,500

The Baseline includes an increase of \$133,500 from the State Lottery Fund in FY 2018 to realign spending with projected revenues. (See Table 1 for more information.)

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Tab Tickets are games sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket

sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The Baseline includes \$23,481,900 from the State Lottery Fund in FY 2018 for Instant Tickets. FY 2018 adjustments would be as follows:

Instant Ticket Sales Increase OF 1,338,100

The Baseline includes an increase of \$1,338,100 from the State Lottery Fund in FY 2018 for Instant Tickets due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay for instant ticket printing and distribution costs. The actual appropriation is for 3.6% of instant ticket sales. The amount displayed is derived by applying the approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The Baseline includes \$10,019,000 from the State Lottery Fund in FY 2018 for On-Line Vendor Fees. FY 2018 adjustments would be as follows:

On-Line Sales Increase OF 393,600

The Baseline includes an increase of \$393,600 from the State Lottery Fund in FY 2018 for On-Line Vendor Fees due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor, which is 4.256% as of September 2016. Under the previous contract agreement the percentage was 3.7%.

Retailer Commissions

The Baseline includes \$59,080,300 from the State Lottery Fund in FY 2018 for Retailer Commissions. FY 2018 adjustments would be as follows:

Retailer Commissions Increase OF 2,813,300

The Baseline includes an increase of \$2,813,300 from the State Lottery Fund in FY 2018 for Retailer Commissions due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

* * *

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 \$1,468,700 in FY 2018.

An amount equal to 3.6% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$23,481,900 in FY 2018.

An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$10,019,000, or 4.256% of actual on-line ticket sales in FY 2018.

An amount equal to 6.5% of gross lottery game sales, minus Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or \$59,080,300 in FY 2018.

Other Issues

Lottery Forecast and Distributions

The Baseline assumes a (2.9)% decrease in overall Lottery ticket sales in FY 2017, followed by a 4.9% increase in FY 2018. For FY 2017 and FY 2018, the Baseline assumes

Lottery ticket sales of \$846,481,700 and \$887,685,400, respectively.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2016 and the JLBC Staff projected distributions for FY 2017 and FY 2018. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. §§ 5-534 and 5-572.

State Lottery Revenue Bond Debt Service Payment

Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The principal and interest payments in FY 2017 and FY 2018 are expected to be \$37,501,500 and \$37,500,800, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Payment Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$11,502,000 in each FY 2017 and FY 2018.

Laws 1993, 6th Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at \$18,000,000 and was contingent upon the General Fund receiving \$45,000,000 in Lottery revenues.

Laws 2010, 7th Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of *Paisley v. Darwin* ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county.

General Fund - Part 1

The statutory distribution requires the General Fund to receive up to \$84,150,000. The General Fund - Part 2 would receive up to an additional \$15,490,000 (for a total of \$99,640,000) after the statutory funding obligations have been met through the Homeless Shelters

distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2017 and FY 2018 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,501,500 in FY 2017 and \$37,500,800 in FY 2018 count towards the \$84,150,000 General Fund - Part 1 requirement.

Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at \$10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY 2017 and FY 2018, the fund is projected to receive its entire allocation.

Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is \$20,917,600 in FY 2017 and \$21,352,400 in FY 2018. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2017 and FY 2018.

Homeless Shelters

Under the statutory distribution, DES would receive up to \$1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2017 and FY 2018.

General Fund - Part 2

As noted above, the General Fund would receive up to an additional \$15,490,000 after all prior allocations have been met. In FY 2017 and FY 2018, the General Fund is estimated to receive its entire allocation of \$15,490,000.

Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at \$3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2017 and FY 2018.

University Capital Improvement Fund

This fund serves as the source for up to 80% of the annual debt service associated with \$800,000,000 of University Capital construction lease-purchase agreements. This fund received \$38,647,500 in FY 2016. The UCI Fund is expected to require \$39,927,000 in FY 2017 and \$39,923,200 in FY 2018 to make the expected 80% level of debt service payments. The Universities do not plan to issue any additional lease-purchase agreements in FY 2018 above the \$668,710,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2017. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,900, depending on assumptions of repayment lengths and interest rates. *(Please see the FY 2017 Arizona Board of Regents Capital Outlay section for more details.)*

General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These payments to the General Fund are estimated to equal \$6,622,800 in FY 2017 and \$15,035,200 in FY 2018. Total General Fund distributions, net of bond payments, are therefore estimated to be \$68,761,300 in FY 2017 and \$77,174,400 in FY 2018.

Table 1

**Forecast of Lottery Revenue Distribution
(\$ in Millions)**

Sales	FY 2016	FY 2017	FY 2018
Instant Sales	\$596.8	\$615.1	\$652.3
On-Line Sales	<u>274.1</u>	<u>231.3</u>	<u>235.4</u>
Total Sales	\$870.9	\$846.4	\$887.7
<i>Less:</i>			
Operating Budget ^{1/}	\$ 97.5	\$ 113.2	\$ 117.9
Gaming Distribution	0.3	0.3	0.3
Prizes ^{2/}	<u>571.7</u>	<u>539.8</u>	<u>567.5</u>
Net Profit ^{3/}	\$201.4	\$193.1	\$202.0
Profit Transfers ^{4/}			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{5/}	11.5	11.5	11.5
General Fund - Part 1 ^{6/}	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	20.5	20.9	21.4
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{6/}	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	38.6	39.9	39.9
General Fund - Part 3 ^{6/ 7/}	<u>16.6</u>	<u>6.6</u>	<u>15.0</u>
Total Transfer	\$201.4	\$193.1	\$202.0

^{1/} Of this amount, an estimated \$1,335,200 in FY 2017 and an estimated \$1,468,700 in FY 2018 will be distributed as commissions to charities that sell lottery Tab Tickets.

^{2/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Department of Gaming transfer from total Lottery sales.

^{3/} To derive the profit transfer amounts, the actual FY 2016 rate of return for each game was applied to the current Baseline forecast. The total rate of rate turn on all games in FY 2016 was 23.17%. The estimated total profit margin is 22.85% in FY 2017 and 22.78% in FY 2018.

^{4/} In addition to these listed transfers, the following monies are distributed:
 - \$900,000 and \$100,000 from vending machine sales in age-restricted areas to the Internet Crimes Against Children Enforcement Fund and the Victims' Rights Enforcement Fund, respectively.
 - 30% of unclaimed prizes to the Court Appointed Special Advocates program.
 - 15% of unclaimed prizes, not to exceed \$250,000 to the Tribal College Dual Enrollment Program Fund (This distribution was \$160,000 in FY 2016, but was increased pursuant to Laws 2016, Chapter 124).

^{5/} 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.)

^{6/} Excluding fund transfers, distributions to the General Fund totaled \$78,775,000 in FY 2016 and are estimated to be \$68,761,300 in FY 2017 and \$77,174,400 in FY 2018.

^{7/} The table includes \$10,596,800 in FY 2016 General Fund transfers that were processed through the state's accounting system after the end of FY 2016.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	97,508,400	113,225,100
Non-Appropriated Funds Expended	571,668,100	539,847,400
Year-End Fund Balance*	17,425,300	(5,130,400)

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

Board of Massage Therapy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	199,900	241,100	241,100
Employee Related Expenditures	79,300	101,400	101,400
Professional and Outside Services	33,800	34,100	19,100
Travel - In State	500	3,700	3,700
Other Operating Expenditures	109,200	87,400	87,400
Equipment	2,400	2,400	2,400
AGENCY TOTAL	425,100	470,100	455,100

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	425,100	470,100	455,100
SUBTOTAL - Other Appropriated Funds	425,100	470,100	455,100
SUBTOTAL - Appropriated Funds	425,100	470,100	455,100
TOTAL - ALL SOURCES	425,100	470,100	455,100

AGENCY DESCRIPTION — The board licenses and regulates massage therapists. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

* * *

The Baseline includes \$455,100 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF FY 2018 \$(15,000)

The Baseline includes a decrease of \$(15,000) from the Board of Massage Therapy Fund in FY 2018 to eliminate one-time funding for implementation of an online system for renewals.

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	425,100	470,100
Year-End Fund Balance	1,088,600	1,088,700

Arizona Medical Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.5	61.5	61.5
Personal Services	2,875,500	3,112,900	3,112,900
Employee Related Expenditures	984,300	1,151,100	1,151,100
Professional and Outside Services	1,015,400	973,600	973,600
Travel - In State	19,900	22,500	22,500
Travel - Out of State	22,300	29,000	29,000
Other Operating Expenditures	898,800	898,200	898,200
Equipment	287,200	276,300	276,300
AGENCY TOTAL	6,103,400	6,463,600	6,463,600

FUND SOURCES

Other Appropriated Funds

Arizona Medical Board Fund	6,103,400	6,463,600	6,463,600
SUBTOTAL - Other Appropriated Funds	6,103,400	6,463,600	6,463,600
SUBTOTAL - Appropriated Funds	6,103,400	6,463,600	6,463,600
TOTAL - ALL SOURCES	6,103,400	6,463,600	6,463,600

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The Baseline includes \$6,463,600 and 61.5 FTE Positions from the Arizona Medical Board Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

The Arizona Medical Board may use up to 7% of the Arizona Medical Board Fund balance remaining at the end of each fiscal year for a performance based incentive

program the following fiscal year based on the program established pursuant to A.R.S. § 38-618.

Other Issues

Agency Relocation

The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127) requires ADOA to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Medical Board currently resides. If the building is sold, the Arizona Medical Board would be relocated to the 1740 West Adams building currently used by the Department of Health Services. (Please see the ADOA Capital Outlay section for additional information.)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Medical Board Fund (MEA2038/A.R.S. § 32-1406)		Appropriated
Source of Revenue: Monies collected by the Arizona Medical Board from the examination and licensing of physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate physicians, and for board administration costs.		
Funds Expended	6,103,400	6,463,600
Year-End Fund Balance	6,294,800	6,108,300

State Mine Inspector

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	461,900	575,300	575,300
Employee Related Expenditures	206,200	202,900	202,900
Professional and Outside Services	15,400	5,000	5,000
Travel - In State	62,200	51,400	51,400
Travel - Out of State	1,900	5,000	5,000
Other Operating Expenditures	206,900	172,700	172,700
Equipment	39,200	5,500	5,500
OPERATING SUBTOTAL	993,700	1,017,800	1,017,800
SPECIAL LINE ITEMS			
Abandoned Mines	186,800	194,700	194,700
Aggregate Mining Land Reclamation	30,300	112,900	112,900
AGENCY TOTAL	1,210,800	1,325,400	1,325,400
FUND SOURCES			
General Fund	1,180,500	1,212,500	1,212,500
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	30,300	112,900	112,900
SUBTOTAL - Other Appropriated Funds	30,300	112,900	112,900
SUBTOTAL - Appropriated Funds	1,210,800	1,325,400	1,325,400
Other Non-Appropriated Funds	13,100	15,000	15,000
Federal Funds	560,100	394,200	419,300
TOTAL - ALL SOURCES	1,784,000	1,734,600	1,759,700

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Abandoned Mines

The Baseline includes \$194,700 from the General Fund in FY 2018 for Abandoned Mines. This amount is unchanged from FY 2017.

Monies in this line item are used to pay contractors for costs to fill, plug, or fence abandoned mines. These monies are also used to pay administrative salaries and other costs. In addition to General Fund appropriations to the program, deposits can be made into the Abandoned Mines Safety Fund from sources such as intergovernmental agreements and donations.

Aggregate Mining Land Reclamation

The Baseline includes \$112,900 from the Aggregate Mining Reclamation Fund in FY 2018 for Aggregate Mining Land Reclamation. This amount is unchanged from FY 2017.

Monies in this line item are used to review legally required plans to reclaim land damaged by aggregated mining and ensure compliance with those plans. Aggregate mining is a process whereby earth moving equipment is used to mine an area close to the surface for crushed rock or stone, granite, and sand. Aggregate Mining Reclamation Fund revenues come from fees paid by owners or operators of aggregate mining sites upon submitting a reclamation plan.

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 2018 are appropriated to the Aggregate Mining Land Reclamation line item. Before the expenditure of any Aggregate Mining Reclamation Fund receipts in excess of \$112,900 in FY 2018, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Abandoned Mines Safety Fund (MIA2408/A.R.S. § 27-131)		Non-Appropriated
<i>Source of Revenue:</i> Gifts, grants and contributions. The Legislature may appropriate matching monies.		
<i>Purpose of Fund:</i> To locate, inventory, classify and eliminate public safety hazards at abandoned mines.		
Funds Expended	13,100	15,000
Year-End Fund Balance	131,100	116,100
Aggregate Mining Reclamation Fund (MIA2511/A.R.S. § 27-1233)		Appropriated
<i>Source of Revenue:</i> Fees collected from exploration and aggregate mining operations.		
<i>Purpose of Fund:</i> To review aggregate mining land reclamation plans and to enforce compliance with the plans.		
Funds Expended	30,300	112,900
Year-End Fund Balance	147,000	59,700
Federal Education and Training Fund (MIA2400/A.R.S. § 49-104B.7)		Non-Appropriated
<i>Source of Revenue:</i> Fees for education and training of mine employees required under federal regulation.		
<i>Purpose of Fund:</i> To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training.		
Funds Expended	83,400	45,200
Year-End Fund Balance	246,500	269,500
Federal Grants (MIA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants from the U.S. Department of Labor, Mine Safety and Health Administration and the Department of Interior, Bureau of Land Management (BLM).		
<i>Purpose of Fund:</i> To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training. The state provides a 20% in-kind match. The BLM grant is for an inventory of abandoned mines on BLM lands.		
Funds Expended	476,700	349,000
Year-End Fund Balance	20,100	85,900

Naturopathic Physicians Medical Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	98,100	98,900	98,900
Employee Related Expenditures	40,700	47,400	47,400
Professional and Outside Services	600	4,300	4,300
Travel - In State	1,200	2,000	2,000
Other Operating Expenditures	31,600	31,600	27,600
AGENCY TOTAL	172,200	184,200	180,200

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	172,200	184,200	180,200
SUBTOTAL - Other Appropriated Funds	172,200	184,200	180,200
SUBTOTAL - Appropriated Funds	172,200	184,200	180,200
TOTAL - ALL SOURCES	172,200	184,200	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 board is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

* * *

The Baseline includes \$180,200 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

Remove One-Time Funding OF **FY 2018**
\$ (4,000)

The Baseline includes a decrease of \$(4,000) from the Naturopathic Physicians Medical Board Fund in FY 2018 to eliminate one-time funding for laptops purchased for board meetings.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	172,200	184,200
Year-End Fund Balance	700,900	859,800

Arizona Navigable Stream Adjudication Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 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	24,000	24,000	24,000
Professional and Outside Services	218,400	196,100	196,100
Travel - In State	2,000	3,900	3,900
Other Operating Expenditures	32,600	28,400	28,400
Equipment	0	1,600	1,600
AGENCY TOTAL	347,000	324,000	324,000
FUND SOURCES			
General Fund	126,600	124,000	124,000
<u>Other Appropriated Funds</u>			
Water Banking Fund	220,400	200,000	200,000
SUBTOTAL - Other Appropriated Funds	220,400	200,000	200,000
SUBTOTAL - Appropriated Funds	347,000	324,000	324,000
TOTAL - ALL SOURCES	347,000	324,000	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 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$124,000
Arizona Water Banking Fund	200,000

These amounts are unchanged from FY 2017.

* * *

FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue to allow up to \$200,000 from the Water Banking Fund to be spent for the commission's unpaid legal obligations. This provision was included for FY 2017 in the Environment Budget Reconciliation Bill (Laws 2016, Chapter 120). In FY 2016, the commission spent \$220,400 from the Water Banking Fund for unpaid legal obligations. Of that amount, \$20,400 came from a non-lapsing FY 2015 supplemental appropriation (Laws 2015, Chapter 8).

Other Issues

Litigation

The commission is responsible for determining the navigability of state watercourses at the time of statehood. If navigable, the watercourses are considered State Trust Land and any related proceeds from the waterbeds would be deposited in the Riparian Trust Fund, pursuant to A.R.S. § 37-1156. The monies in this fund are primarily used to acquire and maintain land adjacent to the waterbeds for conservation purposes.

As of May 2006, ANSAC had determined all watercourses in Arizona to be non-navigable at the time of statehood. In June 2006, the first appeal was filed against the commission by the Arizona Center for Law in the Public Interest and the State Land Department regarding the commission's determination for the Lower Salt River. Five other appeals have been filed and stayed pending the completion of the Lower Salt River case.

In August 2007, the Maricopa County Superior Court affirmed the commission's determination. The Superior Court decision was appealed to the Arizona Court of Appeals. A decision by the Arizona Court of Appeals in

May 2010 did not overturn the commission's determination concerning the Lower Salt River. Instead, the Court of Appeals set aside the Superior Court's original decision, and remanded the Lower Salt River case to the Maricopa County Superior Court to determine the "ordinary and natural condition" of the watercourses by considering navigability in the period prior to statehood.

In October 2011, the Maricopa County Superior Court remanded the 4 cases appealed in Maricopa County back to the commission to address issues raised by the May 2010 Arizona Court of Appeals opinion. The 2 cases appealed in Pima County were also returned to the commission to address the same issues.

In February 2012, the United States Supreme Court ruling in *PPL Montana v. Montana* required the commission to resolve whether individual segments of the affected streambeds were navigable prior to statehood. The commission had previously determined navigability for each streambed as a whole rather than by segments. Following the U.S. Supreme Court decision, the commission adopted a segment-by-segment approach in determining navigability for the 6 remanded cases.

As of September 2016, hearings for the 6 remanded cases have been completed and the commission is currently working to prepare the legal reports for each case. Once completed, the reports will be distributed to the Commissioners for review, at which point they will adopt by vote each individual report. The reports will then be delivered to the Land Commissioner, signifying the beginning of the appeals process. The Land Commissioner will then have a 6-month window to appeal to the Superior Court for Judicial Review one or all of the cases. Pending any new appeals, the commission should complete the agency's trial work by 2018. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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>). Laws 2015, Chapter 8 appropriated \$359,300 for a one-time supplemental from the Arizona Water Banking Fund in FY 2015 to address a shortfall in funding for outside legal counsel and related hearing expenses for the commission. The FY 2016 Environment Budget Reconciliation Bill (Laws 2015, Chapter 13) makes this supplemental and any other monies appropriated to it from the Arizona Water Banking Fund non-lapsing through FY 2016. The FY 2017 Environment Budget Reconciliation Bill (Laws 2016, Chapter 120) continues to allow use of the Water Banking Fund for the commission's unpaid legal obligations in FY 2017.		
Purpose of Fund: To fund outside legal counsel and court reporters for court hearings.		
Funds Expended	220,400	200,000
Year-End Fund Balance*	(20,400)	(379,700)

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

State Board of Nursing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	42.2	42.2	42.2
Personal Services	2,318,500	2,327,800	2,327,800
Employee Related Expenditures	923,400	914,800	914,800
Professional and Outside Services	324,300	341,700	341,700
Travel - In State	3,800	10,000	10,000
Travel - Out of State	6,500	8,000	8,000
Other Operating Expenditures	612,600	603,400	603,400
Equipment	43,900	42,400	42,400
OPERATING SUBTOTAL	4,233,000	4,248,100	4,248,100
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	468,800	536,700	536,700
AGENCY TOTAL	4,701,800	4,784,800	4,784,800
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,701,800	4,784,800	4,784,800
SUBTOTAL - Other Appropriated Funds	4,701,800	4,784,800	4,784,800
SUBTOTAL - Appropriated Funds	4,701,800	4,784,800	4,784,800
Federal Funds	414,300	414,700	518,600
TOTAL - ALL SOURCES	5,116,100	5,199,500	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

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.

* * *

Certified Nursing Assistant Credentialing Program

The Baseline includes \$536,700 from the Board of Nursing Fund in FY 2018 for the Certified Nursing Assistant (CNA) Credentialing Program line item. This amount is unchanged from FY 2017.

FORMAT — Lump Sum by Agency with Special Line Items by Agency

Laws 2015, Chapter 262 split the current CNA classification into licensed nursing assistants (LNA) and certified nursing assistants (CNA) effective July 1, 2016. The board registers CNAs at no charge to the individual and with no fingerprinting requirement. This policy meets federal requirements for having a nurse assistant (aide) registry. The LNAs will pay application, fingerprinting and

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	4,701,800	4,784,800
Year-End Fund Balance	3,717,800	3,509,100
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	414,300	414,700
Year-End Fund Balance	500	500
Statewide Donations Fund (BNA2025/A.R.S. § 32-1606A11)		Non-Appropriated
Source of Revenue: Donations, gifts and private grants. Monies do not revert to the General Fund at the end of the fiscal year.		
Purpose of Fund: To assist in carrying out the purposes of the agency.		
Funds Expended	0	0
Year-End Fund Balance	21,900	21,900

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	243,000	247,000	247,000
Employee Related Expenditures	92,600	98,000	98,000
Professional and Outside Services	5,000	8,000	8,000
Travel - In State	3,900	7,000	7,000
Travel - Out of State	1,300	4,000	4,000
Other Operating Expenditures	37,500	75,400	75,400
Equipment	9,500	6,000	6,000
AGENCY TOTAL	392,800	445,400	445,400

FUND SOURCES

Other Appropriated Funds

Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	392,800	445,400	445,400
SUBTOTAL - Other Appropriated Funds	392,800	445,400	445,400
SUBTOTAL - Appropriated Funds	392,800	445,400	445,400
TOTAL - ALL SOURCES	392,800	445,400	445,400

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes.

Operating Budget

* * *

The Baseline includes \$445,400 and 6 FTE Positions from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes
The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	392,800	445,400
Year-End Fund Balance	290,600	320,000

Board of Occupational Therapy Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	97,100	91,000	91,000
Employee Related Expenditures	42,500	46,100	46,100
Professional and Outside Services	300	0	0
Travel - In State	500	1,300	1,300
Other Operating Expenditures	28,800	30,300	30,300
Equipment	0	2,000	2,000
AGENCY TOTAL	169,200	170,700	170,700

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	169,200	170,700	170,700
SUBTOTAL - Other Appropriated Funds	169,200	170,700	170,700
SUBTOTAL - Appropriated Funds	169,200	170,700	170,700
TOTAL - ALL SOURCES	169,200	170,700	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

FORMAT — Lump Sum by Agency

The Baseline includes \$170,700 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	169,200	170,700
Year-End Fund Balance	563,100	606,600

State Board of Dispensing Opticians

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	69,800	70,500	70,500
Employee Related Expenditures	28,400	29,700	29,700
Professional and Outside Services	200	500	500
Travel - In State	8,800	8,800	8,800
Travel - Out of State	1,600	1,800	1,800
Other Operating Expenditures	10,400	28,700	28,700
AGENCY TOTAL	119,200	140,000	140,000

FUND SOURCES

Other Appropriated Funds

Board of Dispensing Opticians Fund	119,200	140,000	140,000
SUBTOTAL - Other Appropriated Funds	119,200	140,000	140,000
SUBTOTAL - Appropriated Funds	119,200	140,000	140,000
TOTAL - ALL SOURCES	119,200	140,000	140,000

AGENCY DESCRIPTION — The board licenses and regulates optical establishments and opticians. An optician fits and sells optical devices such as contact lenses and eyeglasses. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$140,000 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	119,200	140,000
Year-End Fund Balance	285,200	317,000

State Board of Optometry

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	118,000	113,400	113,400
Employee Related Expenditures	41,000	41,000	41,000
Travel - In State	1,400	1,500	1,500
Travel - Out of State	3,000	3,000	3,000
Other Operating Expenditures	74,200	51,200	51,200
AGENCY TOTAL	237,600	210,100	210,100

FUND SOURCES

<u>Other Appropriated Funds</u>			
Board of Optometry Fund	237,600	210,100	210,100
SUBTOTAL - Other Appropriated Funds	237,600	210,100	210,100
SUBTOTAL - Appropriated Funds	237,600	210,100	210,100
TOTAL - ALL SOURCES	237,600	210,100	210,100

AGENCY DESCRIPTION — The board licenses and regulates optometrists and issues certificates authorizing the use of diagnostic pharmaceutical agents. An optometrist examines eyes, measures vision, and prescribes corrective lenses and treatments which do not require a licensed physician.

Operating Budget

* * *

The Baseline includes \$210,100 and 2 FTE Positions from the Board of Optometry Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	237,600	210,100
Year-End Fund Balance	207,100	223,800

Arizona Board of Osteopathic Examiners in Medicine and Surgery

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.7	7.2	7.2
Personal Services	356,200	415,200	415,200
Employee Related Expenditures	133,500	169,000	169,000
Professional and Outside Services	134,200	158,700	158,700
Travel - In State	2,800	3,000	3,000
Travel - Out of State	3,800	5,000	5,000
Other Operating Expenditures	121,300	156,600	150,600
Equipment	12,700	33,000	0
AGENCY TOTAL	764,500	940,500	901,500

FUND SOURCES

<u>Other Appropriated Funds</u>			
Board of Osteopathic Examiners Fund in Medicine and Surgery Fund	764,500	940,500	901,500
SUBTOTAL - Other Appropriated Funds	764,500	940,500	901,500
SUBTOTAL - Appropriated Funds	764,500	940,500	901,500
TOTAL - ALL SOURCES	764,500	940,500	901,500

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 \$901,500 and 7.2 FTE Positions from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF FY 2018 \$(39,000)

The Baseline includes a decrease of \$(39,000) from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 to eliminate one-time funding for database and licensing system development costs and replacement of information technology equipment.

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

Other Issues

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (Laws 2016, Chapter 127) requires the Arizona Department of Administration (ADOA) to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Board of Osteopathic Examiners in Medicine and Surgery currently resides. If the building is sold, the Arizona Board of Osteopathic Examiners in Medicine and Surgery would be relocated to the 1740 West Adams building currently used by the Department of Health Services. *(Please see the ADOA Capital Outlay section for additional information.)*

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Board of Osteopathic Examiners Fund (OSA2048/A.R.S. § 32-1805)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of osteopathic physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate osteopathic physicians, and for board administration.		
Funds Expended	764,500	940,500
Year-End Fund Balance	1,701,000	1,662,000

Arizona Parents Commission on Drug Education and Prevention

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
SPECIAL LINE ITEMS			
Prevention Education Program	0	300,000	0
AGENCY TOTAL	0	300,000	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Drug Treatment and Education Fund	0	300,000	0
SUBTOTAL - Other Appropriated Funds	0	300,000	0
SUBTOTAL - Appropriated Funds	0	300,000	0
Other Non-Appropriated Funds	5,295,200	4,788,000	5,088,000
TOTAL - ALL SOURCES	5,295,200	5,088,000	5,088,000

AGENCY DESCRIPTION — The commission funds programs that increase and enhance parental involvement and education regarding the serious risks and public health problems caused by the abuse of alcohol and controlled substances. With the exception of a FY 2017 appropriation, the commission typically does not receive an appropriation from the Legislature.

Prevention Education Program

The Baseline includes no appropriated funding from the Drug Treatment and Education Fund in FY 2018 for the Prevention Education Program. FY 2018 adjustments are as follows:

FY 2018

Remove One-Time Funding OF \$(300,000)

The Baseline includes a decrease of \$(300,000) from the Drug Treatment and Education Fund in FY 2018 for the Prevention Education Program for students. This one-time appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Monies in this line item are used to fund the provisions of the school prevention education program. The program is required to promote positive life choices by middle school and high school students, and to incorporate an educational prevention component focusing on substance abuse, mental health, violence, and other risky behaviors.

* * *

FORMAT — None

FOOTNOTES

Deleted Footnotes

The Baseline would delete the footnote concerning the uses of the one-time Prevention Education appropriation.

	FY 2016 Actual	FY 2017 Estimate
SUMMARY OF FUNDS		
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	0	300,000
Non-Appropriated Funds Expended	5,295,200	4,788,000
Year-End Fund Balance	3,634,400	3,346,400

Arizona State Parks Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0
Personal Services	4,041,100	4,450,700	4,450,700
Employee Related Expenditures	1,890,800	2,062,400	2,062,400
Professional and Outside Services	71,600	56,300	56,300
Travel - In State	4,100	13,000	13,000
Travel - Out of State	200	0	0
Other Operating Expenditures	3,211,800	3,842,500	3,842,500
Equipment	473,500	185,700	185,700
OPERATING SUBTOTAL	9,693,100	10,610,600	10,610,600
SPECIAL LINE ITEMS			
Arizona Trail Fund	0	150,000	0
Federal Contingency Funding	0	1,500,000	0
Kartchner Caverns State Park	2,201,200	2,226,300	2,226,300
Yarnell Hill Memorial	76,100	0	0
AGENCY TOTAL	11,970,400	14,486,900	12,836,900
FUND SOURCES			
General Fund	76,100	0	0
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	11,894,300	14,486,900	12,836,900
SUBTOTAL - Other Appropriated Funds	11,894,300	14,486,900	12,836,900
SUBTOTAL - Appropriated Funds	11,970,400	14,486,900	12,836,900
Other Non-Appropriated Funds	9,714,600	19,366,000	12,991,000
Federal Funds	3,118,600	4,332,200	1,670,100
TOTAL - ALL SOURCES	24,803,600	38,185,100	27,498,000

AGENCY DESCRIPTION — The Arizona State Parks Board is responsible for managing the state parks system, which includes recreational parks, historical parks, and natural areas. The Parks Board consists of 7 members appointed by the Governor. Major functions of the Parks Board, through its staff, include the maintenance and development of existing parks, new parks acquisitions, statewide recreational planning, historic preservation, the administration of the Arizona State Parks Board Heritage Fund grant programs, and the administration of Growing Smarter Grants.

Operating Budget

The Baseline includes \$10,610,600 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Arizona Trail Fund

The Baseline includes no funding in FY 2018 for the Arizona Trail Fund. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF **FY 2018** **\$(150,000)**

The Baseline includes a decrease of \$(150,000) from the State Parks Revenue Fund in FY 2018 for the elimination of a one-time transfer to the Arizona Trail Fund.

The Arizona Trail Fund is used to maintain and preserve the Arizona Trail. The Arizona Trail is an 819-mile nonmotorized trail that crosses Arizona from the southern border to the northern border.

Federal Contingency Funding

The Baseline includes no funding in FY 2018 for the Federal Contingency Funding line item. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (1,500,000)

The Baseline includes a decrease of \$(1,500,000) for the elimination of contingency funding from the State Parks Revenue Fund in FY 2018.

This appropriation may only be spent after the board submits an agency expenditure plan for review by the Joint Legislative Budget Committee that demonstrates that the actual amount of federal funding the board will receive in FY 2017 is less than the actual amount of federal monies received by the board in FY 2016. The amount spent by the board may not exceed the estimated decrease in federal monies between FY 2016 and FY 2017. As of December 2016, the agency had not submitted a plan to JLBC for review to spend the appropriation.

Kartchner Caverns State Park

The Baseline includes \$2,226,300 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2018 for Kartchner Caverns State Park. These amounts are unchanged from FY 2017.

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 2018, an additional 10% of this increase of Fool Hollow receipts is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to meet the revenue sharing agreement with the City of Show Low and the United States Forest Service.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning a requirement that before the expenditure of federal contingency monies, the Arizona State Parks Board must

demonstrate that the actual amount of federal monies received in FY 2017 are less than the actual amount received in FY 2016.

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 2018.

Other Issues

Status of Parks

As of December 2016, 29 state parks are open to the public:

- Twenty open parks plan to use only existing state fund sources (Alamo Lake, Buckskin Mountain, Catalina, Cattail Cove, Dead Horse Ranch, Fool Hollow, Fort Verde, Granite Mountain Hotshot Memorial, Jerome, Kartchner Caverns, Lake Havasu, Lost Dutchman, Lyman Lake, Oracle, Patagonia Lake, Picacho Peak, Roper Lake, River Island, Slide Rock, and Tonto Natural Bridge).
- Seven open parks will be funded and operated through agreements between the State Parks Board and local governments (Riordan Mansion, Boyce Thompson Arboretum, McFarland, Tombstone Courthouse, Tubac Presidio, Yuma Territorial Prison, and Yuma Quartermaster Depot).
- Two open parks receive minimal funding through agreements to fund part-time staff (Homolovi Ruins and Red Rock).

Yarnell Hill Memorial

The FY 2015 Environment Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 13) appropriated \$500,000 in non-lapsing General Fund monies for the establishment of Yarnell Hill Memorial Park. The Environment BRB also created the Yarnell Hill Memorial Site Board, responsible for designating a site and approving the design and construction of the memorial.

Furthermore, the Environment BRB established the Yarnell Hill Memorial Fund, which consists of legislative appropriations and donations for the purposes of land acquisition, site maintenance and board member travel expenses. The Yarnell Hill Memorial Site Board administered the fund until December 31, 2016, when the board's authority lapsed. The State Parks Board now administers the fund.

Laws 2014, Chapter 273 contained the same language for Yarnell Memorial State Park as the FY 2015 Environment BRB, except for the \$500,000 General Fund appropriation. However, this separate legislation contains an emergency clause.

The FY 2016 Environment BRB (Laws 2015, Chapter 13) clarifies that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design and construct the Yarnell Hill Memorial.

The Parks Board purchased land for the Yarnell Hill Memorial at a State Land Department auction on June 30, 2015.

The Yarnell Hill Memorial State Park was opened to the public on November 30, 2016.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Trail Fund (PRA2525/A.R.S. § 41-511.15)		Non-Appropriated
Source of Revenue: Legislative appropriations and donations.		
Purpose of Fund: To maintain and preserve the Arizona trail.		
Funds Expended	0	75,000
Year-End Fund Balance	0	75,000
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	3,118,600	4,332,200
Year-End Fund Balance	154,800	175,200
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	604,100	375,000
Year-End Fund Balance*	374,100	(12,600)
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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to allow the use of \$692,100 for agency operating expenses.		
Funds Expended	1,722,600	4,064,100
Year-End Fund Balance	4,468,700	3,521,200
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	203,400	210,400
Year-End Fund Balance	318,800	318,600
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	593,800	6,000,000
Funds Expended - Operating (amount includes local grants)	6,528,400	8,280,000
Year-End Fund Balance	9,681,800	3,709,400
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	62,300	285,000
Year-End Fund Balance	413,400	208,400
State Parks Revenue Fund (PRA5555/A.R.S. § 41-511.21)		Appropriated
Source of Revenue: State parks user fees and concession sales; sales of park posters, postcards, books and souvenirs; donations and legislative appropriations.		
Purpose of Fund: To fund parks operations, acquisition and development. Capital projects that are funded using these monies are subject to JCCR review. As permanent law, the FY 2012 Environment BRB (Laws 2011, Chapter 36) eliminated the State Parks Enhancement Fund, the Reservation Surcharge Revolving Fund and the Publications and Souvenir Revolving Fund, and consolidated their revenue sources into a new appropriated State Parks Revenue Fund in FY 2013. As session law, the FY 2017 Capital Outlay Bill (Laws 2016, Chapter 128) appropriated \$1,500,000 for capital improvement projects. The appropriation for Capital Outlay is reflected below.		
Funds Expended - Operating	11,894,300	14,486,900
Funds Expended - Capital	748,900	1,500,000
Year-End Fund Balance	12,072,600	11,963,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Sustainable State and Parks 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	75,000
Year-End Fund Balance	111,800	86,800
Yarnell Hill Memorial Fund (PRA3124/A.R.S. § 41-519.02)		Non-Appropriated
Source of Revenue: Legislative appropriations and donations to the fund. The FY 2015 Environment BRB included a one-time appropriation of \$500,000 from the General Fund in FY 2015 to establish Yarnell Hill Memorial State Park. The \$500,000 General Fund appropriation will be used for land acquisition and is not shown below to avoid double counting.		
Purpose of Fund: The park is being created to honor 19 Prescott firefighters who were killed fighting a wildfire near Yarnell, Arizona. The FY 2015 Environment BRB establishes Yarnell Hill Memorial State Park. The FY 2015 Environment BRB creates the Yarnell Hill Memorial Site Board, which will determine whether to establish the new park, in addition to allowing the board to designate a site for the park. The Yarnell Hill Memorial Site Board will administer the fund until December 31, 2016, when the board's authority lapses. At that time, the State Parks Board will administer the fund. The FY 2016 Environment BRB clarified that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design, and construct the Yarnell Hill Memorial.		
Funds Expended	0	1,500
Year-End Fund Balance	3,000	1,500

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

State Personnel Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	113,100	125,000	125,000
Employee Related Expenditures	45,300	45,800	45,800
Professional and Outside Services	75,400	162,800	162,800
Travel - In State	1,300	2,400	2,400
Other Operating Expenditures	34,300	36,600	36,600
Equipment	3,100	2,700	2,700
AGENCY TOTAL	272,500	375,300	375,300

FUND SOURCES

<u>Other Appropriated Funds</u>			
Personnel Board Subaccount of the Personnel Division Fund	272,500	375,300	375,300
SUBTOTAL - Other Appropriated Funds	272,500	375,300	375,300
SUBTOTAL - Appropriated Funds	272,500	375,300	375,300
TOTAL - ALL SOURCES	272,500	375,300	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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$375,300 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Personnel Board Subaccount of the Personnel Division Fund (PBA1107/A.R.S. § 41-750)		Appropriated
Source of Revenue: A 0.03% charge on the total payroll of each agency within the Arizona Department of Administration Personnel System. Only Personnel Division Fund monies in excess of \$500,000 revert to the State General Fund at the end of each fiscal year. The state comptroller pays any monies owed to the federal government from the Personnel Division Fund before calculating the reversion. Monies contributed by the Arizona State Retirement System and by the Public Safety Personnel Retirement System are separately accounted for, do not revert to the state General Fund, and are reverted to the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Elected Officials Retirement Plan or the Corrections Officer Retirement Plan, as applicable.		
Purpose of Fund: To fund Personnel Board operations.		
Funds Expended	272,500	375,300
Year-End Fund Balance	243,400	350,700

Office of Pest Management

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.0	0.0	0.0
Personal Services	768,100	0	0
Employee Related Expenditures	380,400	0	0
Travel - In State	25,400	0	0
Other Operating Expenditures	198,900	0	0
Equipment	800	0	0
AGENCY TOTAL	1,373,600	0	0

FUND SOURCES

Other Appropriated Funds

Pest Management Fund	1,373,600	0	0
SUBTOTAL - Other Appropriated Funds	1,373,600	0	0
SUBTOTAL - Appropriated Funds	1,373,600	0	0
Federal Funds	88,200	0	0
TOTAL - ALL SOURCES	1,461,800	0	0

AGENCY DESCRIPTION — The agency licensed and regulated professional pest control companies and conducted examinations of applicators of structural pesticides. Beginning in FY 2017, the responsibilities of the Office of Pest Management are transferred to the Division of Pest Management within the Department of Agriculture.

Laws 2016, Chapter 221 merged the Office of Pest Management into the Department of Agriculture (ADA), creating the Division of Pest Management (Division) within ADA, as of July 1, 2016. Chapter 221 transferred all authority, powers, duties and responsibilities previously granted to the Office of Pest Management to the Division.

While the FY 2017 General Appropriation Act appropriated a separate budget for the Office of Pest Management, Chapter 221 transferred all appropriated monies of the Office of Pest Management to the new Division within ADA. FY 2016 actual expenditures for the Office of Pest Management are displayed in the table above. (Please see the Department of Agriculture narrative for more information.)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Funds (SBA2000/A.R.S. § 32-2304)		Non-Appropriated
Source of Revenue: Federal Environmental Protection Agency grants.		
Purpose of Fund: To support Pest Management's licensing and regulation activities. Includes education and training for employees as well as industry, information technology, hardware and software, and travel.		
Funds Expended	88,200	0
Year-End Fund Balance	52,700	0
Pest Management Fund (SBA2050/A.R.S. § 32-2305)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of professional pest control companies and applicators of structural pesticides.		
Purpose of Fund: To examine, license, inspect, and regulate professional pest control companies and applicators of structural pesticides. Laws 2016, Chapter 221 transferred pest management regulation statutes and authorities from Title 32 to Title 3 and established the Division of Pest Management in the Department of Agriculture. Chapter 221 also converted the Pest Management Fund into the Pest Management Trust Fund with a provision that all monies in the fund be continuously appropriated retroactive to June 30, 2016.		
Funds Expended	1,373,600	0
Year-End Fund Balance	2,665,100	0

Arizona State Board of Pharmacy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,172,100	1,212,600	1,212,600
Employee Related Expenditures	418,200	403,000	403,000
Professional and Outside Services	92,800	193,200	93,200
Travel - In State	42,500	42,500	42,500
Travel - Out of State	5,100	5,000	5,000
Other Operating Expenditures	261,600	258,900	258,900
Equipment	2,400	0	0
OPERATING SUBTOTAL	1,994,700	2,115,200	2,015,200
SPECIAL LINE ITEMS			
Annual Leave Payout	0	20,000	0
AGENCY TOTAL	1,994,700	2,135,200	2,015,200

FUND SOURCES

Other Appropriated Funds

Arizona State Board of Pharmacy Fund	1,994,700	2,135,200	2,015,200
SUBTOTAL - Other Appropriated Funds	1,994,700	2,135,200	2,015,200
SUBTOTAL - Appropriated Funds	1,994,700	2,135,200	2,015,200
Other Non-Appropriated Funds	584,100	727,900	727,900
TOTAL - ALL SOURCES	2,578,800	2,863,100	2,743,100

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 \$2,015,200 and 18 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

FY 2018
Remove One-Time Funding OF \$(100,000)

The Baseline includes a decrease of \$(100,000) from the Arizona State Board of Pharmacy Fund in FY 2018 for elimination of one-time funding for an E-licensing system.

Annual Leave Payout

The Baseline includes no funding in FY 2018 for Annual Leave Payout. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (20,000)

The Baseline includes a decrease of \$(20,000) from the Arizona State Board of Pharmacy Fund in FY 2018 for

elimination of a one-time annual leave payout for employee retirements.

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

Other Issues

Controlled Substances Prescription Monitoring Program

Laws 2016, Chapter 211 requires a medical practitioner to obtain a patient utilization report from the Controlled Substances Prescription Monitoring Program's (CSPMP) central database tracking system before prescribing an

opioid analgesic or benzodiazepine controlled substance listed as a schedule II, III, or IV substance. This requirement goes into effect October 1, 2017 or 60 days after CSPMP data has been integrated into the statewide Health Information Exchange, whichever comes later. The Board of Pharmacy operates the CSPMP. Chapter 211 requires the Board of Pharmacy to contract with a third party to conduct an analysis of the efficiency and usability of CSPMP. On or before January 15, 2017, the board must deliver the report to the President of the Senate, the Speaker of the House of Representatives, the Secretary of State, and the Governor.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 \$395,795 can be transferred from the Arizona State Board of Pharmacy Fund each year, according to A.R.S. § 32-1907. The transfer is not displayed in the Arizona State Board of Pharmacy Fund expenditures to avoid double counting.		
Purpose of Fund: For program expenses, which include automated tracking of controlled substances, assisting law enforcement in identifying illegal use of controlled substances, and providing information to patients, medical practitioners, and pharmacists.		
Funds Expended	459,100	527,900
Year-End Fund Balance	62,400	43,200
Arizona State Board of Pharmacy Fund (PMA2052/A.R.S. § 32-1907)		Partially-Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of pharmacies and pharmacists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate pharmacies and pharmacists, and for board administration. Pursuant to A.R.S. § 32-1907 up to \$1,000,000 may be transferred to the Arizona Poison and Drug Information Center. Additionally, \$395,795 may be transferred to the Controlled Substance Prescription Monitoring Program Fund. The transfer is a "transfer out" and is not displayed in expenditures to avoid double counting.		
Appropriated Funds Expended	1,994,700	2,135,200
Non-Appropriated Funds Expended	125,000	200,000
Year-End Fund Balance	4,611,800	5,161,300

Board of Physical Therapy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	194,000	200,800	200,800
Employee Related Expenditures	94,600	102,000	102,000
Professional and Outside Services	83,200	76,000	76,000
Travel - In State	500	1,500	1,500
Other Operating Expenditures	53,900	91,800	91,800
Equipment	11,300	12,100	2,100
AGENCY TOTAL	437,500	484,200	474,200

FUND SOURCES

Other Appropriated Funds

Board of Physical Therapy Fund	437,500	484,200	474,200
SUBTOTAL - Other Appropriated Funds	437,500	484,200	474,200
SUBTOTAL - Appropriated Funds	437,500	484,200	474,200
TOTAL - ALL SOURCES	437,500	484,200	474,200

AGENCY DESCRIPTION — The board licenses and regulates physical therapists. A physical therapist treats patients by exercise, massage, mechanical energy, electrical energy, heat, light, sound, and water. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

* * *

The Baseline includes \$474,200 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

Remove One-Time Funding OF **FY 2018**
\$(10,000)

The Baseline includes a decrease of \$(10,000) from the Board of Physical Therapy Fund in FY 2018 to eliminate one-time funding for laptop replacement.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	437,500	484,200
Year-End Fund Balance	640,100	1,006,600

Arizona Pioneers' Home

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	106.3	106.3	106.3
Personal Services	3,144,300	3,408,700	3,408,700
Employee Related Expenditures	1,605,300	1,652,100	1,652,100
Professional and Outside Services	87,600	93,300	93,300
Travel - In State	25,200	25,000	25,000
Other Operating Expenditures	753,100	757,000	757,000
Equipment	40,200	38,500	38,500
OPERATING SUBTOTAL	5,655,700	5,974,600	5,974,600
SPECIAL LINE ITEMS			
Prescription Drugs	148,300	200,000	200,000
AGENCY TOTAL	5,804,000	6,174,600	6,174,600
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Miners' Hospital Fund	1,768,700	2,028,900	2,028,900
State Charitable Fund	4,035,300	4,145,700	4,145,700
SUBTOTAL - Other Appropriated Funds	5,804,000	6,174,600	6,174,600
SUBTOTAL - Appropriated Funds	5,804,000	6,174,600	6,174,600
Other Non-Appropriated Funds	88,000	28,100	28,100
TOTAL - ALL SOURCES	5,892,000	6,202,700	6,202,700

AGENCY DESCRIPTION — The Arizona Pioneers' Home provides a home and long-term nursing care and medical care for Arizona pioneers, long-term residents, and disabled miners. The Home cares for, on average, 105 residents.

Operating Budget

The Baseline includes \$5,974,600 and 106.3 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
Miners' Hospital Fund	\$2,028,900
State Charitable Fund	3,945,700

These amounts are unchanged from FY 2017.

Prescription Drugs

The Baseline includes \$200,000 from the State Charitable Fund in FY 2018 for Prescription Drugs. This amount is unchanged from FY 2017.

Monies in this line item provide funding for prescription drugs used by residents at the Arizona Pioneers' Home.

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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 received a total of \$4,886,400 in its land trust funds, the Miner's Hospital Fund and the State Charitable Fund, in FY 2015.

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

The JLBC Staff projects that the Miner's Hospital Fund will have an FY 2017 ending balance of \$4,146,300. The fund will have estimated revenues of \$3,684,200 in FY 2018, compared to a Baseline appropriation of \$2,028,900.

The JLBC Staff projects that the State Charitable Fund will have an FY 2017 ending balance of \$4,849,600. The fund will have estimated revenues of \$5,724,500 in FY 2018, compared to a Baseline appropriation of \$4,145,700.

(Please see the Land Department narrative for more information.)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Miners' Hospital Fund (PIA3130/A.R.S. § 37-525)		Appropriated
Source of Revenue: 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.		
Purpose of Fund: To provide a continuous source of funds to benefit the Arizona Pioneers' Home.		
Funds Expended	1,768,700	2,028,900
Year-End Fund Balance	2,691,100	4,146,300
Pioneers' Home Fund (Cemetery Proceeds) (PIA3144/A.R.S. § 41-926)		Non-Appropriated
Source of Revenue: Cemetery proceeds from the sale of interment rights or the lease of cemetery land.		
Purpose of Fund: To defray expenses or work conducted by the Arizona Pioneers' Home and the Arizona Pioneers' Home Cemetery.		
Funds Expended	81,600	12,000
Year-End Fund Balance*	(26,000)	(8,000)
Pioneers' Home Fund (Donations) (PIA3143/A.R.S. § 41-926)		Non-Appropriated
Source of Revenue: Donations or contributions from private sources.		
Purpose of Fund: To defray expenses or work conducted by the Arizona Pioneers' Home in serving its clientele.		
Funds Expended	4,200	13,900
Year-End Fund Balance	419,700	418,800
State Charitable Fund (PIA3129/A.R.S. § 37-525)		Appropriated
Source of Revenue: Earnings from the Pioneers' Home's share of the State Charitable, Penal and Reformatory Grant lands.		
Purpose of Fund: For the operation of the Pioneers' Home.		
Funds Expended	4,035,300	4,145,700
Year-End Fund Balance	3,555,100	4,849,600
Statewide Employee Recognition Gifts Fund (PIA2449/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	2,200	2,200
Year-End Fund Balance	8,000	10,800

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

State Board of Podiatry Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	68,700	76,500	76,500
Employee Related Expenditures	24,200	27,900	27,900
Professional and Outside Services	10,500	18,000	18,000
Travel - In State	3,400	5,000	5,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	11,400	16,000	16,000
Equipment	300	0	0
AGENCY TOTAL	118,500	148,400	148,400

FUND SOURCES

Other Appropriated Funds

Podiatry Fund	118,500	148,400	148,400
SUBTOTAL - Other Appropriated Funds	118,500	148,400	148,400
SUBTOTAL - Appropriated Funds	118,500	148,400	148,400
TOTAL - ALL SOURCES	118,500	148,400	148,400

AGENCY DESCRIPTION — The board licenses and regulates Doctors of Podiatric Medicine. A podiatrist must take specialized training, serve an internship and pass a qualifying examination prior to licensure to diagnose and treat foot ailments. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

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FORMAT — Lump Sum by Agency

The Baseline includes \$148,400 and 1 FTE Position from the Podiatry Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	118,500	148,400
Year-End Fund Balance	177,800	174,300

Commission for Postsecondary Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	71,800	118,900	118,900
Employee Related Expenditures	30,800	51,700	51,700
Other Operating Expenditures	22,100	13,000	13,000
Equipment	800	0	0
OPERATING SUBTOTAL	125,500	183,600	183,600
SPECIAL LINE ITEMS			
Arizona College and Career Guide	2,100	21,300	21,300
Arizona Minority Educational Policy Analysis Center	49,000	100,000	100,000
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500
Math and Science Teacher Initiative	176,000	176,000	176,000
Twelve Plus Partnership	24,200	130,500	130,500
AGENCY TOTAL	2,696,300	2,930,900	2,930,900
FUND SOURCES			
General Fund	1,396,800	1,396,800	1,396,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,299,500	1,534,100	1,534,100
SUBTOTAL - Other Appropriated Funds	1,299,500	1,534,100	1,534,100
SUBTOTAL - Appropriated Funds	2,696,300	2,930,900	2,930,900
Other Non-Appropriated Funds	497,000	862,900	862,900
Federal Funds	15,500	0	0
TOTAL - ALL SOURCES	3,208,800	3,815,800	3,815,800

AGENCY DESCRIPTION — The Commission for Postsecondary Education reviews and recommends higher education policies, while providing a discussion forum for public and private postsecondary educational institutions and their stakeholders on issues of mutual interest. The 16 commissioners are authorized to administer certain federal and state student financial aid programs.

Operating Budget

The Baseline includes \$183,600 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Arizona College and Career Guide

The Baseline includes \$21,300 from the Postsecondary Education Fund in FY 2018 for the Arizona College and Career Guide line item. This amount is unchanged from FY 2017.

This line item funds cost associated with the Arizona College and Career Guide, which is an annual publication that lists Arizona's public and private postsecondary educational institutions. The guide describes each

institution's available degree and certificate programs, course lengths, and costs of attendance.

Arizona Minority Educational Policy Analysis Center

The Baseline includes \$100,000 and a 0.2 FTE Position from the Postsecondary Education Fund in FY 2018 for the Arizona Minority Educational Policy Analysis Center (AMEPAC) line item. These amounts are unchanged from FY 2017.

AMEPAC promotes minority students' access to Arizona's postsecondary educational institutions.

Leveraging Educational Assistance Partnership

The Baseline includes \$2,319,500 for the Leveraging Educational Assistance Partnership (LEAP) in FY 2018. This amount consists of:

	FY 2018
General Fund	\$1,220,800
Postsecondary Education Fund	1,098,700

These amounts are unchanged from FY 2017.

LEAP is a state and institutional partnership that provides financial assistance to students demonstrating substantial financial need. To be eligible, students must attend, on at least a half-time basis, an approved program at a properly accredited Arizona postsecondary educational institution (including public universities, public community colleges, private collegiate institutions, and proprietary schools). The federal portion of these funds was eliminated in FY 2012. (Please see Other Issues for more information.)

In FY 2016, awards were provided through 44 postsecondary institutions. Of the total funding distributed, 29% went to public universities, 54% to community colleges, and 17% to private institutions.

Math and Science Teacher Initiative

The Baseline includes \$176,000 from the General Fund in FY 2018 for the Math and Science Teacher Initiative. This amount is unchanged from FY 2017.

The program, also known as the Math, Science, and Special Education Teacher Loan Forgiveness Program (MSSE), offers forgivable loans to students pursuing a teaching degree at a postsecondary institution and who agree to teach math, science, or special education at an Arizona public school upon graduation. A.R.S. § 15-1784 allows the commission to retain up to 10% of the annual fund deposit for administration costs. The commission may also use the interest deposited into the fund for administration costs of the loan repayment portion of the program.

Pursuant to A.R.S. § 15-1785, the MSSE program is scheduled to automatically terminate on July 1, 2017 unless legislation is enacted to extend it.

Twelve Plus Partnership

The Baseline includes \$130,500 and a 0.3 FTE Position from the Postsecondary Education Fund in FY 2018 for the

Twelve Plus Partnership (TPP). These amounts are unchanged from FY 2017.

TPP is an early education awareness initiative with 3 components: Best Education Practices Conference and Awards Recognition, Think College, and College Goal Sunday. Approximately 70% of this line item funds College Goal Sunday, 25% of the monies go to Best Education Practices Conference and Awards Recognition, and the remaining 5% funds Think College. Private gifts, donations of service, and corporate sponsorships support TPP.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The appropriations for the Arizona College and Career Guide, Arizona Minority Educational Policy Analysis Center and Twelve Plus Partnership are estimates representing all monies distributed to this fund, including balance forward, revenue and transfers, during FY 2018. The appropriations shall be adjusted as necessary to reflect final monies credited to the Postsecondary Education Fund.

Each participating institution, public or private, in order to be eligible to receive state matching monies under the Leveraging Educational Assistance Partnership for grants to students, shall provide an amount of institutional matching monies that equals the amount of monies provided by the state to the institution for the Leveraging Educational Assistance Partnership. Administrative expenses incurred by the Commission for Postsecondary Education shall be paid from institutional matching funds and may not exceed 12% of the monies in FY 2018.

Any unencumbered balance remaining in the Postsecondary Education Fund established by A.R.S. § 15-1853 on June 30, 2017, and all grant monies and other revenues received by the Commission for Postsecondary Education, when paid into the State Treasury, are appropriated for the specific purposes designated by line items and for additional responsibilities prescribed in A.R.S. § 15-1851 and A.R.S. § 15-1852.

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 Postsecondary Education Grant (PEG) program, both of which are no longer awarding new grants. In addition, the commission administers repayment programs for unforgiven loans from the MSSE, and the non-appropriated Paul Douglas Teacher Scholarship (PDTs). Loan collections are returned to their respective program fund.

PFAP

Prior to FY 2011, PFAP distributed awards of up to \$2,000 annually, for up to 2 years, to qualified community college graduates enrolled at a private baccalaureate degree granting institution chartered in Arizona, pursuant to A.R.S. § 15-1854. The PFAP program has not been funded since FY 2011, but the repayment process for existing unforgiven loans remains. Repayments are deposited into the Private Postsecondary Education Student Financial Assistance Fund. If a grantee does not earn a baccalaureate degree within 3 years, the grantee must repay the commission all award monies. When a grantee refuses to repay award monies or cannot be located, the Office of the Attorney General takes over administration of the repayment process.

There have been 1,651 students awarded PFAP forgivable loans since its inception in 1996. A total of 10 borrowers are currently being tracked in the repayment program or will be placed in repayment once located. The commission has turned over 69 of these loans to the Attorney General for collections.

The commission may use PFAP funds to administer PEG collections. At the end of FY 2016, the PFAP Fund had a balance of \$19,600. The commission reported it expects to use at least \$12,000 of PFAP funds in FY 2017 to identify PEG students who have not met the loan requirements.

PEG

Prior to FY 2011, PEG distributed awards up to \$2,000 annually, for up to 4 years, to full-time and part-time students enrolled at a private baccalaureate degree-granting institution, pursuant to A.R.S. § 15-1855. The awards are forgiven if a student recipient earns a baccalaureate degree within 5 years. The program has not been funded since FY 2010, but the repayment process remains (though not started until FY 2012) for

existing unforgiven loans. Repayments will be deposited into the PEG Program Fund.

There have been 4,475 students awarded PEG forgivable loans since its inception in 2007. Of those recipients, 3,163 graduated with a baccalaureate degree and 32 are working to complete their degree. Of the remaining, 34 have paid in full, 9 have been forgiven, 4 are deceased, and 1,233 are reported as not enrolled at an institution and are being located to determine their enrollment or graduation status. The commission has not yet determined any of these loans to be uncollectible and therefore, has not referred them to the Attorney General.

The commission may contract with a third-party vendor to collect outstanding PEG debt. The commission has not yet selected a third-party vendor to collect debt, but plans to once it identifies students who did not meet loan forgiveness requirements. Once a vendor is selected, the commission is allowed to use PFAP funds to administer PEG collections.

Pursuant to A.R.S. § 15-1855, PFAP and PEG programs were automatically terminated on July 1, 2016.

MSSE

There have been 275 students awarded MSSE forgivable loans since its inception in FY 2007. Of those recipients, 115 completed the loan requirements and had their loan forgiven, 10 have paid their loan balance in full, 42 are currently in repayment, 16 have had their loans referred to the Attorney General, 31 have finished five-year tracking, and 61 will require tracking for up to 15 years to ensure they meet the promissory note obligations and to determine retention rates.

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 2016 Actual	FY 2017 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	450,100	729,600
Year-End Fund Balance	522,000	443,300
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	15,500	0
Year-End Fund Balance	0	0
IGA/ISA Fund (PEA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Any monies received from state agencies for specialized projects.		
Purpose of Fund: For costs associated with approved projects. In FY 2014 the remaining balance of \$546,800 in the now repealed Early Graduation Scholarship Fund was transferred to the IGA/ISA Fund pursuant to the K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) to fund a one-year continuation of the Special Education Grant Program that provides forgivable student loans to students at private postsecondary institutions. Laws 2014, Chapter 17 then required the commission to transfer these monies into the Technology-Based Language Development and Literacy Intervention Fund within the Arizona Department of Education.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Mathematics, Science, and Special Education Teacher Student Loan Fund (PEA2358/A.R.S. § 15-1784)		Non-Appropriated
Source of Revenue: Legislative appropriations and repayments of principal and interest of issued loans.		
Purpose of Fund: To provide up to 5-year loans to eligible in-state students pursuing a teaching degree in mathematics, science, and special education at a state university and who agree to a service commitment to teach in a public school. General Fund expenditures are not displayed to avoid double counting.		
Funds Expended	0	0
Year-End Fund Balance	301,800	315,100
Postsecondary Education Fund (PEA2405/A.R.S. § 15-1853)		Partially-Appropriated
Source of Revenue: Monies appropriated by the Legislature, monies received from state agencies and political subdivisions of the state, monies received from the federal government, and/or private gifts, grants and donations. The commission must separately account for monies received from each source.		
Purpose of Fund: For designated purposes. Donations are used in accordance with the requests of the donor. Other private monies are used to carry out the duties and responsibilities of the commission.		
Appropriated Funds Expended	1,299,500	1,534,100
Non-Appropriated Funds Expended	46,900	133,300
Year-End Fund Balance	196,100	123,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Postsecondary Education Grant Program (PEA2530/A.R.S. § 15-1855)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature. Program has not been funded since FY 2011.		
Purpose of Fund: For tuition grants awarded to full and part-time students enrolled at a private baccalaureate degree granting institution. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	84,300	174,300
Private Postsecondary Education Student Financial Assistance Fund (PEA2128/A.R.S. § 15-1854)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature. Program has not been funded since FY 2011.		
Purpose of Fund: For tuition vouchers awarded to eligible graduates of Arizona community colleges enabling them to obtain a bachelor's degree at a private college or university in the state. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	19,600	12,600
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 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
FUND SOURCES			
Other Non-Appropriated Funds	34,817,700	37,652,000	37,652,000
TOTAL - ALL SOURCES	34,817,700	37,652,000	37,652,000

AGENCY DESCRIPTION — The Arizona Power Authority (APA) manages Arizona's allocation of hydroelectric power from the Hoover Dam for the benefit of the state. Within the scope of that management, APA cooperates with federal, state, and non-governmental agencies to address regulatory and environmental matters that impact electric and water uses of the Colorado River. In addition, the APA serves as an informational resource for its customers on electricity utilization. APA is not subject to appropriation.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Hoover Upgrading Fund (PAA1113/A.R.S. § 30-202)		Non-Appropriated
Source of Revenue: The sale of hydro-electricity from Hoover Dam to APA customers.		
Purpose of Fund: To purchase hydro-electricity from Hoover Dam for APA customers.		
Funds Expended	33,561,700	35,299,600
Year-End Fund Balance	0	0
Interest Income Fund (PAA1112/A.R.S. § 30-203)		Non-Appropriated
Source of Revenue: Interest income is received from investments with the Arizona State Treasurer.		
Purpose of Fund: To pay for the operating expenses of the Power Authority.		
Funds Expended	13,600	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	1,242,400	2,345,400
Year-End Fund Balance	3,374,200	3,639,700

State Board for Private Postsecondary Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	227,700	234,500	234,500
Employee Related Expenditures	80,700	86,200	86,200
Professional and Outside Services	24,700	27,400	27,400
Travel - Out of State	500	2,000	2,000
Other Operating Expenditures	40,900	40,200	40,200
Equipment	3,000	5,800	5,800
OPERATING SUBTOTAL	377,500	396,100	396,100
SPECIAL LINE ITEMS			
Student Tuition Recovery Fund Deposit	600,000	0	0
AGENCY TOTAL	977,500	396,100	396,100
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board for Private Postsecondary Education Fund	977,500	396,100	396,100
SUBTOTAL - Other Appropriated Funds	977,500	396,100	396,100
SUBTOTAL - Appropriated Funds	977,500	396,100	396,100
Other Non-Appropriated Funds	283,900	277,000	277,000
TOTAL - ALL SOURCES	1,261,400	673,100	673,100

AGENCY DESCRIPTION — The board licenses and regulates 255 private postsecondary education institutions that service approximately 711,097 students annually. The board processes license applications, determines compliance, investigates complaints and violations, and takes disciplinary action on all private postsecondary institutions that offer vocational and/or degree programs. However, the board does not have jurisdiction over cosmetology, barber, real estate, or professional driving schools. In addition to regulatory duties, the board administers the Student Tuition Recovery Fund, which provides restitution to students financially injured by private postsecondary institutional closures.

Operating Budget

The Baseline includes \$396,100 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	977,500	396,100
Year-End Fund Balance	378,500	434,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Student Tuition Recovery Fund (PVA3027/A.R.S. § 32-3072)		Non-Appropriated
<p>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.</p> <p>Purpose of Fund: To compensate persons suffering damages as the result of a private postsecondary institution ceasing operations.</p>		
Funds Expended	283,900	277,000
Year-End Fund Balance	783,600	526,100

State Board of Psychologist Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	231,900	234,100	234,100
Employee Related Expenditures	91,900	94,400	94,400
Professional and Outside Services	15,000	44,500	44,500
Travel - In State	8,500	5,500	5,500
Travel - Out of State	1,000	5,000	5,000
Other Operating Expenditures	73,600	91,900	91,900
AGENCY TOTAL	421,900	475,400	475,400

FUND SOURCES

Other Appropriated Funds

Board of Psychologist Examiners Fund	421,900	475,400	475,400
SUBTOTAL - Other Appropriated Funds	421,900	475,400	475,400
SUBTOTAL - Appropriated Funds	421,900	475,400	475,400
TOTAL - ALL SOURCES	421,900	475,400	475,400

AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts.

Operating Budget

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$475,400 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	421,900	475,400
Year-End Fund Balance	695,000	748,200

Department of Public Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,907.7	1,956.7	1,945.7
Personal Services	100,602,900	105,130,600	105,130,600
Employee Related Expenditures	80,383,000	83,846,700	83,846,700
Professional and Outside Services	2,462,700	2,357,800	2,357,800
Travel - In State	553,900	491,300	491,300
Travel - Out of State	485,900	266,100	266,100
Other Operating Expenditures	28,825,100	29,691,200	29,691,200
Equipment	7,227,900	6,641,700	6,641,700
OPERATING SUBTOTAL	220,541,400	228,425,400	228,425,400
SPECIAL LINE ITEMS			
ACTIC	1,153,400	1,450,000	1,450,000
Border Strike Task Force Ongoing	0	6,778,800	6,778,800
Border Strike Task Force One-Time	0	18,600,000	0
Border Strike Task Force Local Support	0	1,261,700	1,261,700
GIITEM	21,100,700	22,584,300	22,584,300
GIITEM Subaccount	2,033,200	2,390,000	2,390,000
Law Enforcement Officer Virtual Training	0	2,100,000	0
Public Safety Equipment	3,178,000	2,890,000	2,890,000
Motor Vehicle Fuel	2,448,700	5,454,600	5,454,600
Civil Air Patrol	0	150,000	150,000
Sexual Assault Kit Testing	0	500,000	0
AGENCY TOTAL	250,455,400	292,584,800	271,384,800
FUND SOURCES			
General Fund	91,454,500	121,195,700	106,095,700
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	1,396,500	2,910,200	2,910,200
Automobile Theft Authority Fund	0	3,000,000	0
Concealed Weapons Permit Fund	1,060,900	3,489,000	1,389,000
Crime Laboratory Assessment Fund	772,400	870,200	870,200
Crime Laboratory Operations Fund	13,136,500	13,597,300	13,597,300
Criminal Justice Enhancement Fund	2,864,400	2,860,500	2,860,500
Deoxyribonucleic Acid (DNA) Identification System Fund	5,068,400	4,969,600	4,969,600
Drug and Gang Prevention Resource Center Fund	0	1,000,000	0
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,033,200	2,527,700	2,527,700
Highway Patrol Fund	20,397,100	24,113,100	24,113,100
Highway User Revenue Fund	96,409,200	96,006,100	96,006,100
Motorcycle Safety Fund	205,000	205,000	205,000
Parity Compensation Fund	2,115,500	2,129,400	2,129,400
Public Safety Equipment Fund	3,178,000	2,893,700	2,893,700
Risk Management Revolving Fund	1,228,100	1,263,700	1,263,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,236,500	1,551,800	1,551,800
State Aid to Indigent Defense Fund	626,000	700,000	700,000
State Highway Fund	7,273,200	7,301,800	7,301,800
SUBTOTAL - Other Appropriated Funds	159,000,900	171,389,100	165,289,100
SUBTOTAL - Appropriated Funds	250,455,400	292,584,800	271,384,800

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Other Non-Appropriated Funds	42,612,300	43,318,800	42,596,800
Federal Funds	30,280,100	74,312,600	63,807,900
TOTAL - ALL SOURCES	323,347,800	410,216,200	377,789,500

AGENCY DESCRIPTION — The Department of Public Safety (DPS) is responsible for the enforcement of state criminal laws and traffic regulations. In addition to the Highway Patrol, DPS operates and maintains statewide communications systems, state crime laboratories and an automated fingerprint identification network, and performs aviation missions, special investigations, and other law enforcement activities.

Operating Budget

The Baseline includes \$228,425,400 and 1,771.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$70,324,400
Automated Fingerprint Identification System (AFIS) Fund	2,910,200
Concealed Weapons Permit Fund	1,389,000
Crime Laboratory Assessment Fund (CLAF)	870,200
Crime Laboratory Operations Fund (CLOF)	13,597,300
Criminal Justice Enhancement Fund (CJEF)	2,726,200
Deoxyribonucleic Acid (DNA) Identification System Fund	4,969,600
Highway Patrol Fund	23,814,700
Highway User Revenue Fund (HURF)	95,368,400
Motorcycle Safety Fund	205,000
Parity Compensation Fund	2,129,400
Public Safety Equipment Fund	3,700
Risk Management Revolving Fund	1,263,700
Safety Enforcement and Transportation Infrastructure Fund (SETIF) DPS Subaccount	1,551,800
State Highway Fund	7,301,800

These amounts are unchanged from FY 2017.

ACTIC

The Baseline includes \$1,450,000 in FY 2018 for the operation of the Arizona Counter Terrorism Information Center (ACTIC). This amount consists of:

General Fund	750,000
State Aid to Indigent Defense Fund	700,000

These amounts are unchanged from FY 2017.

The FY 2018 Baseline continues to notwithstand statute to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.

Created in FY 2005, ACTIC is a joint effort between federal, state, and local law enforcement agencies to combat terrorism, gang violence, and other crimes through information sharing. The salaries of participants are funded by their respective agencies, but DPS pays for the operational costs of the 40,000 square foot building in which ACTIC is housed. These monies fund those costs.

Border Strike Task Force Ongoing

The Baseline includes \$6,778,800 and 37 FTE Positions from the General Fund in FY 2018 for the Border Strike Task Force (BSTF). FY 2018 adjustments would be as follows:

Unused FTE Positions	GF	0
The Baseline includes a decrease of (11) FTE Positions from the General Fund in FY 2018 for the elimination of unused FTE Positions. DPS reports that the FY 2017 budget provided inadequate funding to fill all of the 48 FTE Positions appropriated to the BSTF Ongoing line item. As a result, the Baseline eliminates these positions.		

The FY 2017 General Appropriation Act provided funding for the establishment of a BSTF within DPS. The BSTF was initially established in September 2015 through the reallocation of 56 sworn officers from DPS' Southern Narcotics and Canine Districts. The monies in this line item allowed for the hiring of an additional 30 sworn officer positions and 7 support staff. Of the 30 sworn officer positions, 17 will be exclusively dedicated to the BSTF, 11 will patrol the highways of the border counties as part of DPS' Highway Patrol Division, and 2 will be pilots. The 2 pilots will operate an existing King Air plane that DPS acquired through the Federal 1033 Surplus program and a helicopter to be purchased with funds from the BSTF One-Time line item. Both will provide support to the

BSTF and surveillance of criminal activity along the border.

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF Ongoing line item.

The BSTF is a multi-agency law enforcement task force that targets drug and human trafficking organizations and activities along the Arizona-Mexico border.

Border Strike Task Force One-Time

The Baseline includes no funding in FY 2018 for the initial one-time costs of the BSTF. FY 2018 adjustments would be as follows:

Remove One-Time Funding	GF	(14,600,000)
	OF	(4,000,000)

The Baseline includes a decrease of \$(18,600,000) in FY 2018 for the elimination of one-time funding. This amount consists of:

General Fund	(14,600,000)
Automobile Theft Authority Fund	(3,000,000)
Drug and Gang Prevention Resource Center Fund	(1,000,000)

The FY 2017 General Appropriation Act provided funding for one-time costs of the newly-established BSTF within DPS. These monies were used for the purchase of patrol vehicles, a helicopter, surveillance equipment, officer weapons, safety equipment, radios, cameras, scopes, and other equipment necessary for the operation of the BSTF. The FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) notwithstanding statute to allow DPS to expend monies from the Automobile Theft Authority Fund and Drug and Gang Prevention Resource Center Fund for costs associated with the BSTF. *(Please see the Automobile Theft Authority narrative for more information on the Automobile Theft Authority Fund.)*

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF One-Time line item. The plan included funding for a new twin-engine helicopter, a communication "master site," surveillance equipment for an existing King Air airplane, 38 law enforcement vehicles, Tri-Band radios for Highway Patrol officers in the 4 southern Highway Patrol Districts and new BSTF officers, improvements to an airplane hangar in Tucson, public safety equipment, canine units, and a contingency set-aside for cost overruns. The favorable review included the following provisions requiring DPS to:

- Report back to the Committee regarding the amount and plans for proceeds that are received as the result of the sale of an existing single-engine helicopter that will be replaced by the new twin-engine helicopter.
- Report on the utilization of the contingency set-aside and provide for review a plan for how monies will be allocated if DPS chooses to utilize them for anything other than what was reviewed.
- Prepare for review any modification to the expenditure plan that would result in the purchase of an airplane hangar.

Border Strike Task Force Local Support

The Baseline includes \$1,261,700 from the General Fund in FY 2018 for the costs of BSTF Local Support. These amounts are unchanged from FY 2017.

The BSTF is a multi-agency task force established to target drug and human trafficking organizations and activities along the Arizona-Mexico border. Of the \$1,261,700 total appropriation, \$761,700 shall be used to fund 75% of the costs for 8 local law enforcement officers that will participate in the BSTF. The participating local law enforcement agency will be responsible for providing a 25% match to these amounts. The remaining \$500,000 shall be used for grants to local governments for the prosecution and imprisonment of individuals that are charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

At the September 21, 2016 meeting of the JLBC, the Committee provided a favorable review of DPS' expenditure plan for the BSTF Ongoing line item. The expenditure plan provides \$761,700 to fund 75% of the cost of 5 sheriff's deputies from the Cochise County Sheriff's Office and 3 sheriff's deputies from the Pima County Sheriff's Office that will serve as part of the BSTF. Additionally, the plan will allocate the remaining \$500,000 evenly to each of the 4 border county sheriffs for expenses incurred as a result of the arrest of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crime.

GIITEM

The Baseline includes \$22,584,300 and 136.8 FTE Positions in FY 2018 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). This amount consists of:

General Fund	22,446,600
GIITEM Border Security and Law Enforcement Subaccount	137,700

These amounts are unchanged from FY 2017.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,351,500 for gang enforcement, investigation, and interdiction; 2) \$10,029,400 for at least 50 sworn DPS positions to be used for immigration enforcement and border security and up to 50 DPS positions to expand GIITEM's public awareness, investigation, and intelligence efforts; 3) \$2,603,400 for local gang and immigration enforcement grants; and 4) \$600,000 for crime analysts associated with the state gang intelligence database (GangNet).

Monies deposited in the GIITEM Fund can be used for employer sanctions, smuggling, gang, and immigration enforcement. Local grants are distributed to county sheriffs and do not require further approval by the county board of supervisors. The local entity provides at least 25% of the cost of services.

Current statute allocates the first \$1,600,000 in local immigration enforcement grant monies to a county with more than 3,000,000 people (Maricopa County) and the next \$500,000 to a county with less than 500,000 people but more than 300,000 people (Pinal County). The remaining \$503,400 may be used for agreements with cities, counties, and other entities at a 3:1 match rate. Maricopa and Pinal County are excluded from the matching requirements.

A.R.S. § 41-1724C requires DPS to distribute the monies in the GIITEM Fund as soon after July 1 of every year as practicable. Prior to distribution, DPS must submit an expenditure plan to JLBC for review regarding any monies not identified in the previous expenditure plans. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

GIITEM Subaccount

The Baseline includes \$2,390,000 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2018 for the GIITEM Subaccount, to be used for equipment and supplies for border security. This amount is unchanged from FY 2017.

The GIITEM Border Security and Law Enforcement Subaccount receives \$4 of a \$13 criminal fee. These revenues are estimated to total \$2,266,400 in FY 2018. The monies in the GIITEM Subaccount are for border security personnel and public safety equipment. The monies are to be provided directly to county sheriffs without approval by the respective Board of Supervisors. The authorizing legislation does not specify any particular distribution by county.

The FY 2017 Criminal Justice BRB continued the requirement that DPS, submit to the JLBC for review, an expenditure plan for the GIITEM Subaccount for the coming fiscal year. The FY 2018 Baseline continues this provision. At its June 16, 2016 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2017. The plan includes \$500,000 for detention liaison officers, \$490,000 for county sheriff deputies and municipal police department officers to augment the GIITEM Task Force's border district unit, \$350,000 for the Pima County Border Crimes Unit, and \$1,050,000 for grants to county sheriffs for border security. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

Law Enforcement Officer Virtual Training

The Baseline includes no funding in FY 2018 for Law Enforcement Officer Virtual Training. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (2,100,000)

The Baseline includes a decrease of \$(2,100,000) from the Concealed Weapons Permit Fund in FY 2018 for the elimination of one-time funding for Law Enforcement Officer Virtual Training.

The FY 2017 budget included a footnote that required the virtual training equipment procured by DPS to do all of the following:

- Have the ability to display characters and scenario content simultaneously across an at least 300 degree screen environment with which the trainee can engage.
- Accurately replicate real-world ballistic characteristics of a projectile in flight.
- Be equipped with transducers to recreate sound vibrations.
- Include a stress component that includes a wireless device capable of delivering adjustable electric impulses.

The footnote also required DPS to make the equipment available to all law enforcement agencies in the state without assessing a fee or charge.

The FY 2017 Criminal Justice BRB notwithstanding the statutory expenditure restrictions of the Concealed Weapons Permit Fund to allow DPS to expend monies to procure law enforcement officer virtual training equipment.

This line item provided one-time funding for the purchase of virtual training equipment for law enforcement officers.

Public Safety Equipment

The Baseline includes \$2,890,000 from the Public Safety Equipment Fund in FY 2018 to equip DPS officers. This amount is unchanged from FY 2017.

The Public Safety Equipment Fund receives \$4 of a \$13 surcharge on fines, violations and penalties for criminal offenses and civil motor vehicle violations. In addition, DPS receives another \$4 of the surcharge if its officer issued the citation. These revenue sources are subject to appropriation.

Additionally, the fund receives the first \$1,200,000 collected from an assessment of up to \$1,500 on driving under the influence (DUI) offenses. This \$1,200,000 is not subject to appropriation.

The Public Safety Equipment line item monies can be used to purchase vehicles, protective armor, electronic stun devices and other safety equipment.

Motor Vehicle Fuel

The Baseline includes \$5,454,600 in FY 2018 for Motor Vehicle Fuel. This amount consists of:

General Fund	4,384,200
CJEF	134,300
Highway Patrol Fund	298,400
HURF	637,700

These amounts are unchanged from FY 2017.

The Motor Vehicle Fuel line item centralizes monies appropriated to DPS for motor vehicle fuel. In addition to \$2,448,700 in Motor Vehicle Fuel line item monies expended in FY 2016, DPS expended \$560,900 from non-appropriated monies for fuel from other parts of the DPS budget in FY 2016.

Civil Air Patrol

The Baseline includes \$150,000 from the General Fund in FY 2018 for funding of the Civil Air Patrol (CAP). This amount is unchanged from FY 2017.

Monies in this line item are used to partially offset the costs of operations and maintenance of aircraft used by

CAP to aid in search and rescue and other emergency missions.

State funding for CAP goes back to at least FY 1953 when the Arizona Department of Civil Air Patrol was created by Laws 1952, Chapter 38. In 1970, a court decision required the state to shift funding for CAP to a line item which was first included in the Arizona Department of Aeronautics, then the Arizona Department of Transportation, and finally the Department of Emergency and Military Affairs (DEMA). Prior to the FY 2017 appropriation, CAP last received state funding in FY 2008 in DEMA's budget in the amount of \$54,700.

Sexual Assault Kit Testing

The Baseline includes no funding in FY 2018 for Sexual Assault Kit Testing. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (500,000)

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

A recent survey conducted by the Maricopa County Attorney's Office revealed a backlog of at least 2,300 sexual assault kits currently housed in municipal crime labs in Maricopa County. The monies in this line item will allow DPS to provide funding to local governments for the testing of sexual assault kits in backlog and will provide funding for DPS to input information derived from the testing of these kits into the national Combined DNA Index System database.

A footnote in the FY 2017 General Appropriation Act requires DPS to provide an expenditure plan for these monies to the JLBC for review prior to expenditure. The expenditure plan must also detail the number of sexual assault kits in backlog and the amounts and recipients of federal monies for the testing of sexual assault kits by jurisdiction. At its December 14, 2016 meeting, the JLBC gave a favorable review to the proposed Sexual Assault Kit line item expenditure plan which allocated \$385,000 to contract with a third party to test 625 outstanding kits and \$115,000 for administrative costs that DPS incurs while processing the kits and entering the data into their DNA database.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the \$22,584,300 appropriated to GIITEM, only \$2,603,400 is deposited in the GIITEM Fund established by A.R.S. § 41-1724, and is appropriated for the purposes of that section. The \$2,603,400 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. This state recognizes that states have inherent authority to arrest a person for any immigration violation.

Of the \$22,584,300 appropriated to GIITEM, \$10,029,400 shall be used for 100 Department of Public Safety GIITEM personnel. The additional staff shall include at least 50 sworn Department of Public Safety positions to be used for immigration enforcement and border security and 50 Department of Public Safety positions to assist GIITEM in various efforts, including:

- 1) Strict enforcement of all federal laws relating to illegal aliens and arresting illegal aliens.
- 2) Responding to or assisting any county sheriff or attorney in investigating complaints of employment of illegal aliens.
- 3) Enforcing Arizona's law known as the Legal Arizona Workers Act, strict enforcement of Arizona's SB 1070, Arizona's "Support Our Law Enforcement and Safe Neighborhoods Act", investigating crimes of identity theft in the context of hiring illegal aliens and the unlawful entry into the country.
- 4) Taking strict enforcement action.

Any change in the GIITEM mission or allocation of monies shall be approved by the Joint Legislative Budget Committee. The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies not identified in the department's previous expenditure plans.

Any monies remaining in the Department of Public Safety joint account on June 30, 2018 revert to the funds from which they were appropriated. The reverted monies shall be returned in direct proportion to the amounts appropriated.

Before the expenditure of any monies appropriated in FY 2018 in the ~~Border Strike Task Force Ongoing, Border Strike Task Force One-Time and~~ Border Strike Task Force Local Support line items, the department shall submit an expenditure plan for these line items to the Joint Legislative Budget Committee for review.

Of the \$1,261,700 appropriated for Border Strike Task Force Local Support, \$761,700 shall be used to fund local law enforcement officer positions within the Border Strike

Task Force. Any city, town, county or other entity that enters into an agreement with the department to participate in the Border Strike Task Force shall provide at least 25% of the cost of the services, and the department shall provide not more than 75% of Personal Services and Employee-Related Expenditures for each agreement or contract. The department may fund all capital-related equipment.

Of the \$1,261,700 appropriated for Border Strike Task Force Local Support, \$500,000 shall be used for grants to cities, towns or counties for costs associated with the prosecution and imprisonment of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote regarding the applicable uses of the monies in the Law Enforcement Officer Virtual Training line item and the requirement that DPS make the equipment available to other law enforcement agencies free of charge.

The Baseline would delete the footnote regarding the reporting requirement for monies in the Sexual Assault Kit Testing line item.

The Baseline would delete the footnote regarding the reporting requirement and amounts allocated for a 3% pay raise for sworn officers and Highway Patrol civilian staff.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.
- As session law, continue to require DPS to receive JLBC review of the expenditure plan for the GIITEM Subaccount FY 2018 appropriation prior to its expenditure.
- As session law, continue to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.
- As session law, continue the previously approved \$30,000,000 HURF shift in FY 2019.
- 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.

Other Issues

Long-Term Budget Impacts: HURF Funding

The Baseline continues the previously approved \$30.0 million HURF shift in FY 2018. The FY 2015 budget reduced HURF funding from \$119.3 million to \$89.3 million and backfilled the reduction with a commensurate amount of General Fund monies. This reduction allowed for the additional \$30.0 million distribution from HURF entirely to local governments. Under permanent law, increased HURF funds are typically split evenly between local distributions and state highway construction.

The FY 2015 Revenue BRB, however, allocated the \$30.0 million entirely to local jurisdictions as follows: 33.231% to counties, 48.097% to cities and towns, 5.247% to cities with a population larger than 300,000 individuals, and 13.425% to counties with a population of more than 800,000 individuals. These monies were distributed among local jurisdictions in the same proportions as the local share of regular HURF allocations. The impact of this shift is displayed in *Table 1*.

<u>Beneficiaries</u>	<u>Increase</u>	<u>FY 2018 Total</u>
Cities	\$16.0 ^{1/}	\$427.4
Counties	10.0	266.3
Controlled Access	4.0 ^{2/}	105.9
State Highway Construction	0.0	104.6
Total	\$30.0	\$904.2

^{1/} Includes \$1.6 million for Phoenix, Tucson, and Mesa.
^{2/} These monies are for distribution to Maricopa and Pima Counties.

The FY 2015 Revenue BRB continued the FY 2015 \$30.0 million distribution to local governments in FY 2016 and increased the level to \$60.0 million in FY 2017. However, the FY 2016 Revenue BRB (Laws 2015, Chapter 10) reduced the FY 2017 shift from the previously-approved \$60.0 million to \$30.0 million. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues this \$30.0 million shift in FY 2018.

The FY 2017 Revenue BRB also includes an additional \$30.0 million in one-time General Fund monies that will be allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. This appropriation in addition to the previously mentioned \$30.0 million HURF shift effectively

holds local governments harmless in FY 2017 for the \$119.2 million that was initially appropriated to DPS from HURF in FY 2014 prior to the HURF shift. (Please see the *Highway User Revenue Fund Analysis* section of the *Arizona Department of Transportation* narrative for more information.)

The Baseline does not continue the additional \$30.0 million General Fund allocation to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. As part of the 3-year spending plan associated with the enacted FY 2017 budget, the appropriation was intended to be a one-time allocation and is not continued in FY 2018.

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.)

<u>Fiscal Year</u>	<u>HURF</u>	<u>State Highway</u>	
		<u>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	96.0	7.3	103.3

Table 3

State Immigration Enforcement Assistance to Local Governments

DPS GIITEM Local Immigration Enforcement Grant Expenditures 1/

<u>Agency</u>	<u>FY 2012 Actual</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Estimate 2/</u>	<u>FY 2017 Estimate</u>
Pima County Sheriff's Department	\$0	-	-	-	-	-
Phoenix Police Department	342,100	-	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	397,000	-	-	-	-	-
Border County Officers (See Chart Below)	351,200	-	-	-	-	-
Maricopa County Sheriff's Office	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
DPS Expenditures in Support of Local Grants	695,800	327,900	428,600	131,700	503,400	503,400
Pinal County Sheriff's Department	500,000	500,000	500,200	500,000	500,000	500,000
TOTAL	\$3,886,100	\$2,427,900	\$2,528,800	\$2,231,700	\$2,603,400	\$2,603,400

Year of Appropriation of Funding

FY 2011	1,517,000	-	-	-	-	-
FY 2012	2,413,000	189,300	-	-	-	-
FY 2013	-	2,238,600	363,100	-	-	-
FY 2014	-	-	2,165,700	-	-	-
FY 2015	-	-	-	2,231,700	371,700	371,700
FY 2016	-	-	-	-	2,231,700	2,231,700
FY 2017	-	-	-	-	-	2,231,700
TOTAL	\$3,930,000	\$2,427,900	\$2,528,800	\$2,231,700	\$2,603,400	\$2,603,400

Detention Liaison Officer Grants 3/

<u>Agency</u>	<u>FY 2012 Actual</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Estimate 2/</u>	<u>FY 2017 Estimate</u>
Cochise County Sheriff's Office	\$33,100	\$39,800	\$5,500	\$40,500	\$40,500	\$37,500
Graham County Sheriff's Office	21,100	31,200	15,200	-	-	-
Maricopa County Sheriff's Office	43,900	44,500	56,700	91,900	87,300	89,200
Pima County Sheriff's Office	46,300	58,700	-	40,000	47,700	47,700
Pinal County Sheriff's Office	18,600	-	24,800	30,400	-	-
Santa Cruz County Sheriff's Office	41,000	42,400	35,800	43,200	43,200	-
Yuma County Sheriff's Office	237,400	180,400	263,000	205,400	228,300	238,300
Department of Corrections	\$441,400	\$397,000	\$401,000	\$495,500	\$488,300	\$500,000

Table 3 (Continued)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Estimate 2/	Estimate
Border County Officers 3/						
Benson Police	\$63,700	\$63,000	\$36,300	\$0	-	-
Cochise County Sheriff's Office	-	-	-	41,600	191,600	191,600
Coolidge Police	46,600	62,900	66,200	44,300	56,000	64,200
Douglas Police	123,700	124,800	102,600	115,000	120,000	-
Eloy Police	-	-	-	-	-	56,400
Oro Valley Police	62,200	54,800	47,300	63,300	48,000	66,700
Pinal County Sheriff's Office	54,500	45,700	89,700	-	-	-
San Luis Police	-	-	-	-	-	56,400
Somerton Police	-	-	-	-	-	44,500
Yuma County Sheriff's Office	-	-	47,900	56,100	56,100	-
Unallocated	-	-	-	-	-	10,200
Total	\$350,700	\$351,200	\$390,000	\$320,300	\$471,700	\$490,000
Border Security and Law Enforcement Grants 3/						
Apache County Sheriff's Office	-	-	\$11,600	\$11,500	\$12,000	\$70,000
Cochise County Sheriff's Office	-	-	20,800	20,900	308,500	70,000
Coconino County Sheriff's Office	-	-	-	-	22,000	70,000
Gila County Sheriff's Office	-	-	8,400	8,600	10,000	70,000
Graham County Sheriff's Office	-	-	-	-	55,800	70,000
Greenlee County Sheriff's Office	-	-	-	1,700	2,000	70,000
La Paz County Sheriff's Office	-	-	3,200	3,300	3,500	70,000
Maricopa County Sheriff's Office	-	-	627,700	629,400	100,000	70,000
Mohave County Sheriff's Office	-	-	32,200	32,500	33,000	70,000
Navajo County Sheriff's Office	-	-	16,900	17,300	18,000	70,000
Pima County Sheriff's Department	-	-	156,600	158,900	56,700	70,000
Pinal County Sheriff's Office	-	-	61,100	62,800	162,600	70,000
Santa Cruz Sheriff's Office	-	-	7,500	7,900	64,000	70,000
Yavapai County Sheriff's Office	-	-	33,600	34,000	35,000	70,000
Yuma County Sheriff's Office	-	-	-	33,400	118,000	70,000
Total	\$0	\$0	\$979,600	\$1,022,200	\$1,001,100	\$1,050,000

GIITEM Subaccount Expenditures 4/5/6/7/8/9/

Agency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Estimate 2/	Estimate
Pima County Sheriff	\$500,000	\$500,000	\$350,000	\$350,000	\$350,000	\$350,000
General Fund Repayment	1,000,000	-	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	-	397,000	401,000	495,500	488,300	500,000
Border County Officers (See Chart Above)	-	351,200	390,000	320,300	471,700	490,000
Border Security and Law Enforcement Grants (See Chart Above)	-	-	979,600	1,022,200	1,001,100	1,050,000
TOTAL	\$1,500,000	\$1,248,200	\$2,120,600	\$2,188,000	\$2,311,100	\$2,390,000

Table 3 (Continued)

County Assistance 10/						
Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate
Pinal County Sheriff	\$1,000,000	-	-	-	-	-
TOTAL	\$1,000,000	-	-	-	-	-
Border Strike Task Force Local Support 11/12/						
Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate
Cochise County Sheriff	-	-	-	-	-	\$601,100
Pima County Sheriff	-	-	-	-	-	410,600
Santa Cruz County Sheriff	-	-	-	-	-	125,000
Yuma County Sheriff	-	-	-	-	-	125,000
TOTAL	-	-	-	-	-	\$1,261,700
County Attorney Immigration Enforcement Distributions 13/14/						
Agency	FY 2012 Actual 15/	FY 2013 Actual 15/	FY 2014 Actual 15/	FY 2015 Actual 16/	FY 2016 Actual	FY 2017 Actual
Maricopa County Attorney	\$200,000	\$200,000	\$200,000	-	-	-
Maricopa County Sheriff	500,000	500,000	500,000	-	-	-
Pima County Attorney	97,687	97,687	97,687	97,687	-	-
Pima County Sheriff	97,687	97,687	-	-	-	-
Pinal County Attorney	37,447	37,447	37,447	37,447	-	-
Pinal County Sheriff	37,447	37,447	37,447	-	-	-
Yavapai County Attorney	21,030	21,030	21,030	21,030	-	-
Yavapai County Sheriff	21,030	21,030	-	-	-	-
Mohave County Attorney	19,949	19,949	19,949	19,949	-	-
Mohave County Sheriff	19,949	19,949	-	-	-	-
Yuma County Attorney	19,507	19,507	19,507	19,507	-	-
Yuma County Sheriff	19,507	19,507	-	-	-	-
Cochise County Attorney	13,089	13,089	-	-	-	-
Cochise County Sheriff	13,089	13,089	-	-	-	-
Coconino County Attorney	13,396	13,396	-	-	-	-
Coconino County Sheriff	13,396	13,396	13,396	-	-	-
Navajo County Attorney	10,708	10,708	10,708	-	-	-
Navajo County Sheriff	10,708	10,708	-	-	-	-
Apache County Attorney	7,127	7,127	7,127	7,127	-	-
Apache County Sheriff	7,127	7,127	-	-	-	-
Gila County Attorney	5,341	5,341	5,341	-	-	-
Gila County Sheriff	5,341	5,341	-	-	-	-
Santa Cruz County Attorney	4,726	4,726	4,726	-	-	-
Santa Cruz County Sheriff	4,726	4,726	-	-	-	-
Graham County Attorney	3,709	\$3,709	-	-	-	-
Graham County Sheriff	3,709	3,709	-	-	-	-
La Paz County Attorney	2,042	2,042	2,042	2,042	-	-
La Paz County Sheriff	2,042	2,042	-	-	-	-
Greenlee County Attorney	841	841	-	-	-	-
Greenlee County Sheriff	841	841	-	-	-	-
Unallocated	-	-	236,793	981,777	-	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$0

- 1/ Funded from non-lapsing \$2.6 million General Fund appropriation, which is part of a \$22.6 million total GIITEM General Fund appropriation to DPS in FY 2017. Beginning in FY 2011, statute allocated the first \$1.6 million to the Maricopa County Sheriff's Office and the next \$500,000 to the Pinal County Sheriff's Office.
- 2/ FY 2016 expenditure figures for GIITEM Local Immigration Enforcement Grants and the GIITEM Subaccount are estimates as DPS had not provided fourth quarter expenditure information at the time this was published.
- 3/ Funding for the Detention Liaison Officer Grants and the Border County Officers in FY 2012 is included in the annual \$2.6 million General Fund appropriation for Local Immigration Enforcement Grants. In FY 2013 - FY 2017 the monies were allocated from the GIITEM Subaccount. Funding for the Border Security and Law Enforcement Grants is provided from the GIITEM Subaccount.
- 4/ Initially funded from a \$2.1 million GIITEM Fund appropriation in FY 2012. Laws 2011, Chapter 308 created a \$13 surcharge on criminal fines and penalties and civil motor vehicle violations, \$4 of which is to be deposited into the GIITEM Fund Border Security and Law Enforcement Subaccount. These revenues totaled \$2,266,400 in FY 2016. The monies in the GIITEM Subaccount are for border security personnel and equipment. Additionally, the bill redirected the monies normally deposited into the Arizona Criminal Justice Commission's State Aid to Indigent Defense Fund, which totaled \$659,300, to the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012. This did not continue in FY 2013.
- 5/ Laws 2011, Chapter 308 required that the first \$1,000,000 in criminal fee revenue received by the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012, be used to repay the General Fund for a commensurate appropriation to the Pinal County Sheriff's Office in FY 2012.
- 6/ As required by Laws 2013, 1st Special Session, Chapter 5, the Joint Legislative Budget Committee (JLBC) reviewed DPS' FY 2014 GIITEM Subaccount expenditure plan on October 29, 2013.
- 7/ As required by Laws 2014, Chapter 12, JLBC reviewed DPS' FY 2015 GIITEM Subaccount expenditure plan on June 19, 2014.
- 8/ As required by Laws 2015, Chapter 17, JLBC reviewed DPS' FY 2016 GIITEM Subaccount expenditure plan on June 18, 2015.
- 9/ As required by Laws 2016, Chapter 119, JLBC reviewed DPS' FY 2017 GIITEM Subaccount expenditure plan on June 16, 2016.
- 10/ Funded from a one-time \$1,000,000 General Fund appropriation. The monies were used to purchase and maintain a helicopter. The funding was not continued in FY 2013.
- 11/ 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.
- 12/ As required by Laws 2016, Chapter 117, JLBC reviewed DPS' FY 2017 BSTF Local Support expenditure plan on September 21, 2016.
- 13/ Funded by a General Fund appropriation.
- 14/ Funding for this line item was not continued in FY 2016.
- 15/ The FY 2012, FY 2013, and FY 2014 budgets required ADOA to distribute \$200,000 to the County Attorney of a county with a population of 2,000,000 or more persons and \$500,000 to the County Sheriff in a county with a population of 2,000,000 or more persons. The FY 2014 distribution to a County Sheriff in a county with a population of 2,000,000 or more was returned pursuant to a court order. With JLBC approval, the remaining monies could be distributed to County Attorneys and County Sheriffs of counties with a population of less than 2,000,000 persons. At their April 10, 2014 meeting, the JLBC gave approval to ADOA's FY 2014 expenditure plan to distribute monies proportionate to population. ADOA's proposal did not allocate funding to any county which did not plan to expend the funds. As a result, ADOA did not distribute \$212,689 of the \$1,213,200 FY 2014 appropriation. JLBC's approval included a provision that ADOA distribute the monies if subsequently requested to do so by a county attorney or sheriff not currently scheduled to receive funds. ADOA did not seek JLBC approval of its FY 2012 or FY 2013 distribution. The initial plan as approved at the December 17, 2014 meeting of the JLBC allocated all but \$281,800 of the \$1,213,200 appropriation. Subsequent to the meeting, the \$500,000 allocation to the Maricopa County Sheriff's Office was returned due to a court order resulting in a total of \$781,800 in unallocated funds.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	8,165,000	7,562,200
Year-End Fund Balance	9,559,000	8,659,300
Automated Fingerprint Identification System Fund (PSA2286/A.R.S. § 41-2414)		Appropriated
Source of Revenue: A 6.46% allocation from the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operation and maintenance of the Arizona Automated Fingerprint Identification System.		
Funds Expended	1,396,500	2,910,200
Year-End Fund Balance	1,611,300	978,200
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	0	3,000,000
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	2,700	15,000
Year-End Fund Balance	36,800	31,400
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	1,060,900	3,489,000
Year-End Fund Balance	2,630,800	1,727,100
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	25,900	26,000
Year-End Fund Balance	11,400	22,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Crime Laboratory Assessment Fund (PSA2282/A.R.S. § 41-2415)		Appropriated
Source of Revenue: A 2.3% allocation of CJEF. DPS retains 55% of this fund and distributes the remaining funds to political subdivisions that operate crime laboratories.		
Purpose of Fund: To provide enhanced crime lab services, purchase and maintain scientific equipment, and train crime lab forensic scientists.		
Funds Expended	772,400	870,200
Year-End Fund Balance	438,600	380,500
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.		
Funds Expended	13,136,500	13,597,300
Year-End Fund Balance	1,697,300	1,501,500
Criminal Justice Enhancement Fund (PSA3702/A.R.S. § 41-2401)		Partially-Appropriated
Source of Revenue: An 85% allocation of an 8.56% distribution from CJEF. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operational expenses of the Criminal Justice Information System and the Arizona Automated Fingerprint Identification System (appropriated) and for grants to local law enforcement agencies to help prevent residential and commercial burglaries, control street crime and street gangs, and locate missing children (non-appropriated).		
Appropriated Funds Expended	2,864,400	2,860,500
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	720,300	430,500
Deoxyribonucleic Acid (DNA) Identification System Fund (PSA2337/A.R.S. § 41-2419)		Appropriated
Source of Revenue: A 15% allocation of an 8.56% distribution from CJEF, monies collected from individuals subjected to DNA testing who have the financial ability to pay for tests, and contributions from any other sources. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. The fund also receives revenues from a separate 6% surcharge on all fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To implement, operate and maintain DNA testing and administrative costs.		
Funds Expended	5,068,400	4,969,600
Year-End Fund Balance*	222,600	(301,300)
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	1,195,100	2,098,000
Year-End Fund Balance	1,691,700	1,127,500
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	1,229,000	1,199,800
Year-End Fund Balance	237,600	168,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Driving Under the Influence Abatement Fund (PSA2422/A.R.S. § 28-1304)		Non-Appropriated
Source of Revenue: A fee of \$250 to be paid by every offender convicted of an extreme driving under the influence (DUI) offense. An extreme DUI violation is defined as a person possessing a blood alcohol concentration of 0.15 or greater.		
Purpose of Fund: To fund DUI-related programs. The Oversight Council on Driving or Operating Under the Influence Abatement distributes 25% of the revenues to fund pilot programs that use emerging technologies to deter occurrences of driving under the influence, and at least 70% of the monies to fund subdivisions and tribal governments that apply for monies for enforcement and alcohol abuse treatment services. The Arizona Criminal Justice Commission staffs the Council. The Arizona Department of Transportation and DPS receive grant funds from the Council. Not more than 5% of the monies are to be used for administrative purposes of the Oversight Council on Driving or Operating Under the Influence Abatement or payment of the costs of notification.		
Funds Expended	1,922,300	1,900,500
Year-End Fund Balance	1,022,500	574,600
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 BSTF.		
Funds Expended	0	1,000,000
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	266,500	250,000
Year-End Fund Balance	600	6,400
Federal Grants and Reimbursements (PSA2000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To administer Federal Highway Administration grants, various Homeland Security grants, the High Intensity Drug Trafficking Area program, organized crime financial investigations, the Rocky Mountain Information Network, the Motor Carrier Safety Assistance program, and the Department of Justice Victims of Crime Act monies.		
Funds Expended	30,280,100	74,312,600
Year-End Fund Balance	2,829,700	552,500
Fingerprint Clearance Card Fund (PSA2433/A.R.S. § 41-1758.06)		Non-Appropriated
Source of Revenue: Fees charged to applicants or contract providers for a fingerprint clearance card.		
Purpose of Fund: To centralize fingerprinting services for state agencies. Revenues pay for the processing and issuance of fingerprint clearance cards.		
Funds Expended	5,037,400	5,189,600
Year-End Fund Balance	21,600	1,259,000
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	581,900	617,300
Year-End Fund Balance	1,923,200	2,000,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) 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.		
Funds Expended	2,033,200	2,527,700
Year-End Fund Balance	2,784,500	2,261,600
Gang and Immigration Intelligence Team Enforcement Mission Fund (PSA2396/A.R.S. § 41-1724)		Appropriated
Source of Revenue: A penalty assessed against law enforcement agencies in the state that are not enforcing current illegal immigration statutes and \$2,603,400 in General Fund monies deposited into the fund per a General Appropriation Act footnote. The fine can be no less than \$500 and no more than \$5,000 a day for as long as the law enforcement agency is in non-compliance. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: These monies can be used for enforcement of gang and immigration statutes, border security, human and drug smuggling laws, the employer sanctions law and for county jail reimbursement, resulting from costs attributed to illegal immigration. A.R.S. § 41-1724 mandates that the first \$1,600,000 in revenues be distributed to the Maricopa County Sheriff and the next \$500,000 to the Pinal County Sheriff for immigration enforcement. Any entity, other than Maricopa and Pinal Counties, that receives monies from the fund shall provide 25% of the cost of services with DPS providing the remaining 75%.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Highway Patrol Fund (PSA2032/A.R.S. § 41-1752)		Appropriated
Source of Revenue: A 0.43% premium tax paid by vehicle insurers, miscellaneous service fees, rewards, awards, insurance recoveries, and receipts from the sale or disposal of property held by the Highway Patrol. This fund also includes deposits of fees collected from towing impound hearings.		
Purpose of Fund: To administer the provisions of law relating to the Highway Patrol and Highway Patrol Reserve and for the costs associated with impounding vehicles.		
Funds Expended	20,397,100	24,113,100
Year-End Fund Balance	7,774,400	5,586,500
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	96,409,200	96,006,100
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	9,988,900	8,752,800
Year-End Fund Balance	2,133,600	563,800
Indirect Cost Recovery Fund (PSA9000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	1,572,100	1,632,200
Year-End Fund Balance	1,205,300	1,675,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Motor Carrier Safety Revolving Fund (PSA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28; and monies received from private grants or donations.		
Purpose of Fund: DPS conducts motor carrier safety investigations, the Motor Vehicle Division of ADOT administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	1,600	4,000
Year-End Fund Balance	10,000	10,600
Motorcycle Safety Fund (PSA2479/A.R.S. § 28-2010)		Appropriated
Source of Revenue: Receives \$1 of each motorcycle registration fee.		
Purpose of Fund: To implement and support voluntary motorcycle safety, education and awareness programs.		
Funds Expended	205,000	205,000
Year-End Fund Balance	191,300	191,300
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	2,115,500	2,129,400
Year-End Fund Balance	3,347,200	4,317,800
Peace Officers' Training Fund (PSA2049/A.R.S. § 41-1825)		Non-Appropriated
Source of Revenue: Receives 16.64% of CJEF. CJEF is composed of a 47% penalty on fines and forfeitures imposed by the courts for criminal and civil motor vehicle statute violations.		
Purpose of Fund: For training costs, including the operation of the Arizona Law Enforcement Officers' Academy, grants to state agencies, cities and towns, and counties for training law enforcement officers and the operation of the Peace Officer Standards and Training Board.		
Funds Expended	6,591,400	6,414,500
Year-End Fund Balance	1,192,100	648,500
Public Safety Equipment Fund (PSA2391/A.R.S. § 41-1723)		Partially-Appropriated
Source of Revenue: Revenues from a \$4 criminal fee on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations per A.R.S. § 12-116.04 as well as an additional \$4 per citation issued by DPS. These 2 revenue sources are appropriated. In addition, revenues include the first \$1,200,000 generated by additional assessments of up to \$1,500 to be paid by every offender convicted of driving or operating under the influence (DUI or OUI) offenses, except for boating related offenses. These assessments are not subject to appropriation.		
Purpose of Fund: To fund purchases of protective body armor, electronic stun gun devices, vehicles, and other safety equipment.		
Appropriated Funds Expended	3,178,000	2,893,700
Non-Appropriated Funds Expended	0	1,200,000
Year-End Fund Balance	14,467,300	13,778,600
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	5,613,800	5,456,900
Year-End Fund Balance	714,700	794,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Risk Management Revolving Fund (PSA4216/A.R.S. § 41-1713)		Appropriated
<i>Source of Revenue:</i> Transfer from the Arizona Department of Administration Risk Management Fund.		
<i>Purpose of Fund:</i> For the costs of a disaster recovery program for the DPS mainframe data center and the operational costs of the Capitol Police.		
Funds Expended	1,228,100	1,263,700
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
<i>Source of Revenue:</i> Monies are transferred from the ADOT administered fund and includes 45% of the fees for commercial vehicle permits collected at southern ports of entry on the border with Mexico and interest earnings. The FY 2017 Government BRB (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.		
<i>Purpose of Fund:</i> To fund commercial vehicle enforcement officers along the border, particularly in Yuma, Douglas and Nogales. (See the Arizona Department of Transportation Summary of Funds section for other purposes of this fund.)		
Funds Expended	1,236,500	1,551,800
Year-End Fund Balance	0	0
State Aid to Indigent Defense Fund (PSA2445/A.R.S. § 11-588)		Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> To provide state aid to county public defenders, legal defenders and contract indigent counsel for the processing of criminal cases. ACJC administers the fund and distributes the monies to each county based on a composite index formula using felony filings and population. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) permits DPS to utilize monies in the fund for the operational costs of the Arizona Counter Terrorism Information Center during FY 2017.		
Funds Expended	626,000	700,000
Year-End Fund Balance	1,300	700
State Highway Fund (PSA2030/A.R.S. § 28-6991)		Appropriated
<i>Source of Revenue:</i> Monies appropriated by the Legislature, a portion of the Highway User Revenue Fund, fees, penalties and revenue derived from traffic and vehicle regulation.		
<i>Purpose of Fund:</i> 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	7,273,200	7,301,800
Year-End Fund Balance	0	0
State Highway Work Zone Safety Fund (PSA2480/A.R.S. § 28-710)		Non-Appropriated
<i>Source of Revenue:</i> A 50% allocation of the additional assessment levied for civil traffic violations committed in a highway work zone.		
<i>Purpose of Fund:</i> To establish and maintain a public education campaign for highway work zone safety.		
Funds Expended	0	0
Year-End Fund Balance	254,800	262,300
Statewide Donations (PSA2025/A.R.S. § 41-1713)		Non-Appropriated
<i>Source of Revenue:</i> Donations from outside entities.		
<i>Purpose of Fund:</i> 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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Victims' Rights Enforcement Fund (PSA2519/A.R.S. § 41-1727)		Non-Appropriated
<p>Source of Revenue: A \$2 surcharge on criminal offenses and civil traffic violations and up to \$100,000 annually from the revenues of lottery games that are sold from vending machines. Laws 2015, Chapter 245 added lottery games that are sold from vending machine revenues to the fund and allowed for lottery game revenues to be backfilled by unclaimed lottery prize monies in the event that they do not reach the \$100,000 threshold.</p> <p>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.</p>		
Funds Expended	418,700	1,000,000
Year-End Fund Balance	874,400	857,400

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

Public Safety Personnel Retirement System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 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	11,290,800	11,212,000	11,255,900
TOTAL - ALL SOURCES	17,290,800	17,212,000	17,255,900

AGENCY DESCRIPTION — The Public Safety Personnel Retirement System (PSPRS) provides retirement, survivors, health, and disability benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters. In addition, PSPRS staff administers the Correctional Officers Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), which provide the same benefits to specified populations at the state and local level. PSPRS is not subject to appropriation. The EORP was closed to new enrollees as of January 1, 2014, at which time newly-elected officials are to be enrolled in the Elected Officials' Defined Contribution Retirement System (EODC System).

EORP Fund Deposit

The Baseline includes \$5,000,000 from the General Fund in FY 2018 as part of the closure of the Elected Officials' Retirement Plan (EORP). This amount is unchanged from FY 2017.

Laws 2013, Chapter 217 made several changes relating to the closure of the defined benefit EORP and in creation of a new defined contribution plan, the Elected Officials Defined Contribution Retirement System (EODC System). Chapter 217 annually appropriates \$5,000,000 from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost and to amortize the unfunded accrued liability of the now closed EORP. Because the appropriation is in permanent statute, monies in this line item are not included in the General Appropriation Act.

Chapter 217 made several additional changes relating to the closure of the defined benefit EORP and in creation of the new defined contribution plan, the EODC System, with the major changes as follows:

1. Permanently establishes a 13% employee contribution rate for members of the now closed EORP.
2. Requires from January 1, 2014 through June 30, 2044, a level 23.5% employer contribution rate for employees in elected official positions, regardless of the date of appointment or election. For existing

members of EORP, this contribution is paid entirely to the EORP Fund. For EODC System members, 6% is retained by the defined contribution system as an employer contribution, with the remaining 17.5% being paid to the EORP Fund.

3. Establishes an 8% employee contribution rate for all EODC System members, which is to be matched by the 6% employer contribution rate, with the funds to be deposited into the individual member's retirement account.

Chapter 217, in determining the level 23.5% employer contribution rate, and the annual EORP Fund deposit of \$5,000,000, assumed that a previously-enacted reduction of Permanent Benefit Increases (PBIs) would be upheld as constitutional. Due to the rulings in *Fields v. Elected Officials' Retirement Plan* and *Hall v. Elected Officials' Retirement Plan* these assumptions may need to be analyzed further to account for additional PBI payments. (See the *Consolidated Retirement Report* section for more information.)

Prescott Fire Employer Group Deposit

The Baseline includes \$1,000,000 from the General Fund in FY 2018 for deposit into the employer account of the Prescott Fire Department group. This amount is unchanged from FY 2017.

In June 2013, 19 firefighters employed by the Prescott Fire Department died in the line of duty while fighting the

Yarnell Hill Fire. Of the 19, 6 were classified as permanent employees and were enrolled in PSPRS. As such, their survivors qualify to receive ongoing payments equal to 100% of the employees' average monthly wages, including overtime. The increased liability resulting from these benefit payments is funded from the employer account of the Prescott Fire Department through an increase in employer contribution rates.

To offset the increased pension liabilities resulting from the 6 firefighters, the FY 2015 budget appropriated \$1,000,000 from the General Fund for deposit into the employer account of the Prescott Fire Department from FY 2015 through FY 2019. As a result, monies in this line item are not included in the annual General Appropriation Act in future years.

Of the remaining 13 firefighters who were classified as seasonal employees and initially considered ineligible for membership in PSPRS, 3 were posthumously enrolled in

PSPRS in 2015 after the Prescott Fire Department's local board determined that those firefighters met the criteria for membership. In June 2016, an additional firefighter was posthumously enrolled in PSPRS. Based on information provided by PSPRS, the total multi-year liability to the employer account of the Prescott Fire Department associated with these 4 additional enrollees is approximately \$3.0 million.

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 will be eliminated.

See the Consolidated Retirement Report section for more information on PSPRS legislation, membership, and actuarial data.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Disability Program Trust Fund (No Fund Number/A.R.S. § 38-870.02)		Non-Appropriated
<i>Source of Revenue:</i> Employee and employer contributions for members that were hired on or after July 1, 2017, abandoned Disability Program monies, and interest earnings.		
<i>Purpose of Fund:</i> 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
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> 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	29,800	30,300
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
<i>Source of Revenue:</i> Public Safety Personnel Retirement Fund; Elected Officials' Retirement Fund; Correctional Officer Retirement Fund; Elected Officials' Defined Contribution Disability Program Trust Fund.		
<i>Purpose of Fund:</i> A 5-member governing board called the Fund Manager administers PSPRS, the Elected Officials' Retirement Plan (EORP), the Elected Officials' Defined Contribution Retirement System (EODC System), and the Correctional Officer Retirement Plan (CORP). Authority is granted in statute for the Fund Manager to spend monies from each fund to pay for necessary administration and investment expenses. FY 2016 and FY 2017 expenditures exclude \$135,464,800 and \$118,759,600, respectively, of net fees applied to investments.		
Funds Expended	11,261,000	11,181,700
Year-End Fund Balance	0	0

Radiation Regulatory Agency

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	34.5	34.5	34.5
Personal Services	867,300	912,400	912,400
Employee Related Expenditures	359,300	380,900	380,900
Professional and Outside Services	50,800	39,200	39,200
Travel - In State	25,300	25,300	25,300
Travel - Out of State	7,000	7,000	7,000
Other Operating Expenditures	269,400	256,700	256,700
Equipment	3,900	0	0
OPERATING SUBTOTAL	1,583,000	1,621,500	1,621,500
SPECIAL LINE ITEMS			
Nuclear Emergency Management Fund	409,800	789,700	789,700
AGENCY TOTAL	1,992,800	2,411,200	2,411,200

FUND SOURCES			
General Fund	1,184,400	1,563,100	1,563,100
<u>Other Appropriated Funds</u>			
Radiation Regulatory Fee Fund	578,000	576,500	576,500
State Radiologic Technologist Certification Fund	230,400	271,600	271,600
SUBTOTAL - Other Appropriated Funds	808,400	848,100	848,100
SUBTOTAL - Appropriated Funds	1,992,800	2,411,200	2,411,200
Other Non-Appropriated Funds	59,000	75,400	75,400
Federal Funds	453,900	401,100	401,100
TOTAL - ALL SOURCES	2,505,700	2,887,700	2,887,700

AGENCY DESCRIPTION — The department regulates the use, storage, and disposal of sources of radiation. This includes licensing or certifying users, inspecting x-ray equipment, developing emergency response capability, and monitoring environmental radiation.

Operating Budget

The Baseline includes \$1,621,500 and 29 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$773,400
Radiation Regulatory Fee Fund	576,500
State Radiologic Technologist Certification Fund	271,600

These amounts are unchanged from FY 2017.

Nuclear Emergency Management Fund

The Baseline includes \$789,663 and 5.5 FTE Positions from the General Fund in FY 2018 for the Nuclear Emergency

Management Fund (NEMF). FY 2018 adjustments would be as follows:

New NEMF Assessment	GF	0
The Baseline includes no change in FY 2018 for a new NEMF assessment.		

Laws 2015, Chapter 132 appropriated \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,633 and 5.5 FTE Positions in FY 2017. As a result, these monies do not appear in the FY 2017 General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs (DEMA), and Department of Agriculture received monies from this bill. *(Please see the Department of Emergency and Military Affairs and the Department of Agriculture narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal

corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

The Baseline uses the FY 2017 appropriation of \$789,633 as a placeholder for the FY 2018 amount; the final amount will be determined in the 2017 legislative session as part of separate legislation. DEMA has provided recommendations for the FY 2018 and FY 2019 appropriations as outlined in *Table 1* below.

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.

* * *

FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue the fee raising authority and exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2018. The bill continues an intent clause that limits additional revenues to \$561,000.

Nuclear Emergency Management Fund						
Agency	FY 2017		FY 2018		FY 2019	
	FTEs	Approp.	FTEs	Rec.	FTEs	Rec.
Emergency and Military Affairs ^{1/}	5.5	\$1,424,377	5.5	\$1,438,465	5.5	\$1,461,602
Radiation Regulatory Agency	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	<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.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Federal Grants (AEA2000/A.R.S. § 30-654)		Non-Appropriated
Source of Revenue: Federal grants and miscellaneous revenue.		
Purpose of Fund: To track radiation levels, assess and reduce radon levels, and monitor x-ray facilities in the state.		
Funds Expended	453,900	401,100
Year-End Fund Balance	30,600	95,200
Laser Safety Fund (AEA2388/A.R.S. § 32-3234)		Non-Appropriated
Source of Revenue: Fees collected from the authorization of certificates to individuals that operate lasers of Intense Pulsed Light (IPL) devices for health and cosmetic related purposes.		
Purpose of Fund: To fund the costs of issuing licenses to individuals that operate lasers or IPL devices for health related purposes.		
Funds Expended	59,000	75,400
Year-End Fund Balance	4,200	7,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Nuclear Emergency Management Fund (AEA2138/A.R.S. § 26-306.02)		Non-Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	20,700	224,900
Radiation Regulatory Fee Fund (AEA2554/A.R.S. § 30-658)		Appropriated
Source of Revenue: Includes fees collected for licensing, inspection, and registration fees for individuals and other entities utilizing radiological materials.		
Purpose of Fund: To provide funding for the operating expenses of the agency.		
Funds Expended	578,000	576,500
Year-End Fund Balance	48,300	69,700
State Radiologic Technologist Certification Fund (AEA2061/A.R.S. § 32-2823)		Appropriated
Source of Revenue: License fees paid by x-ray technologists.		
Purpose of Fund: To provide for the licensing of x-ray technologists and the investigation of complaints.		
Funds Expended	230,400	271,600
Year-End Fund Balance	73,000	87,800

State Real Estate Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	37.0	37.0	37.0
Personal Services	1,410,000	1,612,600	1,612,600
Employee Related Expenditures	549,200	656,200	656,200
Professional and Outside Services	95,000	115,000	115,000
Travel - In State	14,500	15,000	15,000
Travel - Out of State	4,700	10,000	10,000
Other Operating Expenditures	413,200	498,800	498,800
Equipment	87,700	87,300	87,300
AGENCY TOTAL	2,574,300	2,994,900	2,994,900
FUND SOURCES			
General Fund	2,574,300	2,994,900	2,994,900
SUBTOTAL - Appropriated Funds	2,574,300	2,994,900	2,994,900
Other Non-Appropriated Funds	121,800	178,900	178,900
TOTAL - ALL SOURCES	2,696,100	3,173,800	3,173,800

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 are transferred from the Department of Fire, Building and Life Safety to the Arizona Department of Real Estate.

Operating Budget

The Baseline includes \$2,994,900 and 37 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	19,000	23,500
Year-End Fund Balance	2,300	2,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	0	15,700
Year-End Fund Balance	31,000	24,800
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	102,800	139,700
Year-End Fund Balance	926,600	857,900

Residential Utility Consumer Office

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	634,600	757,700	757,700
Employee Related Expenditures	232,900	241,900	241,900
Professional and Outside Services	0	2,400	2,400
Travel - In State	6,300	8,600	8,600
Travel - Out of State	9,700	7,000	7,000
Other Operating Expenditures	178,600	168,800	168,800
OPERATING SUBTOTAL	1,062,100	1,186,400	1,186,400
SPECIAL LINE ITEMS			
Professional Witnesses	85,400	145,000	145,000
AGENCY TOTAL	1,147,500	1,331,400	1,331,400
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Residential Utility Consumer Office Revolving Fund	1,147,500	1,331,400	1,331,400
SUBTOTAL - Other Appropriated Funds	1,147,500	1,331,400	1,331,400
SUBTOTAL - Appropriated Funds	1,147,500	1,331,400	1,331,400
TOTAL - ALL SOURCES	1,147,500	1,331,400	1,331,400

AGENCY DESCRIPTION — The Residential Utility Consumer Office (RUCO) serves as an advocate for residential customers of public utilities in rate hearings held before the Arizona Corporation Commission. Through its technical staff and expert consultants, RUCO analyzes utility company data to determine appropriate positions to take and present on behalf of residential ratepayers. The RUCO Director is appointed by the Governor.

Operating Budget

The Baseline includes \$1,186,400 and 11 FTE Positions from the RUCO Revolving Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Professional Witnesses

The Baseline includes \$145,000 from the RUCO Revolving Fund in FY 2018 for Professional Witnesses. This amount is unchanged from FY 2017.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

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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 provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

SUMMARY OF FUNDS

**FY 2016
Actual****FY 2017
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

1,147,500

1,331,400

Year-End Fund Balance

504,400

356,500

Board of Respiratory Care Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	168,400	176,500	176,500
Employee Related Expenditures	62,600	62,600	62,600
Professional and Outside Services	6,500	6,500	6,500
Travel - In State	1,100	1,500	1,500
Travel - Out of State	1,800	2,000	2,000
Other Operating Expenditures	50,500	50,500	50,500
Equipment	0	700	700
AGENCY TOTAL	290,900	300,300	300,300
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Respiratory Care Examiners Fund	290,900	300,300	300,300
SUBTOTAL - Other Appropriated Funds	290,900	300,300	300,300
SUBTOTAL - Appropriated Funds	290,900	300,300	300,300
TOTAL - ALL SOURCES	290,900	300,300	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	290,900	300,300
Year-End Fund Balance	240,100	240,800

Arizona State Retirement System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	250.9	250.9	250.9
Personal Services	12,544,000	13,025,000	13,025,000
Employee Related Expenditures	4,701,700	5,027,300	5,027,300
Professional and Outside Services	3,938,600	4,077,400	4,077,400
Travel - In State	30,300	30,000	30,000
Travel - Out of State	66,300	49,000	49,000
Other Operating Expenditures	3,184,100	3,205,500	2,675,500
OPERATING SUBTOTAL	24,465,000	25,414,200	24,884,200
SPECIAL LINE ITEMS			
Automation Upgrades	558,100	2,070,000	0
AGENCY TOTAL	25,023,100	27,484,200	24,884,200
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Long-Term Disability Trust Fund Administration Account	2,071,900	2,800,000	2,500,000
State Retirement System Administration Account	22,951,200	24,684,200	22,384,200
SUBTOTAL - Other Appropriated Funds	25,023,100	27,484,200	24,884,200
SUBTOTAL - Appropriated Funds	25,023,100	27,484,200	24,884,200
Other Non-Appropriated Funds	71,834,600	74,141,000	80,662,000
TOTAL - ALL SOURCES	96,857,700	101,625,200	105,546,200

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The Baseline includes \$24,884,200 and 250.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
State Retirement System Administration Account	\$22,384,200
Long-Term Disability (LTD) Trust Fund Administration Account	2,500,000

FY 2018 adjustments would be as follows:

Operating Budget Savings OF (230,000)

The Baseline includes a decrease of \$(230,000) from the State Retirement System Administration Account in FY 2018 for operating budget savings resulting from technology adoption and process improvements. This reduction was requested by ASRS.

New Contract Savings OF (300,000)

The Baseline includes a decrease of \$(300,000) from the Long Term Disability (LTD) Trust Fund in FY 2018 for savings from a LTD program contract with a new third-party vendor. This reduction was requested by ASRS.

In FY 2017, ASRS awarded a contract to a new administrator with lower administrative fees. The change in administrator is expected to generate savings of approximately \$300,000 each year. In addition, there has been a decrease over the past several fiscal years in the number of ASRS members receiving LTD benefits.

Automation Upgrades

The Baseline includes no funding from the State Retirement System Administration Account in FY 2018 for Automation Upgrades. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (2,070,000)

The Baseline includes a decrease of \$(2,070,000) from the State Retirement System Administration Account in FY 2018 for the elimination of funding for Automation Upgrades due to the expected completion of the project in FY 2017.

This is a 4-year project to consolidate and upgrade an ASRS business application system with a more current Java-based Web application. The 4-year budget of the project is a total of \$10,214,500, as follows:

- Year 1: \$1,390,000
- Year 2: \$4,484,500
- Year 3: \$2,270,000
- Year 4: \$2,070,000

The project received approval through the Project Investment Justification (PIJ) process from the Arizona Strategic Enterprise Technology (ASET) Office, and from the Information Technology Authorization Committee (ITAC) in 2012. As part of this review, ASRS is required to give an annual update on the project to ITAC.

The project was originally planned to last 5 years, for a total cost of \$10,214,500. Due to an improved methodology used to implement the technology modernizations, the project is expected to last 4 years. As a result, the FY 2015 budget shifted the funding that would have occurred in the fifth year of the project into the second year of the project. The FY 2016 budget readjusted funding to match estimated project costs in Year 3. The FY 2017 budget matched estimated project costs in Year 4.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

(Please see the Consolidated Retirement Report for more information.)

See the Consolidated Retirement Report section for more information on ASRS membership and actuarial data.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Administrative Account - Investment Expenses (RSA1407/A.R.S. § 38-721)		Non-Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: Investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval. Excludes \$96,091,000 and \$121,549,000 of net fees applied to investments in FY 2016 and FY 2017.		
Funds Expended	71,833,000	74,141,000
Year-End Fund Balance	0	0
Long-Term Disability Trust Fund Administration Account (RSA1408/A.R.S. § 38-797.02)		Partially-Appropriated
Source of Revenue: Long-Term Disability (LTD) Trust Fund.		
Purpose of Fund: To pay for the cost of administering the LTD program.		
Appropriated Funds Expended	2,071,900	2,800,000
Non-Appropriated Funds Expended	1,600	0
Year-End Fund Balance	6,700	0
State Retirement System Administration Account (RSA1401/A.R.S. § 38-721)		Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: To pay the Arizona State Retirement System's administrative expenses.		
Funds Expended	22,951,200	24,684,200
Year-End Fund Balance	0	0

Department of Revenue

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8
Personal Services	30,080,200	26,096,700	26,096,700
Employee Related Expenditures	12,868,200	11,220,900	11,220,900
Professional and Outside Services	7,488,400	8,133,500	8,133,500
Travel - In State	142,800	241,800	241,800
Travel - Out of State	74,900	59,100	59,100
Other Operating Expenditures	11,037,700	14,878,500	14,878,500
Equipment	1,235,600	2,766,300	2,766,300
OPERATING SUBTOTAL	62,927,800	63,396,800	63,396,800
SPECIAL LINE ITEMS			
BRITS Operational Support	7,150,900	7,497,500	7,497,500
Income Tax Fraud Prevention	0	3,150,000	3,150,000
TPT Information Technology	1,150,400	0	0
TPT Simplification	974,900	970,400	970,400
Unclaimed Property Administration and Audit	1,880,800	1,218,500	1,218,500
Veterans' Income Tax Settlements	0	2,000,000	0
AGENCY TOTAL	74,084,800	78,233,200	76,233,200
FUND SOURCES			
General Fund	28,393,800	31,998,300	29,998,300
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	44,793,600	45,158,700	45,158,700
Liability Setoff Program Revolving Fund	266,900	397,900	397,900
Tobacco Tax and Health Care Fund	630,500	678,300	678,300
SUBTOTAL - Other Appropriated Funds	45,691,000	46,234,900	46,234,900
SUBTOTAL - Appropriated Funds	74,084,800	78,233,200	76,233,200
Other Non-Appropriated Funds	4,879,000	588,000	588,000
TOTAL - ALL SOURCES	78,963,800	78,821,200	76,821,200

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 \$63,396,800 and 810.8 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$23,871,800
DOR Administrative Fund	38,448,800
Liability Setoff Program Revolving Fund	397,900
Tobacco Tax and Health Care Fund	678,300

These amounts are unchanged from FY 2017.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$7,497,500 and 51 FTE Positions in FY 2018 for operational support of BRITS. These amounts consist of:

General Fund	2,006,100
DOR Administrative Fund	5,491,400

These amounts are unchanged from FY 2017.

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage

requirements, and information technology personnel to operate and maintain the BRITS system. BRITS is the state's computer system for collecting and processing tax data.

Income Tax Fraud Prevention

The Baseline includes \$3,150,000 from the General Fund in FY 2018 for Income Tax Fraud Prevention. This amount is unchanged from FY 2017.

This funding initially appeared in the FY 2016 operating budget. The FY 2016 amount was transferred to this line item for ease of comparison. *(Please see the FY 2016 Appropriations Report for more information.)*

These monies are used to contract with a vendor to provide fraud prevention investigation services, make programming changes to the Taxpayer Accounting System (TAS), and provide audit and investigative support.

According to the vendor, \$78.4 million in fraudulent returns were prevented in FY 2016, compared to \$71.0 million in prevented fraud in FY 2015 without the vendor services. However, DOR assumes that only \$40 million in fraudulent returns would have been prevented in FY 2016 without the vendor services, but this assumption is based on an unchanged methodology from FY 2015 to FY 2016 for identifying and preventing fraudulent schemes.

TPT Simplification

The Baseline includes \$970,400 and 19 FTE Positions from the General Fund in FY 2018 for TPT Simplification responsibilities. These amounts are unchanged from FY 2017.

While this funding was initially included in the operating budget in FY 2015, the FY 2016 monies were appropriated in a separate line item. The FY 2015 amounts are displayed as a part of this line item for ease of comparison. *(Please see the FY 2015 Appropriations Report for more information.)*

Laws 2013, Chapter 255 and Laws 2014, Chapter 263 created a unified TPT audit and collections system under the auspices of DOR. As a result, DOR will assume the responsibility for the audit and collection of TPT taxes for all municipalities including the 14 "Non-Program" cities which currently administer their own TPT taxes. These monies will allow DOR to fund the additional staffing associated with the new TPT oversight responsibilities.

Unclaimed Property Administration and Audit

The Baseline includes \$1,218,500 from the DOR Administrative Fund in FY 2018 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2017.

Monies in this line item are used for the administrative costs of unclaimed or abandoned property. Contract auditors retain 10.25% to 12.5% of the value of properties they recover. This amount is currently estimated at \$1,218,500.

Laws 2016, Chapter 239 requires DOR to establish procedures to monitor the performance of contract auditors and issue a Request for Information by January 1, 2017 to explore the feasibility of audit contracts that are not contingent on the recovery of unclaimed property.

Veterans' Income Tax Settlements

The Baseline includes no funding from the General Fund in FY 2018 for Veterans' Income Tax Settlements. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (2,000,000)

The Baseline includes a decrease of \$(2,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for settlement payments to refund incorrectly held income taxes.

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) created the Veterans' Income Tax Settlement Fund and appropriated \$2,000,000 from the General Fund to this new fund. These funds will be used to distribute settlement payments to Native American veterans for over withholding of state individual income tax between September 1, 1993 and December 31, 2005. Members of an Indian tribe who are domiciled on an Indian reservation are not subject to state income tax, and military service men and women do not relinquish their domicile status while on assignment out of state.

Additionally, 5% of the fund balance at the beginning of each fiscal year can be used by both DOR and the Department of Veterans' Services for costs to administer the program. On or before October 1 of each year during CY 2017, CY 2018, and CY 2019, DOR shall report to the Legislature on the amount of withholdings subject to payments and the number of veterans affected. Any remaining monies in the fund on June 30, 2019 will revert to the General Fund.

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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, 2017, the department shall report the results of private fraud prevention investigation services during FY 2017 to the Joint Legislative Budget Committee. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during FY 2017.

If the total value of properties retained by unclaimed property contract auditors exceeds \$1,218,500, the excess amount is transferred from the state General Fund to the DOR Administrative Fund, established by A.R.S. § 42-1116.01, and appropriated to the department for contract auditor fees.

The department shall report the department's General Fund revenue enforcement goals for FY 2018 to the Joint Legislative Budget Committee on or before September 30, 2017. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2018 on or before September 30, 2018. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2018, including the amount of projected and actual enforcement collections for all tax types.

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 \$436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2018 for DOR staff to help enforce the provisions of the Master Settlement Agreement. These monies are provided in a footnote in the AHCCCS budget. This transfer funds 6 FTE Positions to perform luxury tax enforcement and audit duties. The FTE Position increase is not reflected in DOR's appropriation total. *(Please see the AHCCCS section for more information regarding these transfers.)*

APF - Enterprise Tax System Replacement Assessment

Laws 2016, Chapter 117 transferred \$1.0 million from the Liability Setoff Program Revolving Fund to the Automation Projects Fund (APF) for one-time funding for vendor services to assess the replacement of DOR's tax system. DOR has indicated that they do not intend to spend these monies on a BRITS replacement assessment, and will instead continue to use the current system in the near future. The Baseline proposes to revert these monies to the Liability Setoff Program Revolving Fund. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Enforcement Staffing Reduction

In FY 2017, DOR's budget was reduced by \$(4.4) million due to the elimination of \$(1.2) million in one-time funds for TPT IT changes, \$(2.8) million in one-time funds from a \$0.76 fee assessed to Non-Program cities for TPT IT changes, and \$(406,700) for lower state employer health insurance premiums. Even though the large majority of the reduction involved one-time funds, DOR is eliminating ongoing expenses as part of the solution by reducing enforcement staffing. Along with the enforcement staffing decrease, DOR has also reduced its IT budget to further offset the funding reduction.

DOR decreased its enforcement staffing from 212 auditors and 120 collectors at the beginning of FY 2016 to 124 auditors and 100 collectors at the beginning of FY 2017. DOR does not expect total enforcement collections to drop as a result of the loss of these 108 FTE Positions. Instead, the department expects to make up any decrease in revenue from auditors and collectors with increased, and more accurate, voluntary compliance. Revenue projections have not been adjusted as a result of these changes.

In FY 2010 and FY 2011, DOR was appropriated a total of \$7.7 million for audit and collections staff increases. These appropriations were expected to increase General Fund revenues by a combined \$52.3 million. However, the actual revenue impact as a result of these staff increases is not known.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Department of Revenue Administrative Fund (RVA1993/A.R.S. § 42-1116.01)		Appropriated
Source of Revenue: The sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Each year, \$24,500,000 in unclaimed property proceeds are deposited into this fund. In addition, pursuant to A.R.S. § 42-5041, this fund receives cost assessments paid by local governments for DOR operating expenses.		
Purpose of Fund: To cover the Department of Revenue's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	44,793,600	45,158,700
Year-End Fund Balance	4,245,100	4,280,100
Escheated Estates Fund (RVA3745/A.R.S. § 12-885)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of escheated estates. Property escheats, or reverts to the state, after 5 years when there is no will to transmit the property and there are no legal heirs to inherit it.		
Purpose of Fund: To deposit proceeds from the sale of escheated property and hold them in the fund for 12 months, from which payment of claims may be made, before being transferred to the Permanent State School Fund. There were no transfers made in FY 2016.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Estate and Unclaimed Property Fund (RVA1520/A.R.S. § 44-301)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Notwithstanding the title of this fund, it no longer includes the proceeds of escheated estates. Those funds are deposited to the department's Escheated Estates Fund.		
Purpose of Fund: To pay allowed claims. The department retains not less than \$100,000 of the fund while the state attempts to locate abandoned property owners. Once monies are determined to be "unreturnable" they are disbursed as follows: Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund. Monies from unclaimed shares and dividends of Arizona corporations and unclaimed property in a self-storage unit are transferred to the Permanent State School Fund. Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission's Victim Compensation and Assistance Fund. A.R.S. § 44-313 requires that the first \$2,000,000 in unclaimed property proceeds be deposited into the Seriously Mentally Ill Housing Trust Fund, the next \$2,500,000 into the Housing Trust Fund, the next \$24,500,000 into the DOR Administrative Fund and all remaining monies be redirected to the General Fund.		
Funds Expended	0	0
Transfer to Unclaimed Property Refunds	54,884,200	55,000,000
Year-End Fund Balance	0	0
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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
IGA and ISA Fund (RVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Transfer of funds from Arizona Early Childhood Development and Health Board. The fund also receives all transfers relating to the Automation Projects Fund projects.		
Purpose of Fund: To assist the Revenue Tobacco unit in enforcement compliance.		
Funds Expended	4,874,500	586,000
Year-End Fund Balance	543,500	522,400
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	266,900	397,900
Year-End Fund Balance	3,060,600	2,762,700
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	4,500	0
Year-End Fund Balance	28,700	49,500
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. No revenue was collected from contracted collections in FY 2016.		
Funds Expended	0	0
Year-End Fund Balance	0	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	0	2,000
Year-End Fund Balance	4,500	2,500
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	630,500	678,300
Year-End Fund Balance	14,600	14,500
Veterans' Income Tax Settlement Fund (RVA1601/Laws 2016, Chapter 125)		Non-Appropriated
Source of Revenue: Appropriation of \$2,000,000 from the General Fund. To prevent double counting, FY 2017 expenditures exclude \$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 may use up to 5% of the \$2,000,000 transfer for administrative costs. Pursuant to the FY 2017 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 125), monies in the fund revert to the General Fund on June 30, 2019.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Waste Tire Fund (RVA2356/A.R.S. § 44-1305)		Non-Appropriated
Source of Revenue: Collections from 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 \$9,668,600 in FY 2016, including \$338,400 to DEQ and \$9,330,200 to counties.		
Funds Expended	0	0
Year-End Fund Balance	0	0

School Facilities Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	785,900	993,600	993,600
Employee Related Expenditures	273,900	330,200	330,200
Professional and Outside Services	143,200	140,000	140,000
Travel - In State	16,700	36,000	36,000
Travel - Out of State	100	0	0
Other Operating Expenditures	197,200	166,900	166,900
Equipment	34,100	0	0
OPERATING SUBTOTAL	1,451,100	1,666,700	1,666,700
SPECIAL LINE ITEMS			
Access Our Best Public Schools Fund Deposit	23,900,000	0	0
Building Renewal Grants	31,667,900	31,667,900	16,667,900
New School Facilities	2,249,600	24,253,200	24,078,600
New School Facilities Debt Service	171,109,400	170,006,600	169,761,700
Public School Credit Enhancement Transaction Costs	0	500,000	0
AGENCY TOTAL	230,378,000	228,094,400	212,174,900
FUND SOURCES			
General Fund	230,378,000	228,094,400	212,174,900
SUBTOTAL - Appropriated Funds	230,378,000	228,094,400	212,174,900
Other Non-Appropriated Funds	93,644,600	91,567,000	90,594,000
TOTAL - ALL SOURCES	324,022,600	319,661,400	302,768,900

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Building Renewal Grants

The Baseline includes \$16,667,900 from the General Fund in FY 2018 for Building Renewal Grants. The FY 2018 adjustments would be as follows:

FY 2018

Remove One-Time Funding GF \$(15,000,000)

The Baseline includes a decrease of \$(15,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for building renewal grants.

The FY 2017 budget included a \$15,000,000 one-time supplemental appropriation in FY 2016 from the General Fund for building renewal grants. In addition, the budget continued this one-time increase of \$15,000,000 from the General Fund in FY 2017.

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 1 for the FY 2013 through FY 2017 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

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, absent any other changes.

The EDC Fund is used in a similar manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs, with the approval of the respective County Board of Supervisors.

New School Facilities

The Baseline includes \$24,078,600 from the General Fund in FY 2018 for New School Facilities. FY 2018 adjustments would be as follows:

New School Construction GF 1,000,000

The Baseline includes an increase of \$1,000,000 from the General Fund in FY 2018 for New School Construction. This amount funds site conditions related to the Agua Fria Union High School District (UHSD) and Chandler Unified School District (USD) construction projects.

In addition, the Baseline includes \$23,078,600 in FY 2018 to continue construction of 2 new schools. The FY 2017 General Appropriation Act already appropriated this amount, as a result these monies do not appear in the General Appropriation Act. This amount includes:

- \$16,705,000 is allocated for a 200,000 square foot high school at Agua Fria Union UHSD. The school will have capacity for 1,600 students grades 9-12. The

total project cost is \$33,410,000 (\$16,705,000 in FY 2017 and \$16,705,000 in FY 2018).

- \$6,373,600 is allocated for 15,420 of additional square feet at the Chandler USD. The additional space will provide added capacity for 685 students 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 project cost is \$12,747,200 (\$6,373,600 in FY 2017 and \$6,373,600 in FY 2018).

New School Construction GF (1,174,600)
Completion

The Baseline includes a decrease of \$(1,174,600) from the General Fund in FY 2018 for the completion of the Benson USD project.

Background – The New School Facilities line item provides funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects. The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the current districtwide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances.

The dollar amount per square foot is adjusted annually based on a construction market index identified by the JLBC. At its December 2016 meeting, JLBC approved a 4.31% adjustment in the cost per square foot amounts. This inflation adjustment is based on a longitudinal measurement of construction costs since the last time the Committee adopted an adjustment. Pursuant to A.R.S. § 15-2041D, this adjustment is only applied prospectively. (Please see Table 2 for FY 2018 statutory funding guidelines.)

<u>Type of School</u>	<u>Square Feet Per Student</u>	<u>Funding Per Square Foot</u> ^{1/2/}
K-6	90	\$142.55
7-8	100	\$150.49
9-12 (<1,800 pupils)	134	\$174.25
9-12 (≥1,800 pupils)	125	\$174.25

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2018 amounts. Adjusted annually for inflation.

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, not supplant, funding received from SFB. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for funding from the board. As of the end of FY 2016, there were \$4.8 billion of school district bonds outstanding.

New School Facilities Debt Service

The Baseline includes \$169,761,700 from the General Fund in FY 2018 for New School Facilities Debt Service. FY 2018 adjustments would be as follows:

Lease-Purchase Payment GF (244,900)

The Baseline includes a decrease of \$(244,900) from the General Fund in FY 2018 for decreased lease-purchase payments. This reflects the variations in SFB’s existing lease-purchase schedule.

Background – In FY 2003 - FY 2005, FY 2008, FY 2009, and FY 2011, SFB entered into lease-purchase agreements to finance the costs of new school construction. For each agreement, SFB issued Certificates of Participation (COPs) that are typically repaid over a period of 15 years. At the end of FY 2017, the outstanding amount of General Fund lease-purchase principal to be paid will be \$624,487,700.

The FY 2018 Baseline includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2018. The lease-purchase agreement associated with the QSCBs requires the state to appropriate the entire debt service amount for the payment, as opposed to deducting the expected federal subsidy from the payment. The state is expected to receive a federal subsidy of \$3,976,500 in FY 2018 related to the lease-purchase payment.

Pursuant to A.R.S. § 35-142.01, these funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$5,961,600.

Public School Credit Enhancement Transaction Costs

The Baseline includes no funding from the General Fund in FY 2018 for Public School Credit Enhancement Transaction Costs. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (500,000)

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2018 for the elimination of one-time funding. The FY 2017 Credit Enhancement Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 129)

appropriated one-time funding of \$500,000 from the General Fund in FY 2017 for Public School Credit Enhancement Transaction Costs. This appropriation is non-lapsing, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the General Fund.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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 2018 shall 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.

POTENTIAL STATUTORY CHANGES

The Legislature may also consider modifying A.R.S. § 15-2011 to reduce the current 25% excluded space threshold for locally funded school district projects.

When analyzing new school construction, SFB first calculates a district’s minimum square footage requirement, which is the current number of pupils multiplied by the statutory requirement (such as 90 sq. ft. per student for K-6 schools). This minimum standard is then compared to a district’s square footage, which is determined by taking into account all square footage required by law and then excluding space which is specifically listed in statute. If a district’s square footage is below the minimum statutory guidelines, the district is awarded a new school.

These excluded spaces are as follows:

- 1) All square footage used for district administration;
- 2) Square footage that is used for non-academic purposes (such as storage);
- 3) Locally funded space paid with Class B bonds that were approved after the creation of SFB. This locally funded space is excluded to the extent that this space is less than 25% of the district’s minimum square

footage requirement. Once the locally funded space exceeds the 25% threshold, the space above 25% is included in the SFB calculations.

Exclusion #3 (the “25% excluded space threshold”) was originally intended to give school districts the flexibility to construct a limited amount of locally funded space to meet district needs without being penalized in future SFB awards. If certain amounts of locally funded space were not excluded from future SFB calculations, this would make the district less likely to qualify for new school construction awards in the future.

However, under current practice, the 25% threshold allows some larger districts to exclude a large amount of locally funded space from SFB new construction award calculations. In certain circumstances, this can lead to significant new school construction awards even in cases where the district is not over capacity when factoring in all available space (state and locally funded).

For example, if an elementary school district has 7,500 students, statute requires the district to have 675,000 square feet (assuming an average of 90 square feet per student). Under the current policy, the district's locally funded square footage is "invisible," as long as it remains below 25% of the minimum square footage requirement. In this case, 168,750 square feet of locally funded space could be excluded from the SFB calculation (25% x 675,000).

If the Legislature were to reduce the 25% excluded space threshold, SFB would count more locally funded space towards meeting the state’s minimum guidelines. This, in turn, would mitigate the need for a substantial new school award.

One option is for the Legislature to adopt a lower threshold, such as 10%. Under this option for the prior example, the threshold would instead be 67,500 square feet (10% x 675,000). Therefore, 101,250 square feet (or enough space for 1,125 pupils), could become “visible” during SFB calculations.

However, such a revision may require further study. Lowering the excluded space threshold may have a very different impact on large versus small districts. A large district below a 10% threshold could still qualify for funding from the state for New School Construction after building a new locally funded school. Whereas, a small district would likely be unable to qualify for funding from the state after building a new locally funded school if a 10% threshold is used. An additional option would be to only lower the threshold from 25% to 10% for districts with more than 7,500 students.

Any revision would apply to new approvals and would not apply to schools already approved, including Agua Fria UHSD and Chandler USD.

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

Under the Baseline, SFB’s General Fund costs are projected to decrease by \$(33,882,200) in FY 2019 below FY 2018 and \$33,978,500 in FY 2020 above FY 2019. These estimates are based on:

Debt Service Changes

SFB debt service is expected to decrease by \$(35,474,500) in FY 2019 and \$(2,416,700) in FY 2020. The significant decrease in FY 2019 is due to the retirement of a FY 2014 refinancing agreement, (which affected issuances that originally occurred during FY 2003 – FY 2005).

New School Construction

The estimates assume additional funding will be provided for new school facilities beyond the Agua Fria UHSD 9-12 space and the Chandler USD 7-12 space in FY 2018.

In FY 2019, new school construction spending would then increase by \$1,592,300. This increase is the result of the completion of the Agua Fria UHSD and Chandler USD projects and funding for additional projects at Queen Creek USD, Sahaurita USD, and Vail USD. FY 2020 spending would increase by \$36,395,200 to continue funding for FY 2019 projects and fund additional projects at Laveen Elementary School District (ESD), Colorado City USD, Queen Creek USD, and Tolleson USD.

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.

The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4, which include new construction, building renovations, furniture, equipment, technology, and pupil transportation vehicles. In addition, bonds issued for furniture, equipment and technology have a maximum maturity of 5 years.

As of the end of FY 2016, 149 school districts have outstanding voter-approved bonds. The total amount of voter-approved bonds outstanding at the end of FY 2016 was approximately \$4.8 billion.

Class B Bond Approvals

A.R.S. § 15-2002 requires each school district to report Class B bond approvals to SFB by December 1 of each year and requires SFB to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year. SFB submitted its annual report to JLBC on December 31, 2016. However, due to a lack of school district reporting, the data contained in the SFB submission was incomplete. Based on JLBC Staff estimates, there were 18 districts with Class B bond approvals in 2016 for a total of \$1.1 billion.

Public School Credit Enhancement Program

The FY 2017 Credit Enhancement BRB created the Arizona Public School Credit Enhancement Program. The program assists achievement district schools in obtaining financing by guaranteeing the payment of principal and interest.

The Credit Enhancement BRB:

- Defines program eligibility for traditional district schools and charter schools. Requires an "A" letter grade, sound financial plan, and verifiable enrollment demand.
- Creates the Credit Enhancement Eligibility Board to approve school applications and operate the program. The board consists of the Governor, the Treasurer, and the ADOA Director.
- Directs SFB to provide staff to support the board.
- Creates the Arizona Public School Credit Enhancement Fund, which may be used to make payments of principal and interest on guaranteed financing of achievement district schools.
- Transfers \$23,900,000 from the Access Our Best Public Schools Fund to the Arizona Public School Credit Enhancement Fund during FY 2017.
- Allows the Credit Enhancement Board to use \$80,000,000 of program funding obligations (PFOs) from the Treasurer's operating fund balance for deposit in the Arizona Public School Credit Enhancement Fund. PFOs are to be sold by the board to the State Treasurer in order to allow the State Treasurer to earn interest on the operating balance monies deposited into the Credit Enhancement Fund.
- Requires SFB Staff, in collaboration with the board, to submit a quarterly report on the implementation of the program, including details on program participation, guaranteed financings, and any delinquent financings.

SFB has reported that the board has not yet developed or implemented a credit enhancement program.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Access Our Best Public Schools Fund (SFA1111/A.R.S. § 15-2042) [Repealed]		Appropriated
Source of Revenue: Legislative appropriations, grants, gifts, and donations.		
Purpose of Fund: To distribute monies to public schools that are members of the Arizona Public School Achievement District to construct new school facilities or to expand existing school facilities or to serve as a guarantee for debt financing. At least 50% of the projects that receive monies from the fund shall be in low socioeconomic areas. Monies in the fund that are grants, gifts, or donations are continuously appropriated. The Credit Enhancement Budget Reconciliation Bill (Laws 2016, Chapter 129) requires the transfer of the fund balance of \$23,900,000 during FY 2017 and repeals the fund effective September 1, 2017.		
Funds Expended	0	0
Year-End Fund Balance	23,900,000	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Building Renewal Grant Fund (SFA2392/A.R.S. § 15-2032)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations.		
<i>Purpose of Fund:</i> To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2016 and FY 2017 expenditures exclude \$31,667,900 and \$31,667,900, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	36,587,100	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
<i>Source of Revenue:</i> Monies transferred from the Building Renewal Grants Fund or New School Facilities Fund. \$1,000,000 was transferred from the Building Renewal Grants Fund in FY 2015.		
<i>Purpose of Fund:</i> To provide school districts monies for facility emergencies.		
Funds Expended	606,200	963,800
Year-End Fund Balance	963,800	0
Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
<i>Source of Revenue:</i> Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
<i>Purpose of Fund:</i> To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
Funds Expended	23,365,000	26,446,000
Year-End Fund Balance	22,957,300	22,954,200
Lease-to-Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
<i>Source of Revenue:</i> Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation proceeds.		
<i>Purpose of Fund:</i> 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 2016 and FY 2017 expenditures exclude \$171,109,400 and \$170,006,600, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	336,500	321,900
New School Facilities Fund (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
<i>Source of Revenue:</i> 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 2016 and FY 2017 expenditures exclude \$2,249,600 and \$24,253,200, respectively, from the General Fund.		
<i>Purpose of Fund:</i> To provide school districts with monies for constructing new school facilities, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
Funds Expended	6,400	11,000
Year-End Fund Balance	2,545,200	245,900
Arizona Public School Credit Enhancement Fund (No Fund Number/A.R.S. § 15-2154)		Non-Appropriated
<i>Source of Revenue:</i> Revenues include fees paid by participating schools, repayments of monies used to make payments of principle and interest on guaranteed financings, proceeds of program funding obligations, gifts, grants, and donations. The Credit Enhancement Budget Reconciliation Bill (Laws 2016, Chapter 129) requires 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>		
<i>Purpose of Fund:</i> To make payments of principle or interest on guaranteed financings. To pay administrative expenses for the Arizona Credit Enhancement Program.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
Source of Revenue: Revenues from a 0.6% increase in the state Transaction Privilege Tax (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund.		
Purpose of Fund: To pay the debt service on \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.		
Funds Expended	69,667,000	64,146,200
Year-End Fund Balance	14,558,300	16,163,100

Department of State - Secretary of State

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1
Personal Services	4,671,700	4,210,800	4,210,800
Employee Related Expenditures	1,974,700	1,809,600	1,809,600
Professional and Outside Services	367,500	104,100	104,100
Travel - In State	17,700	14,100	14,100
Travel - Out of State	35,300	28,400	28,400
Other Operating Expenditures	2,990,400	6,120,400	5,408,400
Equipment	105,800	1,300	1,300
OPERATING SUBTOTAL	10,163,100	12,288,700	11,576,700
SPECIAL LINE ITEMS			
Election Services	4,336,900	2,672,500	0
Help America Vote Act (HAVA)	724,600	2,941,100	2,941,100
Special Election	0	0	0
Library Grants-in-Aid	651,400	651,400	651,400
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	15,973,000	18,650,700	15,266,200
FUND SOURCES			
General Fund	14,713,400	14,969,200	11,584,700
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	724,600	2,941,100	2,941,100
Records Services Fund	535,000	740,400	740,400
SUBTOTAL - Other Appropriated Funds	1,259,600	3,681,500	3,681,500
SUBTOTAL - Appropriated Funds	15,973,000	18,650,700	15,266,200
Other Non-Appropriated Funds	686,100	932,000	932,000
Federal Funds	3,449,800	3,360,200	3,360,200
TOTAL - ALL SOURCES	20,108,900	22,942,900	19,558,400

AGENCY DESCRIPTION — The Secretary of State is an elected Constitutional Officer. The Department of State is responsible for recordings and filings under the Uniform Commercial Code (U.C.C.); coordinating statewide elections; receiving required filings from legislators, state officials, judges, candidates for office, campaign committees, and lobbyists; receiving filings of administrative rules, intergovernmental agency agreements, and official executive orders/proclamations; registering trade names, trademarks and limited partnerships; appointing notaries public; and certifying certain telemarketing and charitable solicitation organizations. In addition, the Department of State is the archival authority and designated repository for historical records and documents of state and local governments, as well as a designated federal document regional repository.

Operating Budget

The Baseline includes \$11,576,700 and 141.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$10,836,300
Record Services Fund	740,400

FY 2018 adjustments would be as follows:

Remove Elections Funding GF (712,000)
The Baseline includes a decrease of \$(712,000) from the General Fund in FY 2018 for the removal of one-time elections funding. While these monies would typically be in the Election Services line item, the transfer of these funds to the Operating Budget was favorably reviewed at the June 16, 2016 Joint Legislative Budget Committee meeting. These monies are being removed as there is no major election in FY 2018. This FY 2018 funding level is

consistent with the 3-year spending plan associated with the enacted FY 2017 budget.

Election Services

The Baseline includes no funding from the General Fund in FY 2018 for Election Services.

FY 2018 adjustments would be as follows:

Remove Election Services Funding	GF	(2,672,500)
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The Baseline includes a decrease of \$(2,672,500) from the General Fund in FY 2018 for the removal of one-time election activities monies from FY 2017.

For FY 2017, this line item includes funding for the Primary Election held on August 30, 2016 and the General Election on November 8, 2016 in FY 2017.

These monies are being removed as there is no major election in FY 2018. This FY 2018 funding level is consistent with the 3-year spending plan associated with the enacted FY 2017 budget

This line item funds election-related activities, including voter registration and the certification of candidates, voting devices and the results of statewide elections. Funding is also used to publish the publicity pamphlet on state ballot propositions.

For traditional state elections, statute requires the Secretary of State (SOS) to: 1) reimburse counties for the costs of printing, labeling, and postage for sample ballots; 2) pay the cost of any recount of votes; 3) reimburse the County Recorder for the costs of certifying petition and referendum signatures; 4) print and mail a publicity pamphlet to every household with a registered voter for any initiative or referendum; 5) review and process initiative and referendum signatures; and 6) process challenges to candidate eligibility.

Help America Vote Act (HAVA)

The Baseline includes \$2,941,100 from the Election Systems Improvement Fund in FY 2018 for the Help America Vote Act (HAVA) (P.L. 107-252). This amount is unchanged from FY 2017.

HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections.

Special Election

The Baseline includes no funding from the General Fund in FY 2018 for a statewide special election.

Laws 2015, 1st Special Session, Chapter 2 as amended by Laws 2016, Chapter 3, appropriated \$9,300,000 from the General Fund to pay for a statewide special election in FY 2016. Chapter 2 requires that a special election be held on May 17, 2016 to consider 1) Proposition 123, a constitutional amendment to provide for increased State Land Trust distributions and other changes related to education finance as proposed in HCR 2001; and 2) Proposition 124, a constitutional amendment to allow the Legislature to change the Public Safety Personnel Retirement System from a permanent benefit increase structure to a compounding an annual cost of living adjustment.

The appropriation for the special election is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

As of the end of FY 2016, no monies have been expended from this line item. Because of this, FY 2016 actual spending for the line is displayed as zero. However, these funds are expected to be expended during FY 2017 and will be displayed accordingly in the future.

Library Grants-in-Aid

The Baseline includes \$651,400 from the General Fund in FY 2018 for Library Grants-in-Aid. This amount is unchanged from FY 2017.

Monies in this line item are used to fund a portion of the state maintenance of effort that is required for receipt of federal dollars under the Library Services and Technology Act (LSTA). Receipt of LSTA monies is dependent on the state's ability to meet a maintenance-of-effort requirement, which is tied to the state contribution made in each of the 3 prior years.

Statewide Radio Reading Service for the Blind

The Baseline includes \$97,000 from the General Fund in FY 2018 for Statewide Radio Reading Service for the Blind. The expenditure of this money has not been reported. We expect these monies to be recorded as FY 2017 actuals in FY 2019.

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

The Secretary of State shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 31, 2017 the actual amount and purpose of expenditures from the Election Systems Improvement Fund established by A.R.S. § 41-129, in FY 2017 and the expected amount and purpose of expenditures from the fund for FY 2018.

The FY 2018 appropriation from the Election Systems Improvement Fund for the Help America Vote Act is available for use pursuant to A.R.S. § 35-143.01C, and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2019.

Included in the operating lump sum appropriation of \$11,576,700, for FY 2018 is \$5,000 for the purchase of mementos and items for visiting officials.

The \$651,400 appropriation from the General Fund for the Library-Grants-in-Aid Special Line Item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35 -190, relating to lapsing of appropriations.

Deletion of Prior Year Footnotes

The Baseline would delete a footnote limiting the use of monies in the Election Services line item to only pay for the statewide election pamphlet and as pass through to counties for reimbursement of election costs, as the FY 2018 Baseline includes no Elections Services funding.

The Baseline would delete a footnote requiring review by the JLBC of any transfer to or from the Election Services line item, as the FY 2018 Baseline includes no Elections Services funding.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	173,900	272,300
Year-End Fund Balance	302,000	288,400
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	8,000	100,000
Year-End Fund Balance	357,400	355,200

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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, including replacement of all punch-card and lever voting machines, implementation of a statewide voter registration database, and implementation of a voting system that meets federal standards.		
Funds Expended	724,600	2,941,100
Year-End Fund Balance	4,147,800	1,238,500
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	600	0
Year-End Fund Balance	5,300	5,300
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	3,449,800	3,360,200
Year-End Fund Balance *	(2,789,800)	(6,150,000)
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	92,900	92,900
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	120,700
Year-End Fund Balance	41,700	3,600
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	109,500	99,600
Year-End Fund Balance	272,100	433,100
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

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	535,000	740,400
Year-End Fund Balance	600,100	591,500
Standing Political Committee Administrative Fund (STA2426/A.R.S. § 41-128)		Non-Appropriated
<i>Source of Revenue:</i> Filing fees paid by standing political committees.		
<i>Purpose of Fund:</i> To pay the costs of administering and enforcing the campaign finance laws relating to standing political committees.		
Funds Expended	0	0
Year-End Fund Balance	78,300	93,100
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	274,600	339,400
Year-End Fund Balance	961,500	729,100

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

State Boards' Office

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	0.0	0.0
Personal Services	76,500	0	0
Employee Related Expenditures	35,300	0	0
Professional and Outside Services	900	0	0
Other Operating Expenditures	19,800	0	0
Equipment	8,100	0	0
AGENCY TOTAL	140,600	0	0

FUND SOURCES

Other Appropriated Funds

Special Services Revolving Fund	140,600	0	0
SUBTOTAL - Other Appropriated Funds	140,600	0	0
SUBTOTAL - Appropriated Funds	140,600	0	0
TOTAL - ALL SOURCES	140,600	0	0

AGENCY DESCRIPTION — The office serves to centralize services and pool resources of small regulatory boards. Examples of shared items include office space and equipment, as well as accounting, clerical, administrative, and telephone services. The office is under the Management Services Division of the Arizona Department of Administration, but is supported by transfers of appropriated funds from the participating boards.

Operating Budget

The Baseline includes no funding from the Special Services Revolving Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) merged the State Boards' Office with the Arizona Department of Administration (ADOA) Central Services Bureau. It also designated the ADOA Central Services Bureau allocation in the Special Services Revolving Fund as an appropriated fund source. *(Please see the ADOA narrative for more information.)*

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Special Services Revolving Fund (ADA4208/A.R.S. § 35-193.02)		Appropriated
Source of Revenue: Monies are collected from 11 small regulatory boards residing in the State Boards' Office. This is the appropriated portion of a larger fund within the Department of Administration (ADOA). The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) merged the State Boards' Office with the Arizona Department of Administration (ADOA) by combining Central Services Bureau and the State Board's Office funding in the appropriated section of the Special Services Revolving Fund. <i>(See the ADOA section for additional fund information.)</i>		
Purpose of Fund: To provide centralized office services, printing, and other administrative or management services.		
Funds Expended	140,600	0
Year-End Fund Balance	12,100	0

State Board of Tax Appeals

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	170,500	179,000	179,000
Employee Related Expenditures	48,400	44,600	44,600
Travel - In State	300	400	400
Other Operating Expenditures	43,100	42,600	42,600
AGENCY TOTAL	262,300	266,600	266,600
FUND SOURCES			
General Fund	262,300	266,600	266,600
SUBTOTAL - Appropriated Funds	262,300	266,600	266,600
TOTAL - ALL SOURCES	262,300	266,600	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 2018 for the operating budget. These amounts are unchanged from FY 2017.

* * *

FORMAT — Lump Sum by Agency

State Board of Technical Registration

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.0	25.0	25.0
Personal Services	967,700	1,106,400	1,106,400
Employee Related Expenditures	428,500	439,000	439,000
Professional and Outside Services	49,800	940,600	140,600
Travel - In State	2,800	5,000	5,000
Travel - Out of State	17,200	17,200	17,200
Other Operating Expenditures	407,100	408,200	408,200
Equipment	113,500	0	0
AGENCY TOTAL	1,986,600	2,916,400	2,116,400

FUND SOURCES

Other Appropriated Funds

Technical Registration Fund	1,986,600	2,916,400	2,116,400
SUBTOTAL - Other Appropriated Funds	1,986,600	2,916,400	2,116,400
SUBTOTAL - Appropriated Funds	1,986,600	2,916,400	2,116,400
Other Non-Appropriated Funds	18,300	11,200	11,200
TOTAL - ALL SOURCES	2,004,900	2,927,600	2,127,600

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 \$2,116,400 and 25 FTE Positions from the Technical Registration Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF FY 2018 \$(800,000)

The Baseline includes a decrease of \$(800,000) from the Technical Registration Fund in FY 2018 to eliminate one-time start-up cost for the agency's e-licensing database system.

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Technical Registration Fund (TEA2070/A.R.S. § 32-109)		Appropriated
Source of Revenue: Monies collected by the board from examinations and licensing of architects, assayers (assessors of mineral value), engineers, geologists, land surveyors, landscape architects, and home inspectors. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate architects, assayers, engineers, geologists, land surveyors, landscape architects, and home inspectors, and for board administration.		
Funds Expended	1,986,600	2,916,400
Year-End Fund Balance	2,627,700	2,447,900

SUMMARY OF FUNDS

**FY 2016
Actual****FY 2017
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 requires 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 be transferred to the Hazardous Waste Management Fund established in A.R.S. § 49-927.

Funds Expended	18,300	11,200
Year-End Fund Balance	350,000	113,500

Office of Tourism

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,542,100	1,772,800	1,772,800
Employee Related Expenditures	530,400	592,300	592,300
Professional and Outside Services	2,413,900	2,304,300	2,304,300
Travel - In State	11,000	27,100	27,100
Travel - Out of State	133,400	231,500	231,500
Other Operating Expenditures	2,037,100	2,094,700	2,094,700
Equipment	62,100	89,300	89,300
AGENCY TOTAL	6,730,000	7,112,000	7,112,000
FUND SOURCES			
General Fund	6,730,000	7,112,000	7,112,000
SUBTOTAL - Appropriated Funds	6,730,000	7,112,000	7,112,000
Other Non-Appropriated Funds	14,195,900	14,139,900	14,139,900
TOTAL - ALL SOURCES	20,925,900	21,251,900	21,251,900

AGENCY DESCRIPTION — The office is responsible for promoting tourism within the state, which includes planning and developing an information campaign, advertising, exhibitions, and operating a visitors' center. The agency receives a transfer from the Arizona Sports and Tourism Authority (AZSTA), a portion of tribal gaming contributions, and General Fund appropriations to the Tourism Fund.

Operating Budget

The Baseline includes \$7,112,000 and 28 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

* * *

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 \$1,500,000 from FY 2022 through FY 2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to be used to promote an auto racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, the bill requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year.

In November 2016, the parent company of Phoenix International Raceway (PIR), International Speedway Corporation, announced plans to make \$178.0 million in renovations to the raceway. PIR hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to PIR are expected to start in early 2017 and conclude by 2019.

Office of Tourism Revenues ^{1/}				
<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>General Fund Appropriation</u>				
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$7,103,700	\$7,112,000	\$7,112,000
<u>Sports and Tourism Authority</u>				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302 - 2000)	Tourism Fund	7,952,700	7,739,400	7,240,400
<u>Tribal Gaming</u>				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>6,461,600</u>	<u>6,461,600 ^{2/}</u>	<u>6,461,600 ^{2/}</u>
Total		\$21,518,000	\$21,313,000	\$20,814,000

^{1/} The numbers displayed represent revenues to the agency and may not correspond directly with the agencies' actual expenditure or appropriation amounts.

^{2/} The Tribal Gaming amounts for FY 2017 and FY 2018 are JLBC estimates.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 \$7,952,700 in FY 2016 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 \$1,500,000 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	14,195,900	14,139,900
Year-End Fund Balance	3,386,700	3,386,700

Department of Transportation

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,548.0	4,552.0	4,552.0
Personal Services	107,409,700	109,622,000	109,622,000
Employee Related Expenditures	48,370,900	49,677,500	49,677,500
Professional and Outside Services	8,267,800	10,787,100	10,787,100
Travel - In State	903,700	990,400	990,400
Travel - Out of State	155,400	145,100	145,100
Other Operating Expenditures	18,120,100	24,253,300	24,253,300
Equipment	14,911,200	8,542,400	8,542,400
OPERATING SUBTOTAL	198,138,800	204,017,800	204,017,800
SPECIAL LINE ITEMS			
Attorney General Legal Services	3,527,600	3,577,700	3,577,700
Fraud Investigation	742,300	767,000	767,000
Highway Maintenance	126,911,000	140,593,200	140,593,200
New Third-Party Funding	942,700	629,600	629,600
Phoenix Area Freeway Lighting	0	1,500,000	0
Statewide Drainage Structures	0	4,300,000	4,300,000
Vehicles and Heavy Equipment	16,805,100	18,474,600	18,474,600
AGENCY TOTAL	347,067,500	373,859,900	372,359,900
FUND SOURCES			
General Fund	49,500	50,400	50,400
<u>Other Appropriated Funds</u>			
Air Quality Fund	74,200	161,700	161,700
Driving Under the Influence Abatement Fund	112,300	152,200	152,200
Highway User Revenue Fund	641,600	649,700	649,700
Motor Vehicle Liability Insurance Enforcement Fund	1,065,700	1,308,700	1,308,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,326,900	1,868,300	1,868,300
State Aviation Fund	1,427,400	1,615,800	1,615,800
State Highway Fund	324,591,400	348,128,300	346,628,300
Transportation Department Equipment Fund	16,805,100	18,474,600	18,474,600
Vehicle Inspection and Certificate of Title Enforcement Fund	973,400	1,450,200	1,450,200
SUBTOTAL - Other Appropriated Funds	347,018,000	373,809,500	372,309,500
SUBTOTAL - Appropriated Funds	347,067,500	373,859,900	372,359,900
Other Non-Appropriated Funds	68,340,500	68,793,100	68,793,100
Federal Funds	2,262,100	1,664,700	1,664,700
TOTAL - ALL SOURCES	417,670,100	444,317,700	442,817,700

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 \$204,017,800 and 3,390 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$50,400
Air Quality Fund	161,700
Driving Under the Influence Abatement Fund	152,200
Highway User Revenue Fund	452,600

Motor Vehicle Liability Insurance Enforcement Fund	1,209,800
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,308,300
State Aviation Fund	1,615,800
State Highway Fund	197,703,900
Vehicle Inspection and Certificate of Title Enforcement Fund	1,363,100

These amounts are unchanged from FY 2017.

Attorney General Legal Services

The Baseline includes \$3,577,700 from the State Highway Fund in FY 2018 for Attorney General Legal Services. This amount is unchanged from FY 2017.

Monies in this line item reimburse the Attorney General for costs of providing legal services to the department, such as litigating cases, reviewing legal documents and proposed administrative rules, and issuing legal opinions.

Fraud Investigation

The Baseline includes \$767,000 and 10 FTE Positions from the State Highway Fund in FY 2018 for Fraud Investigation. These amounts are unchanged from FY 2017.

Monies in this line item are used for investigation of fraudulent driver licenses and motor vehicle documents.

Highway Maintenance

The Baseline includes \$140,593,200 and 932 FTE Positions in FY 2018 for Highway Maintenance. These amounts consist of:

Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	560,000
State Highway Fund	140,033,200

These amounts are unchanged from FY 2017.

In addition to the \$140,593,200 included for Highway Maintenance, the Proposition 400 Maricopa County half-cent sales tax extension makes another \$13,300,000 available in FY 2018 for landscape maintenance, trash pick-up, sweeping, and litter education from the non-appropriated Maricopa Regional Area Road Fund.

Monies in this line item are used to maintain the state highway system, including pavements, bridges, landscaping, drainage, signals, lights, fences, signs, striping, and snow removal. The monies also fund the freeway management system and the traffic operations center.

New Third-Party Funding

The Baseline includes \$629,600 and 20 FTE Positions in FY 2018 for New Third-Party Funding. These amounts consist of:

Highway User Revenue Fund	197,100
Motor Vehicle Liability Insurance Enforcement Fund	98,900
State Highway Fund	246,500
Vehicle Inspection and Certificate of Title Enforcement Fund	87,100

These amounts are unchanged from FY 2017.

Monies in this line item provide funding to review authorized third-party transactions for accuracy. The funding also provides support for authorized third-parties, which allow customers to receive Motor Vehicle Division services at non-ADOT locations.

Phoenix Area Freeway Lighting

The Baseline includes no funding in FY 2018 for Phoenix Area Freeway Lighting. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF (1,500,000)
 The Baseline includes a decrease of \$(1,500,000) from the State Highway Fund in FY 2018 to remove one-time funding for the relamping of 3,500 fixtures.

Monies in this line item fund 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 2018 for statewide drainage structures. This amount is unchanged from FY 2017.

Monies in this line item fund the removal of silt in pipes, culverts and drainage structures. Drainage structures prevent flooding and degradation of the state highway system.

Vehicles and Heavy Equipment

The Baseline includes \$18,474,600 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2018 for Vehicles and Heavy Equipment. These amounts are unchanged from FY 2017.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the total amount appropriated, \$140,593,200 in FY 2018 for Highway Maintenance is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all unexpended and unencumbered monies of the appropriation revert to their fund of origin, either the State Highway Fund established by A.R.S. § 28-6991 or the Safety Enforcement and Transportation Infrastructure Fund established by A.R.S. § 28-6547, on August 31, 2018.

It is the intent of the Legislature that the department not include any administrative overhead expenditures in duplicate driver license fees charged to the public.

Of the total amount appropriated, the Department of Transportation shall pay \$16,773,800 in FY 2018 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, 2018 for FY 2018.

The Department of Transportation shall contract with an independent third-party consultant for the duration of the Motor Vehicle Division legacy system replacement project. On or before February 1, 2018, the independent third-party consultant shall submit an annual progress report for review by the Joint Legislative Budget Committee. The annual report shall evaluate and assess the project's success in meeting and incorporating the tenets of the Project Investment Justification, including the goals and objectives, technology approach, deliverables and outcomes, project scope and timeline. The report shall also address any potential project deficiencies as well as the incorporation of the Auditor General's April 2016 recommendations.

On or before August 1, 2017, the department shall report to the Director of the Joint Legislative Budget Committee on the state's share of fees retained by the Service Arizona vendor in the prior fiscal year. The report shall also include the amount spent by the Service Arizona vendor on behalf of the 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 Department of Transportation line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure.

Deletion of Prior Year Footnotes

The Baseline would delete the one-time reporting footnote on the costs associated with the new Motor Vehicle Division automated system.

Other Issues

Real ID Extension

Laws 2015, Chapter 294 required ADOT to comply with federal driver license standards in the REAL ID Act of 2005. Absent this legislative action, Arizona driver licenses would have no longer been accepted at federally regulated facilities, such as airports and federal buildings. By issuing Arizonans a voluntary travel ID that will be available as both a driver license and identification card, the new federal documentation requirements will be met. To facilitate Arizona's compliance with federal law while ADOT develops the new travel IDs, the U.S. Department of Homeland Security granted Arizona an extension and will accept existing Arizona driver licenses until September 30, 2020.

Special Plates

In order to establish a special plate, a statutorily designated entity must pay a \$32,000 implementation fee. Of the \$25 annual fee for the special plate, \$8 is deposited in the State Highway Fund and \$17 is a donation to the specified charity. In FY 2016, the special plate program generated \$5,700,000 for the State Highway Fund and \$12,100,000 for charities.

Table 1

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 2016</u>	<u>Name</u>	<u>Number of Plates Issued in 2016</u>
AZ Professional Football Club	70,381	Veteran	73,320
Military Support/Scholarship	35,643	AZ Highways	26,669
AZ Centennial	9,925	Collegiate - University of Arizona	23,588
AZ Professional Baseball Club	9,178	Collegiate - AZ State University	17,760
Agricultural Youth Organization	8,772	Child Abuse Prevention	15,111
Transplantation Awareness	5,148	Families of Fallen Police Officers	14,289
AZ Professional Basketball Club	4,345	Spaying and Neutering of Animals	13,914
AZ Professional Hockey Club	3,032	Breast & Cervical Cancer	11,613
Extraordinary Educators	1,861	Golden Rule	11,367
Keep AZ Beautiful (anti-litter)	1,586	In God We Trust	10,027
Childhood Cancer Research	1,251	Environmental	8,386
AZ Motorsports Commemorative	978	AZ Sportsmen for Wildlife	8,307
Volunteer Firefighters	970	Fire Fighter	4,248
Hunger Relief	948	Collegiate - NAU	2,716
AZ Masonic Fraternity	702	Navajo Nation	2,236
Global Graduate Management	448	Character Education	1,756
AZ Public Broadcast Television	366	Women Veteran	1,552
Youth Development Organization	324	Choose Life	1,506
Health Sciences Educational	196	Fraternal Order of Police	841
Girls' Youth Organization	124	San Carlos Apache	516
AZ Professional Golf	113	White Mountain Apache Tribe	513
Collegiate - Community College	0	Gold Star Family	420
Regionally Accredited Institution	0	Farm Vehicle	392
Historic Federal Highway	0	University of Phoenix	135
First Responder	0	AZ Historical Society	125
Play Unified	0	National Guard	119
		Legion of Valor	6
		Don't Tread on Me	0
Total	156,291	Total	251,432

^{1/} Excludes 218,469 motorcycle safety special plates and 85,879 off-highway vehicle decals.

^{2/} Other special plates excluded: Amateur Radio Operator, Personalized Street Rod, Former Prisoner of War, Purple Heart Medal Recipient, Disability, Hearing Impaired, Classic Car, Congressional Medal of Honor, Energy Efficient (alternative fuel), Historic Vehicle, Honorary Foreign Consul, Horseless Carriage, Midwestern University, Pearl Harbor Survivor, and U.S. Marine Corps.

^{3/} The Emergency Medical Services and Multiple Sclerosis Awareness special plates did not raise sufficient funds to implement the plates.

As shown in *Table 1*, there are 54 special plate types with 407,723 vehicles supporting special plate charities. Revenue for many of the special plates is combined in ADOT's Statewide Special Plates Fund. Financial information for the rest of the special plates not included in ADOT's Statewide Special Plates Fund is found in individual agencies. When a state agency oversees a special plate fund, it appears in that agency's budget. If not, it appears in ADOT's Statewide Special Plate Fund.

The following 4 special plates were added in 2016:

- Regionally Accredited Institution of Higher Education (Laws 2016, Chapter 174)
- Historic Federal Highway Preservation (Laws 2016, Chapter 182)
- First Responder (Laws 2016, Chapter 182)
- Play Unified (Laws 2016, Chapter 182)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Air Quality Fund (DTA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: An annual \$1.50 air quality fee collected for each vehicle at the time of registration. ADOT is appropriated monies from the Air Quality Fund in the Department of Environmental Quality.		
Purpose of Fund: For tracking the availability and sales of oxygenated fuels to ensure that a sufficient supply is available for non-attainment areas of the state.		
Funds Expended	74,200	161,700
Year-End Fund Balance	72,700	74,000
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	4,654,900	4,762,800
Year-End Fund Balance	3,594,900	3,400,000
Bicycle Safety Fund (DTA3080/A.R.S. § 28-818)		Appropriated
Source of Revenue: Federal Funds, donations, monies from this state or any agency of this state for the Bicycle Safety Fund.		
Purpose of Fund: A.R.S § 28-818 establishes a Bicycle Safety Fund to plan, engineer, construct, and maintain bicycle paths. Subject to legislative appropriation, monies in the Bicycle Safety Fund may be used to match federal or local monies spent for these purposes or for safety programs.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Cash Deposits Fund (DTA2266/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Deposits from individuals either bidding at auction on department property or renting department property.		
Purpose of Fund: To hold deposits from individuals bidding on excess land and property for sale at auction, which are either applied against their purchase price or are returned to the individual if their bid is unsuccessful. Also, to hold deposits from individuals who rent department property. Their money is either refunded at the end of their tenancy or is used to offset repairs, if needed.		
Funds Expended	95,000	95,000
Year-End Fund Balance	400,000	431,000
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 2016 Actual	FY 2017 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	112,300	152,200
Year-End Fund Balance	106,400	107,400
Economic Strength Project Fund (DTA2244/A.R.S. § 28-7282)		Non-Appropriated
Source of Revenue: The fund receives \$1,000,000 each June 15 from the Highway User Revenue Fund and interest from investment of inactive balances.		
Purpose of Fund: For "economic strength" highway projects recommended by the Arizona Commerce Authority and approved by the State Transportation Board. These are projects that will retain or increase a significant number of jobs, lead to significant capital investment, or make a significant contribution to the economy of this state or within a local authority. Monies remaining in the Economic Strength Project Fund at the end of a fiscal year do not revert to the General Fund. <i>(See the ADOT Capital Outlay Budget section for expenditures.)</i>		
Funds Expended	0	0
Year-End Fund Balance	1,014,400	1,029,900
Federal Grants (DTA2097/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Federal grants, other than aviation federal grants.		
Purpose of Fund: For federal highway construction and maintenance; assistance to elderly and handicapped; rural public transit; technical studies; rail planning and rehabilitation; other planning; highway statistical reporting; fatal accident reporting; safety; commercial driver's license; library updates; and fuel tax evasion. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	2,262,100	1,664,700
Year-End Fund Balance	5,939,300	9,951,600
Highway Expansion and Extension Loan Program Fund (DTA2417/A.R.S. § 28-7674)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; monies received from the federal government, state agencies, political subdivisions and Indian tribes; interest; and public or private gifts, grants or donations.		
Purpose of Fund: To create a state infrastructure bank under the Federal State Infrastructure Bank Act to provide financial assistance to political subdivisions, Indian tribes and state agencies for eligible transportation projects. The fund makes loans to ADOT, cities, and other entities to accelerate highway construction projects. The loans are repaid from future programmed funds for those projects. The fund may be used to pay costs to administer the fund and shall pay costs of an annual financial audit of the fund.		
Funds Expended	0	0
Year-End Fund Balance	59,293,400	59,707,500
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	641,600	649,700
Year-End Fund Balance	110,606,200	109,951,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona International Development Authority Fund (DTA1994/A.R.S. § 41-4505)		Non-Appropriated
Source of Revenue: The fund consists of monies received from the federal government, tolls, fees, gifts, grants, donations from any public or private source, interest earnings, and any other monies received by the Arizona International Development Authority (AIDA).		
Purpose of Fund: To pay costs associated with the administration of the fund and to carry out the requirements of AIDA. Monies in the fund can also be used to provide grants or loans for international transportation and infrastructure projects. ADOT is required to provide staff support to AIDA including general administrative, office, equipment and staff support, using earnings from the fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Local Agency Deposits Fund (DTA3701/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Monies received from local jurisdictions.		
Purpose of Fund: To pay for locally sponsored secondary road construction projects. Any money left after the project is closed out is returned to the local entity. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	3,057,500	3,057,500
Year-End Fund Balance	14,386,900	15,287,200
Maricopa Regional Area Road Fund (DTA2029/A.R.S. § 28-6302)		Non-Appropriated
Source of Revenue: The fund consists of all transportation excise taxes collected pursuant to A.R.S. § 42-1482 and A.R.S. § 42-1482.01 that are designated for deposit in the Regional Area Road Fund in Maricopa County, plus proceeds from the sale of bonds, rents, and interest earnings.		
Purpose of Fund: For bond related expenses and for the design, purchase of right-of-way or construction of controlled access highways which are included in the county's regional transportation plan and accepted into the state highway system. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	58,483,800	58,483,800
Year-End Fund Balance	388,314,200	78,843,600
Motor Carrier Safety Revolving Fund (DTA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material; and monies received from private grants or donations.		
Purpose of Fund: To carry out the provisions of the chapter. DPS conducts investigations, the Motor Vehicle Division administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	0	0
Year-End Fund Balance	50,700	55,700
Motor Vehicle Liability Insurance Enforcement Fund (DTA2285/A.R.S. § 28-4151)		Appropriated
Source of Revenue: Fees received by the department pursuant to A.R.S. Title 28, Chapter 9, Article 4 (mandatory motor vehicle insurance), such as fees to reinstate drivers' licenses and vehicle registrations canceled due to lack of insurance.		
Purpose of Fund: For the department to enforce mandatory motor vehicle liability insurance laws.		
Funds Expended	1,065,700	1,308,700
Year-End Fund Balance	4,808,900	6,717,300
Railroad Corridor Acquisition Fund (DTA2493/Laws 2007, Chapter 267, Section 13)		Non-Appropriated
Source of Revenue: Legislative appropriation.		
Purpose of Fund: To contract studies related to the development of high-speed rail corridors within Arizona. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	900	1,000
Year-End Fund Balance	13,296,000	2,179,600
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	1,326,900	1,868,300
Year-End Fund Balance	521,300	1,261,200
Shared Location and Advertising Agreements Expense Fund (DTA2414/A.R.S. § 28-409)		Non-Appropriated
Source of Revenue: The fund consists of monies received from agreements with public and private entities for services located in department offices or to advertise those entities' goods and services.		
Purpose of Fund: To partially offset the department's cost of providing a location or advertising. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	2,000	0
Year-End Fund Balance	37,300	87,300
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	1,427,400	1,615,800
Year-End Fund Balance	8,232,400	7,269,500
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	324,591,400	348,128,300
Year-End Fund Balance	426,524,900	390,751,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	13,700	12,000
Year-End Fund Balance	29,300	29,500
Statewide Special Plates Fund (DTA2650/A.R.S. § 35-131)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of the special plate fees, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue special plates. Up to 10% of annual deposits may be used by ADOT to administer the fund. ADOT is to annually allocate fund monies, excluding administrative fees, through a statutorily designated entity.		
Funds Expended	2,032,700	2,381,000
Year-End Fund Balance	958,400	934,700
Transportation Department Equipment Fund (DTA2071/A.R.S. § 28-7006)		Appropriated
Source of Revenue: Equipment rental, sale at auction, insurance recoveries, donations, interest earnings, and monies appropriated by the Legislature (for purchase, repairs and maintenance).		
Purpose of Fund: For ownership, maintenance, service or repair of equipment and consumable material including administrative expenses.		
Funds Expended	16,805,100	18,474,600
Year-End Fund Balance*	728,500	(137,300)
Underground Storage Tank Revolving Fund (DTA3728/A.R.S. § 28-6007)		Non-Appropriated
Source of Revenue: The fund consists of Underground Storage Tank taxes paid by persons liable for motor/aviation fuel taxes; or persons who refine, manufacture or produce compounds, blend or import diesel (liquid petroleum).		
Purpose of Fund: For department administrative expenses. The department retains only administrative costs as determined by an intergovernmental agreement between ADOT and the Department of Environmental Quality.		
Funds Expended	0	0
Year-End Fund Balance	3,054,400	4,063,400
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	973,400	1,450,200
Year-End Fund Balance	1,893,000	2,525,000

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

State Treasurer

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.4	30.4	30.4
Personal Services	1,619,200	1,744,400	1,744,400
Employee Related Expenditures	629,700	771,400	771,400
Professional and Outside Services	96,800	52,000	52,000
Travel - In State	1,100	2,000	2,000
Travel - Out of State	4,700	5,000	5,000
Other Operating Expenditures	249,200	259,500	259,500
Equipment	89,900	0	0
OPERATING SUBTOTAL	2,690,600	2,834,300	2,834,300
SPECIAL LINE ITEMS			
Virtual Border Fence	219,200	0	0
Justice of the Peace Salaries	1,205,100	1,205,100	1,205,100
Law Enforcement/Boating Safety Fund Grants	1,929,600	2,183,800	2,183,800
AGENCY TOTAL	6,044,500	6,223,200	6,223,200
FUND SOURCES			
General Fund	1,205,100	1,205,100	1,205,100
<u>Other Appropriated Funds</u>			
Border Security Trust Fund	219,200	0	0
Law Enforcement and Boating Safety Fund	1,929,600	2,183,800	2,183,800
State Treasurer Empowerment Scholarship Account Fund	79,700	79,400	79,400
State Treasurer's Management Fund	196,600	195,600	195,600
State Treasurer's Operating Fund	2,414,300	2,559,300	2,559,300
SUBTOTAL - Other Appropriated Funds	4,839,400	5,018,100	5,018,100
SUBTOTAL - Appropriated Funds	6,044,500	6,223,200	6,223,200
Other Non-Appropriated Funds	4,342,400	4,445,600	4,445,600
TOTAL - ALL SOURCES	10,386,900	10,668,800	10,668,800

AGENCY DESCRIPTION — The State Treasurer is an elected Constitutional Officer. The primary responsibilities of the office are to receive and keep custody over all monies belonging to the state that are not required to be kept by another entity, to pay warrants of the Arizona Department of Administration, and to keep an account of all monies received and disbursed. The office also invests state monies and operates the Local Government Investment Pool (LGIP) for the benefit of participating units of local government.

Operating Budget

The Baseline includes \$2,834,300 and 30.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
State Treasurer Empowerment Scholarship Account (ESA) Fund	\$79,400
State Treasurer's Management Fund	195,600
State Treasurer's Operating Fund	2,559,300

These amounts are unchanged from FY 2017.

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 2017 is estimated to be as much as \$2,300,000 (an estimated \$46,000,000 ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer one-fifth of the 5% to the State Treasurer ESA Fund for the costs of ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. (Please see the Arizona Department of Education narrative for more information on ESAs.)

Justice of the Peace Salaries

The Baseline includes \$1,205,100 from the General Fund in FY 2018 for the Justice of the Peace (JP) Salaries Special Line Item. This amount is unchanged from FY 2017.

A.R.S. § 22-117 requires the state to pay 19.25% of the salary for each Justice of the Peace, with the county paying the remainder. This provision does not apply to Maricopa County, which pays 100% of its JP costs. A.R.S. § 22-117 also limits the amount that the state can reimburse to the counties to the amount appropriated.

Justice of the Peace salaries are based on a proportion of the annual compensation for a Superior Court judge as determined by the guidelines for Judicial Productivity Credits (JPCs) outlined in statute. JPCs are calculated every 2 years and are based on the total and type of cases that a Justice of the Peace hears and whether or not the Justice receives clerical help. An annual average JPC total is compared against the salary ranges in statute to determine an individual Justice's compensation.

The FY 2017 budget included a salary increase for Superior Court judges beginning with a 1.5% increase in January 2017 and a further 1.5% increase in January 2018. Justice of the Peace salaries are based on Superior Court judges' salaries and will increase correspondingly, thereby increasing the amount of salary paid for by the state. Prior to the increase, the estimated total state share of Justice of the Peace salaries was \$1,107,700 for FY 2017. When including the additional funds for a 3% salary increase, it is estimated that the \$1,205,100 FY 2018 JP salary appropriation will be sufficient to pay the state's share of JP salaries. As a result, the 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 2018 for the administration of the Law Enforcement/Boating Safety Fund grants. This amount is unchanged from FY 2017. A.R.S. § 5-383 requires the State Treasurer to administer LEBSF monies. However, the allocation determinations are made by the Arizona Game and Fish Commission. The Treasurer disburses monies to county law enforcement agencies in Apache, Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, and Yuma Counties in accordance with the distribution formula developed by the Arizona Game and Fish Commission. The FY 2016 and year-to-date FY 2017 allocations are included in *Table 1*. The distributions are less than the appropriations due to insufficient revenues.

Table 1

Allocation of LEBSF Grants

<u>County</u>	<u>FY 2016</u>	<u>FY 2017 Thru October 14</u>
Apache	\$ 56,000	\$ 18,800
Coconino	180,600	60,500
Gila	184,800	61,900
La Paz	346,200	115,900
Maricopa	362,600	121,400
Mohave	547,000	183,200
Navajo	64,000	21,400
Yuma	<u>188,300</u>	<u>63,000</u>
Total	\$1,929,500	\$646,100

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1,500,000 from FY 2022 through FY 2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to be used to promote an auto racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, the bill requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year.

In November 2016, the parent company of Phoenix International Raceway (PIR), International Speedway Corporation, announced plans to make \$178.0 million in renovations to the raceway. PIR hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to PIR are expected to start in early 2017 and conclude by 2019.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Border Security Trust Fund (TRA2549/A.R.S. § 41-113)		Appropriated
<i>Source of Revenue:</i> Public and private donations.		
<i>Purpose of Fund:</i> To provide funding for the construction of a physical or virtual fence along the Arizona-Mexico border.		
Funds Expended	219,200	0
Year-End Fund Balance	55,600	55,600
Criminal Justice Enhancement Fund (TRA3702/A.R.S. § 41-2401)		Non-Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> For distribution to counties for the training of detention officers and county jail operational enhancement.		
Funds Expended	4,342,400	4,342,400
Year-End Fund Balance	0	0
Law Enforcement and Boating Safety Fund (TRA2111/A.R.S. § 5-383)		Appropriated
<i>Source of Revenue:</i> A portion of watercraft licensing taxes and fines for operating motorized watercraft while under the influence.		
<i>Purpose of Fund:</i> 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	1,929,600	2,183,800
Year-End Fund Balance	0	0
Public Deposit Administration Fund (TRA2574/A.R.S. § 35-1212)		Non-Appropriated
<i>Source of Revenue:</i> Pro Rata fees assessed to participants in the Statewide Collateral Pool and interest.		
<i>Purpose of Fund:</i> 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	103,200
Year-End Fund Balance	146,000	192,800
Arizona Public School Credit Enhancement Fund (TRA2675/A.R.S. § 15-2154)		Non-Appropriated
<i>Source of Revenue:</i> Revenues include fees paid by participating schools, repayments of monies used to make payments of principle 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) provides a one-time transfer of \$23,900,000 from the Access Our Best Public Schools Fund to the Arizona Public School Credit Enhancement Fund in FY 2017.		
<i>Purpose of Fund:</i> To make payments of principle 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	0	23,900,000
State Treasurer Empowerment Scholarship Account Fund (TRA2570/A.R.S. § 15-2402)		Appropriated
<i>Source of Revenue:</i> Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C.		
<i>Purpose of Fund:</i> To fund the State Treasurer's cost of administering the Empowerment Scholarship Accounts program authorized by A.R.S. § 15-2402. The Arizona Department of Education (ADE) also transfers monies to the State Treasurer each quarter for funding Empowerment Scholarship Accounts for individual students. Those monies are not displayed to avoid double counting of the General Fund (see also the "Department of Education Empowerment Scholarship Account Fund" in the Summary of Funds for ADE).		
Funds Expended	79,700	79,400
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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 the LGIP.		
Funds Expended	196,600	195,600
Year-End Fund Balance	377,700	377,700
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	2,414,300	2,559,300
Year-End Fund Balance	583,800	570,800

Governor's Office on Tribal Relations

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	22,400	28,000	28,000
Employee Related Expenditures	9,900	10,600	10,600
Professional and Outside Services	100	0	0
Travel - In State	1,700	1,500	1,500
Travel - Out of State	500	0	0
Other Operating Expenditures	22,200	17,400	17,400
AGENCY TOTAL	56,800	57,500	57,500
FUND SOURCES			
General Fund	56,800	57,500	57,500
SUBTOTAL - Appropriated Funds	56,800	57,500	57,500
Other Non-Appropriated Funds	21,000	13,500	13,500
TOTAL - ALL SOURCES	77,800	71,000	71,000

AGENCY DESCRIPTION — The agency assists and supports tribal nations and communities and enhances government-to-government relations between the tribal nations in this state.

Operating Budget

* * *

The Baseline includes \$57,500 and 3 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from 2017.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Indian Town Hall Fund (IAA4014/A.R.S. § 41-545)		Non-Appropriated
Source of Revenue: Monies collected or received at Indian town halls as fees for administration.		
Purpose of Fund: To defray administrative costs related to Indian town halls.		
Funds Expended	0	0
Year-End Fund Balance	100	100
Publications Fund (IAA4013/A.R.S. § 41-543)		Non-Appropriated
Source of Revenue: Sale of commission publications.		
Purpose of Fund: To produce and distribute commission publications. At fiscal year end, amounts in excess of \$15,000 revert to the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	1,000	1,000
Statewide Donations Fund (IAA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies from booth space at Indian Nations and Tribes Legislative Day. Additional funds are obtained from outside sources such as the 22 tribes and nations of Arizona, as well as private corporations.		
Purpose of Fund: To pay for expenses incurred for Indian Nations and Tribes Legislative Day. Arizona Commission of Indian Affairs is required by statute to facilitate this day on the second Tuesday of each regular legislative session.		
Funds Expended	21,000	13,500
Year-End Fund Balance	5,200	5,200

Arizona Board of Regents

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,509,500	1,475,100	1,475,100
Employee Related Expenditures	527,500	545,500	545,500
Professional and Outside Services	42,100	55,000	55,000
Other Operating Expenditures	273,400	276,900	276,900
OPERATING SUBTOTAL	2,352,500	2,352,500	2,352,500
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	5,000,000	5,000,000
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	141,000	145,000	145,000
WICHE Student Subsidies	4,090,000	4,086,000	4,086,000
AGENCY TOTAL	21,928,400	21,928,400	21,928,400
FUND SOURCES			
General Fund	21,928,400	21,928,400	21,928,400
SUBTOTAL - Appropriated Funds	21,928,400	21,928,400	21,928,400
Other Non-Appropriated Funds	4,629,500	8,089,200	6,039,200
Federal Funds	2,357,300	1,168,200	56,700
TOTAL - ALL SOURCES	28,915,200	31,185,800	28,024,300

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 2018 for the operating budget. These amounts are unchanged from FY 2017.

Arizona Teachers Incentive Program

The Baseline includes \$90,000 from the General Fund in FY 2018 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2017.

Laws 1990, Chapter 340 mandated that ABOR establish and administer a loan program for students of deaf and blind education at the UA College of Education. Students may earn forgiveness for their loans by teaching in an Arizona deaf and blind program for a time equal to their period of loan support. In FY 2016, ATIP distributed \$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 2018 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2017.

A.R.S. § 15-1824 establishes ATASS as a joint initiative, among the public community colleges and universities, to facilitate efficient transfer of course curricula and credits. ATASS is also developing a shared statewide student and financial information database. The tribal colleges and community college districts overall contributed \$277,200 to the system in FY 2016 and are projected to also contribute \$277,200 in both FY 2017 and FY 2018.

Performance Funding

The Baseline includes \$5,000,000 from the General Fund in FY 2018 for the Performance Funding line item. This amount is unchanged from FY 2017.

The FY 2017 appropriation of \$5,000,000 to ABOR was distributed as follows:

- \$2,348,800 to ASU - Tempe/Downtown Phoenix (DPC)
- \$165,300 to ASU - East
- \$190,900 to ASU - West
- \$1,090,000 to NAU
- \$1,205,000 to UA - Main

The FY 2017 performance funding allocation was identical to the allocations in FY 2014 through FY 2016. The FY 2017 budget included a footnote that required ABOR to allocate these funds similar to the FY 2016 distribution.

The FY 2013 General Appropriation Act (Laws 2012, Chapter 294) included an initial \$5,000,000 for performance funding that was reallocated from university base budgets to ABOR to fund the line item. These monies were allocated as follows:

- \$2,192,000 to ASU - Tempe/DPC
- \$156,300 to ASU - East
- \$271,700 to ASU - West
- \$1,035,000 to NAU
- \$1,345,000 to UA - Main

Only the FY 2013 performance funding monies were appropriated directly to each university. They have since become part of their base budgets and therefore are not included in this line item. Another \$5,000,000 was appropriated to this line item in the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) and continued in subsequent budgets. Continuing General Appropriation Act footnotes since FY 2014 have directed ABOR to allocate this additional funding in accordance with a performance funding model similar to the previous year. Unlike the first \$5,000,000 that became part of universities' base budgets, the second \$5,000,000 has been retained in ABOR's budget at the beginning of each fiscal year to be redistributed again in a manner similar to the performance funding model of the prior year.

In summary, the FY 2013 - FY 2017 budgets have provided a total increase of \$10,000,000 from the General Fund for performance funding. Of that amount, \$5,000,000 has been allocated to individual campuses and included in their base budgets and \$5,000,000 remains in ABOR.

(Please see the Background below and the Footnotes section for more information.)

Background – The FY 2013 Higher Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 301) required ABOR and the universities to adopt a performance funding model by July 1, 2012. The model uses performance metrics that include the increase in degrees awarded, the increase in completed student credit hours, and the increase in externally generated research and public service funding, and may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy. Continuing General Appropriation Act footnotes have required that:

- ABOR report the final allocation of performance funding to the JLBC by July 1 of each year;
- The allocation model be similar to that used in the previous fiscal year (which ultimately ties the funding allocation to the FY 2014 model); and
- Take into account the metrics outlined in a separate footnote stating legislative intent.

A budget footnote since FY 2014 requires that ABOR use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities.

In their FY 2017 and FY 2018 budget requests, the universities did not use the performance model and instead proposed an alternate funding formula that is tied to resident student enrollment. The FY 2017 budget used resident student enrollment as the basis of allocating the \$8,200,000 of additional resources distributed to the universities in FY 2017. *(Please see FY 2017 Appropriation Report for more information.)*

Student Financial Assistance

The Baseline includes \$10,041,200 from the General Fund in FY 2018 for Student Financial Assistance. This amount is unchanged from FY 2017.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The Arizona Financial Aid Trust (AFAT) fee is 1% of the full-time resident undergraduate tuition rate, or \$76-\$107 in FY 2017 on the main campuses, depending on the university. All students pay roughly the same fee, except part-time students, who pay

half the regular fee. The Baseline would continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2018.

AFAT retains 25% of all annual receipts as an endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy in-state students. In FY 2016, AFAT disbursed \$20,284,852. (Please see Table 6 for additional information on financial aid.)

Western Interstate Commission Office

The Baseline includes \$145,000 from the General Fund in FY 2018 for the Western Interstate Commission Office. This amount is unchanged from FY 2017.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies

The Baseline includes \$4,086,000 from the General Fund in FY 2018 for WICHE student subsidies. This amount is unchanged from FY 2017.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not currently offer programs in dentistry, optometry, osteopathy, podiatry, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

In FY 2017, ABOR is providing subsidies to 166 Arizona students, which is (5) fewer than FY 2016. Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 100% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes
Performance Funding

The Arizona Board of Regents shall allocate the \$5,000,000 appropriation for performance funding to the 3 universities under its jurisdiction in accordance with a performance funding model to be adopted by the board that is substantially similar to what the board used in allocating the performance funding appropriation for FY 2017.

It is the intent of the Legislature that the Arizona Board of Regents adopt a performance funding model and report to the Joint Legislative Budget Committee the final allocation of the \$5,000,000 performance funding lump sum appropriation on or before July 1, 2017. The formula shall be consistent with board objectives previously adopted in the board's enterprise plan. The performance funding model shall use select performance metrics that include, at a minimum, the increase in degrees awarded, the increase in completed student credit hours and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy.

It is further the intent of the Legislature that the Arizona Board of Regents use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities under the jurisdiction of the Arizona Board of Regents.

ABOR Specific

Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan for review to the Joint Legislative Budget Committee. The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year. The additional revenue expenditure plan shall provide as much detail as the university budget requests. 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, ALL SUMMER SESSION FEES, AND ALL OTHER MISCELLANEOUS AND MANDATORY STUDENT FEE REVENUES THAT HAVE PREVIOUSLY BEEN EXCLUDED FROM UNIVERSITY REPORTED TUITION AND FEE REVENUES. (Please see Tuition Revenue the 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

The state General Fund appropriation may not be used for alumni association funding.

The appropriated monies may not be used for scholarships or any student newspaper.

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 collections account on June 30, 2017 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. ~~Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (The eliminated language has been carried forward from prior years' footnotes but is superfluous.)~~

STATUTORY CHANGES

The Baseline would, as session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into AFAT. Based on student fees contributed to AFAT in FY 2016, the state's match would grow to \$30,561,600 or an increase of \$20,520,400 over the current appropriation in FY 2018.

Other Potential Statutory Changes

The Legislature may consider revising A.R.S. § 15-1670 to clarify the definition of "income" received by the universities for licensure and royalty payments and the sale or transfer of intellectual property that is subject to distribution to the General Fund. (Please see *Intellectual Property & Technology Transfer Royalties in Other Issues* for more information).

The Legislature may consider revising A.R.S. § 15-1683 to modify the universities' debt ratio limit to more accurately capture the universities' indebtedness and resources available to pay debt service amounts. (Please see *University Debt Ratio Policy in Other Issues* for more information.)

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2015 Operating Appropriation
- Land Trust Funds
- Resident Student Funding
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- One-Time Funding
- Intellectual Property & Technology Transfer Royalties
- University Debt Ratio Policy
- FY 2017 General Fund Appropriation Adjustments
- University System Summary Tables

Long-Term Budget Impacts

Beyond FY 2018 Baseline changes, the JLBC Staff estimates universitywide costs to decrease by \$(900) in FY 2019 from FY 2018, and to decrease by \$(19,900) in FY 2020. These estimates are based on decreases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 and FY 2020 relative to FY 2018. The universities refinanced their Research Infrastructure payments in 2014 and 2015, with the largest annual savings occurring in FY 2015 through FY 2017. (Please see *2003 Research Infrastructure Refinancing* for more information.)

FY 2015 Operating Appropriation

The FY 2015 budget increased General Fund support for university operations by \$4.5 million. Of that amount, ASU received \$2.0 million, NAU \$500,000, and UA \$2.0

million. A footnote in the FY 2015 General Appropriation Act continued this appropriation in FY 2016 and FY 2017.

The Baseline incorporates these amounts into the university base budgets in FY 2018. If approved by the Legislature, this funding would appear in the FY 2018 General Appropriation Act.

Land Trust Funds

As a beneficiary of the Arizona State Land Trust, ABOR receives monies generated from lease revenues and the proceeds from land sales that are invested into "permanent funds," pursuant to Article X, Section 7 of the Arizona Constitution.

ABOR distributes state land trust monies to the universities from 6 funds. These distributions are allocated to the universities in accordance with A.R.S. § 15-1662, 15-1663, and ABOR Policy 3-606. The universities' land trust monies are non-appropriated. ABOR may expend them "as it deems expedient," with 1 exception: the Universities Land Fund. This fund is comprised of the University Land Code and the UA Land - 1881 Fund. All proceeds in the Universities Land Fund, including the UA Land - 1881 Fund, are distributed proportionately among the 3 universities based upon the total student credit hours in the fall semester of the previous year. The Universities Land Fund provides matching funds for the interest earned on nonpublic endowment monies donated to attract and retain faculty, otherwise known as the Eminent Scholars Program.

ABOR received a total of \$5,160,100 in its land trust funds in FY 2015. (Please see Table 1 for more information.)

As approved by the voters in May 2016, Proposition 123 increased the Treasurer's annual distribution rate from

Table 1

State Land Trust Revenues: Universities ^{1/}

	<u>FY 2015</u>	<u>FY 2018</u>
Military Institute	\$ 83,800	\$ 121,200
Normal Schools	296,600	571,800
A&M Colleges	445,100	913,900
School of Mines ^{2/}	499,800	1,056,400
Universities Land Fund	3,834,800	8,787,100
University Land Code	2,175,400	2,682,500
U of A Land - 1881	1,659,400	6,104,600
Total	\$ 5,160,100	\$ 11,450,500

^{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

the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

The funds will have estimated revenues of \$11,450,500 in FY 2018. (Please see the Land Department narrative for more information.)

Resident Student Funding

Contrary to a General Appropriation Act footnote, ABOR did not use its adopted performance funding model in developing and submitting the universities' FY 2017 and FY 2018 budget requests. Instead, ABOR requested state funding based on the number of resident students enrolled at each campus.

ABOR states that as of FY 2016, the average education cost per resident undergraduate student at a state university is \$15,550, of which the state General Fund is estimated to contribute \$5,300 per student, tuition and fees cover approximately \$7,750, and the universities pay the remaining \$2,500. The universities primarily cover this amount by charging non-resident students tuition and fees beyond the average education cost.

ABOR requested additional state funding to increase the state share of resident students, with a goal that the state would eventually bear 50% of the total educational costs.

The Baseline maintains the current performance-funding allocations as well as the footnote requirement that ABOR adopt a performance based funding model when developing and submitting university budget requests. (Please see Performance Funding narrative above for more information.)

Tuition Revenues

The FY 2017 Higher Education BRB 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 to 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 Higher Education BRB also amended A.R.S. § 55-146 to eliminate the requirement that the universities remit appropriated tuition revenues to the Treasurer, also effective beginning FY 2019. This provision does not change the current split between appropriated and non-appropriated tuition monies.

FY 2018 gross tuition and fees are projected to be \$2.4 billion. Of this amount, \$1.3 billion is appropriated while \$1.1 billion is non-appropriated. These amounts exclude revenues from course fees, most summer session revenues, non-degree, extended education, personalized learning, mandatory fees and other miscellaneous student fees, which the universities do not identify among the reported tuition and student fees in either their annual budget requests or tuition revenue report. The excluded revenues equal approximately 15% of the reported tuition and fee revenues. In FY 2015, the excluded revenues totaled approximately \$430 million.

The Baseline would modify the General Appropriation Act footnote that requires ABOR to submit a report on tuition revenues to also include the previously excluded fee revenues in its FY 2018 report. *(Please see the Footnotes section above for more information.)*

The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities would constitute net tuition. The universities provided \$622.3 million in tuition waivers and awards in FY 2016.

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated for FY 2008 to FY 2031 monies to the universities each year for lease-purchase capital financing of research infrastructure projects such as installations

and facilities for the continuance and growth of scientific and technological research activities.

The Baseline includes an increase of \$4.2 million from the General Fund in FY 2018 to adjust appropriations for research infrastructure lease-purchase payments to the universities' actual debt service obligations.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to the universities' current debt service schedules. *(Please see Table 2 for more information.)*

The \$4.2 million increase in the FY 2018 Baseline reflects the additional costs in FY 2018 beyond those of FY 2017. Of this amount, the General Fund appropriations are adjusted \$2,290,700 for ASU, \$1,649,700 for NAU, and \$270,900 for UA in FY 2018 compared to FY 2017.

The average annual savings of the new debt service appropriation for all remaining payments compared to the original appropriation is \$(2.0) million. The majority of the savings come from ASU and NAU. *(Please see Capital Outlay - Arizona Board of Regents section for additional information.)*

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.

One-Time Funding

Section 149 of the FY 2017 General Appropriation Act appropriated \$19.0 million to the universities from the General Fund in FY 2017 for one-time operating expenditures or capital improvements. Of this amount, \$8.0 million was appropriated to UA, \$7.0 million to ASU, and \$4.0 million to NAU. *(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 constructed under A.R.S. § 15-1670 *(please see 2003 Research Infrastructure Refinancing section above for more information)*, Laws 2003, Chapter 267 requires 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

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.

fiscal year (not to exceed the state's annual General Fund appropriation for the research facilities).

While not defined in statute, the universities have interpreted "income" as gross royalties net of expenditures on legal fees (required to secure patents, etc.), the costs of managing the technology transfer process, and distributions of revenues to the inventors and their laboratories.

In terms of FY 2016 gross royalty revenues, ASU reported \$10.8 million of licensing and royalty revenues, NAU reported \$5,290 of licensing and royalty revenue, and UA reported \$2.0 million of licensure, royalty, and assignment revenues.

In terms of net income, NAU and UA both reported a loss in FY 2016. ASU reported a net income of \$603,000 in FY 2016. ASU did not deposit any portion of these monies into the General Fund, citing a \$40.3 million cumulative net loss from prior years. Statute does not provide, however, for offsetting annual income with prior year losses.

The original intent of A.R.S. § 15-1670 was to reimburse the General Fund for its investments made in the universities' research facilities. However, the universities' current policy effectively precludes reimbursement. As a result, the Legislature may wish to clarify the intended definition of income and which, if any, expenditure deductions shall be included in the calculation of income.

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.

While the policy is intended to limit the universities' indebtedness, the ratio does not align the required debt service requirements with the resources available to make those payments.

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.

This language excludes capital leases from the debt service total and overstates the resources available for debt payments by including research grant monies and other restricted funds among the total expenditures.

The universities' FY 2016 Debt Capacity Reports project expected debt ratios through FY 2025. The rate and year in which each university is projected to have its highest debt ratio is as follows:

- ASU: 4.8% (5.2% with SPEED) in FY 2019
- NAU: 5.4% (7.4% with SPEED) in FY 2018
- UA: 5.3% (6.6% with SPEED) in FY 2017

(Please see *Capital Outlay - Arizona Board of Regents section for additional information on the universities debt and debt service payments.*)

The Legislature may wish to consider adjusting the statutory debt ratio calculation to more closely align the universities' debt service payments with the resources available to cover them. For example, bond rating agencies' methodologies for evaluating the creditworthiness of higher education institutions include measures such as "Expendable Financial Resources to Debt," which incorporate unrestricted and expendable assets—rather than all funds—into their calculations.

Such a change would also more closely align with ABOR's own debt ratio policy that was in existence prior to 2007, which included all debt service and capital lease payments as a proportion of total university unrestricted current expenditures and mandatory transfers. ABOR limited each university's debt service under this methodology to 10.0% of its available resources.

FY 2017 General Fund Appropriation Adjustments

The allocations of statewide adjustments made in the FY 2017 General Appropriation Act and displayed in the *FY 2017 Appropriations Report* were subsequently reallocated among the ASU campuses. While the university's total appropriation remains unchanged, the allocations by campus have been incrementally revised as follows:

- ASU - Tempe/DPC: \$110,700
- ASU - East: \$(52,200)
- ASU - West: \$(58,500)

University System Summary Tables

The University Summary Tables address the following:

- Total Spending Authority
- Tuition Distribution
- Tuition Rates
- Financial Aid
- Enrollment

Total Spending Authority

In total, the Universities' total projected spending authority in FY 2018 is \$6.11 billion, including \$683.7 million from the General Fund and \$2.42 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2018 tuition rate changes. *Table 3* summarizes the FY 2018 expenditure authority amounts for the Arizona University System.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes financial aid, facilities (plant fund), debt service, and some of their operating budget. Total tuition collections for the Arizona University System equal an estimated \$2.35 billion in FY 2017 and \$2.42 billion in FY 2018 (*please see Table 4*). The FY 2018 amount is not adjusted for any FY 2018 tuition rate changes.

Tuition Rates

ABOR approved FY 2017 tuition rates on April 7, 2016.

- Over the previous 7 years, NAU has maintained a guaranteed tuition model for incoming freshmen. NAU increased tuition by 3.9% for new undergraduate resident students.
- UA began a similar program in FY 2015. UA increased tuition by 3.2% for new resident undergraduate students.
- For FY 2016, ASU resident undergraduate students did not see a tuition increase, but were charged a one-year \$320 tuition surcharge fee (representing a 3.2% increase to tuition and mandatory fees). This surcharge was reduced to \$270 in FY 2017, but total tuition and fees for resident undergraduates increased 1.5% in FY 2017.

Table 5 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.4 billion in financial aid in FY 2016. Of the \$2.4 billion total financial aid distributions in FY 2016, the federal government financed \$1.0 billion and university institutional sources provided \$808 million. The latter includes \$622 million of foregone tuition collections in the form of waivers and awards. (*Please see Table 6 for details.*)

Enrollment

Between fall 2015 and fall 2016, university enrollment increased from 157,877 FTE to 165,153, or 4.6%, as displayed in *Table 7*. Spring enrollment is traditionally lower than the fall.

Table 3

FY 2018 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total ^{3/}
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 21,928,400	\$ 0	\$ 0	\$ 56,700	\$ 6,039,200	\$ 28,024,300
ASU-Tempe/DPC	248,942,600	593,126,200	0	339,838,100	1,301,471,700	2,483,378,600
ASU-East	22,523,100	42,303,300	2,000,000	10,151,400	57,211,500	134,189,300
ASU-West	29,222,600	44,190,500	1,600,000	13,685,700	123,179,800	211,878,600
NAU	102,876,700	147,283,300	0	89,980,200	301,915,000	642,055,200
UA-Main	189,330,500	405,141,100	0	227,529,600	1,118,100,000	1,940,101,200
UA-Health Sciences	<u>68,859,800</u>	<u>47,491,400</u>	<u>0</u>	<u>122,122,900</u>	<u>428,965,100</u>	<u>667,439,200</u>
Total	\$683,683,700	\$1,279,535,800	\$3,600,000	\$803,364,600	\$3,336,882,300	\$6,107,066,400

- ^{1/} Appropriated share of tuition and mandatory registration fees comprise \$1,275,076,700 of the total Collections Fund spending authority. The remaining authority is derived from miscellaneous fees. This amount excludes FY 2017 tuition rate changes.
- ^{2/} Expenditures of non-appropriated funds include transfers of funds to non-operating accounts for capital and debt service expenses, which were excluded in prior years' analyses. The total expenditures of gross non-appropriated tuition are estimated to be \$1,131,520,000 in FY 2018 and are reflected in Table 4. This amount excludes FY 2018 tuition rate changes. This amount also excludes tuition and fee revenue derived from course fees, most summer session revenues, non-degree, extended education, personalized learning, mandatory fees and other miscellaneous student fees. These amounts equal approximately 15% of tuition revenues and were approximately \$430 M as of FY 2015. The excluded tuition and fee monies are included among the other non-appropriated funds total.
- ^{3/} Total universitywide funding includes gross tuition revenues. The net tuition amount received by the universities after accounting for tuition waivers and other scholarships they provided was \$622 M less as of FY 2016.

Table 4

Gross Tuition Revenue Allocation

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
<u>Appropriated</u>			
Operating Budget	\$1,157,209,800	\$1,275,076,700 ^{1/}	\$1,275,076,700 ^{2/}
<u>Non-Appropriated ^{3/}</u>			
Operating Budget	\$ 286,862,100	\$ 335,430,200	\$ 351,333,100
Financial Aid	544,502,700	621,336,700	665,091,400
Plant Fund	25,776,500	25,776,500	26,276,500
Debt Service	<u>97,819,100</u>	<u>88,319,000</u>	<u>88,819,000</u>
<i>Subtotal</i>	\$ 954,960,400	\$1,070,862,400	\$1,131,520,000
Total ^{4/ 5/}	\$2,112,170,200	\$2,345,939,100	\$2,406,596,700

- ^{1/} This amount reflects appropriated gross tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its December 2016 meeting, excluding miscellaneous revenues such as federal agriculture payments and land grant monies that the universities report as part of collections.
- ^{2/} The appropriated tuition and fees amount is the FY 2017 amount carried forward and does not reflect FY 2018 tuition adjustments that will be considered by ABOR in the spring of 2017.
- ^{3/} The source for these non-appropriated amounts are the universities' FY 2018 budget requests from October 2016. These amounts reflect the *expenditures* of tuition monies and therefore differ by approximately \$15 million in FY 18 from the *gross revenues* collected due to the universities maintaining a reserve of funds.
- ^{4/} Excludes several categories of student fee revenues, including course fees, most summer session revenues, and other miscellaneous and mandatory fees that the universities omit from reported tuition totals in their annual budget requests and tuition revenue report. These excluded revenues equal approximately 15% of tuition and fee revenues. As of FY 2015, the excluded revenues equaled approximately \$430 million.
- ^{5/} The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities would constitute net tuition. The FY 2016 ABOR Financial Aid Report states that the universities provided \$622.3 million in tuition waivers and awards in FY 2016.

Table 5

**Arizona University System
FY 2017 Undergraduate and Graduate Tuition ^{1/}**

	<u>Resident Undergraduate</u>		<u>Resident Graduate</u>		<u>Non-Resident Undergraduate</u>		<u>Non-Resident Graduate</u>	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,640 ^{2/}	1.5%	\$11,756	1.3%	\$26,470 ^{3/}	4.0%	\$28,862	4.0%
NAU	\$10,764	3.9%	\$9,989	4.0%	\$24,144	3.4%	\$21,976	3.4%
UA	\$11,769	3.2%	\$12,383	2.8%	\$34,967	7.2%	\$32,135	5.8%

^{1/} Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class, whereas ASU does not.

^{2/} FY 2016 one-year \$320 surcharge reduced to \$270 in FY 2017. Overall tuition and fee increase of 1.5% for ASU undergraduate resident students.

^{3/} ABOR approved a rate of \$28,270 for international undergraduate students at ASU.

Table 6

**FY 2016 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}**

	<u>Federal</u>	<u>State ^{2/}</u>	<u>Institutional ^{3/}</u>	<u>Private/Other ^{4/}</u>	<u>Total</u>
Grants	\$260,432.9	\$765.1	\$622,274.3	\$222,600.4	\$1,106,072.7
Loans	776,726.5	186.6	0.0	316,629.5	1,093,542.6
Employment	<u>9,126.6</u>	<u>0.0</u>	<u>185,816.9</u>	<u>0.0</u>	<u>194,943.5</u>
Total	\$1,046,286.0	\$951.7	\$808,091.2	\$539,229.9	\$2,394,558.8 ^{5/}

^{1/} Information from ABOR FY 2016 Financial Aid Report.

^{2/} State sources of aid include revenues from the Commission for Postsecondary Education.

^{3/} Institutional sources of aid include revenues from: Local Retention, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.

^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

^{5/} Numbers do not add due to rounding.

Table 7

Arizona University System 45th Day Enrollment ^{1/}

	<u>Fall 2015</u>	<u>Spring 2016</u>	<u>Fall 2016 ^{2/}</u>	<u>Fall 2015 to Fall 2016</u>	<u>FY 2015 – 2016 Residents ^{3/}</u>
ASU-Tempe / DPC	73,956	72,556	78,446	6.1%	39,891
ASU-East	6,565	6,490	7,069	7.7%	4,401
ASU-West	7,992	7,873	8,537	6.8%	3,723
NAU	27,212	26,400	28,598	5.1%	17,238
UA-Main	38,593	37,515	38,668	0.2%	22,130
UA-Health Sciences	<u>3,559</u>	<u>3,528</u>	<u>3,835</u>	<u>7.7%</u>	<u>2,752</u>
Total	157,877	154,361	165,153	4.6%	90,135

^{1/} Adjusted FTE counts do not include students with excess credit hours.

^{2/} Fall 2016 enrollment numbers from ABOR Fall 2016 Enrollment Report. Adjusted fall 2016 FTE counts not yet available. UA-Main and UA-HSC fall 2016 enrollment imputed from total reported UA enrollment.

^{3/} FY 2015-2016 resident FTE counts from FY 2016 Auditor General Full-Time Equivalent Student Enrollment Report.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Arizona Health Education Center Program Fund (BRA2/A.R.S. § 5-522)		Non-Appropriated
Source of Revenue: Lottery proceeds.		
Purpose of Fund: To provide funding for the 5 Arizona Area Health Education Centers, which work to improve healthcare access for rural and underserved communities. These funds are passed through to the universities, and therefore expenditures are not displayed to avoid double counting. Pass-through funds totaled \$4,817,953 in FY 2016 and are expected to be \$4,921,788 in FY 2017 and \$5,024,094 in FY 2018.		
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	2,357,300	1,168,200
Year-End Fund Balance	338,900	56,700
Hospitality Studies Scholarship Fund (No Fund Number/A.R.S. § 15-1650.01)		Appropriated
Source of Revenue: Revenues available from any lawful source. ABOR shall administer the fund and may partner with any statewide lodging and tourism association that provides matching monies in administering the fund.		
Purpose of Fund: To provide scholarships and other financial assistance to students in a hospitality studies program at any university under the jurisdiction of ABOR. The financial assistance shall be used to defray educational expenses, including room and board.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	2,787,400	4,116,100
Year-End Fund Balance	1,761,700	1,592,000
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 \$69,703,800 in FY 2016 and are estimated to be \$70,296,000 in FY 2017 and \$74,296,000 in FY 2018.		
Purpose of Fund: To provide grants for university technology and research initiatives, with preference given to federal or private partnerships, as well as to programs for non-traditional students; also, for up to 20% of fund monies, to support capital projects, including debt service, relating to technology and research. The displayed expenditures represent only that portion of tax receipts utilized by ABOR. The board transfers all other receipts to university Restricted Funds, which reflect those monies.		
Funds Expended	1,842,100	3,973,100
Year-End Fund Balance	3,040,900	1,067,800
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 - Tempe/DPC

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,552.6	6,862.9	6,862.9
Personal Services	404,276,200	418,082,200	418,082,200
Employee Related Expenditures	127,474,000	133,667,900	133,667,900
Professional and Outside Services	33,344,600	31,694,000	31,694,000
Travel - In State	192,900	36,300	36,300
Travel - Out of State	3,010,700	2,791,600	2,791,600
Other Operating Expenditures	60,543,300	66,292,600	66,292,600
Equipment	22,980,200	25,552,700	25,552,700
OPERATING SUBTOTAL	651,821,900	678,117,300	678,117,300
SPECIAL LINE ITEMS			
Biomedical Informatics	2,703,800	3,509,900	3,509,900
Downtown Phoenix Campus	111,441,900	144,877,600	144,877,600
Elimination of Payment Deferral	74,760,400	0	0
One-Time Funding	0	7,000,000	0
Research Infrastructure Lease-Purchase Payment	10,509,100	10,273,300	12,564,000
School of Civic and Economic Thought and Leadership	0	3,000,000	3,000,000
AGENCY TOTAL	851,237,100	846,778,100	842,068,800
FUND SOURCES			
General Fund	315,844,800	253,651,900	248,942,600
<u>Other Appropriated Funds</u>			
University Collections Fund	535,392,300	593,126,200	593,126,200
SUBTOTAL - Other Appropriated Funds	535,392,300	593,126,200	593,126,200
SUBTOTAL - Appropriated Funds	851,237,100	846,778,100	842,068,800
Other Non-Appropriated Funds	1,120,464,900	1,228,083,900	1,301,471,700
Federal Funds	350,374,000	339,838,100	339,838,100
TOTAL - ALL SOURCES	2,322,076,000	2,414,700,100	2,483,378,600

AGENCY DESCRIPTION — Established in 1885, Arizona State University (ASU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, ASU offers 326 Baccalaureate, Master's, Doctoral and first professional degree programs, and 113 undergraduate and graduate certificate programs to 76,844 full- and part-time students at its Tempe Campus. The Downtown Phoenix Campus (DPC), budgeted as a unit of the Tempe Campus, offers 77 degree programs and 51 certificate programs to 28,746 full- and part-time students.

Operating Budget

The Baseline includes \$678,117,300 and 5,684.0 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$216,908,500
University Collections Fund	461,208,800

These amounts are unchanged from FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university

tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Biomedical Informatics

The Baseline includes \$3,509,900 and 24.9 FTE Positions in FY 2018 for the Biomedical Informatics Department. These amounts consist of:

General Fund	2,133,100
University Collections Fund	1,376,800

These amounts are unchanged from FY 2017.

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 \$144,877,600 and 1,135 FTE Positions in FY 2018 for programs headquartered at the Downtown Phoenix Campus (DPC). These amounts consist of:

General Fund	14,337,000
University Collections Fund	130,540,600

These amounts are unchanged from FY 2017.

The DPC offers undergraduate and graduate programs in disciplines including health, nursing, journalism, mass communication, teaching and public programs. The campus opened in 2006 with 2,700 students and had a full-time student enrollment of 17,107 in FY 2017.

One-Time Funding

The Baseline includes no funding in FY 2018 for the One-Time Funding line item. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (7,000,000)

The Baseline includes a decrease of \$(7,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for capital improvements or operating expenditures. This funding was designated as one-time in the FY 2017 budget process.

ASU reported that it is using the one-time funds in FY 2017 to provide ongoing support for salaries and benefits associated with new faculty hiring.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$12,564,000 from the General Fund in FY 2018 for the Research Infrastructure Lease-Purchase Payment line item. FY 2018 adjustments would be as follows:

Refinance Adjustment GF 2,290,700

The Baseline includes an increase of \$2,290,700 from the General Fund in FY 2018 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Of this amount, \$14,472,000 was appropriated to ASU, including \$13,555,000 allocated to ASU - Tempe/DPC and \$917,000 to ASU East.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to ASU’s current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)*

Since this funding appears in A.R.S. § 15-1670, 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, ASU - Tempe/DPC has issued \$187,200,000 in COPs.

School of Civic and Economic Thought and Leadership

The Baseline includes \$3,000,000 and 19 FTE Positions from the General Fund in FY 2018 for the School of Civic and Economic Thought and Leadership line item. These amounts are unchanged from FY 2017.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) provided funding for the creation of the School of Civic and Economic Thought and Leadership at ASU. The school will function as a standalone academic entity within the College of Liberal Arts and Sciences and house the existing Center for Political Thought and Leadership and the Center for the Study of Economic Liberty.

The school is expected to begin matriculating students in the 2017-2018 academic year and will ultimately offer graduate and undergraduate degree programs with coursework focused in 4 areas: history of moral and political thought, the history of economic thought, American political and economic thought, and the possibilities and problems of leadership. *(Please see the FY 2017 Appropriation Report for more information.)*

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

The appropriated monies may not be used by the Arizona State University College of Law Legal Clinic for any lawsuits involving inmates of the State Department of Corrections in which the state is the adverse party.

The appropriated amount for the School of Civic and Economic Thought and Leadership 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 former centers or to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. The school shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee and the Director of the Joint Legislative Budget Committee on or before October 2, 2017. The report shall include at least the following for the school:

1. The total amount of funding received from all sources.
2. A description of faculty positions and courses offered.
3. The total undergraduate and graduate student enrollment.
4. Significant community events, initiatives or publications.

The Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee may request the director of the school to appear before the committees to report on the school's annual achievements.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the one-time appropriation and report on funding for operating or capital expenditures.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Summary
- University Collections and FTE Positions Adjustments

Long-Term Budget Impacts

Beyond FY 2018 Baseline changes, JLBC Staff estimates ASU's costs to decrease by \$(2,300) in FY 2019 from FY 2018, and to decrease by \$(22,400) in FY 2020. These estimates are based on decreases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 and FY 2020 relative to FY 2018. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

Summary

ASU - Tempe/DPC's FY 2018 General Fund Baseline is \$248,942,600. Of this amount:

- \$236,378,600 would be included in ASU - Tempe/DPC's individual section of the FY 2018 General Appropriation Act.
- \$12,564,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.

Laws 2014, Chapter 18 appropriated \$2,000,000 to ASU - Tempe/DPC in FY 2016 and FY 2017 for operating expenditures. This amount would now be converted into part of the university's appropriation in the FY 2018 General Appropriation Act and is included in the amounts above.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$551,220,900 from the University Collections Fund to ASU - Tempe/DPC in FY 2017. The Collections Fund for ASU - Tempe/DPC represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission.

Accordingly, the FY 2017 amount in the Baseline has been adjusted upward by \$41,905,200 to \$593,126,200.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 6,552.6 FTE Positions in FY 2017 for the ASU - Tempe/DPC Campus. The General Fund

accounted for 1,943.1 FTE Positions and the University Collections Fund accounted for the remaining 4,609.5 FTE Positions. The Baseline increases the total amount of FY 2017 FTE Positions by 310.3 to 6,862.9. The General Fund accounts for 1,993.8 FTE Positions and the University Collections Fund accounts for the remaining 4,869.1 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	174,862,100	178,625,600
Year-End Fund Balance	13,735,900	36,073,500
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 sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	773,530,900	885,429,000
Year-End Fund Balance	341,356,200	321,827,100
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	1,546,000	0
Year-End Fund Balance	115,286,800	115,286,800
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	296,055,700	282,156,100
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	54,318,300	57,682,000
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	6,639,400	6,879,600
Year-End Fund Balance	693,400	510,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	508,700	0
Year-End Fund Balance	13,588,600	13,588,600
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	151,459,500	145,223,900
Year-End Fund Balance	48,812,800	43,418,100
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system and Lottery 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	11,918,300	11,925,800
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	535,392,300	593,126,200
Year-End Fund Balance	0	0

Arizona State University - East Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	416.2	435.9	435.9
Personal Services	26,394,000	26,920,000	26,920,000
Employee Related Expenditures	8,419,700	8,627,700	8,627,700
Professional and Outside Services	3,453,200	4,261,200	4,261,200
Travel - In State	13,200	33,700	33,700
Travel - Out of State	127,100	26,000	26,000
Other Operating Expenditures	18,180,600	23,486,800	23,486,800
Equipment	872,400	554,000	554,000
OPERATING SUBTOTAL	57,460,200	63,909,400	63,909,400
SPECIAL LINE ITEMS			
Elimination of Payment Deferral	5,750,200	0	0
Research Infrastructure Lease-Purchase Payment	917,000	917,000	917,000
TRIF Lease-Purchase Payment	2,000,000	2,000,000	2,000,000
AGENCY TOTAL	66,127,400	66,826,400	66,826,400
FUND SOURCES			
General Fund	28,095,600	22,523,100	22,523,100
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	2,000,000	2,000,000	2,000,000
University Collections Fund	36,031,800	42,303,300	42,303,300
SUBTOTAL - Other Appropriated Funds	38,031,800	44,303,300	44,303,300
SUBTOTAL - Appropriated Funds	66,127,400	66,826,400	66,826,400
Other Non-Appropriated Funds	57,724,400	53,759,100	57,211,500
Federal Funds	10,319,400	10,151,400	10,151,400
TOTAL - ALL SOURCES	134,171,200	130,736,900	134,189,300

AGENCY DESCRIPTION — Established as a separate budget unit in 1994, Arizona State University - East Campus (ASU - East), also known as the Polytechnic Campus, currently offers 48 professional and technical Baccalaureate, Master's, and Doctoral degree programs and 14 undergraduate certificate programs to 16,227 full- and part-time students. ASU - East is located at the 600-acre site of the former Williams Air Force Base in southeast Mesa.

Operating Budget

The Baseline includes \$63,909,400 and 435.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$21,606,100
University Collections Fund	42,303,300

These amounts are unchanged from FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these

additional revenues. (Please see the ABOR section for more information.)

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$917,000 from the General Fund in FY 2018 for the Research Infrastructure Lease-Purchase Payment line item. This amount is unchanged from FY 2017.

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Therefore, this funding would not

appear in the FY 2018 General Appropriation Act. In total, the universities have issued \$482,500,000 in Certificates of Participation (COPs) for research infrastructure projects. Of this amount, ASU - East has issued \$19,000,000 in COPs for the Interdisciplinary Science & Technology Building II, which is now complete.

- \$917,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.

TRIF Lease-Purchase Payment

The Baseline includes \$2,000,000 from the Technology and Research Initiative Fund (TRIF) in FY 2018 for lease-purchase payment requirements. This amount is unchanged from FY 2017.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,400,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$27,500,000 in infrastructure development at ASU - East. Beginning in FY 2003, the lease-purchase payment increased to \$2,000,000, which will be the annual lease-purchase payment through FY 2021.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

Other Issues

Summary

ASU - East's FY 2018 General Fund Baseline is \$22,523,100. Of this amount:

- \$21,606,100 would be included in ASU - East's individual section of the FY 2018 General Appropriation Act.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$35,722,900 from the University Collections Fund to ASU - East in FY 2017. The Collections Fund for ASU - East represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the Baseline has been adjusted upward by \$6,580,400 to \$42,303,300.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 416.2 FTE Positions in FY 2017 for the ASU - East Campus. The General Fund accounted for 155.2 FTE Positions and the University Collections Fund accounted for the remaining 261.2 FTE Positions. The Baseline increases the total amount of FY 2017 FTE Positions by 19.7 to 435.9. The General Fund accounts for 147.4 FTE Positions and the University Collections Fund accounts for the remaining 288.5 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	1,739,000	2,162,800
Year-End Fund Balance	260,400	184,500

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	53,289,100	48,969,900
Year-End Fund Balance	14,924,900	15,082,000
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	90,600	90,600
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	8,440,100	8,155,700
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	1,879,300	1,995,700
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally-sponsored research programs.		
Purpose of Fund: To assist and promote non-federally-sponsored research.		
Funds Expended	218,200	231,700
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	0	0
Year-End Fund Balance	27,600	27,600
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	2,478,100	2,394,700
Year-End Fund Balance	2,210,800	854,400

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Technology and Research Initiative Fund (UNI2472/A.R.S. § 15-1648)		Appropriated
Source of Revenue: Automatic appropriations of a portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute.		
Purpose of Fund: To make lease-purchase payments on certificates of participation used for technology and research capital projects.		
Funds Expended	2,000,000	2,000,000
Year-End Fund Balance	0	0
University Collections Fund (ASA1411/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of summer session and university trust land earnings.		
Purpose of Fund: To operate the university.		
Funds Expended	36,031,800	42,303,300
Year-End Fund Balance	0	0

Arizona State University - West Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	521.1	513.0	513.0
Personal Services	33,658,800	35,317,700	35,317,700
Employee Related Expenditures	11,093,100	11,138,400	11,138,400
Professional and Outside Services	3,477,300	4,262,400	4,262,400
Travel - In State	24,000	46,600	46,600
Travel - Out of State	46,900	56,600	56,600
Other Operating Expenditures	21,834,200	22,530,900	22,530,900
Equipment	357,000	60,500	60,500
OPERATING SUBTOTAL	70,491,300	73,413,100	73,413,100
SPECIAL LINE ITEMS			
Elimination of Payment Deferral	10,064,800	0	0
TRIF Lease-Purchase Payment	1,600,000	1,600,000	1,600,000
AGENCY TOTAL	82,156,100	75,013,100	75,013,100

FUND SOURCES

General Fund	39,024,400	29,222,600	29,222,600
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	1,600,000	1,600,000	1,600,000
University Collections Fund	41,531,700	44,190,500	44,190,500
SUBTOTAL - Other Appropriated Funds	43,131,700	45,790,500	45,790,500
SUBTOTAL - Appropriated Funds	82,156,100	75,013,100	75,013,100
Other Non-Appropriated Funds	86,922,200	121,998,500	123,179,800
Federal Funds	13,946,200	13,685,700	13,685,700
TOTAL - ALL SOURCES	183,024,500	210,697,300	211,878,600

AGENCY DESCRIPTION — Established as a separate budget unit in 1984, Arizona State University - West Campus (ASU - West) currently offers 64 Baccalaureate, selective Master's, and Doctoral degree programs in the professional and liberal arts and 25 undergraduate certificate programs to 19,382 full- and part-time students. ASU - West is located at a 277-acre site in northwest Phoenix.

Operating Budget

The Baseline includes \$73,413,100 and 513.0 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$29,222,600
University Collections Fund	44,190,500

These amounts are unchanged from FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these

additional revenues. (Please see the ABOR section for more information.)

TRIF Lease-Purchase Payment

The Baseline includes \$1,600,000 from the Technology and Research Initiative Fund (TRIF) in FY 2018 for lease-purchase payment requirements. This amount is unchanged from FY 2017.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,100,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$21,600,000 in infrastructure development at ASU - West. Beginning in FY 2003, the lease-purchase payment increased to \$1,600,000, which will be the annual lease-purchase payment through FY 2021.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

Other Issues

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$44,241,400 from the University Collections Fund to ASU - West in FY 2017. The Collections Fund for ASU - West represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a

separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the Baseline has been adjusted downward by \$(50,900) to \$44,190,500.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 521.1 FTE Positions in FY 2017 for the ASU - West Campus. The General Fund accounted for 205.3 FTE Positions and the University Collections Fund accounted for the remaining 315.8 FTE Positions. The Baseline decreases the total amount of FY 2017 FTE Positions by (8.1) to 513.0. The General Fund accounts for 204.2 FTE Positions and the University Collections Fund accounts for the remaining 308.8 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	532,800	601,600
Year-End Fund Balance	233,700	307,000
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 sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	65,974,100	101,645,100
Year-End Fund Balance	13,903,300	10,443,100
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
<i>Purpose of Fund:</i> To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	33,300	33,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	11,755,100	11,359,000
Year-End Fund Balance	0	0
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	2,191,100	2,326,700
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	254,400	270,100
Year-End Fund Balance	0	0
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	0	0
Year-End Fund Balance	4,300	4,300
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	20,160,900	19,481,700
Year-End Fund Balance	13,559,100	20,987,100
Technology and Research Initiative Fund (UNI2472/A.R.S. § 15-1648)		Appropriated
<i>Source of Revenue:</i> Automatic appropriations of a portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute.		
<i>Purpose of Fund:</i> To make lease-purchase payments on certificates of participation used for technology and research capital projects.		
Funds Expended	1,600,000	1,600,000
Year-End Fund Balance	0	0
University Collections Fund (ASA1411/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	41,531,700	44,190,500
Year-End Fund Balance	0	0

Northern Arizona University

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,249.7	2,260.7	2,260.7
Personal Services	153,883,700	157,929,100	157,929,100
Employee Related Expenditures	47,931,900	47,933,700	47,933,700
Professional and Outside Services	12,533,800	8,016,600	8,016,600
Travel - In State	328,500	438,800	438,800
Travel - Out of State	561,400	0	0
Other Operating Expenditures	16,768,000	21,165,400	21,165,400
Equipment	420,100	422,000	422,000
OPERATING SUBTOTAL	232,427,400	235,905,600	235,905,600
SPECIAL LINE ITEMS			
Biomedical Research	3,000,000	3,000,000	3,000,000
Elimination of Payment Deferral	30,494,800	0	0
NAU - Yuma	2,924,400	3,067,300	3,067,300
One-Time Funding	0	4,000,000	0
Research Infrastructure Lease-Purchase Payment	5,493,200	4,246,800	5,896,500
Teacher Training	2,399,400	2,290,600	2,290,600
AGENCY TOTAL	276,739,200	252,510,300	250,160,000
FUND SOURCES			
General Fund	131,452,600	105,227,000	102,876,700
<u>Other Appropriated Funds</u>			
University Collections Fund	145,286,600	147,283,300	147,283,300
SUBTOTAL - Other Appropriated Funds	145,286,600	147,283,300	147,283,300
SUBTOTAL - Appropriated Funds	276,739,200	252,510,300	250,160,000
Other Non-Appropriated Funds	265,653,200	296,832,200	301,915,000
Federal Funds	88,206,900	89,089,200	89,980,200
TOTAL - ALL SOURCES	630,599,300	638,431,700	642,055,200

AGENCY DESCRIPTION — Established in 1899, Northern Arizona University (NAU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). The university's primary focus is undergraduate residential education. NAU offers 155 degree programs and 78 certificate programs to 30,368 students in 10 colleges/divisions through its campus in Flagstaff and its extended campus programs, also known as distance learning programs. The university is responsible for providing the large majority of statewide extended campus programs, both over the Internet and through 24 instructional sites, including a Yuma Branch Campus that operates in conjunction with Arizona Western College and NAU Yavapai, a partnership with Yavapai Community College.

Operating Budget

The Baseline includes \$235,905,600 and 2,223.8 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$88,622,300
University Collections Fund	147,283,300

These amounts are unchanged from FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. (Please see the ABOR section for more information.)

Biomedical Research

The Baseline includes \$3,000,000 from the General Fund in FY 2018 for the Biomedical Research Special Line Item. This amount is unchanged from FY 2017.

Section 132 of the FY 2015 General Appropriation Act appropriated \$3,000,000 annually to NAU from FY 2015 to FY 2019 for biotechnology. As a result, these monies do not appear in the General Appropriation Act.

Funding is to be allocated to a nonprofit medical research foundation that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers. NAU has awarded the funding to the Translational Genomics Research Institute (TGen). *(Please see the Department of Health Services section for additional information on nonprofit medical research funding.)*

NAU - Yuma

The Baseline includes \$3,067,300 and 29.4 FTE Positions from the General Fund in FY 2018 for NAU-Yuma. These amounts are unchanged from FY 2017.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

One-Time Funding

The Baseline includes no funding in FY 2018 for the One-Time Funding line item. FY 2018 adjustments would be as follows:

Remove One-Time Funding	GF	(4,000,000)
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The Baseline includes a decrease of \$(4,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for capital improvements or operating expenditures. This funding was designated as one-time in the FY 2017 budget process.

As reviewed at the September 2016 Joint Committee on Capital Review meeting, NAU has reported that it is using its one-time funds in FY 2017 to make infrastructure improvements to underground utilities, wiring, and fire/life safety systems.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$5,896,500 from the General Fund in FY 2018 for the Research Infrastructure Lease-Purchase Payment line item. FY 2018 adjustments would be as follows:

Refinance Adjustment

GF **1,649,700**

The Baseline includes an increase of \$1,649,700 from the General Fund in FY 2018 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006.

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 NAU's current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)*

Since this funding appears in A.R.S. § 15-1670, 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, NAU has issued \$77,475,000 in COPs.

Teacher Training

The Baseline includes \$2,290,600 and 7.5 FTE Positions from the General Fund in FY 2018 for Teacher Training. These amounts are unchanged from FY 2017.

The Teacher Training program serves to increase the number of teachers serving as mentors under the Teacher Training ("Master Teacher") program. The Arizona K-12 Center is affiliated with NAU and is located in downtown Phoenix.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

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 the footnote concerning the one-time appropriation and report on funding for operating or capital expenditures.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Summary
- University Collections and FTE Positions Adjustments

Long-Term Budget Impacts

Beyond FY 2018 Baseline changes, JLBC Staff estimates NAU's costs to decrease by \$(300) in FY 2019 from FY 2018, and to decrease by \$(3,300) in FY 2020. These estimates are based on decreases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 and FY 2020 relative to FY 2018. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

Summary

NAU's FY 2018 General Fund Baseline is \$102,876,700. Of this amount:

- \$93,980,200 would be included in NAU's individual section of the FY 2018 General Appropriation Act.
- \$5,896,500 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$3,000,000 was appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.

Laws 2014, Chapter 18 appropriated \$500,000 to NAU in FY 2016 and FY 2017 for operating expenditures. This amount would now be converted into part of the

university's appropriation in the FY 2018 General Appropriation Act and is included in the amounts above.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$145,286,600 from the University Collections Fund to NAU in FY 2017. The Collections Fund for NAU represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in June 2016, and NAU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the Baseline has been adjusted upward by \$1,996,700 to \$147,283,300.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 2,249.7 FTE Positions in FY 2017 for NAU. The General Fund accounted for 866.1 FTE Positions and the University Collections Fund accounted for the remaining 1,383.6 FTE Positions. The Baseline increases the total amount of FY 2017 FTE Positions by 11.0 to 2,260.7. The General Fund accounts for 872.3 FTE Positions and the University Collections Fund accounts for the remaining 1,388.4 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	74,582,100	76,806,300
Year-End Fund Balance	25,628,400	25,223,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	156,393,200	180,776,700
Year-End Fund Balance	78,616,400	65,940,400
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	27,477,000	28,671,000
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	81,486,500	82,301,600
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	6,720,400	6,787,600
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	306,600	2,917,300
Year-End Fund Balance	10,164,900	8,031,600
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	125,600	394,700
Year-End Fund Balance	7,361,200	7,261,800
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	24,758,300	24,854,700
Year-End Fund Balance	13,323,400	13,323,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system and Lottery 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	9,487,400	11,082,500
Year-End Fund Balance	0	0
University Collections Fund (NAA1421/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of summer session and university trust land earnings.		
Purpose of Fund: To operate the university.		
Funds Expended	145,286,600	147,283,300
Year-End Fund Balance	0	0

University of Arizona - Main Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5,605.5	6,009.5	6,009.5
Personal Services	274,493,400	328,570,100	328,570,100
Employee Related Expenditures	103,071,600	121,834,600	121,834,600
Professional and Outside Services	3,166,900	3,314,100	3,314,100
Travel - In State	82,600	66,000	66,000
Travel - Out of State	653,400	52,300	52,300
Other Operating Expenditures	65,901,300	59,807,000	59,807,000
Equipment	100	0	0
OPERATING SUBTOTAL	447,369,300	513,644,100	513,644,100
SPECIAL LINE ITEMS			
Agriculture	36,880,500	39,580,600	39,580,600
Arizona Cooperative Extension	15,248,300	16,158,100	16,158,100
Center for the Philosophy of Freedom	500,000	2,500,000	2,500,000
Elimination of Payment Deferral	62,153,100	0	0
Mining, Mineral and Natural Resources Educational Museum	0	428,300	428,300
One-Time Funding	0	8,000,000	0
Research Infrastructure Lease-Purchase Payment	9,593,600	13,978,400	14,249,300
Sierra Vista Campus	6,808,100	7,911,200	7,911,200
AGENCY TOTAL	578,552,900	602,200,700	594,471,600
FUND SOURCES			
General Fund	241,652,500	197,059,600	189,330,500
<u>Other Appropriated Funds</u>			
University Collections Fund	336,900,400	405,141,100	405,141,100
SUBTOTAL - Other Appropriated Funds	336,900,400	405,141,100	405,141,100
SUBTOTAL - Appropriated Funds	578,552,900	602,200,700	594,471,600
Other Non-Appropriated Funds	1,018,586,900	1,081,304,400	1,118,100,000
Federal Funds	199,642,100	219,730,900	227,529,600
TOTAL - ALL SOURCES	1,796,781,900	1,903,236,000	1,940,101,200

AGENCY DESCRIPTION — Established in 1885, The University of Arizona (UA) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, UA offers 362 degree-programs and 4 specialist programs to approximately 42,000 full- and part-time students in 39 colleges and schools at its Main Campus in Tucson. Upon its establishment, UA received the federal land grant for Arizona, allowing the creation of agricultural and mining programs that continue today. UA-South is a branch campus of the university in Sierra Vista.

Operating Budget

The Baseline includes \$513,644,100 and 4,843.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$126,553,600
University Collections Fund	387,090,500

These amounts are unchanged from FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Agriculture

The Baseline includes \$39,580,600 and 735 FTE Positions in FY 2018 for the Agriculture Programs. These amounts consist of:

General Fund	28,397,500
University Collections Fund	11,183,100

These amounts are unchanged from FY 2017.

This line item supports agricultural academic programs in Animal Systems; Environment and Natural Resources; Family, Youth, and Community; Human Nutrition, Food Safety and Health; Marketing, Trade, and Economics; and Plant Systems.

Arizona Cooperative Extension

The Baseline includes \$16,158,100 and 351.2 FTE Positions in FY 2018 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,458,100
University Collection Fund	1,700,000

These amounts are unchanged from FY 2017.

This line item supports Agriculture Experiment Stations and Cooperative Extension services that provide non-credit community outreach seminars and youth programs throughout the state.

Center for the Philosophy of Freedom

The Baseline includes \$2,500,000 from the General Fund in FY 2018 for the Center for the Philosophy of Freedom (CPF). This amount is unchanged from FY 2017.

This line item supports the CPF, which is within the UA College of Social and Behavioral Sciences. The CPF's functions include: published research, undergraduate education, graduate education, and community outreach.

Mining, Mineral and Natural Resources Educational Museum

The Baseline includes \$428,300 and 1 FTE Position from the General Fund in FY 2018 for the Mining, Mineral, and Natural Resources Educational Museum. These amounts are unchanged from FY 2017.

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) 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. *(Please see the Geological Survey Transfer in Other Issues.)*

The Museum is renamed the Mining, Mineral and Natural Resources Educational Museum (Museum). The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. Since that time, the Museum has not reopened but the AHS has overseen the collections and building.

This line item funds a curator and rent for the closed museum. Of the total appropriation for the Museum, \$360,800 is used to pay rent and the remaining \$67,500 funds a curator position. The Agency Consolidation BRB directs the State Geologist with the Mining, Mineral and Natural Resources Educational Museum Advisory Council to produce a report by December 31, 2018 detailing the funding needs of restoring the building as a museum and outline other possible uses. If sufficient monies are not raised by July 1, 2018 to reopen the building, the museum and monies in the account revert back to AHS. *(Please see Mining, Mineral and Natural Resources Educational Museum Transfer in Other Issues for more information.)*

One-Time Funding

The Baseline includes no funding in FY 2018 for the One-Time Funding line item. FY 2018 adjustments would be as follows:

Remove One-Time Funding GF (8,000,000)

The Baseline includes a decrease of \$(8,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for capital improvements or operating expenditures. This funding was designated as one-time in the FY 2017 budget process.

UA received a favorable review at the JCCR meeting on December 14, 2016 for the use of the one-time funds in FY 2017 for the renovation and purchase of equipment for their proposed veterinary school.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$14,249,300 from the General Fund in FY 2018 for the Research Infrastructure Lease-Purchase Payment line item. FY 2018 adjustments would be as follows:

Refinance Adjustment GF 270,900

The Baseline includes an increase of \$270,900 from the General Fund in FY 2018 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267, which established A.R.S. § 15 - 1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006.

Due to subsequent refinancing, the FY 2017 Higher Education BRB (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to UA's current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)*

Since this funding appears in A.R.S. § 15-1670, 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.

Sierra Vista Campus

The Baseline includes \$7,911,200 and 78.9 FTE Positions in FY 2018 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,743,700
University Collections Fund	5,167,500

These amounts are unchanged from FY 2017.

UA - South offers upper-division undergraduate programs in 16 disciplines for community college transfer students. While ABOR authorized this UA branch campus for Sierra Vista in 1995, the Legislature has not formally established the campus in statute.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

The appropriated amount for the Center for the Philosophy of Freedom may not supplant any existing state funding or private or external donations to the Center or the Philosophy Department of the University of Arizona. The appropriated monies and all private and external donations to the Center shall be used only for the direct operation of the Center and may not be used for indirect costs to the university. The Center shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee and the Director of the Joint Legislative Budget Committee on or before October 2, 2017. The report shall include at least the following for the Center:

1. The total amount of funding received from all sources.
2. A description of faculty positions and courses offered.
3. The total undergraduate and graduate student participation.
4. Significant community events, initiatives or publications.

The Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee may request the Director of the Center to appear before the Committees to report on the Center's annual achievements.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the one-time appropriation and report on funding for operating or capital expenditures.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Summary
- Geological Survey Transfer
- Mining, Mineral and Natural Resources Educational Museum Transfer
- Mining, Mineral and Natural Resources Educational Museum Account
- University Collections and FTE Positions Adjustments

Long-Term Budget Impacts

Beyond FY 2018 Baseline changes, JLBC Staff estimates UA - Main's costs to increase by \$1,700 in FY 2019 over FY 2018, and to decrease by \$(800) in FY 2020. These estimates are based on decreases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 and FY 2020 relative to FY 2018. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

Summary

UA - Main's FY 2018 General Fund Baseline is \$189,330,500. Of this amount:

- \$175,081,200 would be included in UA - Main's individual section of the FY 2018 General Appropriation Act.
- \$14,249,300 is included for a research infrastructure lease-purchase payment.

Laws 2014, Chapter 18 appropriated \$2,000,000 to UA - Main in FY 2016 and FY 2017 for operating expenditures. This amount would now be converted into part of the university's appropriation in the FY 2018 General Appropriation Act and is included in the amounts above.

Geological Survey Transfer

The Geological Survey investigates Arizona's geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The FY 2017 Agency Consolidation BRB transferred the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. It is the intent of the Legislature that the Geological Survey maintains the current level of employees for the Arizona Geological Survey. The legislation also requires the UA to report to the JLBC by August 1, 2017 detailing the services it provides. The Agency Consolidation BRB also allows ABOR to appoint the State Geologist and does not require that person to be registered by the Board of Technical Registration.

No General Fund funding was appropriated to the UA - Main for the Geological Survey in FY 2017. In FY 2016, the Geological Survey was appropriated \$941,000 and 10.3 FTE Positions from the General Fund for the operating budget. The FY 2018 Baseline makes no change to the FY 2017 level of resources.

The Geological Survey also had several non-appropriated and Federal Funds (formerly represented as the Geological Survey Fund, Indirect Cost Recovery Fund - GSA9000, and Federal Grants - GSA2000), which were combined into a single other non-appropriated fund, the Geological Survey Fund, within the UA - Main budget. For FY 2017, this fund is projected to have expenditures of \$2,620,800 including \$941,000 in support transferred in from the UA. UA does not include this support for FY 2018 in their reported expenditures from the fund. In addition to these monies, a Mining, Mineral and Natural Resources Educational Museum Account was added to the Geological Survey Fund for monies to be used for the museum. *(For additional detail, please see the Mining, Mineral and Natural Resources Educational Museum Account in Other Issues.)*

Mining, Mineral and Natural Resources Educational Museum Transfer

The FY 2017 Agency Consolidation BRB transferred the operational control of the Arizona Experience Museum to the Geological Survey, which resides within the UA. The facility is renamed the Mining, Mineral and Natural Resources Educational Museum.

The Agency Consolidation BRB effectively moved the \$428,300 from the Arizona Experience line item in the AHS budget to the UA - Main budget. The legislation also reassigned the Centennial license monies to the UA. *(See Mining, Mineral and Natural Resources Educational Museum Account for more information.)*

The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. The building was eventually renamed the Centennial Museum and then the Arizona Experience Museum but was never re-opened.

AHS managed the property and collections under their Arizona Experience Museum line item. In October 2014, AHS opened an exhibition at the Papago Park Museum utilizing a portion of the collection. The remainder of the collection remains at the former Mining and Mineral Museum's facility.

The Agency Consolidation BRB also requires the following provisions related to the transfer.

- The State Geologist, in coordination with the Mining, Mineral and Natural Resources Educational Museum Advisory Council, is required to submit a report to the Governor, the President of the Senate, and the

Speaker of the House of Representatives, and to the Secretary of State by December 31, 2018.

- The report shall include whether General Fund monies are required for the continued maintenance and operations of the Museum, information relating to excess specimens, and recommendations on other beneficial uses of the building.
- The Museum will revert to AHS by July 1, 2018 if the Geological Survey has not raised sufficient funds to open and refurbish the Museum. *(For more detail on the structural concerns related to the building, please see the AHS section in the FY 2015 Appropriations Report.)*
- The UA must provide written notice to the Director of Legislative Council by July 15, 2018 whether there are adequate monies to refurbish and open the Museum facility.
- The AHS is required to fulfill existing obligations, provide a list of inventory, and assist in the transfer of the inventory.

As the operational authority, the Geological Survey is to:

- Operate and maintain the Museum as the state depository for the collection and display of mining, mineral, natural resource artifacts and specimens. The Geological Survey is also to provide maintenance for all stored or displayed artifacts and specimens.
- Adopt a collections management policy that meets national standards.
- Receive all unspent and unencumbered funds from the AHS for Museum operations.
- Use the Mining, Mineral and Natural Resources Educational Museum Account within the Arizona Geological Survey Fund for the maintenance and operations of the Museum.

Mining, Mineral and Natural Resources Educational Museum Account

The FY 2017 Agency Consolidation BRB also transferred all unexpended and unencumbered monies remaining in the Arizona Centennial Special Plate Fund established by A.R.S. § 28-2448 to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund established by A.R.S. § 27-107. Ongoing revenues will now accrue to the UA - Main, and that amount is expected to be \$142,400 annually. Monies in the account are to be used exclusively for restoration, maintenance, and operations of the Museum.

A.R.S. § 28-2448 established the centennial specialty license plate, which requires a \$25 fee. Of the \$25 fee, \$8

is for special plate administration costs, and \$17 is a donation for the Centennial Special Plate Fund. Beginning in FY 2013, permanent law required the Arizona Department of Transportation to make annual distributions of the monies in the Centennial Special Plate Fund to AHS to pay costs related to the maintenance and operations of the Centennial Museum that housed the Mining and Mineral Museum.

As of May 2016, the Centennial Special Plate Fund collected total revenues of \$547,400 and had a balance of \$305,400. Beginning May 1, 2016, the Agency Consolidation BRB prohibited AHS from encumbering any monies deposited in the Arizona Centennial Special Plate Fund. The BRB further transferred the unencumbered monies (currently estimated at \$305,500) to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund. For FY 2017, revenues are projected to be \$160,000 and for FY 2018, the revenues are projected to be \$153,000. The Baseline includes \$75,000 in expenditures from this account in FY 2018.

In addition to the monies collected from the Centennial Special Plate Fund, the account will also include monies collected from museum entrance fees, memberships, gift shop revenues.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$361,149,600 from the University Collections Fund to UA - Main in FY 2017. The Collections Fund for UA - Main represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in June 2016, and UA incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the budget has been adjusted upward by \$43,991,500 to \$405,141,100.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund

tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 5,606.5 FTE Positions in FY 2017 for UA - Main. The General Fund accounted for 1,938.7 FTE Positions and the University Collections Fund accounted for the remaining 3,667.8 FTE Positions. The Baseline increases the total amount of FY 2017 FTE

Positions by 403 to 6,009.5. The General Fund accounts for 2,063.3 FTE Positions and the University Collections Fund accounts for the remaining 3,946.2 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	253,465,700	252,424,000
Year-End Fund Balance	33,324,300	33,798,200
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 sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	544,401,800	616,449,100
Year-End Fund Balance	196,399,900	197,847,500
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	1,198,600	1,234,500
Year-End Fund Balance	151,556,300	158,870,400
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	155,585,500	172,631,900
Year-End Fund Balance	37,422,900	41,952,100
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	44,056,600	45,378,300
Year-End Fund Balance	0	0
Geological Survey Fund (UNI3030/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Federal grants and contracts, indirect cost recovery funds, and other state and local grants, fees, contracts, agreements, and MOUs. In FY 2017, this account includes university support. This support is not included for FY 2018. The FY 2017 Consolidation BRB established this fund, placed the Geological Survey under the University of Arizona, and eliminated a GF appropriation of \$941,000 to the Geological Survey.		
Purpose of Fund: To investigate and describe Arizona's geologic setting and to finance map publication and production expenses.		
Funds Expended	0	2,620,800
Year-End Fund Balance	0	402,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Geological Survey Fund - Mining, Mineral and Natural Resources Educational Museum		Non-Appropriated
Account (UNI9999/A.R.S. § 27-107)		
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 in 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 BRB established this account and transferred all unexpended and unencumbered monies in the Arizona Centennial Special Plate Fund to it.		
Funds Expended	0	75,000
Year-End Fund Balance	0	390,400
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally-sponsored research programs.		
Purpose of Fund: To assist and promote non-federally-sponsored research.		
Funds Expended	10,689,800	11,010,500
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	729,100	751,100
Year-End Fund Balance	23,428,600	24,299,800
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	181,198,200	171,559,700
Year-End Fund Balance*	(822,000)	1,396,800
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system and Lottery 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	26,903,700	26,900,400
Year-End Fund Balance	0	0
University Collections Fund (UAA1402/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings.		
Purpose of Fund: To operate the university.		
Funds Expended	336,900,400	405,141,100
Year-End Fund Balance	0	0

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

University of Arizona - Health Sciences Center

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,375.9	1,157.3	1,157.3
Personal Services	49,277,000	50,797,800	50,797,800
Employee Related Expenditures	17,501,000	17,643,400	17,643,400
Professional and Outside Services	2,825,500	1,739,700	1,739,700
Travel - In State	32,400	39,400	39,400
Travel - Out of State	163,000	6,700	6,700
Other Operating Expenditures	2,816,800	2,039,900	2,039,900
OPERATING SUBTOTAL	72,615,700	72,266,900	72,266,900
SPECIAL LINE ITEMS			
Clinical Rural Rotation	349,400	353,400	353,400
Clinical Teaching Support	8,587,000	8,587,000	8,587,000
Elimination of Payment Deferral	16,776,700	0	0
Liver Research Institute	424,700	440,100	440,100
Phoenix Medical Campus	31,460,200	33,034,800	33,034,800
Telemedicine Network	1,838,500	1,669,000	1,669,000
AGENCY TOTAL	132,052,200	116,351,200	116,351,200
FUND SOURCES			
General Fund	85,170,200	68,859,800	68,859,800
<u>Other Appropriated Funds</u>			
University Collections Fund	46,882,000	47,491,400	47,491,400
SUBTOTAL - Other Appropriated Funds	46,882,000	47,491,400	47,491,400
SUBTOTAL - Appropriated Funds	132,052,200	116,351,200	116,351,200
Other Non-Appropriated Funds	391,961,100	414,458,700	428,965,100
Federal Funds	95,138,800	117,993,400	122,122,900
TOTAL - ALL SOURCES	619,152,100	648,803,300	667,439,200

AGENCY DESCRIPTION — The University of Arizona's Health Sciences Center (UA-HSC) includes its Colleges of Medicine, Nursing, Pharmacy, and Public Health. The UA-HSC enrolls over 2,989 full-time students as well as 460 medical students at its 48-acre campus in Tucson. UA-HSC currently operates a medical campus in Phoenix that opened in FY 2006. The Colleges of Pharmacy and Public Health also have a presence on the Phoenix Biomedical campus, which has increased its enrollment to 321 medical and 80 Master of Public Health and Pharmacy students.

Operating Budget

The Baseline includes \$72,266,900 and 717.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$34,554,100
University Collections Fund	37,712,800

These amounts are unchanged from FY 2017.

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 2018 for the Clinical Rural Rotation program. These amounts are unchanged from FY 2017.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations

in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The Baseline includes \$8,587,000 and 215 FTE Positions from the General Fund in FY 2018 for Clinical Teaching Support. These amounts are unchanged from FY 2017.

Clinical Teaching Support provides hospital training, through internships and residencies, for medical, nursing, clinical, and other health students in a wide variety of specialty areas. Students fill all the above-mentioned FTE Positions. Since participation in the program has been stable for several years, the funding summary above includes these FTE Positions.

Liver Research Institute

The Baseline includes \$440,100 and 6.6 FTE Positions from the General Fund in FY 2018 for the Liver Research Institute. These amounts are unchanged from FY 2017.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The Baseline includes \$33,034,800 and 196.9 FTE Positions in FY 2018 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,256,200
University Collections Fund	9,778,600

These amounts are unchanged from FY 2017.

The Phoenix Medical Campus currently has 321 medical students and 80 Master of Public Health students. By FY 2025, UA envisions developing a campus of approximately 1,200,000 square feet incorporating research, instruction, and clinical facilities to serve a planned population of 480 medical students, 250 graduate students, and 1,660 science students.

Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9 authorized ABOR to enter into lease-to-own and bond transactions up to a maximum of \$800,000,000 to pay for building renewal projects and new facilities of which ABOR is required to allocate \$376,000,000 for the Phoenix Medical Campus.

In September 2014, the Joint Committee on Capital Review (JCCR) favorably reviewed UA's planned SPEED bond issuance of \$136,100,000 to fund construction of the Biosciences Partnership Building on the Phoenix Medical Campus. The bond was issued in February 2015, and debt service is paid with 80% from Lottery revenues and 20% from university system revenues.

Of the \$376,000,000 allocated for the Phoenix Medical Campus, the JCCR has reviewed \$275,545,000. *(For additional information on university lottery bonding, please see the Capital Outlay - ABOR Building System section of this report. For historical information, please see the FY 2015 Appropriations Report.)*

Telemedicine Network

The Baseline includes \$1,669,000 and 15.5 FTE Positions from the General Fund in FY 2018 for the Telemedicine Network. These amounts are unchanged from FY 2017.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication technologies to diagnose and treat patients in rural communities.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

Other Issues

University Collections Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$44,053,800 from the University Collections Fund to UA - HSC in FY 2017. The Collections Fund for UA - HSC represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as

changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2017 to the Joint Legislative Budget Committee in July 2016, and UA incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the budget has been adjusted upward by \$3,437,600 to \$47,491,400.

The Baseline also adjusts the number of FTE Positions in FY 2017 to align with General Fund and Collections Fund

tuition revenue adjustments. Laws 2016, Chapter 117 originally appropriated 1,375.9 FTE Positions in FY 2017 for the UA - HSC. The General Fund accounted for 845.7 FTE Positions and the University Collections Fund accounted for the remaining 530.2 FTE Positions. The Baseline decreases the total amount of FY 2017 FTE Positions by (218.6) to 1,157.3. The General Fund accounts for 724.8 FTE Positions and the University Collections Fund accounts for the remaining 432.5 FTE Positions.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	9,459,500	13,047,400
Year-End Fund Balance*	(672,700)	(135,500)
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 sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	267,478,800	305,927,700
Year-End Fund Balance	186,505,400	188,511,900
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	20,042,800	17,644,100
Year-End Fund Balance	0	0
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	72,752,900	94,935,900
Year-End Fund Balance	14,399,400	14,511,900
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	22,385,900	23,057,500
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	4,217,800	4,344,300
Year-End Fund Balance	0	0
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	90,762,200	73,495,200
Year-End Fund Balance	55,675,700	62,426,300
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	46,882,000	47,491,400
Year-End Fund Balance	0	0

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

Department of Veterans' Services

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	512.3	512.3	512.3
Personal Services	1,274,800	2,178,000	2,178,000
Employee Related Expenditures	591,100	672,100	672,100
Professional and Outside Services	270,200	87,000	87,000
Travel - In State	32,300	17,500	17,500
Travel - Out of State	10,200	2,000	2,000
Other Operating Expenditures	474,300	214,400	214,400
Equipment	49,500	37,000	37,000
OPERATING SUBTOTAL	2,702,400	3,208,000	3,208,000
SPECIAL LINE ITEMS			
Arizona State Veterans' Cemeteries	899,800	924,200	924,200
Arizona State Veterans' Homes	30,189,500	31,147,600	31,147,600
Veterans' Benefit Counseling	2,775,200	2,821,100	2,821,100
AGENCY TOTAL	36,566,900	38,100,900	38,100,900
FUND SOURCES			
General Fund	5,955,300	6,054,100	6,054,100
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	30,189,500	31,147,600	31,147,600
State Veterans' Conservatorship Fund	422,100	899,200	899,200
SUBTOTAL - Other Appropriated Funds	30,611,600	32,046,800	32,046,800
SUBTOTAL - Appropriated Funds	36,566,900	38,100,900	38,100,900
Other Non-Appropriated Funds	6,953,000	3,052,000	3,152,000
Federal Funds	903,100	2,358,800	2,358,800
TOTAL - ALL SOURCES	44,423,000	43,511,700	43,611,700

AGENCY DESCRIPTION — The agency supervises and operates 2 skilled nursing homes for Arizona veterans in Phoenix and Tucson, assists veterans in developing and filing claims for federal entitlements, acts as a guardian or conservator for incapacitated veterans or their families, and operates 3 veterans' memorial cemeteries in Sierra Vista, Marana, and Flagstaff.

Operating Budget

The Baseline includes \$3,208,000 and 62.8 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$2,308,800
State Veterans' Conservatorship Fund	899,200

These amounts are unchanged from FY 2017.

Arizona State Veterans' Cemeteries

The Baseline includes \$924,200 and 12.5 FTE Positions from the General Fund in FY 2018 for the Arizona State

Veterans' Cemeteries. These amounts are unchanged from FY 2017.

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. Construction for the Marana cemetery began in August 2014 and the cemetery opened in March 2016. Construction for the Flagstaff cemetery began in March 2014 and the cemetery opened in June 2016.

The FY 2017 budget included an appropriation from the General Fund for 9 months of operating costs. The FY 2018 Baseline continues to assume non-appropriated internment fees will offset the annualized operating costs of the new cemeteries.

Arizona State Veterans' Homes

The Baseline includes \$31,147,600 and 380 FTE Positions from the State Home for Veterans Trust Fund in FY 2018 for the Arizona State Veterans' Homes. These amounts are unchanged from FY 2017.

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 2018 for Veterans' Benefit Counseling. These amounts are unchanged from FY 2017.

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

Veterans' Home

Flagstaff Veterans' Home

The FY 2017 budget included \$10.0 million from the General Fund for the construction and establishment of a veterans' home facility in Flagstaff. The amount appropriated reflects 35% of the estimated cost; the federal government will pay the other 65%.

Yuma Veterans' Home

The FY 2015 budget appropriated \$9.2 million in non-lapsing General Fund monies for the state's share of construction costs for the Yuma home, which reflects 35% of the estimated cost. The department has applied for funding from the federal government to pay the other 65% but has not yet received these monies.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	903,100	2,358,800
Year-End Fund Balance	234,500	134,500
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	499,500	693,600
Year-End Fund Balance	5,714,900	6,056,300

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Post-9/11 Veteran Education Relief Fund (VSA2645/A.R.S. § 41-612)		Non-Appropriated
<i>Source of Revenue:</i> Private donations, grants, and bequests.		
<i>Purpose of Fund:</i> Laws 2016, Chapter 319 creates the 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
<i>Source of Revenue:</i> Charges for services, fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.		
<i>Purpose of Fund:</i> To operate and maintain state-operated nursing homes for Arizona veterans.		
Funds Expended	30,189,500	31,147,600
Year-End Fund Balance	9,600,600	12,835,900
Statewide Employee Recognition Gifts (VSA2449/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	2,000	5,000
Year-End Fund Balance	6,600	4,100
Veterans' Cemetery Fund (VSA2481/A.R.S. § 41-608.02)		Non-Appropriated
<i>Source of Revenue:</i> Includes a one-time \$500,000 appropriation from the General Fund and federal monies used as reimbursement for the construction of veterans' cemeteries. The construction of the Flagstaff cemetery is estimated to cost \$6,834,000, and the construction of the Marana cemetery is expected to cost \$7,600,000. Monies for the Flagstaff and Marana cemeteries will be spent from FY 2014 through FY 2017.		
<i>Purpose of Fund:</i> To acquire property for and to establish state veterans' cemeteries.		
Funds Expended	4,662,600	692,800
Year-End Fund Balance	1,003,900	1,003,600
Arizona State Veterans' Cemetery Trust Fund (VSA2499/A.R.S. § 41-608.03)		Non-Appropriated
<i>Source of Revenue:</i> Monies, grants, gifts, and contributions from any public or private source.		
<i>Purpose of Fund:</i> To manage and maintain 3 Arizona veterans' cemeteries located in Sierra Vista, Marana, and Flagstaff.		
Funds Expended	25,300	352,600
Year-End Fund Balance	652,500	726,900
State Veterans' Conservatorship Fund (VSA2077/A.R.S. § 14-5414.01)		Appropriated
<i>Source of Revenue:</i> 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.		
<i>Purpose of Fund:</i> To operate the Fiduciary Division of the Department of Veterans' Services.		
Funds Expended	422,100	899,200
Year-End Fund Balance*	158,600	(663,800)

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	1,763,600	1,308,000
Year-End Fund Balance	3,066,200	3,770,200
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, 2019.		
Funds Expended	0	0
Year-End Fund Balance	0	0

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

Arizona State Veterinary Medical Examining Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	263,100	359,200	359,200
Employee Related Expenditures	94,200	111,500	111,500
Professional and Outside Services	43,500	104,800	37,700
Travel - In State	4,600	4,500	4,500
Travel - Out of State	0	1,600	1,600
Other Operating Expenditures	63,400	68,800	68,800
Equipment	1,500	1,500	1,500
AGENCY TOTAL	470,300	651,900	584,800

FUND SOURCES

Other Appropriated Funds

Veterinary Medical Examining Board Fund	470,300	651,900	584,800
SUBTOTAL - Other Appropriated Funds	470,300	651,900	584,800
SUBTOTAL - Appropriated Funds	470,300	651,900	584,800
TOTAL - ALL SOURCES	470,300	651,900	584,800

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises.

Operating Budget

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The Baseline includes \$584,800 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2018 for the operating budget. FY 2018 adjustments would be as follows:

Remove One-Time Funding OF **FY 2018**
\$(67,100)

The Baseline includes a decrease of \$(67,100) from the Veterinary Medical Examining Board Fund in FY 2018 to eliminate one-time funding for expert witness fees \$(8,000), and online licensing implementation costs \$(59,100).

FORMAT — Lump Sum by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the one-time FY 2017 information technology footnote.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	470,300	651,900
Year-End Fund Balance	1,472,700	1,998,200

Water Infrastructure Finance Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
SPECIAL LINE ITEMS			
Water Supply Development Revolving Fund Deposit	0	0	0
AGENCY TOTAL	0	0	0
FUND SOURCES			
General Fund	0	0	0
SUBTOTAL - Appropriated Funds	0	0	0
Other Non-Appropriated Funds	192,897,200	0	0
Federal Funds	28,543,100	0	0
TOTAL - ALL SOURCES	221,440,300	0	0

AGENCY DESCRIPTION — The Water Infrastructure Finance Authority (WIFA) finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities/projects. The agency also provides general administrative support to the Greater Arizona Development Authority (GADA). In FY 2017, WIFA and GADA became part of the Arizona Finance Authority within the Office of Economic Opportunity.

Laws 2016, Chapter 372 created the Arizona Finance Authority (AFA) in the new Office of Economic Opportunity (OEO), effective August 6, 2016. The AFA serves as the board for the Water Infrastructure Finance Authority and the Greater Arizona Development Authority (GADA). GADA was previously under the control of WIFA. The FY 2016 actual expenditures for WIFA are displayed in the table above. *(Please see the Office of Economic Opportunity for more information.)*

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Clean Water Revolving Fund (WFA2254/A.R.S. § 49-1221)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans for capital improvements at wastewater treatment facilities of political subdivision and Indian tribes. The fund is also used for debt refinancing, bond insurance related to wastewater treatment plants, and for fund administration.		
Funds Expended	150,568,300	0
Year-End Fund Balance	215,101,900	0
Drinking Water Revolving Fund (WFA2307/A.R.S. § 49-1241)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans to drinking water facilities, including forgivable principal, of political subdivisions and Indian tribes. The fund is also used for debt refinancing, bond insurance related to drinking water plants, and for fund administration.		
Funds Expended	42,281,300	0
Year-End Fund Balance	72,157,600	0
Federal Funds (WFA2000/A.R.S. § 49-1203)		Non-Appropriated
Source of Revenue: Federal grants related to water supply management, and other programs.		
Purpose of Fund: To be used as specified by federal law.		
Funds Expended	28,543,100	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Greater Arizona Development Authority Revolving Fund (WFA2311/A.R.S. § 41-2254)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal monies, gifts, grants, donations, loan repayments, administrative fees and penalties, and interest.		
Purpose of Fund: To help rural communities meet their infrastructure needs. The Greater Arizona Development Authority (GADA) may issue bonds, guarantee debt obligations, and provide technical and financial assistance to political subdivisions, special districts, and Indian tribes. Legislative appropriations to the GADA Revolving Fund may only be used to secure bonds. The state funding only serves as collateral for the loans and is not directly loaned out. The fund was capitalized with \$20,000,000 from the General Fund between FY 1998 and FY 2000. Other revenue to the fund may be used for GADA's operating costs, as well as technical and financial assistance to communities.		
Funds Expended	47,600	0
Year-End Fund Balance	13,390,800	0
Small Water Systems Fund (EVA2225/A.R.S. § 49-355)		Non-Appropriated
Source of Revenue: Legislative appropriations and interest.		
Purpose of Fund: To provide grants to repair or replace infrastructure of a small water system that serves 500 or fewer connections. Laws 2016, Chapter 117 includes a \$500,000 appropriation from the General Fund for a one-time deposit into the Small Water Systems Fund. Pursuant to Chapter 117, grants may be awarded upon the recommendation of the Corporation Commission. Laws 2016, Chapter 128 transfers WIFA and its funds to the Office of Economic Opportunity (OEO). FY 2017 expenditures from the fund are displayed in the OEO section but not in the WIFA section in order to prevent double counting.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Water Supply Development Revolving Fund (WFA2336/A.R.S. § 49-1271)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal monies, gifts, grants, donations, loan repayments, administrative fees and penalties, and interest. The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) made a one-time General Fund appropriation to the fund in FY 2015, but this was ex-appropriated by the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).		
Purpose of Fund: To be used to provide financial assistance to construct water supply projects for water providers in Arizona, particularly in rural areas, lacking sufficient water supplies to meet their long-term water demands. Financial assistance for water supply development projects as defined in statute includes support for the planning or design of projects, direct loans for projects, or using funds as security for bonded projects.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Department of Water Resources

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	100.0	129.0	129.0
Personal Services	3,948,400	4,055,900	4,055,900
Employee Related Expenditures	1,511,400	1,515,500	1,515,500
Professional and Outside Services	106,300	235,000	235,000
Travel - In State	69,900	83,200	83,200
Travel - Out of State	62,100	55,500	55,500
Other Operating Expenditures	2,573,200	3,031,700	3,031,700
Equipment	235,700	200,000	200,000
OPERATING SUBTOTAL	8,507,000	9,176,800	9,176,800
SPECIAL LINE ITEMS			
Adjudication Support	749,300	1,247,800	1,247,800
Assured and Adequate Water Supply Administration	1,523,800	1,977,000	1,977,000
Automated Groundwater Monitoring	143,900	408,700	408,700
Conservation and Drought Program	300,500	406,900	406,900
Lower Colorado River Litigation Expenses	1,000	500,000	500,000
Rural Water Studies	1,155,900	1,164,500	1,164,500
Water Banking Fund	237,400	0	0
Water Protection Fund Deposit	0	250,000	0
AGENCY TOTAL	12,618,800	15,131,700	14,881,700
FUND SOURCES			
General Fund	11,810,100	13,012,600	12,762,600
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	26,600	266,300	266,300
Water Banking Fund	237,400	1,211,400	1,211,400
Water Resources Fund	544,700	641,400	641,400
SUBTOTAL - Other Appropriated Funds	808,700	2,119,100	2,119,100
SUBTOTAL - Appropriated Funds	12,618,800	15,131,700	14,881,700
Other Non-Appropriated Funds	9,772,200	8,610,700	8,610,700
Federal Funds	290,200	339,800	339,800
TOTAL - ALL SOURCES	22,681,200	24,082,200	23,832,200

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 \$9,176,800 and 75 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$7,824,000
Water Banking Fund	1,211,400
Water Resources Fund	141,400

These amounts are unchanged from FY 2017.

Adjudication Support

The Baseline includes \$1,247,800 and 15 FTE Positions from the General Fund in FY 2018 for Adjudication Support. These amounts are unchanged from FY 2017.

A.R.S. § 45-256 requires the Department of Water Resources to provide technical and administrative support to judicial proceedings involving water rights claims in the

Gila River and Little Colorado River watersheds, which include approximately two-thirds of the land within the state. In 1952, Congress passed the McCarran Amendment, which waived the sovereign immunity of the United States to the adjudication of its federal reserved water right claims in state court on behalf of itself and Indian tribes. Due to the ongoing state court proceedings, the federal court has declined to exercise its jurisdiction over the federal reserved water right claims of the United States and Indian Tribes. Absent a state court proceeding, the federal court could exercise jurisdiction over these federal reserved water rights claims. *(Please see the Lower Colorado River Litigation Expenses section.)*

Assured and Adequate Water Supply Administration

The Baseline includes \$1,977,000 and 21 FTE Positions in FY 2018 for the Assured and Adequate Water Supply (AAWS) Administration Program. These amounts consist of:

General Fund	1,710,700
AAWS Administration Fund	266,300

These amounts are unchanged from FY 2017.

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 2018 for Automated Groundwater Monitoring. These amounts are unchanged from FY 2017.

Monies in this line item are to provide for automated measuring instruments, which provide daily measurements of groundwater levels. This information is used to support the administration of all the water management programs that the Department of Water Resources is responsible for, including but not limited to, determining assured and adequate water supply, implementation and evaluation of recharge activities, rural water budgets, and water supply studies.

Conservation and Drought Program

The Baseline includes \$406,900 and 5 FTE Positions from the General Fund in FY 2018 for the Conservation and Drought Program. These amounts are unchanged from FY 2017.

Monies in this line item are used to assist local communities to assess conservation needs and assist rural communities in the development of conservation programs, promote water education throughout the state, create guidelines for more efficient use of water, and provide suggestions for funding and implementing conservation programs. Monies in this line item are also used by the Department of Water Resources to administer the requirements of the Community Water System program, including but not limited to annual water use reporting (mailings, electronic notification, and submittals), improvements to increase efficiencies of reporting and data collection, data analysis and compliance.

Lower Colorado River Litigation Expenses

The Baseline includes \$500,000 from the Water Resources Fund in FY 2018 for Lower Colorado River Litigation Expenses. This amount is unchanged from FY 2017.

Monies in this line item are used to pay the litigation costs associated with the *Navajo Nation v. United States Department of the Interior* case, in which the Department of Water Resources is an intervening defendant. This case involves the Navajo Nation’s claims to water from the Lower Colorado River and challenges operations that were put in place after the initial lawsuit was filed in 2003. The Navajo Nation filed an amended complaint on June 3, 2013 to begin litigating the case. The United States and the state interveners filed motions to dismiss in August 2013, which were granted in October 2014. The case is being appealed.

Rural Water Studies

The Baseline includes \$1,164,500 and 11 FTE Positions from the General Fund in FY 2018 for Rural Water Studies. These amounts are unchanged from FY 2017.

Monies in this line item are used to support the department's administration, data collection, and evaluation of rural water studies. The monies are also used to provide assistance to local communities to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs. The current AMAs are Prescott, Phoenix, Pinal, Tucson, and Santa Cruz. These studies are administered, in most cases, through partnerships with local resource agency officials and stakeholders. Partnerships generally require local entities to provide some resources to match General Fund receipts, although if a community has a significant need the department can waive this requirement. The studies are primarily conducted by the local entity, with the department providing technical advice and financial assistance. The department is currently involved in 9 studies.

Water Protection Fund Deposit

The Baseline includes no funding in FY 2018 for the Water Protection Fund Deposit line item. Laws 2016, Chapter 117, Section 151 appropriated \$250,000 from General Fund to the Water Protection Fund in FY 2017. FY 2018 adjustments would be as follows:

Remove One-Time Deposit GF (250,000)

The Baseline includes a decrease of \$(250,000) from the General Fund in FY 2018 for the elimination of one-time funding.

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. Laws 2016, Chapter 217 expands the use of the Water Protection Fund to include projects that increase water supply and removes the 5% spending cap of fund monies for water conservation programs outside of state AMAs.

* * *

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.

The 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 the lapsing of appropriations.

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.

The Department of Water Resources may not transfer any monies from the Lower Colorado River Litigation Expenses line item without prior review by the Joint Legislative Budget Committee.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2018.
- As session law, continue to allow the Director to maintain prior year fees in FY 2018 with the provision that the fee revenue be deposited in the Water Resources Fund with the intent that the fees collected are not to exceed \$100,000.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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	26,600	266,300
Year-End Fund Balance	415,200	278,900
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 sub-account within the fund. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.		
Funds Expended	880,600	800,000
Year-End Fund Balance	2,346,500	2,396,500
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	7,400	0
Year-End Fund Balance	200	5,200
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	0	80,000
Year-End Fund Balance	3,342,700	3,997,700
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	290,200	339,800
Year-End Fund Balance	703,600	755,300
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	82,400	0
Year-End Fund Balance	370,400	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
General Adjudications Fund (WCA2191/A.R.S. § 45-260)		Non-Appropriated
<i>Source of Revenue:</i> Court fees paid by water claimants and from legislative appropriations.		
<i>Purpose of Fund:</i> To cover postage and other costs of serving legal notices to water rights claimants and of publicizing court proceedings. Also to remit filing fees to the courts.		
Funds Expended	8,400	0
Year-End Fund Balance	33,700	42,700
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 cashiering.		
Funds Expended	51,400	200,000
Year-End Fund Balance	1,678,300	1,558,200
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	0	371,000
Year-End Fund Balance	524,400	433,300
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	300	0
Year-End Fund Balance	17,400	17,400
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	600	0
Year-End Fund Balance	9,300	17,300
Purchase and Retirement Fund (WCA2474/A.R.S. § 45-615)		Non-Appropriated
<i>Source of Revenue:</i> A portion of fees for groundwater withdrawal in AMAs.		
<i>Purpose of Fund:</i> To purchase and retire grandfathered groundwater rights, those entitlements legally owned or used before the creation of an AMA in a given area. By law, each AMA has its own sub-account within the fund.		
Funds Expended	0	0
Year-End Fund Balance	138,100	138,100
Statewide Donations Fund (WCA2025/A.R.S. § 45-105)		Non-Appropriated
<i>Source of Revenue:</i> Grants, gifts or donations of money or other property from any source.		
<i>Purpose of Fund:</i> Funds may be used for any purpose consistent with the duties and powers of the Director of the Department of Water Resources as described in statute.		
Funds Expended	160,200	10,000
Year-End Fund Balance	159,600	149,600

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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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 sub-account within the fund. This fund operates on the calendar year. Because fees and taxes are collected at the end of the fiscal year, the Year-End Fund Balances are not reflective of the calendar year-end balances. Pursuant to an interstate water banking agreement with Nevada, the fund received a combined total of \$100,000,000 in FY 2005 and FY 2006. In 2004, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) an additional \$230,000,000 for delivery and storage of water. Equal payments of \$23,000,000 per year from Nevada to the AWBA were to begin in 2009 and continue through 2018. The agreement was amended allowing SNWA to delay payment until FY 2015. The agreement was further amended in 2013 to remove the FY 2015 payment resumption date and allow SNWA to pay as water is stored. In FY 2010, the AWBA received \$12,685,000 for storage and delivery of Nevada's own water in lieu of water purchased from Arizona. Appropriations from this fund may include monies received through the water banking agreement with Nevada that are used for purposes outside of contractual agreement with Nevada (Laws 2009, Chapter 332).

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	237,400	1,211,400
Non-Appropriated Funds Expended	7,430,000	6,505,500
Year-End Fund Balance	5,431,000	3,814,100

Water Protection Fund (WCA1302/A.R.S. § 45-2111) Non-Appropriated

Source of Revenue: From purchases or leases of CAP water. Prior to FY 2012, there was a statutory \$5,000,000 General Fund deposit. Since FY 2000, session law changes have suspended the statutory General Fund appropriation. Laws 2011, Chapter 36 permanently repealed this General Fund deposit. Laws 2016, Chapter 117 appropriates \$250,000 from the General Fund to the Water Protection Fund.

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 2017 Environment Budget Reconciliation Bill (Laws 2016, Chapter 120) allows the Water Protection Fund Commission to spend up to \$336,000 for administrative functions out of current balances.

Funds Expended	902,200	181,200
Year-End Fund Balance	2,632,200	2,671,100

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	95,300	94,000
Year-End Fund Balance	510,400	546,400

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.

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	544,700	641,400
Year-End Fund Balance	3,785,500	3,619,100

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
Well Administration and Enforcement Fund (WCA2491/A.R.S. § 45-606)		Non-Appropriated
Source of Revenue: Well-drilling filing and permit fees.		
Purpose of Fund: To monitor, investigate, and enforce regulations concerning the construction, replacement, deepening, and abandonment of wells, as well as the capping of open wells.		
Funds Expended	153,400	369,000
Year-End Fund Balance	582,500	589,100

Department of Weights and Measures

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
PROGRAM BUDGET			
General Services	1,362,700	0	0
Oxygenated Fuel	787,500	0	0
Vapor Recovery	611,400	0	0
AGENCY TOTAL	2,761,600	0	0
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	38.4	0.0	0.0
Personal Services	556,100	0	0
Employee Related Expenditures	268,200	0	0
Professional and Outside Services	73,600	0	0
Travel - In State	59,300	0	0
Travel - Out of State	2,100	0	0
Other Operating Expenditures	1,798,700	0	0
Equipment	3,600	0	0
AGENCY TOTAL	2,761,600	0	0
FUND SOURCES			
General Fund	1,182,300	0	0
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,398,900	0	0
Motor Vehicle Liability Insurance Enforcement Fund	180,400	0	0
SUBTOTAL - Other Appropriated Funds	1,579,300	0	0
SUBTOTAL - Appropriated Funds	2,761,600	0	0
TOTAL - ALL SOURCES	2,761,600	0	0

AGENCY DESCRIPTION — The department regulated the determination and representation of weight and measurement in the marketplace and also maintained 2 environmentally related gasoline inspection programs. All programs investigated consumer complaints. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures were transferred to the Arizona Department of Agriculture (ADA), the Arizona Department of Transportation (ADOT) and the Arizona Department of Public Safety (DPS).

Laws 2015, Chapter 244 transferred the Department of Weights and Measures to the Arizona Department of Agriculture (ADA) establishing the Weights and Measures Services Division within ADA as of July 1, 2016.

All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures were transferred to the new Division within the ADA, except for:

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

While the FY 2016 General Appropriation Act appropriated a separate budget for the Department of Weights and Measures, Chapter 244 transferred all appropriated monies of the Department of Weights and Measures to ADA, ADOT and DPS. The FY 2016 actual expenditures for the Department of Weights and Measures are displayed in the table above. *(Please see the Department of Agriculture, the Department of Public Safety, and the Department of Transportation narratives for more information.)*

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 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 program and annual appropriations for the Department of Weights and Measures Oxygenated Fuels and Vapor Recovery programs. Laws 2015, Chapter 244 transferred authority of this fund from the Department of Weights and Measures to the Department of Agriculture effective July 1, 2016.		
Funds Expended	1,398,900	0
Year-End Fund Balance	1,375,200	0
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. Laws 2015, Chapter 244 transferred authority of this fund from the Department of Weights and Measures to the Department of Transportation effective July 1, 2016.		
Funds Expended	180,400	0
Year-End Fund Balance	224,200	0

CAPITAL OUTLAY ESTIMATES

Capital Outlay Summary

	FY 2018 BASELINE
BUILDING RENEWAL	
ADOA Building System	6,116,500
ADOT Building System	3,396,800
ABOR Building System	0
SUBTOTAL	9,513,300
INDIVIDUAL PROJECTS	
ADOA Building System	0
ADOT Building System	339,841,300
ABOR Building System	0
SUBTOTAL	339,841,300
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations	116,614,100
TOTALS	
ADOA Building System	122,730,600
ADOT Building System	343,238,100
ABOR Building System	0
TOTAL - ALL PROJECTS	465,968,700
FUND SOURCES	
General Fund	116,614,100
<u>Other Appropriated Funds</u>	
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Aviation Fund	24,760,200
State Highway Fund	318,477,900
State Lottery Fund	122,200
SUBTOTAL - Other Appropriated Funds	349,354,600
SUBTOTAL - Appropriated Funds	465,968,700
Other Non-Appropriated Funds	307,165,000
Federal Funds	922,940,000
TOTAL - ALL SOURCES	1,696,073,700

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 stock, which includes office buildings, service centers, residential treatment centers, state parks, prisons, highways, and other. For the purposes of capital management and planning, the state is divided into 3 building systems: the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. Capital appropriations are typically made through the Capital Outlay Act but may be made through other bills as well.

The following amounts are one-time appropriations:

Summary	
	FY 2018
Capital Outlay	GF \$116,614,100
	OF 349,354,600

The Baseline includes a total of \$465,968,700 from Appropriated Funds in FY 2018. Of the total, \$116,614,100 is from the General Fund and \$349,354,600 is from Other Appropriated Funds. The Baseline consists of 3 main categories: 1) Building Renewal, 2) Individual Projects, and 3) Lease-Purchase Payments.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review. The formula takes into account the replacement value, age, and life-cycle of a building. Available appropriations are administered by ADOA (or individual agencies within the ADOA Building System that have their own funding source for building renewal), ADOT, and ABOR.

The Baseline includes total funding of \$9,513,300 in FY 2018 for Building Renewal, which consists of \$9,513,300 from Other Appropriated Funds. These amounts include:

Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 26.1%	
Game and Fish Department	
Game and Fish Fund @ 57.0%	530,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>122,200</u>
Subtotal - ADOA	\$6,116,500
Arizona Department of Transportation	
State Highway Fund @ 25.4%	\$3,191,900
State Aviation Fund @ 84.6%	<u>204,900</u>
Subtotal - ADOT	\$3,396,800

(See the individual building systems' write-ups for more information.)

Individual Projects

The Baseline includes total funding of \$339,841,300 in FY 2018 for individual capital projects, which consists of \$339,841,300 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The Baseline includes \$116,614,100 from the General Fund in FY 2018 for payments related to prior year lease-purchase agreements to resolve budget shortfalls and the state's share of the long term financing for the Phoenix Convention Center and the Rio Nuevo Multipurpose Facility District. *(See the Debt and Lease-Purchase Financing write-up 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 2018 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Monies appropriated in this section may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review.

Individual Projects

Pursuant to A.R.S. § 41-1252, the Joint Committee on Capital Review shall review the scope, purpose, and estimated cost of a new capital project that has an estimated cost of more than \$250,000.

Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote allowing up to \$275,000 of ADOA Building Renewal monies to be allocated for Personal Services and Employee Related Expenditures for up to 5 FTE Positions.

Capital Outlay

Arizona Department of Administration Building System

FY 2018
BASELINE

BUILDING RENEWAL

Department of Administration	0
Department of Corrections	5,464,300
Game and Fish Department	530,000
Arizona State Lottery Commission	122,200
TOTAL - ALL PROJECTS	6,116,500

FUND SOURCES

Other Appropriated Funds

Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Lottery Fund	122,200
SUBTOTAL - Other Appropriated Funds	6,116,500
SUBTOTAL - Appropriated Funds	6,116,500
TOTAL - ALL SOURCES	6,116,500

DESCRIPTION — The Arizona Department of Administration (ADOA) Building System is comprised of all state agencies except the Arizona Board of Regents (ABOR) and the Arizona Department of Transportation. Capital appropriations may be made directly to an agency within the system, to ADOA on behalf of an agency, or to ADOA for the entire system. The following amounts for FY 2018 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

The following amounts are one-time appropriations:

Building Renewal

FY 2018

Building Renewal OF **\$6,116,500**

The Baseline includes \$6,116,500 from Other Appropriated Funds in FY 2018 for Building Renewal within the ADOA Building System. This amount consists of:

- \$0 to ADOA from the Capital Outlay Stabilization Fund (COSF). The Baseline includes no allocation from COSF for building renewal as the fund is expected to have a near zero balance due to current revenues and low expenditures of prior year appropriations. (See COSF Balance section for more information.) The FY 2017 appropriation of \$27,000,000 included \$8,000,000 from COSF and \$19,000,000 from the General Fund, which represented 67.8% of the non-Department of Corrections (ADC) formula.
- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 26.1% of the ADC-only building renewal formula. The FY 2017 appropriation of \$5,464,300

from the ADC Building Renewal Fund represented 27.2% of the ADC-only formula.

- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 57.0% of the agency's building renewal formula. The FY 2017 appropriation of \$530,000 from the Game and Fish Fund represented 59.4% of the agency's formula.
- \$122,200 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the building renewal formula. The FY 2017 appropriation of \$118,100 from the State Lottery Fund also represented 100% of the agency's building renewal formula.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The Baseline continues the footnote requiring that unused building renewal monies revert after 2 fiscal years at the end of FY 2019.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Building Renewal

The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund.

On or before January 31, 2018 and July 31, 2018, the Department of Administration shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures.

On or before January 31, 2018 and July 31, 2018, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects.

Other

Except as provided in Subsection A of this section and notwithstanding A.R.S § 35-190D, the appropriations made in this act for FY 2018 that are unexpended on June 30, 2019 revert to the fund from which the monies were appropriated. *(This footnote requires all unspent building renewal and individual project appropriations to revert after 2 years with the exception of the Arizona Department of Transportation.)*

Deletion of Prior Year Footnotes

The Baseline would delete the footnotes related to ADOA FTE Position cost allocation for capital projects and the associated reporting requirement.

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 other small agencies currently located 1400 W. Washington. The proposal would leave 1400 W. Washington empty for potential renovation in FY 2018. Funding for this renovation has not yet been authorized by the Legislature.

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price.

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.

COSF Rental Rate Change & Payment Adjustments

The Baseline includes no agency adjustments for lease-purchase and rental charges, as all changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels. Excluding the ADOA sale/leaseback (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 2017 are as follows:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 162,900	\$182,900
• State Building Rent	<u>(25,900)</u>	<u>47,600</u>
	\$ 137,000	\$230,500

Lease-Purchase

In FY 2018, lease-purchase payments will increase by \$182,900, of which \$162,900 is from the General Fund, \$149,900 from Other Appropriated Funds, and \$(129,900) from Non-Appropriated Funds.

Rent Adjustments

In FY 2018, state building rent payments will increase by \$47,600, which consists of \$(25,900) from the General Fund, \$75,600 from Other Appropriated Funds, and \$(2,100) from Non-Appropriated Funds. Any change in rental charges would be funded from existing agency appropriations and would have no corresponding change in agency funding levels.

The 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.)

COSF Balance

COSF primarily receives revenue from rent charges to agencies occupying ADOA owned buildings. The fund is used to pay administrative, utilities, maintenance, and construction costs and for state-owned buildings. Table 1 depicts actual balance, revenue, and expenditure information for FY 2016 as well as the estimated amounts for FY 2017 and FY 2018.

In addition to the renovations and agency space consolidations, the Attorney General's Office has signed a private lease and plans to vacate its space located as 1275 W. Washington in FY 2018. As a result of these changes, COSF rent revenue is expected to decrease by \$(2.0) million in FY 2018. COSF is projected to have a balance of \$859,900 at the end of FY 2018. This assumes no additional money is appropriated from COSF for building renewal in FY 2018. However, pursuant to an FY 2017 Capital Outlay Bill footnote, building renewal monies appropriated in FY 2017 are available for expenditure in FY 2018.

	COSF Balance Sheet		
	FY 2016	FY 2017	FY 2018
	Actuals	Estimate	Baseline
Beginning Balance	15,803,700	17,451,400	5,430,600
ADOA Rent Charge	28,360,500	27,157,000	28,133,200
1275 W. Washington	-	-	(1,186,600)
Doubletree Rd	-	-	(259,600)
1400 W. Washington	-	-	(528,200)
Other Revenue	<u>646,200</u>	<u>300,000</u>	<u>300,000</u>
Total Revenue	29,006,700	27,457,000	26,458,800
Total Available	44,810,400	44,908,400	31,889,400
Expenditures			
COSF Operating	15,613,700	18,069,600	18,069,600
Capital Projects			
Prior Year Building Renewal	6,185,900	10,798,300	11,400,000
Current Year Building Renewal	2,770,500	7,600,000	-
Admin. Adjustment	1,275,000	1,450,000	-
Health Services, Department of	<u>1,513,900</u>	<u>1,559,900</u>	<u>1,559,900</u>
Total Expenditures	27,359,000	39,477,800	31,029,500
Balance Forward	17,451,400	5,430,600	859,900

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2017 - Appropriation Report			Fiscal Year 2018 - Baseline			FY 2018 - FY 2017 Difference			
	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	
	Total	Total	Total	Total	Total	Total	Total	Total	Total	
BUDGET UNITS										
Administration, AZ Department of	\$84,117,400			\$84,115,100			(2,300)			(2,300)
Sale/Lease-Back										
Arizona Department of Administration Buildings 2/										
Accountancy, State Board of		112,800		113,000				200		200
Administration, Arizona Department of	777,900	2,004,600	209,400	805,500	2,075,800	216,900	27,600	71,200	7,500	106,300
Deaf and the Hard of Hearing, Commission for the		216,500		216,500				300		300
Economic Opportunity, Office of 3/				26,000	13,800	227,500	26,000	13,800	227,500	267,300
Equalization, State Board of	88,300			88,400			100			100
Tax Appeals, State Board of	34,000			34,000						
Subtotal - ADOA Building	900,200	\$2,333,900	\$209,400	\$953,900	\$2,419,400	\$444,400	\$3,700	85,500	235,000	374,200
Corrections, Arizona Department of										
4,000 Public Prison Beds 4/	15,804,400			15,806,400			2,000			2,000
Water and Wastewater Projects 4/	650,000			645,100			(4,900)			(4,900)
1,000 Public Prison Beds - Refinance 5/	3,075,800			3,071,900			(3,900)			(3,900)
Kingman - Refinance 5/	9,419,100			17,463,300			8,044,200			8,044,200
Subtotal - AZ Department of Corrections	\$28,949,300			\$36,986,700			\$8,037,400			\$8,037,400
Department of Environmental Quality Building 2/										
Criminal Justice Commission, Arizona		165,200		10,700	167,300			200	2,100	2,300
Environmental Quality, Department of		3,179,900		3,188,100			8,200			8,200
Environmental Quality, Department of - WIFA		106,500							(106,500)	(106,500)
Forestry and Fire Management, AZ Department of	180,600	27,200		211,800	31,600		31,200	7,400	4,400	35,600
Gaming, Department of		545,900		553,300			300	(3,900)		(3,900)
Housing, AZ Department of	65,100	25,800		65,400	349,000		300	1,300		1,300
Residential Utility Consumer Office		105,300		106,600				2,200		2,200
Technical Registration, State Board of		171,900		174,100						
Tourism, Office of		184,800		757,100			10,000			(184,800)
Water Resources, Department of	747,100			757,100						10,000
Subtotal - ADEQ Building	\$992,800	\$4,039,300	\$912,800	\$1,034,300	\$4,054,700	\$547,900	\$41,500	\$15,400	(\$364,900)	(\$308,000)
Health Services, Department of										
Health Services Building - Refinance 7/	1,920,500	1,280,700		1,994,100	1,329,800		73,600	49,100		122,700
Health Lab - Refinance 5/	3,062,700	2,033,400		3,063,600	2,033,300		900	(100)		(100)
Arizona State Hospital Forensic Unit 4/	\$4,983,200	\$3,314,100		\$5,057,700	\$3,363,100		\$74,500	\$49,000		900
Subtotal - Department of Health Services	119,942,900	\$9,687,300	\$1,122,200	\$128,147,700	\$9,837,200	\$992,300	\$8,204,800	\$149,900	(\$129,900)	\$8,224,800
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 Governor's Office of Economic Opportunity which consists of the Office of Population and Employment Statistics and the Arizona Finance Authority which oversees the Water Infrastructure Finance Authority (WIFA) and the Greater Arizona Development Authority (GADA).
- 4/ As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADC 4,000 prison bed lease-purchase agreement (2008A) and the ASH lease-purchase agreement (2008A).
- 5/ As reviewed by JCCR in October 2012, ADOA refinanced the existing ADC 1,000 prison bed lease-purchase agreement (2004B) and DHS health lab lease-purchase agreement (2002A).
- 6/ As reviewed by JCCR in June 2016, ADOA refinanced the lease-purchase agreement for the Kingman Prison. The FY 2017 Appropriations Report columns are adjusted to reflect this transaction.
- 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 1/21

	Fiscal Year 2017 Appropriation Report			Fiscal Year 2018 Baseline			Difference FY 2018 - FY 2017			
	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	
	Total	Total	Total	Total	Total	Total	Total	Total	Total	
BUDGET UNITS										
Acupuncture Board of Examiners										
1400 W Washington	0	4,600	0	4,600	0	4,500	0	(100)	0	(100)
Administration, AZ Department of										
1510 W Adams	0	353,600	0	353,600	0	353,700	0	100	0	100
1501 W Adams	0	41,900	0	41,900	0	41,900	0	0	0	0
1520 W Adams	0	196,700	0	196,700	0	195,000	0	(1,700)	0	(1,700)
1537 W Jackson	0	89,100	0	89,100	0	86,900	0	(2,200)	0	(2,200)
1616 W Adams	0	77,300	0	77,300	0	77,300	0	0	0	0
1802 W Jackson	0	17,800	44,200	62,000	0	17,600	43,600	(200)	(600)	(800)
1840 W Jackson	0	63,600	0	63,600	0	64,600	0	1,000	0	1,000
1850 W Jackson	0	44,500	0	44,500	0	44,500	0	0	0	0
1400 W Washington	3,400	46,100	0	49,500	3,000	40,000	0	(400)	0	(6,500)
1700 W Washington	34,000	82,000	0	116,000	34,000	82,000	0	0	0	0
1801 W Madison	0	21,500	0	21,500	0	21,500	0	0	0	0
1805 W Madison	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	0	0	0
402 W Congress, Tucson	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	0	0	0
Subtotal - AZ Dept of Administration	37,400	1,165,300	44,200	1,246,900	37,000	1,156,200	43,600	(9,100)	(600)	(10,100)
Administrative Hearings, Office of										
1400 W Washington	71,000	900	131,500	203,400	71,400	900	132,200	400	700	1,100
400 W Congress, Tucson	0	11,400	0	11,400	0	11,400	0	0	0	0
Subtotal - Office of Administrative Hearings	71,000	12,300	131,500	214,800	71,400	12,300	132,200	400	700	1,100
African American Affairs, AZ Commission of										
1700 W Washington	8,500	0	0	8,500	8,500	0	0	0	0	0
Agriculture, AZ Department of										
1520 W Adams	106,500	0	0	106,500	107,400	0	0	900	0	900
1688 W Adams	197,700	46,300	222,700	466,700	197,800	46,300	222,700	100	0	100
400 W Congress, Tucson	32,100	3,900	4,700	40,700	32,100	3,900	4,700	0	0	0
Subtotal - AZ Dept of Agriculture	336,300	50,200	227,400	613,900	337,300	50,200	227,400	1,000	0	1,000
AZ Health Care Cost Containment System										
Kingman Building	6,800	0	6,600	13,400	6,800	0	6,600	0	0	0
Arts, AZ Commission on the										
417 W Roosevelt	0	0	49,700	49,700	0	49,700	0	0	0	0
Attorney General - Department of Law										
1275 W Washington	550,300	315,500	320,300	1,186,100	550,100	315,400	320,100	(200)	(200)	(500)
400 W Congress, Tucson	31,300	24,500	18,300	74,100	31,300	24,500	18,300	0	0	0
402 W Congress, Tucson	137,700	107,900	79,900	325,500	137,700	107,900	79,900	0	0	0
Capitol Center	967,700	340,000	0	1,307,700	991,800	348,500	0	24,100	8,500	32,600
Subtotal - Attorney General - Dept of Law	1,687,000	787,900	418,500	2,893,400	1,710,900	796,300	418,300	23,900	8,400	(200)
Automobile Theft Authority										
1400 W Washington	0	34,800	0	34,800	0	34,700	0	(100)	0	(100)
Barbers, Board of										
1400 W Washington	0	12,500	0	12,500	0	12,500	0	0	0	0
Charter Schools, State Board for										
1616 W Adams	70,500	0	0	70,500	70,500	0	0	0	0	0
Child Safety, Department of										
1400 W Washington	0	0	42,400	42,400	0	0	42,400	0	0	0
Kingman Building	18,800	38,500	25,900	83,200	18,800	38,500	25,900	0	0	0
400 W Congress, Tucson	21,200	20,000	9,700	50,900	21,400	20,000	9,500	200	0	(200)
Capitol Center	117,100	32,500	67,200	216,800	115,100	32,000	66,100	(2,000)	(500)	(3,600)
Subtotal - Department of Child Safety	157,100	91,000	145,200	393,300	155,300	90,500	143,900	(1,800)	(500)	(1,300)
Citizens Clean Elections Commission										
1616 W Adams	0	0	54,300	54,300	0	0	54,300	0	0	0
Contractors, Registrar of										
400 W Congress, Tucson	0	287,400	0	287,400	0	287,400	0	0	0	0
1700 W Washington	0	38,000	0	38,000	0	38,000	0	0	0	0
Subtotal - Registrar of Contractors	0	325,400	0	325,400	0	325,400	0	0	0	0

	Fiscal Year 2017 Appropriation Report			Fiscal Year 2018 Baseline			Difference FY 2018 - FY 2017					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Corporation Commission	0	527,900	0	527,900	0	528,200	0	528,200	0	300	0	300
1200 W Washington	0	634,500	0	634,500	0	704,900	0	704,900	0	70,400	0	70,400
1300 W Washington	0	634,500	0	634,500	0	704,900	0	704,900	0	70,400	0	70,400
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	1,210,300	3,100	1,218,900	5,500	1,281,000	3,100	1,289,600	0	70,700	0	70,700
Corrections, State Department of	749,900	0	0	749,900	749,800	0	0	749,800	(100)	0	0	(100)
1601 W Jefferson	668,500	0	0	668,500	668,500	0	0	668,500	200	0	0	200
1645 W Jefferson	266,300	0	0	266,300	266,300	0	0	266,300	0	0	0	0
1831 W Jefferson	1,684,700	0	0	1,684,700	1,684,800	0	0	1,684,800	100	0	0	100
Subtotal - State Dept of Corrections	0	8,400	0	8,400	0	8,400	0	8,400	0	0	0	0
Deaf and the Hard of Hearing, Commission for the	0	0	0	0	0	0	0	0	0	0	0	0
1400 W Washington	0	58,000	0	58,000	0	57,100	0	57,100	0	(900)	0	(900)
Economic Security, Department of	64,100	29,200	23,400	116,700	64,100	29,200	23,400	116,700	0	0	0	0
1400 W Washington	9,000	4,100	3,300	16,400	9,000	4,100	3,300	16,400	0	0	0	0
1624 W Adams	1,441,000	476,300	476,300	2,276,400	1,441,200	359,200	476,400	2,276,800	200	100	100	400
1700 W Washington	31,900	65,500	44,000	141,400	31,900	65,500	44,000	141,400	0	0	0	0
1789 W Jefferson (DES West)	190,600	179,600	86,400	456,600	190,600	179,600	86,400	456,600	0	0	0	0
Kingman Building	139,200	200,000	0	339,200	139,200	200,100	0	339,300	0	100	0	100
400 W Congress, Tucson	78,700	21,900	45,100	145,700	80,600	22,400	46,300	149,300	1,900	500	1,200	3,600
DES Group Homes	1,954,500	859,400	736,500	3,550,400	1,956,600	860,100	736,900	3,553,600	2,100	700	400	3,200
Capital Center	300,800	102,900	560,100	963,800	300,800	102,900	560,200	963,900	0	0	100	100
Subtotal - Department of Economic Security	0	12,000	42,500	54,500	0	12,000	42,500	54,500	0	0	0	0
Education, Department of	0	900	21,100	22,000	0	900	21,400	22,300	0	0	300	300
1535 W Jefferson	300,800	115,800	623,700	1,040,300	300,800	115,800	624,100	1,040,700	0	0	400	400
400 W Congress, Tucson	32,400	0	0	32,400	32,200	0	0	32,200	(200)	0	0	(200)
1535 W Jefferson	50,700	0	0	50,700	50,700	0	0	50,700	0	0	0	0
1700 W Washington	83,100	0	0	83,100	82,900	0	0	82,900	(200)	0	0	(200)
Subtotal - State Board of Education	0	9,000	9,000	9,000	0	9,100	9,100	9,100	0	0	100	100
Emergency and Military Affairs, Department of	0	96,700	0	96,700	0	96,800	0	96,800	0	100	0	100
400 W Congress St	1,400	0	0	1,400	1,400	0	0	1,400	0	0	0	0
Environmental Quality, Department of	86,200	0	0	86,200	86,200	0	0	86,200	0	0	0	0
400 W Congress, Tucson	166,000	32,400	0	198,400	166,000	32,400	0	198,400	0	0	0	0
Equalization, State Board of	0	15,000	0	15,000	0	15,000	0	15,000	0	0	0	0
416 W Congress, Tucson	0	14,000	0	14,000	0	14,000	0	14,000	0	0	0	0
Executive Clemency, Board of	569,900	0	134,200	704,100	570,000	0	134,200	704,200	100	0	0	100
1645 W Jefferson	30,000	0	30,000	60,000	30,000	0	0	30,000	0	0	0	0
Financial Institutions, Department of	599,900	0	134,200	734,100	600,000	0	134,200	734,200	100	0	0	100
2910 N 44th Street	130,300	0	0	130,300	130,300	0	0	130,300	0	0	0	0
Funeral Directors & Embalmers, State Board of	0	1,013,500	0	1,013,500	0	1,013,500	0	1,013,500	0	0	0	0
1400 W Washington	209,600	0	0	209,600	209,600	0	0	209,600	0	0	0	0
Gaming, Department of	84,100	50,300	0	134,400	84,100	50,300	0	134,400	0	0	0	0
400 W Congress, Tucson	0	3,300	0	3,300	0	3,300	0	3,300	0	0	0	0
402 W Congress, Tucson	293,700	1,123,400	0	1,417,100	293,700	1,124,400	0	1,418,100	0	1,000	0	1,000
416 W Congress, Tucson	0	56,300	0	56,300	0	57,300	0	57,300	0	1,000	0	1,000
Subtotal - Department of Health Services	0	132,700	0	132,700	0	132,700	0	132,700	0	0	0	0
Homeland Security, AZ Dept of	0	0	0	0	0	0	0	0	0	0	0	0
1700 W Washington	0	0	0	0	0	0	0	0	0	0	0	0
Homeopathic & Integrated Medicine Examiners,	0	0	0	0	0	0	0	0	0	0	0	0
Board of	0	0	0	0	0	0	0	0	0	0	0	0

	Fiscal Year 2017 Appropriation Report			Fiscal Year 2018 Baseline			Difference FY 2018 - FY 2017					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	5,000	0	5,000	0	4,900	0	4,900	0	(100)	0	(100)
Insurance, Department of												
2910 N 44th Street	323,300	0	107,800	431,100	323,400	0	107,800	431,200	100	0	0	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	83,800	167,600	83,800	0	83,800	167,600	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	342,200	0	0	342,200	342,200	0	0	342,200	0	0	0	0
Liquor Licenses and Control, Department of												
400 W Congress, Tucson	0	21,700	0	21,700	0	21,700	0	21,700	0	0	0	0
Massage Therapy, Board of												
1400 W Washington	0	28,500	0	28,500	0	28,400	0	28,400	0	(100)	0	(100)
Medical Board, AZ												
9500 Doubletree Rd.	0	200,000	0	200,000	0	200,100	0	200,100	0	100	0	100
Mine Inspector, State												
1700 W Washington	74,900	0	0	74,900	74,900	0	0	74,900	0	0	0	0
Naturopathic Physicians Medical Board												
1400 W Washington	0	4,300	0	4,300	0	8,000	0	8,000	0	3,700	0	3,700
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 Care Inst. Admin. & Asstd. Living Fac. Mgrs.												
1400 W Washington	0	23,000	0	23,000	0	23,000	0	23,000	0	0	0	0
Opticians, State Board of Dispensing												
1400 W Washington	0	5,200	0	5,200	0	5,200	0	5,200	0	0	0	0
Optometry, State Board of												
1400 W Washington	0	9,000	0	9,000	0	9,100	0	9,100	0	100	0	100
Osteopathic Examiners in Medicine and Surgery, AZ Board of												
9500 Doubletree Rd.	0	34,200	0	34,200	0	34,200	0	34,200	0	0	0	0
Parks Board, AZ State												
1100 W Washington	0	9,400	38,300	47,700	0	9,400	38,300	47,700	0	0	0	0
Personnel Board												
1400 W Washington	0	24,800	0	24,800	0	24,700	0	24,700	0	(100)	0	(100)
Pharmacy, AZ State Board of												
1616 W Adams	0	117,800	0	117,800	0	117,800	0	117,800	0	0	0	0
Podiatry Examiners, State Board of												
1400 W Washington	0	4,400	0	4,400	0	4,400	0	4,400	0	0	0	0
Private Postsecondary Education, State Board for												
1400 W Washington	0	13,600	3,300	16,900	0	13,600	3,300	16,900	0	0	0	0
Psychologist Examiners, State Board of												
1400 W Washington	0	20,500	0	20,500	0	20,500	0	20,500	0	0	0	0
Public Safety, Department of												
14 N 18th Avenue	20,100	5,300	5,600	31,000	20,100	5,300	5,600	31,000	0	0	0	0
1700 W Washington	50,600	13,200	13,900	77,700	50,600	13,200	13,900	77,700	0	0	0	0
400 W Congress, Tucson	10,900	2,800	2,900	16,600	10,900	2,800	2,900	16,600	0	0	0	0
Subtotal - Department of Public Safety	81,600	21,300	22,400	125,300	81,600	21,300	22,400	125,300	0	0	0	0
Real Estate Department, State												
2910 N 44th Street	235,800	0	0	235,800	235,900	0	0	235,900	100	0	0	100
Respiratory Care Examiners, Board of												
1400 W Washington	0	19,800	0	19,800	0	19,800	0	19,800	0	0	0	0
Revenue, Department of												
402 W Congress, Tucson	116,800	59,500	0	176,300	116,900	59,500	0	176,400	100	0	0	100
416 W Congress, Tucson	74,900	38,200	0	113,100	76,100	38,200	0	114,300	1,200	600	0	1,800
1600 W Monroe	1,377,300	709,400	0	2,086,700	1,377,300	709,400	0	2,086,700	0	0	0	0
Subtotal - Department of Revenue	1,569,000	807,100	0	2,376,100	1,570,300	807,700	0	2,378,000	1,300	600	0	1,900

	Fiscal Year 2017 Appropriation Report			Fiscal Year 2018 Baseline			Difference FY 2018 - FY 2017					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Rio Nuevo Board	0	0	12,900	12,900	0	0	11,200	11,200	0	0	(1,700)	(1,700)
400 W Congress, Tucson												
School Facilities Board	76,900	0	31,500	108,400	76,900	0	31,600	108,500	0	0	100	100
Secretary of State - Dept of State												
1700 W Washington	371,400	0	0	371,400	318,300	0	0	318,300	(53,100)	0	0	(53,100)
400 W Congress, Tucson	6,000	0	0	6,000	6,000	0	0	6,000	0	0	0	0
Records Management Addition	303,300	0	0	303,300	303,800	0	0	303,800	500	0	0	500
Polly Rosenbaum Building	1,593,000	0	0	1,593,000	1,593,000	0	0	1,593,000	0	0	0	0
Subtotal - Secretary of State - Dept of State	2,273,700	0	0	2,273,700	2,221,100	0	0	2,221,100	(52,600)	0	0	(52,600)
Transportation, Department of												
1275 W Washington 3/	0	127,500	0	127,500	0	127,800	0	127,800	0	300	0	300
Treasurer, State												
1700 W Washington	0	135,500	0	135,500	0	135,500	0	135,500	0	0	0	0
Tribal Relations, Governor's Office on												
1700 W Washington	13,200	0	0	13,200	13,100	0	0	13,100	(100)	0	0	(100)
University of Arizona												
1502 W Washington	360,800	0	0	360,800	360,700	0	0	360,700	(100)	0	0	(100)
Veterinary Medical Examining Board, AZ State												
9500 Doubletree Rd.	0	25,300	0	25,300	0	25,300	0	25,300	0	0	0	0
Water Resources, Department of												
1802 W Jackson	24,800	0	0	24,800	24,900	0	0	24,900	100	0	0	100
GRAND TOTAL	16,755,800	8,397,000	2,932,800	28,085,600	16,729,900	8,472,600	2,930,700	28,133,200	(25,900)	75,600	(2,100)	47,600

1/ Reflects the FY 2017 rental rates enacted by Laws 2016, Chapter 127, Section 6, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

2/ Pursuant to A.R.S. § 41-792.01, agencies occupying state-owned buildings shall pay the higher of the amount reported [herein] by the Joint Legislative Budget Committee or the pro rata share based on actual occupancy.

3/ Represents funding for space occupied by the Attorney General - Department of Law for provision of legal services to the Department of Transportation.

Capital Outlay
Arizona Department of Transportation Building System

FY 2018
 BASELINE

BUILDING RENEWAL		
ADOT Building Renewal		3,396,800
SUBTOTAL		3,396,800
INDIVIDUAL PROJECTS		
Airport Planning and Development		24,555,300
Controlled Access Highways		101,899,000
Debt Service		108,817,000
Statewide Highway Construction		104,570,000
SUBTOTAL		339,841,300
TOTAL - ALL PROJECTS		343,238,100
FUND SOURCES		
<u>Other Appropriated Funds</u>		
State Aviation Fund		24,760,200
State Highway Fund		318,477,900
SUBTOTAL - Other Appropriated Funds		343,238,100
SUBTOTAL - Appropriated Funds		343,238,100
Other Non-Appropriated Funds		307,165,000
Federal Funds		922,940,000
TOTAL - ALL SOURCES		1,573,343,100

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 **OF** **FY 2018**
\$3,396,800

The Baseline includes \$3,396,800 in FY 2018 for Building Renewal within ADOT's Building System. This amount consists of \$3,191,900 from the State Highway Fund (SHF) and \$204,900 from the State Aviation Fund (SAF). The SHF amount is for the ADOT Building System and the State Aviation amount is for the Grand Canyon Airport.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The formula is based on the square footage and replacement cost of existing buildings. The amounts represent 25.4% funding of the revised highways building renewal formula and 84.6% funding of the aviation building renewal formula.

Individual Projects

Besides debt service, the Baseline figures in the *Individual Projects* section would fund projects based on estimated revenue available from their respective fund sources.

Airport Planning and Development **OF** **24,555,300**

The Baseline includes \$24,555,300 from the State Aviation Fund (SAF) in FY 2018 for ADOT's airport construction program. Fund revenues are generated from a flight property tax on commercial airline aircraft, a license tax on non-commercial aircraft, and Grand Canyon Airport operational revenues.

Controlled Access Highways **OF** **101,899,000**

The Baseline includes an estimated urban freeway controlled access funding level of \$101,899,000 from SHF in FY 2018. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service OF 108,817,000

The Baseline includes \$108,817,000 from SHF in FY 2018 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,273,945,500 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2018 debt service payments. (Please see Table 5 for more information on debt service.)

Statewide Highway Construction OF 104,570,000

The Baseline includes \$104,570,000 from SHF in FY 2018 for highway construction. Please see Table 6 for the HURF distribution analysis, which shows that \$104,570,000 of net SHF monies will be available for statewide highway construction in FY 2018 from the FY 2018 HURF revenue cash flow. Only a small portion of the state's total \$1,786,400,000 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.)

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 2018 Highway Construction & Debt Service	
	Capital Outlay Bill
Controlled Access	\$ 101,899,000
Debt Service	108,817,000
Highway Construction	104,570,000
Total	\$315,286,000

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Individual Projects

The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the

State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph.

The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph.

The Department of Transportation shall report on or before November 1, 2017 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting.

On or before November 1, 2017, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2019 and the estimated debt service payment amount for FY 2019 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and Grant Anticipation Notes and is intended to be comparable to the information in the FY 2017 Appropriations Report.

On or before November 1, 2017, the Department of Transportation shall report capital outlay information for FY 2017, FY 2018 and FY 2019 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This information

shall appear in the same format as tables 2, 3 and 6, as found in the *FY 2017 Appropriations Report*.

The appropriation made for statewide highway construction and airport planning and development does not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance.

Except as provided above and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2018 that are unexpended on June 30, 2019 revert to the fund from which the monies were appropriated.

Deletion of Prior Year Footnotes

Individual Projects

The Baseline would delete the footnote requiring JCCR review of the construction of vehicle wash systems.

The Baseline would delete the footnote exempting from JCCR review the Route H60 construction project distribution to the Navajo Nation.

The Baseline would delete the footnote exempting from JCCR review the State Route 189 construction project. The deleted footnote also concerns the placement of the appropriation in the State Highway Fund in the case that ADOT is unable to use the funds or receives a Transportation Investment Generating Economic Recovery grant.

The Baseline would delete the footnote exempting from JCCR review the Interstate 10 widening projects. The deleted footnote also concerns the placement of the appropriation in the State Highway Fund in case ADOT does not receive a specific federal grant.

The Baseline would delete the footnote detailing the allocation of a one-time General Fund distribution to counties and cities for highway and road construction and maintenance.

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 \$1.2 billion in FY 2016 to \$1.5 billion in FY 2017 before falling back to \$1.2 billion in FY 2018. Because of the South Mountain Freeway construction schedule, expenditures from the Maricopa

Table 2

Non-Appropriated Capital Fund Expenditures (\$ in Thousands)			
	FY 2016	FY 2017	FY 2018
	Actual	Estimate	Estimate
Aviation Federal Funds	\$ 3,480	\$ 3,500	\$ 2,500
Federal Grants	<u>880,101</u>	<u>853,985</u>	<u>920,440</u>
Subtotal - Federal Funds	\$ 883,581	\$ 857,485	\$ 922,940
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	0	0
Local Agency Deposits Fund	14,571	8,000	8,000
Maricopa Regional Area Road Fund	322,428	584,769	298,165
Subtotal - Other Non-Appropriated Funds	\$ 337,999	\$ 593,769	\$ 307,165
Total	\$1,221,580	\$1,451,254	\$1,230,105

Regional Area Road Fund (MRARF) are noticeably higher in FY 2017 than the other years.

Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the *FY 2018 Baseline Book*. The ADOT operating budget section does not include the non-appropriated capital expenditures as those only appear in *Table 2*.

Summary of Highway Construction

The State Transportation Board oversees the department's highway construction program. The 5-Year Highway Construction Program adopted by the board on June 17, 2016 includes monies from SHF, Federal Funds, MRARF, HURF for controlled access roads, and bond revenues. The highway construction program adopted by the State Transportation Board totals \$973,500,000 for FY 2018. *(Please see Table 3 for additional details.)*

Table 3

**State Highway Fund
Highway Construction Projects Beginning in FY 2018
(\$ in Thousands)**

	FY 2018 ^{1/}
Construction	\$ 125,835
Urban Controlled Access ^{2/}	527,600
Pavement Preservation Maintenance	251,693
Other ^{3/}	<u>68,372</u>
Total	\$973,500

^{1/} Data from ADOT's 2017-2021 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and MRARF.

^{3/} Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2018 Baseline provides \$315,286,000 for highway construction, including \$104,570,000 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 2016 through FY 2018 on a cash flow basis, as provided by ADOT. Table 3, which shows the highway construction program adopted by the State Transportation Board, presents a different view since it only shows the total dollar cost of highway projects scheduled to begin in FY 2018 by category of construction. Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

For FY 2016, Table 5 shows that total FY 2016 cash highway construction expenditures were \$1.1 billion while \$304.3 million was spent on debt service. In FY 2017, total estimated cash highway construction expenditures are \$1.6 billion with total debt service of \$272.9 million. In FY 2018, total estimated cash highway construction expenditures are \$1.5 billion with total debt service of \$321.9 million.

The major sources of highway construction funding are SHF, Federal Aid, the half-cent sales tax in Maricopa County (MRARF), bond proceeds, and the Local Agency Deposits Fund. The Local Agency Deposits Fund receives monies from the federal government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Table 5 does not include highway maintenance spending of \$135.9 million in FY 2016, \$138.9 million in FY 2017,

and \$140.6 million in FY 2018. Of the \$321.9 million total debt service amount in Table 5, only \$108.8 million is appropriated.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver's license, and others. Table 4 explains the formula distribution of HURF monies between state and local governments. Table 6 presents the overall HURF distribution for FY 2016 through FY 2018. The line in Table 6 showing net SHF Available for Statewide Highway Construction, which totals \$104,570,000 for FY 2018, does not include Maricopa County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. The line represents the amount that is available from the discretionary SHF to fund the State Transportation Board's 5-Year Plan.

Total FY 2016 HURF collections of \$1,356,800,000 were 5.1% above FY 2015. As of November 2016, HURF year-to-date collections were 3.4% higher than the prior year. The Baseline projects HURF to grow by 4.3% in both FY 2017 and FY 2018.

The gas tax is the primary source of HURF collections, accounting for 36% of HURF revenue in FY 2016. Gas prices remain historically low with the average price per gallon of regular gasoline in Arizona at \$2.13 in November, or 6 cents per gallon higher than a year ago, according to the American Automobile Association. If this trend of low gas prices continues, fuel consumption is likely to increase.

Table 4

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (50.5% of 15.2% = 7.7% displayed in the table above). The controlled access monies are divided: 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

Table 5

Highway Construction and Debt Service Expenditures by Fund Source
(\$ in Millions)

<u>Sources</u>	<u>FY 2016</u> <u>Actual</u>	<u>FY 2017</u> <u>Estimate</u>	<u>FY 2018</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 113.6	\$ 116.3	\$ 108.8
HURF - MAG Debt Service	30.5	27.0	38.9
MAG/PAG 15.2% Controlled Access - Construction Expenditures	(2.4)	217.6	36.8
Net SHF Funds Available for Statewide Highway Construction Expenditures	<u>4.9</u>	<u>55.5</u>	<u>104.6</u>
Total SHF - Appropriated	\$ 146.6	\$ 416.4	\$ 289.1
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 14.0	\$ 1.0	\$ -
Total SHF - Non-Appropriated	\$ 14.0	\$ 1.0	\$ -
Total SHF Highway Construction Expenditures	\$ 160.6	\$ 417.4	\$ 289.1
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 880.1	\$ 854.0	\$ 920.4
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 167.6	\$ 416.1	\$ 84.6
MRARF Debt Service	103.3	100.8	144.2
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 270.9	\$ 516.9	\$ 228.8
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 67.0	\$ 87.3	\$ 63.3
MRARF - Highway Construction Expenditures	0.9	-	210.0
GAN - Highway Construction Expenditures	0.0	30.0	66.8
Total Bond Proceeds Highway Construction Expenditures	\$ 67.9	\$ 117.3	\$ 340.1
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 14.6	\$ 8.0	\$ 8.0
Total Local Agency Deposits Fund	\$ 14.6	\$ 8.0	\$ 8.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	14.6	8.0	8.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 14.6	\$ 8.0	\$ 8.0
Total Highway Construction Expenditures	\$ 1,394.1	\$ 1,913.6	\$ 1,786.4
Total Debt Service			
SHF	\$ 144.1	\$ 143.3	\$ 147.7
Federal Aid	56.9	28.8	30.0
MRARF	103.3	100.8	144.2
Total Debt Service	\$ 304.3	\$ 272.9	\$ 321.9 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 16.5	\$ 274.1	\$ 141.4
Federal Aid	823.2	825.2	890.4
MRARF	167.6	416.1	84.6
Bond Proceeds	67.9	117.3	340.1
Local Agency Deposits Fund	14.6	8.0	8.0
Total Cash Highway Construction Expenditures	\$ 1,089.8	\$ 1,640.7	\$ 1,464.5
Total Highway Construction Expenditures	\$ 1,394.1	\$ 1,913.6	\$ 1,786.4

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$147,708,000 for HURF bonds (\$108,817,000 for statewide program and \$38,891,000 MAG program); \$29,990,000 for Grant Anticipation Notes; and \$144,239,000 for MRARF bonds.

Table 6

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2016 <u>Actual</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>
Total HURF Collections	\$1,356,752	\$1,415,600	\$1,476,400
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	653	650	650
Dept. of Public Safety Transfer from HURF ^{3/}	96,409	96,006	96,006
Reversions from DPS	(1,374)	0	0
Cities ^{4/}	16,003	16,003	16,003
Counties ^{4/}	9,969	9,969	9,969
Controlled Access ^{4/}	<u>4,028</u>	<u>4,028</u>	<u>4,028</u>
Net HURF Collections	\$1,230,064	\$1,287,944	\$1,348,744
Less: Cities ^{5/}	375,170	392,823	411,367
Counties ^{5/}	233,712	244,709	256,261
VLT Transfer to Parity Compensation Fund ^{6/}	2,973	3,216	3,427
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,488	1,600	1,700
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	4,754	5,200	5,600
Controlled Access ^{9/}	<u>93,019</u>	<u>97,340</u>	<u>101,899</u>
Net SHF (Discretionary)	\$ 518,948	\$ 543,056	\$ 568,490
Plus: Other Income ^{10/}	28,504	32,450	33,650
Less: Operating Budget ^{11/}	340,975	348,128	348,128
Dept of Public Safety Transfer from Highway Fund ^{12/}	7,169	7,302	7,302
Capital Outlay	2,788	5,762	0
Building Renewal	4,000	4,000	4,000
Motor Vehicle Third Party Payments ^{13/}	27,010	27,189	28,968
Miscellaneous	626	730	355
Debt Service ^{14/}	<u>113,593</u>	<u>116,277</u>	<u>108,817</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{15/}	\$ 51,291	\$ 66,118	\$ 104,570
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	323,903	379,172	240,981
STAN Account Beginning Balance	<u>17,292</u>	<u>993</u>	<u>0</u>
Total SHF Available for Statewide Highway Construction	\$ 392,486	\$ 446,283	\$ 345,551

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments. The FY 2017 amount of \$649,700 includes \$(3,000) for statewide adjustments.

^{3/} The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments. The FY 2017 amount of \$96,006,100 includes \$(403,100) for statewide adjustments.

^{4/} The FY 2016 Revenue BRB (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the DPS budget. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues the special \$30 million HURF distribution to local governments and provides a new, one-time \$30 million distribution of General Fund monies to local governments for the same purpose.

^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{6/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{7/} A.R.S § 28-5808E transfers the SHF share of the HURF VLT to the state General Fund that is generated from the difference between a 2-year registration and a 5-year registration.

^{8/} A.R.S § 28-5808D also transfers the SHF share of the HURF VLT to the state General Fund that is equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B to the state General Fund.

^{9/} A statutorily defined distribution of SHF monies for design, acquisition and construction of controlled access highways. The monies are divided 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

^{10/} Includes interest and rental income, transfers from the Public Roads Fund, deposits from the UST tax in FY 2015 only, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2016 amount of \$28,504,000 includes \$27,851,000 in miscellaneous revenue and \$653,000 for the Registration Compliance program. The FY 2017 estimate of \$32,450,000 includes \$31,800,000 in miscellaneous revenue and \$650,000 for the Registration Compliance program. The FY 2018 estimate of \$33,650,000 includes \$33,000,000 in miscellaneous revenue and \$650,000 for the Registration Compliance program.

^{11/} The FY 2017 amount of \$348,128,300 includes \$(1,281,900) for statewide adjustments.

^{12/} The FY 2016 amount of \$7,169,000 includes \$(29,500) for statewide adjustments. The FY 2017 amount of \$7,301,800 includes \$(29,500) for statewide adjustments.

^{13/} Statutory payments to third parties from VLT collected by third parties.

^{14/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{15/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

DPS Spending and Local Highway Construction

The FY 2017 budget held local highway construction mostly harmless from the allocation of HURF monies to the Department of Public Safety (DPS) operating budget. The FY 2017 DPS budget continued to include \$96 million from HURF, which would have otherwise been distributed to local governments (including the Maricopa and Pima Associations of Government for controlled access roads) and ADOT for state highway construction. The DPS allocation meant that local governments received \$(54.9) million less than they would have otherwise.

This reduction was continued to be partially offset by a \$30 million direct allocation of HURF to local governments, which included \$12.8 million that otherwise would have been distributed to ADOT for state highway construction. This meant that the net reduction to local governments was \$(42.1) million.

The FY 2017 budget also made a one-time appropriation \$30.0 million of General Fund monies as a special distribution to local highway construction. This reduced the total impact to local governments of the DPS appropriation to \$(12.1) million in FY 2017. Because the FY 2017 General Fund appropriation was designated as one-time, however, this appropriation is removed in the FY 2018 Baseline.

In FY 2017, local governments are estimated to receive \$794.9 million for highway construction, including the one-time \$30.0 million General Fund distribution. Due to growth in overall HURF collections, local governments are estimated to receive \$799.5 million for highway construction in FY 2018. In FY 2014, when DPS HURF spending was \$119.2 million and the budget included no specific local government set-aside, local governments received \$640.4 million.

Capital Outlay

Arizona Board of Regents Building Systems

FY 2018
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). 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 149 of the FY 2017 General Appropriation Act appropriated \$19,000,000 to the universities from the General Fund in FY 2017 for one-time operating

expenditures or capital improvements. Of this amount, \$8,000,000 is appropriated to UA, \$7,000,000 to ASU, and \$4,000,000 to NAU.

A General Appropriation Act footnote requires review by the Joint Committee on Capital Review for any of these monies that are used for capital projects.

These monies are included in the General Fund budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Summary of University Debt

ABOR estimates that as of the end of FY 2018, the universities' outstanding principal balances for bonds and lease-purchase agreements will total \$3,450,190,500. This debt would be held by the 3 universities as follows:

ASU (all campuses)	\$1,639,474,500
NAU	478,055,000
UA (all campuses)	<u>1,332,661,000</u>
Total	\$3,450,190,500

Of the total balance, \$615,075,000 would represent Lottery revenue bonds whose debt service is paid 80% by state Lottery monies and 20% by the universities. *(Please see the Bonding section below.)*

ABOR estimates that the universities' total debt service payments for bonds and lease-purchase agreements in FY 2018 will be \$305,160,600. The debt service payments made by each of the universities would be as follows:

ASU (all campuses)	\$133,009,400
NAU	42,428,200
UA (all campuses)	<u>129,723,000</u>
Total	\$305,160,600

Of the total FY 2018 debt service payments, \$39,923,100 would be paid by Lottery monies, and \$33,626,600 would be paid by the General Fund for research infrastructure projects. *(Please see Lease-Purchase Projects below for more information.)*

The universities' expenditures for debt service payments are included in the budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Lease-Purchase Projects

As part of the \$3.5 billion in FY 2018 university debt, ABOR is projected to have \$624,475,500 in outstanding lease-purchase balances, with an overall debt service payment of \$83,315,800. The FY 2018 General Fund share of the debt service is \$33,626,600. These General Fund monies pay for the 2003 Certificates of Participation (COPs) which were issued in the amount of \$482,500,000 to provide funding for a variety of research infrastructure projects.

Laws 2003, Chapter 267 appropriated \$34,625,000 from the General Fund from FY 2008 through FY 2031 to pay for the Research Infrastructure debt service.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to the universities' current debt service schedules.

The FY 2018 General Fund appropriations for research infrastructure debt service payments are included in the budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Bonding

As part of the \$3.5 billion in FY 2018 university debt, ABOR is projected to have \$2,825,715,000 in outstanding bond balances, including both system revenue and lottery bonds. The projected debt service is \$221,844,800.

University Lottery Bonds

One component of the \$2.8 billion balance is university lottery revenue bonds (Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9). These statutory provisions authorized ABOR to enter into bond transactions up to a maximum of \$800,000,000 to pay

facilities. The bonds are to be paid with 80% Lottery monies and 20% university system revenues.

ABOR is required to allocate \$376,000,000 of the \$800,000,000 for the Phoenix Biomedical Campus. ABOR also decided to allocate \$16,000,000 to Arizona State University's (ASU) School of Construction. With the Phoenix Biomedical Campus and School of Construction set-asides, \$408,000,000 remained to be allocated. ABOR then initially split this amount evenly to each of the 3 universities (\$136,000,000 each) for building renewal, deferred maintenance, and new construction projects.

\$408,000,000 Allocation

In terms of the \$408,000,000 allocation, JCCR favorably reviewed:

- \$167,700,000 for building renewal bond projects in November 2008 and February 2009, which were issued in April, June, and August 2010, as well as in May 2011. To date, \$163,430,000 of the favorably reviewed \$167,700,000 has been issued.
- \$32,388,000 in September 2011 for ASU building renewal projects, of which \$30,915,000 was issued in November 2011.
- \$71,265,000 in October and December 2012 and August of 2013 for ASU building renewal projects, of which \$63,100,000 was issued in April 2014.
- \$66,500,000 in December 2012 and \$9,650,000 in October 2014 for the University of Arizona (UA) new construction, of which \$61,525,000 of the first review was issued in April 2013 and \$8,485,000 of the second review was issued in December 2014.
- \$71,215,000 in April 2013 for NAU for a new construction project at its Flagstaff campus, which was partially paid in cash. Of the reviewed amount, NAU issued \$67,715,000 in June 2013.

As a result of these actions, JCCR has favorably reviewed \$418,718,000. While the reviewed amount is in excess of the \$408,000,000 statutory allocation for the 3 universities, the actual issuances are within the statutory limit. ASU had projects favorably reviewed in the amount of \$137,653,000, but it actually issued \$127,835,000, which is within ASU's statutory allotment, with \$8,165,000 remaining. NAU had projects favorably reviewed in the amount of \$136,015,000, but it has actually issued \$132,500,000, which is within NAU's statutory allotment, with \$3,500,000 remaining. UA had projects favorably reviewed totaling \$145,050,000, but it has actually issued a total of \$134,835,000, which is within UA's statutory allotment, with \$1,165,000 remaining. Of the total \$408,000,000 prescribed in statute, \$395,170,000 has been issued.

Table 1

University Issuances

<u>Purpose</u>	<u>University</u>	<u>Statutory Distribution</u>	<u>Reviewed Issuance</u>	<u>Actual Issuance</u>	<u>Remaining Authority</u>	<u>Planned Issuance</u>
Phoenix Biomedical Campus	UA	\$360,960,000	\$268,045,000	\$251,545,000	\$109,415,000	\$ 0
	NAU	15,040,000	8,200,000	7,475,000	7,565,000	
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>	0
<i>Subtotal</i>		<i>408,000,000</i>	<i>418,718,000</i>	<i>395,170,000</i>	<i>12,830,000</i>	<i>0</i>
TOTAL		\$800,000,000	\$710,963,000	\$668,710,000	\$131,290,000	\$ 0

^{1/} Actual issuances will not exceed statutory distribution

Phoenix Biomedical Campus

The Committee also favorably reviewed \$172,940,000 for Phase I of the Phoenix Biomedical Campus in March 2010, which represents a portion of the \$376,000,000 requirement. The campus was to be a collaboration among the 3 universities. Subsequent to the March 2010 JCCR meeting, ASU withdrew its partnership altogether from the Phoenix Biomedical Campus and NAU elected for cash financing for this item. As a result:

- Of the \$172,940,000 for Phase I, ASU's \$43,010,000 will not be issued and NAU paid cash instead of bonding for its \$7,685,000 proposed allocation. Those reviewed amounts are not included in the Reviewed Issuance column in *Table 1*.
- UA issued \$122,245,000 in June 2010 for Phase I.

In addition, the Committee has favorably reviewed:

- \$17,900,000 in April 2013 for NAU and UA to build out shell space for medical simulation rooms, administrative support space, and classrooms at the Phoenix Biomedical Campus. Of that amount, NAU issued \$7,475,000 in June 2013 and UA issued \$8,600,000 in May 2013.
- \$136,100,000 in September 2014 for UA's construction of a Bioscience Partnership Building, which will house 245,000 gross square feet and 10 stories of new research space. Of the reviewed amount, UA issued \$120,700,000 in February 2015.

If any of the ASU and NAU portions are not being spent for their originally reviewed purposes, the new uses of those monies would need further JCCR review before issuance. Laws 2009, 1st Special Session, Chapter 6, Section 3 would have to be amended in order for ASU and NAU to use the Phoenix Biomedical Campus allocation for other capital projects.

All of the NAU and UA bonds and 73% of the ASU bonds that were issued prior to December 2010 were issued as

Build America Bonds (BABs). BABs, which expired December 2010, were taxable bonds which entitled the issuing entity to a 35% interest subsidy from the federal government. This left the issuing entity paying the remaining 65% of interest costs, together with principal, associated with the lease-purchase agreement.

School of Construction

The Committee also favorably reviewed \$16,000,000 for the ASU School of Construction in October 2012. Of that amount, \$14,520,000 was issued in April 2014, with \$1,480,000 in remaining authority.

Summary

Including the Phoenix Biomedical Campus, the ASU School of Construction and other projects, \$710,963,000 of the Chapter 287 authority has been reviewed (*see Table 1*). Of that amount, \$668,710,000 has been issued, which will result in a total debt service payment of \$49,903,900 in FY 2018, with 80% of debt service being paid from lottery revenues. At this time a total of \$131,290,000 in remaining authority is available for university lottery bonding projects, including \$116,980,000 for Phoenix Biomedical Campus expansion. (*Please see Table 1 for the statutory distribution amounts, the reviewed and planned issuances, and the remaining bonding authority by university.*)

After all lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$54,958,400 in FY 2018. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since the maximum 80% lottery portion of the debt service is assumed to be \$39,923,100, in FY 2018, the Baseline assumes the remaining \$15,035,300 will be deposited to the General Fund. The 20% share of the university

payment, which will be paid for with university system revenues, is projected to be \$9,980,800 in FY 2018.

* * *

Chapter 287 also provided that the monies distributed from the UCI Fund would be exempt from the university debt limit calculations. However, each university is required to submit their debt limit calculations with and without this bonding package as part of their annual Capital Improvement Plans.

Table 2 shows the current projections for UCI Fund revenues and a summary of the payment schedule for the Phoenix Biomedical Campus, ASU School of Construction and building renewal projects if the maximum of 80% of the debt service was paid from Lottery funds. These amounts are based on the FY 2018 Baseline and ABOR debt service estimates from October 2016.

STATUTORY CHANGES

Potential Statutory Changes

The Legislature may consider revising A.R.S. § 15-1683 to modify the universities' debt ratio limit to more accurately capture the universities' indebtedness and resources available to pay debt service amounts. (Please see the Debt Ratio Limit narrative in the ABOR section for more information.)

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 54,283,900	\$ 47,550,200	\$ 54,958,400	\$ 64,630,600	\$ 74,788,400
Building Renewal Projects						
Lottery Debt Service	80%	\$ 24,664,100	\$ 25,699,700	\$ 25,698,200	\$ 25,694,200	\$ 25,688,300
University Debt Service	20%	<u>6,166,000</u>	<u>6,424,900</u>	<u>6,424,600</u>	<u>6,423,500</u>	<u>6,422,100</u>
Total Debt Service for \$395.2 M		\$ 30,830,100	\$ 32,124,600	\$ 32,122,800	\$ 32,117,700	\$ 32,110,400
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 13,218,600	\$ 13,460,100	\$ 13,457,800	\$ 13,453,700	\$ 13,452,900
University Debt Service	20%	<u>3,304,600</u>	<u>3,365,000</u>	<u>3,364,500</u>	<u>3,363,400</u>	<u>3,363,200</u>
Total Debt Service for \$259.0 M ^{3/}		\$ 16,523,200	\$ 16,825,100	\$ 16,822,300	\$ 16,817,100	\$ 16,816,100
ASU School of Construction						
Lottery Debt Service	80%	\$ 764,900	\$ 767,100	\$ 767,100	\$ 766,800	\$ 768,000
University Debt Service	20%	<u>191,200</u>	<u>191,800</u>	<u>191,700</u>	<u>191,700</u>	<u>192,000</u>
Total Debt Service for \$14.5 M		\$ 956,100	\$ 958,900	\$ 958,800	\$ 958,500	\$ 960,000
Total Lottery Share at 80% ^{4/}		\$ 38,647,600	\$ 39,926,900 ^{5/}	\$ 39,923,100 ^{5/}	\$ 39,914,700	\$ 39,909,200
Projected University Cost ^{4/5/6/}		\$ 9,661,800	\$ 9,981,700	\$ 9,980,800	\$ 9,978,600	\$ 9,977,300
^{1/} Represents JCCR reviewed projects and issuances. ^{2/} Revenue estimates are based on a (2.8)% decrease in annual Lottery revenues in FY 2017, followed by a 4.9% increase in FY 2018 and 5.0% annual increase thereafter. Represents the maximum amount of revenue available to the UCI Fund. UCI Fund revenues would not exceed the actual total lottery share of debt service in a given year. (See Total Lottery share at 80% line.) ^{3/} This amount consists of: 1) \$122,245,000 issued by UA in 2010 for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU and \$8,600,000 by UA in 2013 for shell space and 3) \$120,700,000 issued by UA in 2014 for the Bioscience Partnership Building. ^{4/} The sum of Total Lottery Share at 80% and Projected University Cost represents the total debt service for the bond issuances. (See the Capital Debt and Lease-Purchase section for more information.) ^{5/} ABOR reports that the total lottery share will be \$39,926,900 in FY 2017 and \$39,923,100 in FY 2018. The amounts displayed above reflect estimates made in October 2016 based on available information from ABOR. ^{6/} Represents the 20% university share.						

Capital Outlay
Debt and Lease-Purchase Financing

FY 2018
 BASELINE

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing	84,115,100
Phoenix Convention Center	22,499,000
Rio Nuevo Distribution	10,000,000
TOTAL - ALL PROJECTS	116,614,100

* Represents only General Fund lease-purchase payments not included in individual agency budgets. All other debt and lease-purchase payments are reflected in individual agency budgets. (Please see Table 2.)

FUND SOURCES

General Fund	116,614,100
TOTAL - ALL SOURCES	116,614,100

DESCRIPTION — This section summarizes the state’s debt and lease-purchase obligations.

2010 Leaseback Financing **GF** **FY 2018**
\$84,115,100

The Baseline includes \$84,115,100 from the General Fund in FY 2018 for lease-purchase payments related to the \$1,035,419,300 state building sale/leaseback agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 6) and Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/leaseback agreements in FY 2010 for existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at an average tax-exempt interest rate ranging from 4.37% to 4.57%, with an effective yield of approximately 4%. These issuances range up to 20 years in period of time, however, optional prepayment by the state is prohibited by the agreements until FY 2020. (Please see the Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.)

The sale/leaseback agreements were issued as a tax-exempt deficit financing mechanism in which the proceeds were used for state operational expenses. In this circumstance, the federal government essentially required the state to agree to 1 of 2 requirements:

The state ultimately chose the "Investment Yield Restriction," which limits the investment return on the state’s operating balance to the interest rate paid on the outstanding tax-exempt financing (approximately 4%). The state is required to restrict the yield on investments with a value equal to the current level of outstanding financing – which at the end of FY 2018 is expected to be

\$1.07 billion. The yield restriction exists for the entire term of the operating financing. (Please see the FY 2017 Appropriations Report for more background on this issue.)

Laws 2015, Chapter 11 requires the Department of Administration to report to the Joint Legislative Budget Committee (JLBC) and the Governor’s Office of Strategic Planning and Budgeting (OSP) by October 1 of each year on any costs associated with the Investment Yield Restriction, including whether the policy has reduced the yield of investments or required the state to pay any associated penalties to the federal government.

In October 2016, ADOA reported that there were no costs associated with meeting the Investment Yield Restriction requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government.

Phoenix Convention Center **GF** **22,499,000**

The Baseline includes \$22,499,000 from the General Fund in FY 2018 related to the state participating in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center.

In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs), of which 50% will be repaid by the state. The project was completed in January 2009.

When the financing was originally authorized, Laws 2003, Chapter 266 enacted a debt service schedule related to this issuance, which was later modified by the FY 2012 Revenue BRB (Laws 2011, Chapter 28). Under this schedule, the state’s annual contribution is scheduled to

gradually increase from \$22,499,000 in FY 2018 to \$29,998,900 by FY 2044.

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) made a technical change to conform the Phoenix Convention Center debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified in FY 2012 to conform to the actual debt service payments of the Phoenix Convention Center financing.

Statute requires the Auditor General to estimate annually how amounts of General Fund revenues resulting from the expansion project compare to debt service payments made by the state since the project's 2009 completion. If the cumulative estimated revenues from the project fail to meet the state's cumulative debt service, the state is to reduce its payments to the City of Phoenix by the shortfall amount.

The latest study found that estimated General Fund revenues exceeded the state's debt service payments by \$52,900,000 during the time period from 2009 to 2015. As a result, the state's payment remained the same. The net increase was largely due to the state's low introductory debt service payments. In calendar year 2015, \$21,006,000 in added revenues from the project was only \$557,000 above of the \$20,449,000 in debt payments.

Rio Nuevo Distribution GF 10,000,000

The Baseline includes an estimated \$10,000,000 from the General Fund in FY 2018 for debt service payments to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facility District.

In prior years, distributions of monies to the Rio Nuevo district were accounted for as a reduction of state transaction privilege tax (TPT) revenue. Beginning in FY 2016, these payments are being displayed in the budget as a state expenditure instead. This assures greater transparency and is consistent with how the distributions of state monies to the Phoenix Convention Center are currently reported. The FY 2018 payments to the Rio Nuevo district are estimated to be \$10,000,000. Actual payments to the district increased from \$6,958,000 in FY 2015 to \$13,088,800 in FY 2016. The actual amount distributed in FY 2018 will reflect the TPT allocation to the district required by statute.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. This district, which receives a diversion of TPT to finance the development of a multipurpose facility and supporting projects, stretches

east from Downtown Tucson along the retail-intensive Broadway Corridor.

Laws 1999, Chapter 162 allows the district to retain the state's share of TPT from sales of secondary businesses that are deemed "necessary or beneficial" to the development of the primary component multipurpose facility. This law also limited the district's TPT revenues to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state's tax collections to finance local development projects with the expectation that future tax collections will increase as a result, is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the district's municipality to spend a matching amount on projects by the district's expiration date of July 1, 2025, or until the date all authorized debt service payments are completed, in order to receive state TPT revenues.

Through FY 2016, Rio Nuevo has received a total of \$133,342,153 in TPT distributions from the state (see Table 1). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2016	\$13,088,813
FY 2015	6,958,022
FY 2014	9,486,100
FY 2013	9,755,752
FY 2012	11,957,943
FY 2011	14,099,949
FY 2010	8,727,318
FY 2009	10,399,336
FY 2008	15,456,187
FY 2007	14,974,923
FY 2006	10,968,178
FY 2005	<u>7,469,632</u>
Total	\$133,342,153

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes

The sum of \$60,103,600 is appropriated from the State General Fund in FY 2018 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings

authorized by Laws 2009, 3rd Special Session, Chapter 6, Section 32.

The sum of \$24,011,500 is appropriated from the State General Fund in FY 2018 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4, Section 2.

Pursuant to A.R.S. § 9-602, \$22,499,000 of State General Fund revenue is allocated in FY 2018 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601.

Pursuant to A.R.S. § 42-5031, a portion of the state transaction privilege tax revenues will be distributed to a Multipurpose Facility District. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2018. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031.

Other Issues

State Debt Rating

In May 2015, both major credit rating agencies upgraded Arizona's credit rating. Standard & Poor's upgraded Arizona from AA- to AA, while Moody's upgraded Arizona from Aa3 to Aa2. AA represents the agency's third highest rating out of 10 possible levels. Using Standard & Poor's credit ratings as of November 2016, in comparison to other states, 28 states have a higher rating, 12 states have the same rating, and 9 states have a lower rating or are not rated due to a lack of state level debt. Along with an overall rating, credit agencies also provide an outlook in terms of the future direction of rating changes. As of May 2015, both major agencies have a stable outlook for Arizona.

In adopting its credit ratings for Arizona, the credit agencies listed some of the following concerns: 1) ongoing K-12 litigation (now resolved); 2) narrow budget reserves; 3) absence of authority for mid-year reductions; and 4) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108. While noting these challenges, the agencies also indicated Arizona's comparably moderate debt levels, below median pension liabilities, and stabilized financial position as positive trends.

In May 2016, Arizona voters approved Proposition 124, modifying the State Constitution to allow certain changes to permanent benefit increases (PBIs) for public safety

employee pensions. Moody's said in a credit outlook report that approval of the amendment is credit positive for Arizona and its local governments, because it will replace PBIs, which were unfunded benefit increases, with more predictable cost-of-living adjustments (COLAs) that will be funded as part of ongoing plan costs. *(Please see the Consolidated Retirement Report for more information.)*

Long-Term Financing Summary

The state's long-term financing consists of 2 different types of transactions.

Lease-Purchase Facilities

Under a traditional lease-purchase agreement, the state issues COPs to generate proceeds to finance capital projects. ADOA and the universities have entered into lease-purchase agreements for the acquisition and construction of state facilities.

The School Facilities Board (SFB) also entered into lease-purchase agreements for the construction of new schools in FY 2003 - FY 2005 and FY 2008 - FY 2010.

Excluding the ADOA sale/leaseback (which is budgeted separately) and the ADC Kingman refinance (as the agency has retained sufficient funding for the lease-purchase payment change), in FY 2018 ADOA Building System lease-purchase payments will increase by \$182,900, of which \$162,900 is from the General Fund, \$149,900 is from Other Appropriated Funds, and \$(129,900) is from Non-Appropriated Funds. The Baseline funding levels for agencies have not been adjusted for the FY 2018 changes to lease-purchase payments. As a result, the relevant agencies would absorb any costs associated with revised lease-purchase payments. At the end of FY 2018, the outstanding balance of lease-purchase agreements is expected to be \$2,439,828,100. *(Please see the Capital Outlay ADOA Building System narrative for more information.)*

Table 2 provides information related to current state lease-purchase agreements.

Bonding Summary

The Arizona Board of Regents, on behalf of the Universities, the Arizona Department of Transportation, and SFB have issued bonds to renovate, acquire, and construct facilities, as well as to purchase equipment.

SFB has also issued Qualified Zone Academy Bonds (QZABs). The QZAB program, enacted through federal legislation, allows state and local agencies to issue QZABs at low interest rates by providing federal tax credits to

bond holders. SFB issued a total of \$26,350,000 in QZABs through 2 issuances in FY 2001 and FY 2003. The debt service on QZABs is paid from Proposition 301 sales tax revenues and Permanent State School Fund revenues.

Laws 2010, 6th Special Session, Chapter 4 authorized ADOA to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. Payments started in FY 2011 and have been made from the Lottery revenues that would have otherwise been deposited into the General Fund. The

FY 2018 bond payment will be \$37,500,800. This results in the General Fund receiving \$(37,500,800) less in Lottery revenues in FY 2018. However, since this is not a General Fund appropriation, it does not appear in the General Fund Balance and Payment columns in *Table 2*.

The federal requirements pertaining to operating financing also apply to the Lottery Revenue Bonds. *(Please see the 2010 Leaseback Financing section in the earlier part of this narrative for more information on these requirements.)*

	Overall Balance	^{1/} GF Balance	Overall FY 18 Payment	^{2/} FY 18 GF Payment	Retirement FY
Lease-Purchase Summary					
<u>ADDA Building System</u>					
2008 A Issuance					
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$ 33,818,500	\$ 33,818,500	\$ 14,210,200	\$ 14,210,200	FY 28
2010 A/B Issuance					
Sale/Leaseback	\$ 756,730,000	\$ 756,730,000	\$ 84,115,100	\$ 84,115,100	FY 30
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 19,350,000	\$ -	\$ 3,323,900	\$ 1,994,100	FY 29
2013 B Issuance					
Refinance - 2002A Health Lab	\$ 9,015,000	\$ -	\$ 2,033,300	\$ -	FY 23
Refinance - 2004B Prisons	2,995,000	2,995,000	3,071,900	3,071,900	FY 19
2015 Issuance					
Refinance - 2008A ADC and DHS	\$ 107,515,000	\$ 107,515,000	\$ 5,304,900	\$ 5,304,900	FY 28
2015 A Issuance					
PLTO Refinance - Capitol Mall	\$ 46,925,000	\$ 46,925,000	\$ 9,454,600	\$ 1,988,200	FY 28
2016 Issuance					
ADC Kingman Refinance	100,585,000	100,585,000	17,463,300	17,463,300	FY 25
<i>Subtotal - ADDA</i>	\$ 1,076,933,500	\$ 1,048,568,500	\$ 138,977,200	\$ 128,147,700	
<u>School Facilities Board</u>					
New School Construction - FY 2008 - FY 2009	\$ 43,735,000	\$ 43,735,000	\$ 44,925,400	\$ 44,925,400	FY 19
Federal Bonds	50,288,800	50,288,800	9,938,100 ^{3/}	9,938,100 ^{3/}	FY 28
2011 Refinance	58,785,000	58,785,000	2,449,700	2,449,700	FY 20
2013 Refinance	13,530,000	13,530,000	9,260,900	9,260,900	FY 20
2014 Refinance	55,605,000	55,605,000	91,721,800	91,721,800	FY 20
2015 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 479,778,800	\$ 479,778,800	\$ 169,761,700	\$ 169,761,700	
<u>ABOR Building System</u>					
Arizona State University	\$ 288,374,500	\$ 138,495,000	\$ 31,580,300	\$ 13,481,100	FY 39
Northern Arizona University	49,550,000	49,550,000	5,896,500	5,896,500	FY 31
University of Arizona	286,551,000	136,995,000	45,839,000	14,249,000	FY 72
<i>Subtotal - ABOR</i>	\$ 624,475,500	\$ 325,040,000	\$ 83,315,800	\$ 33,626,600	
Phoenix Convention Center ^{4/5/}	\$ 258,640,300	\$ 260,124,300	\$ 22,499,000	\$ 22,499,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,439,828,100	\$ 2,113,511,600	\$ 414,553,700	\$ 354,035,000	
Bonding Summary					
<u>School Facilities Board</u>					
Deficiencies Correction:					
Proposition 301	\$ 124,640,000	\$ -	\$ 64,133,500	\$ -	FY 20
State Land Trust - FY 2004	-	-	24,908,000	-	FY 18
<i>Subtotal - SFB</i>	\$ 124,640,000	\$ -	\$ 89,041,500	\$ -	
Department of Transportation ^{6/}	\$ 1,637,937,000	\$ -	\$ 177,698,000 ^{7/}	\$ -	FY 14 - 38

	Overall Balance	^{1/} GF Balance	Overall FY 18 Payment	^{2/} FY 18 GF Payment	Retirement FY
ABOR Building System					
Arizona State University	\$ 1,219,975,000	\$ -	\$ 89,502,400	\$ -	FY 48
Northern Arizona University	302,115,000	-	25,454,500	-	FY 44
University of Arizona	688,550,000	-	56,984,000	-	FY 48
University Lottery Bond (SPEED)	615,075,000 ^{8/}	-	49,903,900	-	FY 48
Subtotal - ABOR	\$ 2,825,715,000	\$ -	\$ 221,844,800	\$ -	
Lottery Revenue Bond	\$ 312,585,000	\$ -	\$ 37,500,800	\$ -	FY 29
TOTAL - Bonding	\$ 4,900,877,000	\$ -	\$ 526,085,100	\$ -	
TOTAL - Lease-Purchase & Bonding	\$ 7,340,705,100	\$ 2,113,511,600	\$ 940,638,800	\$ 354,035,000	

^{1/} Represents principal balances as of June 30, 2018. The "GF Balance" column represents the portion of the overall balance paid from General Fund sources.

^{2/} Represents lease-purchase or debt service payments, including the portion paid from a General Fund source, which is represented in the "FY 18 GF Payment" column.

^{3/} This type of financing originally entitled the state to a federal interest rate subsidy of 4.86% (out of the 6% due on the bonds), shortly after each payment. Taking into account recent federal budget reductions, in FY 2018 this subsidy is expected to be \$3,976,500 of the \$9,938,100 payment.

^{4/} These obligations will be repaid with foregone General Fund revenues.

^{5/} The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the the city to pay this portion of the lease-purchase payment. Laws 2015, Chapter 10 made a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.

^{6/} Includes \$1,408,522,000 for Highway User Revenue Fund bonds and \$229,415,000 for Grant Anticipation Notes.

^{7/} Future debt service schedule is: FY 2019 - \$182,200,000; FY 2020 - \$190,906,000; FY 2021 - \$200,450,000.

^{8/} Represents outstanding balance as of the end of FY 2018 from projects counted under the \$800,000,000 University Lottery bonding authority, otherwise known as SPEED. SPEED was originally authorized by Laws 2008, Chapter 287. (Please see the Capital Outlay Arizona Board of Regents Building System narrative for more information.)

REVENUE FORECAST

GENERAL FUND REVENUE

FY 2017

FY 2017 General Fund Baseline revenues are projected to be \$9.74 billion. As indicated in *Table 1*, the revised FY 2017 revenue estimate is \$66.2 million higher than the estimate from the FY 2017 budget enacted in May 2016.

Table 1	
FY 2017 Revenue Forecast	
(\$ in Millions)	
Adopted FY 2017 Revenue Estimate	\$9,674.2
Revised Revenue Forecast	\$ 66.2
Revised FY 2017 Revenue Estimate	\$9,740.4

The Baseline Revenue projection is \$66.2 million above the original forecast primarily due to:

- A gain of \$9.7 million in ongoing revenues under the updated January consensus forecast.
- A decrease of \$(2.5) million associated with revisions to tax law estimates.
- A \$59.0 million increase in the balance forward from FY 2016. The original budget assumed an ending balance of \$225.0 million for FY 2016 while the actual balance carried forward was \$284.0 million.

Current year base revenue estimates are based on the consensus forecasting process (*see FY 2018 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 2017 through FY 2020 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 3.6% in FY 2017. After adjusting for small revenue categories, the base revenue growth rate is 3.5%. After including tax law changes, one-time revenues, Urban Revenue Sharing, and the carry-forward balance, overall revenues are projected to decrease (0.6)% in FY 2017.

The individual revenue detail for FY 2017 is found in *Table 6* at the end of this section.

FY 2018 and Beyond

The FY 2018 JLBC Baseline forecasted total net revenues of \$9.76 billion represents 0.2% growth above FY 2017. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenue is projected at \$10.43 billion. This amount reflects a base revenue increase of 3.9% compared to FY 2017. Base revenue growth is projected at 3.8% for sales, 5.1% for individual income, (2.4)% for corporate income and 4.1% for insurance premium tax.

The FY 2018 Baseline also incorporates revenue planning estimates for FY 2019 and FY 2020, which are shown in *Table 7*. Under the consensus estimates, base revenue would increase by 4.2% in FY 2019 and 4.8% in FY 2020.

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 2017. 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 2017 through FY 2020 are detailed in *Table 2*.

Risks to the Revenue Forecast

While growth in state revenue always faces upside and downside risks, uncertainty regarding future federal policy changes may affect the forecast. The number of risks to the forecast may have increased, but the Federal Reserve Board (the Fed) judges that downside risks to the economy are counterbalanced with upside risks. The Fed's risk assessment and their improved economic outlook is reflected in their decision to resume increases to short-term interest rates in December 2016.

Table 2

**4-Sector Estimates
Forecast Percentages (FY 2017 - FY 2020)
Base Revenue ^{1/}**

	<u>FY 2017</u>					<u>FY 2018</u>				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales Tax	4.1%	3.2%	4.1%	4.0%	3.9%	4.0%	2.0%	5.0%	4.1%	3.8%
Individual Income Tax	5.1%	3.9%	4.8%	4.0%	4.5%	4.9%	3.7%	6.1%	5.8%	5.1%
Corporate Income Tax	(14.1)%	(5.8%)	(2.0%)	(7.0%)	(7.2%)	1.9%	(12.1%)	(3.3%)	4.7%	(2.4%)
Insurance Premium Tax	6.4%	7.4%	7.4%	6.4%	6.9%	5.5%	3.2%	3.2%	4.5%	4.1%
Overall ^{2/}	3.5%	3.1%	4.1%	3.4%	3.5%	4.2%	2.1%	4.8%	4.7%	3.9%
	<u>FY 2019</u>					<u>FY 2020</u>				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales Tax	3.9%	3.7%	5.6%	4.1%	4.3%	4.0%	5.6%	5.3%	4.0%	4.7%
Individual Income Tax	4.7%	3.9%	5.6%	4.9%	4.8%	4.8%	5.9%	5.5%	4.9%	5.3%
Corporate Income Tax	3.8%	(17.7%)	(6.3%)	3.1%	(3.9%)	2.0%	13.5%	(3.4%)	(0.1%)	2.0%
Insurance Premium Tax	4.9%	2.6%	2.4%	5.1%	3.8%	5.2%	2.0%	2.4%	4.7%	3.6%
Overall ^{2/}	4.3%	3.1%	4.9%	4.4%	4.2%	4.3%	5.6%	4.9%	4.2%	4.8%

^{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.

Some of the global, national and state risks to the revenue forecast include:

Unforeseen Natural Disasters and Geopolitical Events – An escalation of U.S. military engagement with Islamic State forces in the Middle East is one example of an event that would affect the national economy during the forecast cycle.

International Economics – President-elect Trump's proposals on U.S. trade policy may significantly impact the level of U.S. and Arizona trade with other countries. For example, Mr. Trump has indicated he will renegotiate or begin a process of withdrawing the U.S. from the North American Free Trade Agreement (NAFTA) during the first 100 days of his term. The impact of a renegotiation of terms would depend on what changes are made to the existing agreement. Of Arizona's \$22.7 billion in exports

in 2015, \$11.5 billion (51%) were shipped to NAFTA members.

Slower growth among our other major trading partners could also adversely affect the U.S. economy. The United Kingdom's anticipated exit from the European Union has produced political and economic uncertainty in the region, which may ultimately hurt confidence and economic growth. The Chinese government has also begun withdrawing fiscal stimulus from its economy in an effort to avoid bursting a housing bubble. If withdrawal of stimulus is executed poorly, the Chinese economy may slow from its current pace.

Federal Fiscal Policy Uncertainty – President-elect Trump has proposed policies to spur economic growth by reducing federal taxes and increasing spending. The proposals have potential to impact state revenues

through economic activity, tax code conformity, and strategic behavior of taxpayers.

President-elect Trump and Republican Congressional leadership have released separate federal tax proposals, which may become the basis of future reforms. Each proposal would lower the overall tax burden to businesses and individuals by reducing federal income tax rates and modifying federal income tax bases.

Mr. Trump also plans to provide fiscal stimulus to encourage up to \$1 trillion in private-sector infrastructure investment and increase defense spending. Brief descriptions of Mr. Trump's infrastructure stimulus indicate that companies would qualify for tax credits equal to 82% of their investment in qualifying infrastructure projects. The President-elect has indicated that defense spending would be increased, in part, by repealing spending cuts implemented under the 2013 federal budget sequester.

Any change in economic activity resulting from federal policies could have a "dynamic impact" in the sense of increasing or decreasing tax dollars for the state.

Expansionary fiscal policy in the form of reduced taxes and increased spending would increase economic growth in the short run. However, the stimulus would also likely increase federal budget deficits and borrowing costs that may require contractionary fiscal policies in later years. As a result, the proposed policies may eventually slow economic growth in the long run. The potential negative long run impacts may be limited if tax reforms successfully raise long-run investment growth and worker productivity.

Arizona tax law may also be impacted by federal tax reforms. Arizona definitions of income and itemized deductions used in determining state individual income and corporate income tax largely conform to federal definitions. Conforming to some of the proposed federal changes, such as limiting itemized deductions for individual taxpayers, would have the effect of increasing state revenues. Conforming to others, such as permitting all businesses to fully expense capital in the year of investment, would reduce state revenues.

The expectation of future federal tax reform may also impact the timing of state income tax collections. Some provisions may incentivize taxpayers to delay realization of investment income (capital gains, interest, dividends, rents, etc.) in hopes that future federal tax rates will decrease. For example, current proposals would eliminate a 3.8% surtax on the lesser of net investment income or annual earnings over a certain threshold (\$250,000 for married couples). One proposal would also

reduce the federal tax rates applied to most capital gains income.

If individuals expect to be taxed at lower federal rates under the reform, however, they may also be incentivized to accelerate estimated payments to the state prior to any changes. Taxpayers may deduct estimated payments made to the state when calculating their federal taxes. Accelerating these payments would allow the taxpayer to reduce their tax liability by a larger amount than under lower future tax rates. It is not clear whether these incentives have begun impacting the timing of collections.

Monetary Policy Uncertainty – After raising short-term interest rates in December 2015, the Fed halted further rate increases over concerns of labor market weakness and low inflationary pressure. In December 2016, citing an improved labor market and increased inflation, the Fed chose to resume what is expected to be a series of interest rate increases. There is a risk that if the timing and pace of such rate hikes are poorly executed, the current economic recovery could stall and the economy could go into recession.

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 7 years, which makes it the fourth longest expansion during that time. If the expansion were to continue through the end of the 4-sector forecast range of FY 2017 through FY 2020, it would represent the longest period of sustained economic growth since 1945. Expansions usually end as a result of a specific economic or policy event, such as many of previously listed items. 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.

Proposition 206 – The November 2016 approval of Proposition 206 by Arizona voters will raise the state's minimum wage from \$8.05 to \$10.00 on January 1, 2017 and then gradually to \$12.00 by January 1, 2020. After 2020, increases will be tied to inflation. The proposition also requires most employers to provide paid sick leave to their employees. By increasing wages and business costs, the initiative may affect individual income tax, corporate income tax and sales tax collections in opposite directions. As a result, it is difficult to determine the overall impact on revenue collections. Projections have not been adjusted for potential revenue impacts of Proposition 206.

Revenue Enforcement Staff – The Department of Revenue decreased its enforcement staffing by 108 auditors and collectors from the beginning of FY 2016 to the beginning of FY 2017. The department expects to make up any decrease in revenue from reduced staffing through greater taxpayer education and voluntary compliance. However, the effectiveness of those efforts at increasing revenue cannot be determined in advance. As a result, the revenue impact is unknown and projections have not been adjusted for these staffing changes.

Revenue Adjustments

Table 3 provides an overview of base revenue growth rates for FY 2017 and FY 2018 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in Table 4) and one-time financing sources.

	<u>FY 2017</u>	<u>%</u>	<u>FY 2018</u>	<u>%</u>
Base Revenue	\$10,040.6 ^{1/}	2.2%	\$10,434.4	3.9%
Prior Budget Legislation	N/A		(107.2)	
Urban Revenue Sharing	(663.6)		(680.8)	
One-Time Financing Sources:				
Balance Forward	284.0		114.1	
Fund Transfers	<u>79.4</u>		<u>0.0</u>	
Subtotal	363.4		114.1	
Adjusted Revenue	<u>\$9,740.4</u>	(0.6)%	<u>\$9,760.6</u>	0.2%

^{1/} The FY 2017 Base Revenue of \$10.0 billion includes \$(127.4) million in ongoing tax law and revenue changes. Adjusting for these changes, the FY 2017 base increase is 3.5%.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that affect the state’s revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of Table 3, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(127.4) million in FY 2017. As noted above, the FY 2017 base revenue growth of 3.5% excludes these changes. The Baseline assumes a base revenue

growth of 3.9% in FY 2018. Actual General Fund revenue, which includes the impact of prior budget legislation, urban revenue sharing and one-time financing sources, is estimated to decrease by (0.6)% in FY 2017 and increase by 0.2% in FY 2018.

The following section provides a detailed description of prior year budget legislation that has an ongoing revenue impact in FY 2017 through FY 2020 (see Table 4 for a complete list of each of the tax law and revenue changes affecting collections in FY 2017 through FY 2020).

As shown in Table 4, ongoing budget legislation enacted prior to the 2017 Regular Session is estimated to reduce General Fund revenue by \$(127.4) million in FY 2017, followed by an additional reduction of \$(107.2) million in FY 2018, \$(66.4) million in FY 2019, and \$(23.0) million in FY 2020. All revenue impacts in Table 4 are stated relative to the prior year.

Each of the previously enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in Table 5.

1) **Corporate School Tuition Tax Credit** – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increased the credit cap to \$10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2017, and are currently projected to reach the cap of \$74.3 million in FY 2018, \$89.2 million in FY 2019, and \$107.0 million in FY 2020. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by \$(10.3) million in FY 2017, followed by additional reductions of \$(12.4) million in FY 2018, \$(14.9) million in FY 2019, and \$(17.8) million in FY 2020.

2) **Research and Development (R&D) Tax Credit** – Laws 2008, Chapter 290 increased the percentages used to calculate the R&D credit for Tax Year (TY) 2010 to TY 2017. In TY 2017, a business with over \$2.5 million in qualified research expenses calculates the credit as 15% of the expenses above \$2.5 million. Beginning in TY 2018, Chapter 290 reduces the credit rate from 15% to 11% of qualified expenditures above \$2.5 million. Chapter 290 will result in estimated R&D credit program savings of \$3.0 million in FY 2019, followed by additional savings of \$8.0 million, beginning in FY 2020.

3) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. When the FY 2017 budget was adopted, this rate reduction was estimated to reduce corporate income tax collections by \$(47.4) million in FY 2017, followed by additional reductions of \$(47.4) million in FY 2018, and \$(35.4) million in FY 2019. Based on the latest update of the corporate income tax forecast, this estimate has now been revised to \$(47.0) million in FY 2017, followed by an additional reduction of \$(43.5) million in FY 2018, and \$(32.1) million in FY 2019.

4) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increases the optional sales factor, which is used to calculate the apportionment of taxable income for multi-state corporations, from 80% to 100% over 4 years, beginning in TY 2014. When the FY 2017 budget was enacted, the phase-in of the single sales factor was estimated to reduce corporate income tax collections by \$(29.4) million in FY 2017, followed by additional reductions of \$(26.6) million in FY 2018, and \$(16.5) million in FY 2019. Based on the Department of Revenue's most recent sales factor report and the latest update of the corporate income tax forecast, this estimate has now been revised to \$(22.3) million in FY 2017, followed by an additional reduction of \$(18.7) million in FY 2018, and \$(11.6) million in FY 2019.

5) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a \$3,000 annual individual and corporate income tax credit for each net new qualifying job added by an employer in the state. To qualify for the 3-year credit, the new employment position must: (1) be full-time, (2) pay at least the county median wage, and (3) include health insurance paid by the employer. In addition, a business cannot claim the credit unless it meets certain minimum job creation and capital investment requirements. Laws 2012, Chapter 343 removed the 400 maximum job tax credit claims per employer established by Chapter 1. The job tax credit is estimated to reduce revenues by \$(3.1) million in FY 2017.

6) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) \$200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility.

Laws 2016, Chapter 372 modified the credit by reducing some of the minimum requirements for new employees and extended the credit program by 3 years, from TY 2019 to TY 2022. The credit is refundable but no single taxpayer can claim more than \$30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of \$70 million, which it shares with the renewable energy credit enacted in 2009. This provision is estimated to reduce revenue by \$(4.0) million in FY 2017, followed by additional revenue reductions of \$(4.0) million in FY 2018, and \$(2.8) million in FY 2019.

7) Extension of Net Operating Loss Carry Forward – Laws 2012, Chapter 343 increases the net operating loss (NOL) carry-forward period for corporations from 5 years to 20 years, beginning in TY 2012. (A company incurs a net operating loss whenever its allowable deductions exceed its taxable income within the same taxable year.) Although the 20-year carry-forward provision became effective in TY 2012, it will not have a fiscal impact until TY 2018 (or FY 2019 and FY 2020 for budgetary purposes). This is because any net operating loss incurred in TY 2012 would be carried forward initially for 5 years (from TY 2013 through TY 2017), which is the same period as allowed under prior law. Thus, it is only beginning in TY 2018 that the extended net operating loss carry forward will generate tax savings for businesses over and above the amounts that would have been provided under prior law. The provision is estimated to reduce corporate income tax collections by \$(3.7) million in FY 2019, followed by an additional reduction of \$(8.5) million in FY 2020.

8) Renewable Energy Facility Credit – Laws 2014, Chapter 8 created an individual and corporate income tax credit for businesses that invest at least \$300 million in new renewable energy facilities in Arizona that generate energy for self-consumption. At least 90% of the energy produced at each renewable energy facility must be used for self-consumption and primarily for manufacturing operations. Chapter 8 imposed the following credit caps: (1) \$1 million per facility per year, (2) \$5 million per taxpayer per year, and (3) \$10 million in the aggregate per year. The credit is estimated to reduce General Fund revenues by \$(7.0) million in FY 2017.

Laws 2015, Chapter 6 expanded the credit program to include certified International Operations Centers (IOC). However, the credit requirements are different for an IOC than a manufacturer. To qualify for the credit, an IOC must make minimum capital investments of at least \$100 million per year for 10 years, and use at least 51% of the energy produced for self-consumption by the fifth year of operation. While Chapter 6 increased the annual per

facility credit cap from \$1 million to \$5 million, it left the \$10 million statewide aggregate cap unchanged. For this reason, the expansion of the credit program under Chapter 6 does not have any additional fiscal impact.

9) Electricity and Natural Gas TPT Exemption for International Operations Centers – Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an “International Operations Center.” The exemption is estimated to reduce General Fund revenue collections by \$(1.3) million, beginning in FY 2017.

10) Tax Fraud Prevention and Detection – Laws 2015, Chapter 8 (FY 2016 General Appropriation Act) appropriated \$3.2 million to the Department of Revenue (DOR) to contract with a vendor to provide tax fraud prevention services designed to detect fraudulently filed individual income tax returns. This program is expected to save the General Fund \$6.0 million in income tax revenue in FY 2017.

11) Ongoing Judiciary Transfers – The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contained specific transfers to be made during FY 2016. The enacted FY 2016 budget’s 3-year plan assumed the ongoing continuation of \$6.0 million in fund transfers from various Superior Court and Supreme Court funds to the General Fund, beginning in FY 2016.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorizes total transfers of \$5.0 million and \$3.0 million in FY 2017 and FY 2018, respectively, from various Judiciary funds to the General Fund. The FY 2017 budget’s 3-year spending plan assumes the continuation of a \$3.0 million transfer in FY 2019.

As noted above, the FY 2016 budget’s 3-year plan assumed Judiciary fund transfers to the General Fund of \$6.0 million in FY 2016, FY 2017 and FY 2018. Thus, compared to the previously budgeted amount of \$6.0 million, Chapter 117 constitutes a fund transfer reduction of \$(1.0) million in FY 2017 and \$(3.0) million in FY 2018. In terms of the impact relative to the prior year, Chapter 117 results in General Fund reduction of \$(1.0) million in FY 2017 followed by an additional reduction of \$(2.0) million beginning in FY 2018.

12) Phase-Down of Insurance Premium Tax Rate – Laws 2015, Chapter 220 provided a gradual reduction of the insurance premium tax rate from 2.0% in Calendar Year (CY) 2015 to 1.7% in CY 2026 and subsequent years. Laws 2016, Chapter 358 replaced the rate schedule under Laws 2015, Chapter 220 with an accelerated schedule that

gradually reduces the premium tax rate to 1.7% in CY 2021, or 5 years earlier than previously enacted. The phase-down of the premium tax rate to 1.7% is estimated to decrease insurance premium tax collections to the General Fund by \$(4.3) million in FY 2017, followed by further decreases of \$(4.1) million in FY 2018, \$(4.3) million in FY 2019, and \$(4.7) million in FY 2020.

13) Changes to Charitable Tax Credit Cap – Laws 2016, Chapter 109 increases the maximum amount that an individual income taxpayer is allowed to claim for cash contributions to qualifying charitable organizations (QCO) and qualifying foster care charitable organizations (QFCO). Chapter 109 increases the maximum QCO credit from \$400 to \$800 for married couples filing joint returns and from \$200 to \$400 for all other filers. The maximum amount for the QFCO credit is increased from \$800 to \$1,000 for married couples filing joint returns and from \$400 to \$500 for all other filers. Additionally, Chapter 109 allows a taxpayer to receive separate credits for cash contributions to a QCO and a QFCO. Prior to Chapter 109, the maximum amount for both credits combined were \$800 for married couples filing joint returns and \$400 for all other filers. The JLBC Staff estimates the revenue impact of this provision to be \$(11.0) million annually, beginning in FY 2017. The May 2016 budget agreement assumed an annual revenue impact of \$(2.6) million.

Laws 2016, Chapter 309 provides further changes to the charitable tax credit by extending the due date for making cash contributions to qualifying charitable organizations from December 31 to April 15 of the following calendar year. For purposes of claiming the credit, contributions made after December 31 and on or before April 15 can be applied to either the current or preceding taxable year. This provision is estimated to reduce General Fund revenue by \$(1.7) million annually, beginning in FY 2017.

The combined impact of the provisions under Chapters 109 and 309 is an estimated revenue reduction of \$(12.7) million annually, beginning in FY 2017.

14) Phase-in of Full Conformity to Federal Bonus Depreciation – Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the bonus depreciation allowance claimed on federal returns for qualified property purchased and placed in service in 2013 and later. Laws 2016, Chapter 118 increases the state income tax deduction to 55% of the federal bonus depreciation allowance in TY 2016 and 100% in TY 2017 and subsequent years. Current federal law provides a bonus depreciation allowance of 50% in TY 2017, 40% in TY 2018, and 30% in TY 2019. This means that under the current federal bonus depreciation schedule, the state individual income tax deduction is 50% (100% of 50%

federal allowance) of the qualified investment amount in TY 2017, 40% (100% of 40% federal allowance) in TY 2018, and 30% (100% of 30% federal allowance) in TY 2019. The 2-year phase-in of full state conformity to federal bonus depreciation is estimated to reduce individual income tax by \$(8.0) million in FY 2017, followed by an additional reduction of \$(8.0) million in FY 2018.

15) Fee Shift to ADEQ – Laws 2016, Chapter 192 provides that fees collected for wastewater and drinking water operator certification be deposited in the Arizona Department of Environmental Quality's (ADEQ) Water Quality Fee Fund instead of the General Fund. The provision is estimated to decrease General Fund revenue by \$(357,000) annually, beginning in FY 2017.

16) Elimination of Pest Management Fee Deposit – Laws 2016, Chapter 221 establishes the Division of Pest Management within the Arizona Department of Agriculture (ADA) as of July 1, 2016. Moreover, Chapter 221 establishes the Pest Management Trust Fund for the exclusive purpose of supporting the Division of Pest Management and repeals statute establishing the Office of Pest Management as a self-sustaining 90/10 agency. Therefore, Chapter 221 effectively eliminates the deposit of pest management fees to the General Fund. The provision is expected to reduce General Fund revenue by \$(152,000) annually, beginning in FY 2017.

17) Gas Transportation Services TPT Exemption – Under current law (Laws 2014, Chapter 7), the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations are exempt from state TPT and use tax. Laws 2016, Chapter 357 expands this exemption to include natural gas transportation services. Chapter 357 is estimated to reduce General Fund revenue by \$(870,000) annually, beginning in FY 2017.

18) Agricultural Feed TPT Exemption – Under current law, the sale of livestock or poultry feed to a person who is in the business of producing livestock or poultry commercially is exempt from state TPT. Laws 2016, Chapter 361 expands this exemption to include the sale of feed to a person who boards livestock non-commercially. Chapter 361 is estimated to reduce General Fund revenue by \$(1.0) million annually, beginning in FY 2017.

19) 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.

20) Fine Art TPT Exemption – Laws 2016, Chapter 368 exempts the sale of fine art at an auction or gallery to a nonresident, for use outside the state, from state TPT. The exemption is estimated to reduce General Fund revenue by \$(1.3) million annually, beginning in FY 2017.

21) Modification of Existing Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2016, Chapter 374 modifies the requirements to qualify for the existing TPT and use tax exemption for electricity and natural gas purchased by manufacturers and smelters. To qualify for the exemption under 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.

The JLBC Staff estimates that Chapter 374 will reduce General Fund revenue by \$(8.7) million in FY 2017, followed by an additional reduction of \$(12.2) million, beginning in FY 2018. The May 2016 budget agreement assumed a revenue impact of \$(7.0) million in FY 2017, followed by an additional reduction of \$(7.0) million, beginning in FY 2018.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net individual and corporate income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will increase from \$663.6 million in FY 2017 to \$680.8 million in FY 2018. This URS increase results in a FY 2018 General Fund revenue loss of \$(17.2) million relative to FY 2017. As shown in *Table 7*, URS distributions are estimated to increase to \$680.9 million in FY 2019 and \$698.9 million in FY 2020, which will result in net General Fund revenue losses of \$(0.1) million and \$(18.0) million in FY 2019 and FY 2020, respectively.

Table 4

Prior Year Budget Legislation with Ongoing Revenue Impact in FY 2017 through FY 2020
(\$ Millions) ^{1/ 2/}

<u>Prior Year Legislation / Description of Provision</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<u>Laws 2006, Ch. 14 & Ch. 325</u>				
1) Corporate school tuition credit for low-income students	\$(10.3)	\$(12.4)	\$(14.9)	\$(17.8)
<u>Laws 2008, Ch. 290</u>				
2) Increases R&D credit calculation from TY 2010 through TY 2017. Calculation reverts to the lower pre-TY 2010 credit percentages, beginning in TY 2018.	0.0	0.0	3.0	8.0
<u>Laws 2011, 2nd SS, Ch. 1</u>				
3) Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014	(47.0)	(43.5)	(32.1)	0.0
4) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in TY 2014	(22.3)	(18.7)	(11.6)	0.0
5) Creates annual \$3,000 3-year new job tax credit with conditions ^{3/}	(3.1)	0.0	0.0	0.0
<u>Laws 2012, Ch. 343</u>				
6) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities ^{4/}	(4.0)	(4.0)	(2.8)	0.0
7) Extends the Net Operating Loss (NOL) carry forward from 5 years to 20 years	0.0	0.0	(3.7)	(8.5)
<u>Laws 2014, Ch. 8</u>				
8) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	(7.0)	0.0	0.0	0.0
<u>Laws 2015, Ch. 6</u>				
9) Exempts electricity and natural gas purchased by International Operations Centers from TPT	(1.3)	0.0	0.0	0.0
<u>Laws 2015, Ch. 8</u>				
10) Fraud detection and prevention conducted by the Department of Revenue	6.0	0.0	0.0	0.0
<u>Laws 2015, Ch. 8 & Laws 2016, Ch. 117</u>				
11) Provides ongoing Judiciary fund transfers to General Fund	(1.0)	(2.0)	0.0	0.0
<u>Laws 2015, Ch. 220 & Laws 2016, Ch. 358</u>				
12) Phases down insurance premium tax rate from 2.0% to 1.7% over 6 years, beginning in FY 2017	(4.3)	(4.1)	(4.3)	(4.7)
<u>Laws 2016, Ch. 109 & Laws 2016, Ch. 309</u>				
13) Increases the maximum amount claimed as a tax credit for contributions to charitable organizations and extends the credit filing due date to April 15.	(12.7)	0.0	0.0	0.0
<u>Laws 2016, Ch. 118</u>				
14) Increases state income tax deduction from 10% to 100% of federal bonus depreciation over 2 years, beginning in FY 2017	(8.0)	(8.0)	0.0	0.0

<u>Prior Year Legislation / Description of Provision (Cont'd)</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<u>Laws 2016, Ch. 192</u>				
15) Diverts certification fees from General Fund to ADEQ ^{5/}	\$(0.4)	\$0.0	\$0.0	\$0.0
<u>Laws 2016, Ch. 221</u>				
16) Eliminates pest management fee deposit to General Fund ^{5/}	(0.2)	0.0	0.0	0.0
<u>Laws 2016, Ch. 357</u>				
17) Exempts natural gas transportation services provided to manufacturing and smelting facilities from TPT	(0.9)	0.0	0.0	0.0
<u>Laws 2016, Ch. 361</u>				
18) Exempts agricultural feed for use in noncommercial boarding of livestock from TPT	(1.0)	0.0	0.0	0.0
<u>Laws 2016, Ch. 367</u>				
19) Exempts aircraft and aircraft equipment operated by charter airlines from TPT ^{5/}	0.0	(2.3)	0.0	0.0
<u>Laws 2016, Ch. 368</u>				
20) Exempts sale of fine art to nonresidents for use outside the state from TPT	(1.3)	0.0	0.0	0.0
<u>Laws 2016, Ch. 374</u>				
21) Modifies existing TPT exemption for electricity and natural gas purchased by manufacturing and smelting facilities ^{6/}	<u>(8.7)</u>	<u>(12.2)</u>	<u>0.0</u>	<u>0.0</u>
Revenue Impact over Prior Year	\$(127.4)	\$(107.2)	\$(66.4)	\$(23.0)
<p>1/ Represents marginal pricing: All revenue impacts are stated relative to the prior year. Unless otherwise noted, bill scoring reflects the estimates contained in the final budget agreement.</p> <p>2/ Some provisions have been revised since the enactment of the FY 2017 budget in May 2016.</p> <p>3/ Includes impact of Laws 2012, Chapter 343, which eliminated individual company cap of 400 eligible employees. In addition, Laws 2012, Chapter 343 provided that the credit be available to insurers through TY 2019. The TY 2019 deadline for insurers to claim the credit was subsequently eliminated by Laws 2016, Chapter 360. The imposition and subsequent removal of the TY 2019 deadline is not expected to have any fiscal impact.</p> <p>4/ Impact began in FY 2014.</p> <p>5/ Represents JLBC Staff scoring. The May 2016 budget agreement did not include an estimate for the bill.</p> <p>6/ Represents JLBC Staff scoring. The May 2016 budget agreement assumed an impact of \$(7.0) million in FY 2017, followed by an additional impact of \$(7.0) million, beginning in FY 2018.</p>				

One-Time Financing

As shown in *Table 5*, one-time financing sources are included in the budget for FY 2017 and FY 2018. The following is a discussion of the one-time financing sources.

FY 2017

The \$363.4 million in one-time financing sources for FY 2017 includes:

Fund Transfers

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) required a \$100.0 million transfer from the Health Insurance Trust Fund (HITF) to the General Fund in FY 2017. The FY 2017 General Appropriation Act (Laws

2016, Chapter 117) amends Laws 2015, Chapter 8 by reducing the transfer from \$100.0 million to \$78.9 million. The FY 2017 General Appropriation Act also transfers \$461,600 from the Automation Operations Fund to the General Fund. This transfer offsets the General Fund's share of the increased operating costs for the state's accounting system, the Arizona Financial Information System (AFIS), in FY 2017. Therefore, total FY 2017 fund transfers to the General Fund are \$79.4 million.

Balance Forward

The FY 2016 General Fund ending balance carried forward into FY 2017 was \$284.0 million.

FY 2018

The \$114.1 million in one-time financing sources for FY 2018 includes:

Table 5				
FY 2017 through FY 2020 One-Time Financing Sources				
(\$ in Millions)				
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Balance Forward	\$ 284.0	\$ 114.1	--	--
Fund Transfers	<u>79.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total One-Time Financing	<u>\$363.4</u>	<u>\$114.1</u>	<u>\$0.0</u>	<u>\$0.0</u>

Balance Forward

The FY 2017 General Fund ending balance carried into FY 2018 is estimated to be \$114.1 million. There are no fund transfers included in FY 2018.

FY 2019 & FY 2020

As shown in *Table 5*, no one-time financing sources are currently included for FY 2019 and FY 2020. The projected FY 2018 ending balance of \$159.0 million is presumed to be allocated as part of the FY 2018 budget process.

Table 6

GENERAL FUND REVENUE - FY 2016 - FY 2018

FORECAST REVENUE GROWTH (\$ in Thousands)								
	ACTUAL FY 2016	% CHANGE PRIOR YR	FORECAST FY 2017	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,299,013.5	2.5%	4,451,557.0	3.5%	152,543.5	4,619,587.2	3.8%	168,030.2
Income - Individual	3,956,921.7	5.2%	4,118,552.1	4.1%	161,630.3	4,329,770.6	5.1%	211,218.5
- Corporate	549,626.3	-17.1%	420,515.8	-23.5%	(129,110.5)	410,633.6	-2.4%	(9,882.2)
Property	38,483.3	5.4%	40,151.2	4.3%	1,667.9	41,543.1	3.5%	1,391.9
Luxury - Tobacco	24,959.1	5.6%	24,543.5	-1.7%	(415.7)	24,436.1	-0.4%	(107.4)
- Liquor	34,086.9	3.0%	34,222.3	0.4%	135.4	34,598.9	1.1%	376.5
Insurance Premium	490,576.3	9.1%	515,780.1	5.1%	25,203.8	536,911.2	4.1%	21,131.2
Other Taxes (Includes MV Tax)	7,958.5	5.6%	8,356.4	5.0%	397.9	8,607.1	3.0%	250.7
Subtotal - Taxes	9,401,625.6	2.6%	9,613,678.3	2.3%	212,052.7	10,006,087.7	4.1%	392,409.4
Other Non-Tax Revenues:								
Lottery	64,972.8	-1.7%	68,761.3	5.8%	3,788.5	77,174.4	12.2%	8,413.2
Licenses, Fees and Permits	30,807.0	-1.0%	31,838.3	3.3%	1,031.3	32,315.9	1.5%	477.6
Interest	13,488.0	32.1%	17,698.9	31.2%	4,210.9	17,698.9	0.0%	0.0
Sales and Services	42,691.7	11.8%	44,826.3	5.0%	2,134.6	46,036.6	2.7%	1,210.3
Other Miscellaneous	92,566.9	18.8%	96,582.2	4.3%	4,015.3	100,841.8	4.4%	4,259.6
Transfers and Reimbursements	82,651.8	45.0%	72,888.9	-11.8%	(9,762.8)	62,471.8	-14.3%	(10,417.2)
Disproportionate Share Revenue	93,866.3	6.9%	94,321.6	0.5%	455.3	91,791.4	-2.7%	(2,530.2)
Subtotal - Other Non-Tax	421,044.4	14.3%	426,917.5	1.4%	5,873.1	428,330.8	0.3%	1,413.3
Subtotal On-Going Revenue	9,822,670.0	3.0%	10,040,595.9	2.2%	217,925.8	10,434,418.5	3.9%	393,822.7
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(107,200.0)	N/A	(107,200.0)
Subtotal w/Tax Law Changes	9,822,670.0	3.0%	10,040,595.9	2.2%	217,925.8	10,327,218.5	2.9%	286,622.7
Urban Revenue Sharing (URS)	(605,634.3)	N/A	(663,582.2)	N/A	(57,947.8)	(680,770.1)	N/A	(17,187.9)
Subtotal w/Tax Law Changes/URS	9,217,035.7	3.3%	9,377,013.7	1.7%	159,978.0	9,646,448.4	2.9%	269,434.8
One-Time Financing Sources:								
Fund Transfers	220,296.6	182.0%	79,361.6	-64.0%	(140,935.0)	0.0	-100.0%	(79,361.6)
Tax Amnesty	47,048.5	N/A	0.0	-100.0%	(47,048.5)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	267,345.1	242.2%	79,361.6	-70.3%	(187,983.5)	0.0	-100.0%	(79,361.6)
Subtotal - Revenues	9,484,380.8	5.3%	9,456,375.3	-0.3%	(28,005.5)	9,646,448.4	2.0%	190,073.2
Balance Forward	312,276.0	-45.9%	284,015.0	-9.1%	(28,261.0)	114,133.1	-59.8%	(169,881.9)
Total - Resources	9,796,656.8	2.2%	9,740,390.3	-0.6%	(56,266.5)	9,760,581.5	0.2%	20,191.3

1/ The 3.0% FY 2016 increase includes \$(97.9) million in tax law changes. Adjusting for these changes, the base FY 2016 increase is 4.0%.

2/ The 2.2% FY 2017 increase includes \$(127.4) million in tax law changes. Adjusting for these changes, the base FY 2017 increase is 3.5%.

Table 7

GENERAL FUND REVENUE - FY 2019 - FY 2020

FORECAST REVENUE GROWTH (\$ in Thousands)						
	FORECAST FY 2019	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,804,028.9	4.0%	184,441.7	5,031,136.2	4.7%	227,107.4
Income - Individual	4,528,864.5	4.6%	199,093.9	4,767,973.7	5.3%	239,109.2
- Corporate	324,017.9	-21.1%	(86,615.7)	273,529.7	-15.6%	(50,488.3)
Property	42,719.8	2.8%	1,176.7	43,946.9	2.9%	1,227.1
Luxury - Tobacco	24,212.4	-0.9%	(223.7)	23,991.1	-0.9%	(221.3)
- Liquor	35,075.2	1.4%	476.4	35,560.3	1.4%	485.0
Insurance Premium	547,439.5	2.0%	10,528.2	556,189.4	1.6%	8,750.0
Other Taxes (Includes MV Tax)	8,865.3	3.0%	258.2	9,131.3	3.0%	266.0
Subtotal - Taxes	10,315,223.5	3.1%	309,135.7	10,741,458.6	4.1%	426,235.1
Other Non-Tax Revenues:						
Lottery	86,853.0	12.5%	9,678.6	97,018.8	11.7%	10,165.7
Licenses, Fees and Permits	32,800.6	1.5%	484.7	33,292.6	1.5%	492.0
Interest	23,008.6	30.0%	5,309.7	26,459.9	15.0%	3,451.3
Sales and Services	47,279.6	2.7%	1,243.0	48,556.1	2.7%	1,276.5
Other Miscellaneous	105,360.6	4.5%	4,518.8	110,154.3	4.5%	4,793.7
Transfers and Reimbursements	62,890.6	0.7%	418.9	65,406.2	4.0%	2,515.6
Disproportionate Share Revenue	84,571.6	-7.9%	(7,219.8)	77,352.1	-8.5%	(7,219.5)
Subtotal - Other Non-Tax	442,764.6	3.4%	14,433.8	458,240.0	3.5%	15,475.4
Subtotal On-Going Revenue	10,757,988.1	3.1% 3/	323,569.6	11,199,698.6	4.1% 4/	441,710.5
Previously Enacted Tax Law Changes	(66,400.0)	N/A	40,800.0	(23,000.0)	N/A	43,400.0
Subtotal w/Tax Law Changes	10,691,588.1	3.5%	364,369.6	11,176,698.6	4.5%	485,110.5
Urban Revenue Sharing (URS)	(680,860.2)	N/A	(90.1)	(698,850.6)	N/A	(17,990.5)
Subtotal w/Tax Law Changes/URS	10,010,727.9	3.8%	364,279.5	10,477,848.0	4.7%	467,120.1
One-Time Financing Sources:						
Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Tax Amnesty	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	10,010,727.9	3.8%	364,279.5	10,477,848.0	4.7%	467,120.1
Balance Forward	0.0	-100.0%	(114,133.1)	0.0	N/A	0.0
Total - Resources	10,010,727.9	2.6%	250,146.4	10,477,848.0	4.7%	467,120.1

3/ Adjusting for the \$(107.2) million in tax law changes in FY 2018, the base FY 2019 increase is 4.2%.

4/ Adjusting for the \$(66.4) million in tax law changes in FY 2019, the base FY 2020 increase is 4.8%.

BUDGET STABILIZATION FUND

Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the “Rainy Day Fund.”

The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January budget documents of the JLBC and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is not made until June 1 of the budget year. The EEC determines the annual growth rate of real adjusted state personal income, its trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of real adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to its 7-year trend growth rate.
- Real adjusted personal income in the BSF formula is defined as Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
- Trend growth rate is defined as the average annual growth rate of real adjusted personal income for the most recent 7 calendar years.
- If the annual growth rate exceeds the trend growth rate, the “excess” percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
- If the annual growth rate of real adjusted personal income is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF's total balance cannot be larger than 7.0% of the current year's General Fund revenues, excluding the beginning balance.
- In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities (A.R.S. § 35-314.02).

Deposits/Withdrawals

FY 2015

In CY 2014, Arizona real adjusted personal income grew by 2.12%, with a trend growth rate of (0.26)%. Since the “excess” growth rate in CY 2014 was 2.38%, the formula recommended a BSF deposit of \$198.4 million in FY 2015. The Legislature, however, did not authorize such deposit.

Laws 2014, Chapter 9 authorized the transfer of \$1.0 million in BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

FY 2016

In CY 2015, Arizona real adjusted personal income grew by 3.07%, with a trend growth rate of 0.42%. Since the “excess” growth rate in CY 2015 was 2.65%, the formula recommended a BSF deposit of \$236.8 million in FY 2016. The Legislature did not authorize the deposit.

Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay wildland fire suppression claims. In June 2016, the State Forester used \$587,800 for that purpose. When a federal agency makes payment on the claim, the State Forester must reimburse the State Treasurer for that amount within 45 days. The Treasurer is required to deposit the reimbursed amount into the

Table 1

Budget Stabilization Fund ^{1/}
(\$ in Thousands)

	Actual FY 2015	Actual FY 2016	Estimate FY 2017	Estimate FY 2018
General Fund Revenues				
Adjusted Revenues	\$8,934,730.0 ^{2/}	\$9,217,035.7	\$9,377,013.7	\$9,646,448.4
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	625,431.1	645,192.5	656,391.0	675,251.4
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	2.12%	3.07%	2.51%	2.45%
7-Year Average Income Growth	<u>(0.26)%</u>	<u>0.42%</u>	<u>2.04%</u>	<u>2.62%</u>
Annual Difference	2.38%	2.65%	0.47%	(0.17)%
BSF Transactions				
Beginning BSF Balance	455,333.9	457,627.4	460,846.4	463,346.4
BSF Formula Recommendation	198,435.6	236,770.3	43,320.1	0.0
Actual Transfer In				
None	0.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Interest Income – L'14, Ch.9 ^{3/}	(1,000.0)	0.0	0.0	0.0
Transfer of BSF Monies – L'16, Ch. 219 ^{4/}	0.0	(587.8)	0.0	
Transfer of BSF Interest Income – L'16, Ch. 117 ^{5/}	<u>0.0</u>	<u>0.0</u>	<u>(1,500.0)</u>	<u>0.0</u>
SUBTOTAL	(1,000.0)	(587.8)	(1,500.0)	0.0
Balance	454,333.9	457,039.6	459,346.4	463,346.4
Interest Earnings & Equity Gains/Losses ^{6/}	3,293.5	3,806.8	4,000.0	4,400.0
Ending BSF Balance	\$ 457,627.4	\$ 460,846.4	\$ 463,346.4	\$ 467,746.4
Percent of Revenues	5.1%	5.0%	4.9%	4.8%

^{1/} BSF history prior to FY 2015 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2015, as determined by the Economic Estimates Commission.

^{3/} Laws 2014, Chapter 9 appropriated \$1.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

^{4/} Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay certain wildland fire suppression claims. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim.

^{5/} Laws 2016, Chapter 117 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

^{6/} Estimated interest earnings for FY 2017 and FY 2018 was provided by the State Treasurer's Office.

BSF. Not more than \$10 million in unreimbursed claims can be outstanding from the fund at any time.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized the Department of Child Safety and Department of Economic Security (DES) to use up to \$35.0 million each from the BSF to provide funding for reimbursement grants in FY 2016. Chapter 117 required the BSF to be fully reimbursed by September 1, 2016. This loan authority was used only by DES, which withdrew \$35.0 million in July 2016 and reimbursed the State Treasurer for that amount in August 2016.

FY 2017

The University of Arizona's Economic and Business Research Center (EBR) estimates that Arizona real adjusted personal income increased by 2.51% in CY 2016. Since this is 0.47% above the estimated trend growth rate of 2.04%, the formula is expected to recommend a BSF

deposit of \$43.3 million in FY 2017. The FY 2017 budget enacted in May 2016 did not include any deposit into the BSF.

FY 2018

EBR currently projects that Arizona real adjusted personal income will grow by 2.45% in CY 2017. Since this is (0.17)% below the estimated trend growth rate of 2.62%, the formula would require no BSF deposit in FY 2018.

STATUTORY CHANGES

The Baseline would, as session law, continue to withstand the requirements for any deposit to or withdrawals from the Budget Stabilization Fund through FY 2020.

CONSOLIDATED RETIREMENT REPORT

CONSOLIDATED RETIREMENT REPORT

Update - Hall v. Elected Officials' Retirement Plan

In November 2016, the Arizona Supreme Court released a decision in *Hall v. Elected Officials' Retirement Plan*, ruling that changes made by Laws 2011, Chapter 357 to the Elected Officials' Retirement Plan (EORP) for persons who were active members at that time violated the Arizona Constitution. Due to ongoing litigation, any impact to other systems affected by Chapter 357 (the Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan) has yet to be officially determined.

If *Hall* were to be more broadly applied to the Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP), the most significant impact would be for the CORP system, as most plan design changes litigated in *Hall* for the PSPRS system were superseded by Proposition 124 and its related legislation.

The *Hall* impact to EORP could be funded through 1 of 2 ways: 1) Increasing the fixed 23.5% employer contribution rate to 53.7%, thereby sharing the increased costs between the state and local governments and resulting in an annual General Fund cost of \$3.8 million; or 2) Absorbing the entire cost through an increase in the current EORP General Fund appropriation, resulting in an annual General Fund cost increase of \$28 million.

If the *Hall* decision is applied to CORP, the change to that system's employer contribution rate is estimated to have an annual General Fund impact of \$24.8 million.

The fiscal impact on PSPRS has not yet been determined.

While litigation in the case is ongoing, PSPRS has provided some preliminary information on the impact of *Hall* if it is determined to apply to all PSPRS managed systems:

PSPRS

Employees hired prior to 2012 would have their employee contribution rate reduced to 7.65% from the current rate of 11.65%. The Public Safety Personnel Retirement System (PSPRS) estimates this would result in an estimated \$190-\$210 million in overcollected employee contribution amounts that the system must refund, which PSPRS could potentially pay out of its cash reserves within the PSPRS system.

In addition, certain employees who retired after the effective date of the 2011 pension changes (Laws 2011, Chapter 357) would have retroactive Permanent Benefit Increases restored if they are eligible. These potential

retroactive Permanent Benefit Increase changes would be estimated to increase unfunded liabilities to the system by \$500 million.

These 2 impacts would reduce the funded status from 46.0% to 44.5%. Because these impacts will increase the unfunded liability of the PSPRS system, they will have the impact of increasing future employer contribution rates. At this time, PSPRS actuaries have not estimated these contribution rate increases.

CORP

Hall would not impact the Corrections Officer Retirement Plan (CORP) employee contribution rate, as the 2011 pension changes held this rate at 8.41%.

In terms of Permanent Benefit Increases, a more broadly applied *Hall* ruling would effectively mitigate all benefit changes for CORP employees who were active at the time the 2011 pension changes became effective. Actuaries have estimated that the contribution rate for CORP due to *Hall* would increase from the 20.98% rate listed in the formal actuarial valuation to 26.97%. In addition, if *Hall* is applied to CORP, the funded status for CORP would be reduced from 57.3% to 50.7%.

EORP

Due to *Hall*, employees hired prior to 2012 will have their contribution rate reduced to 7.00% from the current rate of 13.00%. This will result in overcollected employee contribution amounts that the system must refund, which PSPRS could potentially pay out of its cash reserves within the EORP system.

In addition, the *Hall* ruling will effectively mitigate all benefit changes for EORP employees who were active at the time the 2011 pension changes became effective.

The official FY 2018 actuarial valuation estimates that the now-closed EORP fund balance would be depleted in 13 years. Including the impact of *Hall*, this timeframe would decrease to 10 years. In order to extend this post-*Hall* 10-year period and ensure payment of all benefits, the actuaries have recommended that the fixed General Fund appropriation and/or the fixed employer contribution rate be increased as noted above.

The rest of the Consolidated Retirement Report will discuss the pension systems' financials without the impact of *Hall*, as the annual actuarial valuations published by the pension system's reflects plan valuations as of June 30, 2016 (end of FY 2016).

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state's retirement systems, including the state cost, contribution rates, and other related policy and legal issues.

This section includes information on the following:

- FY 2018 Impacts and Total Funding
 - Arizona State Retirement System (ASRS)
 - Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP)
 - Elected Officials' Retirement Plan (EORP) and Elected Officials' Defined Contribution Retirement System (EODC System)
 - University Optional Retirement Plan (UORP)
- Litigation Issues
 - *Fields v. Elected Officials' Retirement Plan*
 - *Hall v. Elected Officials' Retirement Plan*
- Proposition 124
- Background
 - The Different Systems
 - Enrollment and Funded Status
 - Permanent Benefit Increase
 - Long-Term Contribution Rate Estimates

FY 2018 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2018 is estimated to be \$193.8 million and the Total State Funds cost is \$512.4 million. *(Please see Table 1 for the total costs.)*

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 2018 Baseline does not adjust agency budgets to account for these cost increased. Based on published actuarial valuations from ASRS and PSPRS (which exclude any impact of *Hall*), the FY 2018 employer contribution will increase as follows:

- ASRS – A General Fund increase of \$107,400 and a Total State Funds increase of \$440,700 as a result of a slightly higher FY 2018 ASRS contribution rate.
- PSPRS – A General Fund increase of \$2.8 million and a Total State Funds increase of \$10.1 million.
- CORP – A General Fund increase of \$9.3 million and Total State Funds increase of \$9.5 million.
- EORP and the EODC System – Because elected officials' contribution rates are fixed in statute, there would not be an automatic FY 2018 cost increase. EORP actuaries, however, have indicated that current contribution rates would deplete all EORP assets in 13 more years.
- UORP – Because the employer contribution rate is fixed at 7%, there is no change in the FY 2018 employer contribution rate.

The following sections discuss FY 2018 contribution rates for the state's retirement systems and the fiscal impacts associated with those rates. Legal issues that affect the state's retirement systems are discussed at the end of the CRR.

ASRS

The General Fund cost associated with ASRS in FY 2018 is estimated to be \$61.8 million and the Total State Funds cost is \$253.4 million.

At its December 2016 meeting, the ASRS Board of Trustees kept the system's main employer contribution rate at 11.34% of Personal Services in FY 2018. There was, however, a 0.02% increase in a separate rate for disability insurance. The employer contribution rate for disability insurance will increase from 0.14% to 0.16%, for

Table 1

Arizona Public Retirement FY 2018 System Employer Cost

	FY 2018 Change 1/			FY 2018 Total Cost 2/		
	General Fund	All Other Funds 3/	Total	General Fund	All Other Funds 3/	Total
Arizona State Retirement System	\$ 107,400	\$ 333,300	\$ 440,700	\$ 61,753,800	\$ 191,631,800	\$ 253,385,600
Public Safety Personnel Retirement System	2,814,100	7,243,900	10,058,000	28,229,900	71,380,900	99,610,800
Corrections Officer Retirement Plan	9,339,800	150,600	9,490,400	81,117,200	1,131,700	82,248,900
Elected Officials' Retirement Plan/Elected Defined Contribution Retirement System	-	-	-	7,938,000	109,900	8,047,900
University Optional Retirement Plan	-	-	-	14,810,800	54,290,400	69,101,200
Grand Total	\$ 12,261,300	\$ 7,727,800	\$ 19,989,100	\$ 193,849,700	\$ 318,544,700	\$ 512,394,400

1/ Represents the cost of the change in the employer contribution rate increase for all state agencies.

2/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2018 change in Personal Services costs.

3/ Includes both Other Appropriated Funds and Non-Appropriated Funds.

a total overall employer contribution rate of 11.50%. This higher contribution rate increases the General Fund cost by \$107,400 and the Total State Funds cost by \$440,700 in FY 2018. The FY 2018 Baseline does not increase agency budgets for these costs. (Please see Table 2 for historical ASRS contribution rates, excluding disability.)

The rate for disability insurance increased because of increased liabilities from individuals not recovering and coming off disability as anticipated and lower-than-expected investment returns.

Table 2

**ASRS Contribution Rates
(Excludes Disability)**

<u>Fiscal Year</u>	<u>Rate 1/</u>	<u>Fiscal Year</u>	<u>Rate 1/</u>
FY 1983	7.00	FY 2001	2.17
FY 1984	7.00	FY 2002	2.00
FY 1985	6.27	FY 2003	2.00
FY 1986	5.67	FY 2004	5.20
FY 1987	5.53	FY 2005	5.20
FY 1988	4.00	FY 2006	6.90
FY 1989	2/ 4.78	FY 2007	8.60
FY 1990	2/ 1.29	FY 2008	9.10
FY 1991	2/ 3.37	FY 2009	8.95
FY 1992	2/ 3.17	FY 2010	9.00
FY 1993	2/ 3.10	FY 2011	9.60
FY 1994	2/ 2.65	FY 2012	10.50
FY 1995	2/ 3.26	FY 2013	10.90
FY 1996	3.36	FY 2014	11.30
FY 1997	3.20	FY 2015	11.48
FY 1998	3.05	FY 2016	11.35
FY 1999	2.85	FY 2017	11.34
FY 2000	2.17	FY 2018	11.34

1/ As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

2/ Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS and CORP

The General Fund cost associated with PSPRS in FY 2018 is estimated to be \$28.2 million and the Total State Funds cost is \$99.6 million. In addition, the General Fund cost associated with CORP is \$81.1 million in FY 2018 and the Total State Funds cost is \$82.2 million.

Based on the official actuarial valuations for FY 2018 (which do not include the impact of the Hall case) the FY 2018 rate increase for PSPRS is primarily caused by the passage of Proposition 124 and a reduction in assumed future investment returns, and for CORP a reduction in assumed future investment returns. These impacts are as follows:

- Proposition 124 – During the FY 2017 valuation, (which analyzed the plans as of June 30, 2015) PSPRS actuaries assumed current law, that the 2011 pension changes would apply to employees who were active at the time, as litigation on this subject had not yet been finalized. Under this assumption, these members were projected to receive an average PBI totaling 0.5% per year during retirement. Proposition 124 and related legislation passed in 2016 instead replaced this PBI with a guaranteed COLA, which PSPRS actuaries estimated would average 1.75% per year during retirement.

This greater average benefit increase during retirement compared to the FY 2017 valuation is the main contributor to the PSPRS rate increase in the FY 2018 valuation (See Table 4 Benefit Changes line for more information). The average benefit increase of 1.75% under Proposition 124, however, is less expensive than the estimated 2.0% annual increase that would have occurred if no legislation was passed and the Hall decision is applied to PSPRS.

- Reduction in Assumed Investment Returns – Prior to the FY 2018 valuation, the PSPRS Board had used a 7.85% assumed investment return. Beginning with the FY 2018 valuation, the PSPRS Board has adopted a 7.5% assumed rate of return. Because this increases the system's unfunded liability, it requires an increase in the PSPRS employer contribution rate. (See Table 4 Assumption Changes line for more information.)

In addition, smaller factors in the increases included lower-than-expected rate of return on assets during FY 2016 and lower-than-estimated employee payroll growth. These variables are partially offset by decreases associated with not having a Permanent Benefit Increase (PBI) this year given the low return on investments and more PSPRS and CORP members being subject to the 2011 pension changes (i.e., Tier 2), who have a less costly tier of benefits. The FY 2018 Baseline does not increase any agency budgets for these costs.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (see Table 3). The aggregate employer rate increases from 42.61% to 52.09%. Compared to employers, the aggregate employee contribution rate remains flat at 11.65. However, if applied to PSPRS, the impact of Hall will result in a reduction of employee contribution rates for those who entered into the system prior to 2012 to 7.65%. In addition, only employers pay 2.33% for supplemental disability insurance, an increase of 0.41% from FY 2017.

CORP – As with PSPRS, CORP consists of subgroups. The FY 2018 CORP aggregate rate is 20.98%, an increase of 2.27% from FY 2017. The employee contribution rate remains flat at 8.41% as required by law. CORP employers

also pay 0.28% for supplemental disability insurance, an increase of 0.01% from FY 2017. (Please see Table 4 for reasons behind contribution rate changes and Litigation Issues.)

EORP and EODC System

The General Fund cost associated with EORP and the EODC System in FY 2018 is estimated to be \$7.9 million and the Total State Funds cost is \$8.0 million. These amounts exclude court fees used to offset the cost of the system, as those fees are now deposited directly into the EORP Trust Fund.

Table 3
PSPRS/CORP State Employer Group Retirement Rates
(Excludes Supplemental Disability)

Retirement System	Employer		Employee
	FY 2017	FY 2018	FY 2018 1/
<u>Public Safety Personnel Ret. System</u>			
Liquor License Investigators	80.61	97.00	11.65
Department of Public Safety 2/	82.96	91.97	6.65
Northern Arizona University Police	52.25	58.75	11.65
University of Arizona Police	35.82	44.37	11.65
Arizona State University Police	34.29	39.99	11.65
Game and Fish Department	93.60	104.71	11.65
Attorney General Investigators	66.59	63.53	11.65
DEMA Firefighters	28.20	31.22	11.65
Parks Police	44.94	57.35	11.65
<u>Corrections Officer Ret. Plan</u>			
Corrections Officer - ADC	18.85	21.17	8.41
Corrections Officer - DJC	24.86	31.03	8.41
DPS Dispatchers 3/	20.41	24.48	7.96
Probation Officers	20.88	23.34	8.41

1/ The PSPRS and CORP employee contributions are unchanged from FY 2017. Once *Hall* is implemented the rate for employees hired prior to 2012 will be 7.65% (or 2.65% for DPS employees).
 2/ The displayed rates reflect that 5% of the DPS member contribution is paid by the state.
 3/ Dispatchers hired after November 24, 2009 are ASRS members.

As part of closing EORP and establishing the EODC System, A.R.S. § 38-810 established a fixed employer contribution rate of 23.5% for members of both systems, effective January 1, 2014. The employer contribution rate for EORP members goes entirely to the EORP Fund, whereas only 17.5% of the EODC System employer contribution rate goes to the EORP Fund. The remaining 6% of the EODC System contribution rate is deposited into the individual employees' retirement investment account.

The \$7.9 million General Fund cost consists of both employer contribution rates and an annual General Fund deposit. The fixed 23.5% EORP and EODC System employer contributions to the EORP Fund are scheduled to continue until FY 2044. The \$5.0 million annual General Fund deposit into the EORP Fund is scheduled to continue until FY 2043.

Given fixed contributions, employer costs will not increase in FY 2018.

EORP Funding Options

These current contributions and deposit amounts do not account for the increase in EORP's total actuarial liability following the outcome of *Fields* and *Hall*. Plan actuaries estimate that given current funding levels, the closed EORP will have enough assets to pay member benefits for only the next 13 years, or only 10 years including the impact of *Hall*. (Please see *Litigation Issues* section.)

UORP

The General Fund cost associated with UORP in FY 2018 is estimated to be \$14.8 million and the Total State Funds cost is \$69.1 million.

While some university employees are members of ASRS, others participate in the optional retirement plan. In this latter plan, employees and their employers each contribute 7% of the employee's gross earnings, which is then invested by the employee. These contribution rates are fixed in statute and do not change in FY 2018.

Table 4
Reasons for Change in the Employer Contribution Rate 1/

	ASRS	PSPRS	CORP
FY 2017 Contribution Rate	11.48%	42.61%	18.71%
Asset (Gain)/Loss	0.00%	0.38%	0.22%
Payroll 2/	0.00%	0.08%	0.37%
Long Term Disability Rate Change	0.02%	N/A	N/A
Tier 2 Employee Benefits	0.00%	-0.17%	-0.16%
Permanent Benefit Increase Effect 3/	0.00%	-0.44%	-0.25%
Benefit Changes 4/	N/A	6.07%	0.15%
Assumption Changes 5/	N/A	3.55%	2.01%
Other	0.00%	0.01%	-0.07%
FY 2018 Contribution Rate	11.50%	52.09%	20.98%
Net Change	0.02%	9.48%	2.27%

1/ Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group.
 2/ Actual payroll growth was lower than the assumed rate of 4.0%, requiring a higher employer contribution rate on the smaller than projected salary base.
 3/ There was no PBI increase in FY 2017, compared to an assumed PBI level of 2.0%, therefore the reduction in liabilities is reflected in a slightly decreased employer rate.
 4/ Reflects changes caused by the impacts of Proposition 124 that required a higher employee contribution rate in PSPRS because of the switch from a PBI to a Cost of Living Adjustment (COLA). This is because the COLA enacted by Proposition 124 tends to generate larger benefit increases than the PBI instituted under the 2011 pension reforms, which PSPRS actuaries assumed would be upheld under the *Hall* litigation in the FY 2017 valuation (which analyzed the plans as of June 30, 2015).
 5/ Reflects change in the investment return assumption from 7.85% to 7.5%, thereby increasing the unfunded liabilities of the PSPRS managed plans and requiring a higher employer contribution rate.

(Please see Table 5 for projected contribution rates for all systems through FY 2020.)

Litigation Issues

Two recent court cases have a significant impact on PSPRS, CORP, and EORP.

Fields v. Elected Officials' Retirement Plan

Laws 2011, Chapter 357 made numerous changes to these systems. Among these changes were reducing PBIs and increasing employee contribution rates. (Please see the Background section for more discussion of PBIs.)

The Arizona Supreme Court ruled in *Fields v. Elected Officials' Retirement Plan*, however, that the reduction of PBIs for current retirees violated Article 29 of the Arizona Constitution, which specifies that "public retirement system benefits shall not be diminished or impaired." This ruling also applied to PSPRS and CORP retirees.

PSPRS staff estimates that the *Fields* ruling has increased unfunded liabilities for all systems by \$1.8 billion. The increased liabilities in PSPRS and CORP would be paid off over a fixed period of 20 years through an increase in employer contribution rates. When the EORP was closed, the fixed General Fund deposit and contribution rate assumed unfunded liabilities would be paid off by 2044. Because of the increased liabilities in EORP, those amounts may need to be adjusted to account for the fiscal impact of the *Fields* ruling.

Hall v. Elected Officials' Retirement Plan

The Supreme Court ruled in *Hall vs. The Elected Officials' Retirement Plan* the increased employee contribution rates and reduced PBI for members who were active when Chapter 357 became effective violated Article 29 of the Arizona Constitution.

Chapter 357 raised the contribution rates for active members of CORP, EORP, and PSPRS. In EORP (the defendant in the *Hall* case), the contribution rate gradually increased each year from 7% in FY 2011 to 13% in FY 2015. The pre-Chapter 357 employee contribution rates (7%) were fixed in statute. The plaintiffs argued that those statutory rates along with the pre-Chapter 357 PBI structure reflected a contractual agreement that could not be modified without employee consent. The Supreme Court upheld this argument and the ruling requires employee contribution rates and PBI structure be restored to pre-Chapter 357 conditions for those active when Chapter 357 became effective.

Because the *Fields* decision regarding PBIs only applies to current retirees, the plaintiffs in *Hall*, who are current

employees, successfully challenged the Chapter 357 PBI structure. The plaintiffs argued that as active members of EORP at the time of the enactment of Chapter 357, their benefits may not be "diminished or impaired." The additional fiscal impact of the court case would be lower in today's dollars than *Fields*, mainly because the ruling would reinstate PBIs for some active members who will not retire for many years.

PSPRS staff reports that litigation is ongoing to determine how the *Hall* case applies to the other PSPRS systems besides EORP (PSPRS and CORP). PSPRS staff estimated in early 2015 that an adverse ruling in the *Hall* case for all systems would increase unfunded liabilities for the systems in total by \$1.3 billion. This additional liability would result in increased employer contribution rates in the fiscal year following the implementation of the court decision.

Proposition 124

Laws 2016, Chapter 2 makes numerous changes to PSPRS pension benefits. The sections below discuss Proposition 124 and the repeal of Permanent Benefit Increase (PBI) mechanism, modifications to the Defined-Benefit plan for future PSPRS members, the creation of a new PSPRS defined contribution plan, and the potential fiscal impact of these changes.

PBI Repeal

Prior to Chapter 2, annual increases in the base pension benefit for PSPRS members were funded by a PBI mechanism that determined pension benefit increases based on the availability of excess investment earnings, with increases capped at 4% annually. Chapter 2 replaces the PBI with an annual cost-of-living adjustment (COLA) based on the average annual change in the Phoenix-Mesa Consumer Price Index, capped at 2% annually.

The replacement of the PBI with the COLA could reduce benefit increases for current PSPRS members and retirees. As a result, the Legislature adopted SCR 1019, which referred a measure to the ballot that included an amendment to Article XXIX, Section 1 of the Arizona Constitution specifying an exception to the provision that public retirement system benefits not be "diminished or impaired" to permit the changes enacted in Chapter 2. The ballot measure, known as Proposition 124, was approved by voters in the May 2016 special election.

Defined-Benefit Changes

Chapter 2 also modified the base defined-benefit pension for PSPRS members, but only for members hired on or after July 1, 2017 (i.e. Tier 3). These modifications for Tier 3 members include:

- A cap on annual pension compensation of \$110,000, adjusted once every 3 years based on an index of public safety wages. For employees hired before July 1, 2017, the annual compensation cap is \$265,000, and is adjusted annually by the Internal Revenue Service.
- Employee contributions equal to 50% of 1) the normal cost and 2) unfunded accrued actuarial liabilities solely attributable to Tier 3 members. The employee contribution rate for employees hired before July 1, 2017 is capped by law at 11.65%.
- Annual benefit increases based on the average annual change in the Phoenix-Mesa Consumer Price Index, capped at 2% annually. The maximum allowable increase is lower than 2% if the funded ratio for the benefits of Tier 3 members falls below 90%, and no increase is allowed if the funded ratio falls below 70%. The aggregate annual benefit increase for employees hired before July 1, 2017 under the PBI mechanism was 4%.
- A minimum normal retirement age of 55. The current retirement age is 52.5 for members hired on or after January 1, 2012 but before July 1, 2017 (Tier 2 employees), and there is no minimum age for members hired before January 1, 2012 for members with at least 20 years of credited service.

Within 90 days of beginning employment, Tier 3 PSPRS members will be required to make an irrevocable choice to enroll in the modified defined-benefit plan or the defined-contribution plan described below.

Defined Contribution Plan and Hybrid Plan

Chapter 2 allows Tier 3 employees to enroll in a new PSPRS defined contribution (DC) plan instead of the modified defined-benefit pension plan. The DC plan requires participating employees to contribute 9% of their compensation into a 401(k)-style annuity account each year, with a matching 9% employer contribution.

The employer contributions vest at a rate of 10% per year, resulting in employer contributions and investment earnings being fully vested after 10 years. Vesting determines the share of employer contributions and investment earnings that the employee retains after terminating employment with his or her employer.

Tier 3 employees with employers that do not participate in the federal Social Security program are also allowed to enroll in a hybrid plan. The hybrid plan combines the Tier 3 defined benefit plan with a DC plan that includes a contribution equal to 3% of compensation from both the employer and the employee, subject to the same vesting provisions as the full DC plan. As all state employees

participate in Social Security, this provision only affects certain local government employees.

Proposition 124 also resulted in the enactment of a provision in Chapter 2 that allows Tier 2 employees (i.e., employees hired on or after January 1, 2012, but before July 1, 2017) with an employer that does not participate in Social Security to add the DC plan to their defined benefit pension. Employers with Tier 2 employees who choose to opt into the DC benefit plan are required to contribute 4% of compensation instead of 3% to the annuity account for a specified number of years depending on the employee's date of hire. These temporary extra contributions by employers are intended to allow Tier 2 members to "catch up" to Tier 3 members in the hybrid plan, as Tier 2 members did not have the choice of a DC plan when they initially enrolled in PSPRS.

Fiscal Impact

Over the long term, the actuaries project that Chapter 2 will result in lower employer contribution rates over the long term. The estimated normal cost of benefits for Tier 3 enrollees is 9.8%, compared to 13.2% for employees hired on or after January 1, 2012.

However, due to the magnitude of PSPRS' current unfunded liabilities and the creation of a COLA, the employer contribution rates are likely to far exceed the normal cost requirement for many years. The actuaries expect that aggregate PSPRS employer contribution rates will exceed 40% until at least 2030.

Background

The Different Systems

Most public employers in Arizona use 2 retirement systems: ASRS and PSPRS.

- ASRS provides retirement, survivors, health, and disability benefits to employees of most public employers, including public schools, most local and county governments, and the State of Arizona.
- PSPRS provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- In addition, PSPRS staff administers CORP and EORP, which provide similar benefits as PSPRS to specified populations at the state and local levels. EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014 will be enrolled in the EODC System.

Some university employees are eligible to choose between ASRS or UORP. Unlike ASRS, UORP is a defined contribution plan where the employee and employer each

contribute 7% of gross earnings, which is then invested by the employee. The retirement benefits depend on the performance of those chosen investments.

Enrollment and Funded Status

As of June 30, 2016, there were 627,145 active, inactive, retired, and Deferred Retirement Option Plan (DROP) members enrolled in ASRS, PSPRS, CORP, and EORP. Most employees (91%) are enrolled in ASRS. *(Please see Table 6 for more information.)*

Table 6 also shows each plan's assets and liabilities. To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. Table 6 reflects current market values for assets and not the actuarial value. The funded status, or the amount of market assets relative to the amount of liabilities, of each plan is:

- 77.6% for ASRS;
- 46.0% for PSPRS;
- 57.3% for CORP; and
- 37.6% for EORP.

The above percentages exclude the retiree health portion of the pension plan.

Permanent Benefit Increase

PBIs are increases to a retiree's base benefit. They are dependent on pension performance and a number of other factors. With the exception of PSPRS COLA provisions enacted by Proposition 124, the effect of PBIs are not tied to a cost of living index. The *Fields* and *Hall* rulings reinstated the pre-Chapter 357 PBI mechanism, which requires that whenever the annual investment earnings from the fund exceed 9.0%, then half of those annual excess earnings are transferred to a PBI reserve account. The rulings apply to any individuals with active service prior to the enactment of Chapter 357. The transfer to the reserve account occurs regardless of the system's overall funded status.

Actuaries then determine the present value of the reserve account and the monthly benefit increase that the account balance can fund. The annual PBI is then provided in that amount up to a 4% increase. If after a 4% increase monies remain in the reserve account, then those monies would be available for the following year's PBI calculation.

Chapter 357 modified the PBI structure for PSPRS, CORP, and EORP for members hired after the enactment of Chapter 357. This law allows for a PBI only if the fund has annual investment earnings in excess of 10.5% and the overall funded status is at least 60%. The amount of the

PBI would be between 2% and 4%, depending on the funded status of the plan. Chapter 357 would have limited the PBI to the amount of earnings in the fund that exceed 10.5%. Any excess earning amount that was not used for a PBI in a given year would revert back to the fund balance instead of remaining in a separate account. After Proposition 124 and the *Fields* and *Hall* cases, these PBI changes now currently only affect CORP and EORP members hired after the enactment of Chapter 357.

Long-Term Contribution Rate Estimates

A.R.S. § 38-848 requires PSPRS to annually report on estimated contribution rates for the next 10 fiscal years. These estimates are required to include both aggregate rates for PSPRS and CORP, in addition to rates for each state employer group within those systems. *(Please see Table 7 for more information. As noted previously, these figures do not include the impact of the Hall litigation)*

Table 5

Arizona Public Retirement System Contribution Rate Data ^{1/}

	FY 2017			FY 2018			FY 2019			FY 2020		
	Employer	Employee	Total	Employer	Employee	Total	Employer	Employee	Total	Employer	Employee	Total
ASRS ^{2/3/}	11.48%	11.48%	22.96%	11.50%	11.50%	23.00%	11.59%	11.59%	23.18%	11.59%	11.59%	23.18%
PSPRS ^{4/5/}	42.61%	11.65%	54.26%	52.09%	11.65%	63.74%	52.44%	11.65%	64.09%	52.09%	11.65%	63.74%
CORP ^{4/5/}	18.71%	8.41%	27.12%	20.98%	8.41%	29.39%	21.16%	8.41%	29.57%	21.44%	8.41%	29.85%
EORP ^{6/}	23.50%	13.00%	36.50%	23.50%	13.00%	36.50%	23.50%	13.00%	36.50%	23.50%	13.00%	36.50%
EODC ^{6/}	6.00%	8.00%	14.00%	6.00%	8.00%	14.00%	6.00%	8.00%	14.00%	6.00%	8.00%	14.00%
UORP ^{7/}	7.00%	7.00%	14.00%	7.00%	7.00%	14.00%	7.00%	7.00%	14.00%	7.00%	7.00%	14.00%

^{1/} The rates for FY 2017 and FY 2018 are based on the valuation data from 2 years' prior (i.e., FY 2015 and FY 2016). The projected rates for FY 2019 and FY 2020 are based on FY 2016 valuation data.

^{2/} The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

^{3/} The ASRS contribution rate for each year assumes no growth in the system population.

^{4/} The contribution rates for PSPRS and CORP are aggregated. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group. (Please see Table 3 for individual state employer groups.)

^{5/} The employer contribution rates displayed for years FY 2019 and FY 2020 exclude the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%). Additionally, the employer contribution rates for all years displayed exclude the contribution rate associated with supplemental long term disability insurance (in FY 2018, that rate is 0.27%).

^{6/} Laws 2013, Chapter 217 established a fixed employer contribution rate for EORP and EODC System members of 23.5% that began January 1, 2014. Of the contribution rate for EODC System members, 6% is retained by the defined contribution system as an employer contribution to the member account and the remaining 17.5% is paid to the EORP Fund.

^{7/} A.R.S. § 15-1628 fixes the employer and employee contribution rates at 7%.

Table 6

Arizona Public Retirement System Valuation Data as of June 30

Membership	ASRS		PSPRS		CORP		EORP	
	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016
Active (working and contributing)	211,300	208,741	18,409	18,706	14,184	13,846	738	694
State Active Members	26,105	26,105	1,351	1,403	8,539	8,344	97	97
Other Active Members ^{1/}	185,195	182,636	17,058	17,303	5,645	5,502	641	597
Inactive	225,328	218,868	1,923	1,996	2,318	2,792	171	163
Retired Members and Survivor Beneficiaries	137,942	142,203	11,034	11,863	4,410	4,785	1,116	1,123
Deferred Retirement Option Plan	N/A	N/A	1,675	1,365	N/A	N/A	N/A	N/A
Total	574,570	569,812	33,041	33,930	20,912	21,423	2,025	1,980
Funding Status (dollar values in millions) ^{2/}	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016
Market Value of Assets	\$33,645	\$35,834	\$6,217	\$6,554	\$1,571	\$1,678	\$309	\$315
Total Actuarial Liability	\$42,968	\$46,177	\$12,686	\$14,249	\$2,740	\$2,931	\$813	\$838
Unfunded Actuarial Liability ^{3/}	\$9,323	\$10,343	\$6,469	\$7,695	\$1,169	\$1,253	\$504	\$523
Funded Status ^{3/}	78.3%	77.6%	49.0%	46.0%	57.3%	57.3%	38.0%	37.6%

^{1/} Includes city, county, political subdivision, higher education and other education active members.

^{2/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the funded status may vary for each employer group.

^{3/} Calculated on market, not actuarial, value of assets. Excludes the funded status of the retiree health portion of the plan.

Table 7

Arizona Public Retirement System Contribution Rate Historical and Trend Data

	Actual											Projected				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
ASRS																
Employer	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.50%	11.14%	10.93%	10.91%	10.83%	10.76%	10.79%	10.75%	10.63%	10.51%
Employee	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.50%	11.14%	10.93%	10.91%	10.83%	10.76%	10.79%	10.75%	10.63%	10.51%
Total 1/	21.48%	22.28%	23.08%	23.20%	22.94%	22.96%	23.00%	22.28%	21.86%	21.82%	21.66%	21.52%	21.58%	21.50%	21.26%	21.02%
PSPRS																
Employer 2/3/	22.68%	27.18%	30.44%	32.54%	41.37%	42.61%	52.09%	52.44%	52.09%	52.03%	52.04%	52.27%	52.38%	52.24%	52.10%	51.96%
Employee	8.65%	9.55%	10.35%	11.05%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%
Total	31.33%	36.73%	40.79%	43.59%	53.02%	54.26%	63.74%	64.09%	63.74%	63.68%	63.69%	63.92%	64.03%	63.89%	63.75%	63.61%
CORP																
Employer 2/3/	9.50%	11.31%	13.68%	14.46%	18.21%	18.71%	20.98%	21.16%	21.44%	21.51%	21.64%	21.88%	22.03%	22.00%	21.95%	21.89%
Employee	8.40%	8.40%	8.40%	8.40%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%
Total	17.90%	19.71%	22.08%	22.86%	26.62%	27.12%	29.39%	29.57%	29.85%	29.92%	30.05%	30.29%	30.44%	30.41%	30.36%	30.30%
EORP																
Employer	17.96%	20.87%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%
Employee	11.50%	11.50%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Total	29.46%	32.37%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%

1/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

2/ The employer contribution rate displayed for years FY 2019 through FY 2027 excludes the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%).

3/ The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance.

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 2020, as shown in *Table 2*. Based on the assumptions described below, the Baseline ending balance is estimated to be \$168 million in FY 2019 and \$261 million in FY 2020.

These estimates exclude the Budget Stabilization Fund (BSF) monies. The BSF is estimated to have a fund balance of about \$468 million by the end of FY 2018.

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 2018 through FY 2020 would change the ending balance calculations by \$625 million in the third year.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2018 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 3.9% in FY 2018, 4.2% in FY 2019 and 4.8% in FY 2020. *Table 1* includes the individual forecast components in FY 2019 and FY 2020. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

The Legislature enacted significant multi-year tax reductions in prior years. In FY 2019, these adjustments are projected to reduce revenue by \$(66) million relative to FY 2018. There would be a further reduction of \$(23) million in FY 2020 relative to FY 2019. The details of the tax reductions are in *Table 4* of the *General Fund Revenue* section.

General Fund revenues are projected to be essentially flat from FY 2017 to FY 2018. Base revenues will grow modestly through FY 2020, with the loss of one-time revenues (the beginning balance) partially offsetting growth of overall revenues in FY 2019. The projected level of General Fund revenue would increase slightly from \$9.74 billion in FY 2017 to \$9.76 billion in FY 2018, then increase to \$10.01 billion in FY 2019 and \$10.48 billion in FY 2020. The Baseline presumes that the projected FY 2018 ending balance of \$159 million is

allocated as part of the FY 2018 budget process. The *General Fund Revenue* section also details the potential risks to the forecast.

Table 1

4-Sector Consensus Forecast Percentages

	FAC	UA Low	UA Base	JLBC	Avg
FY 2019					
Sales Tax	3.9%	3.7%	5.6%	4.1%	4.3%
Individual Income Tax	4.7%	3.9%	5.6%	4.9%	4.8%
Corporate Income Tax	3.8%	(17.7)%	(6.3)%	3.1%	(3.9)%
Insurance Premium Tax	4.9%	2.6%	2.4%	5.1%	<u>3.8%</u>
Wgt Avg ^{1/}					4.2%
FY 2020					
Sales Tax	4.0%	5.6%	5.3%	4.0%	4.7%
Individual Income Tax	4.8%	5.9%	5.5%	4.9%	5.3%
Corporate Income Tax	2.0%	13.5%	(3.4)%	(0.1)%	2.0%
Insurance Premium Tax	5.2%	2.0%	2.4%	4.7%	<u>3.6%</u>
Wgt Avg ^{1/}					4.8%

^{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 \$241 million in FY 2019 (2.5%) above FY 2018 and \$374 million in FY 2020 (3.8%) above FY 2019.

These spending adjustments include normal caseload growth in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

Overall spending would be \$9.84 billion in FY 2019 and \$10.22 billion in FY 2020. (See *Table 3* for the projected ongoing spending levels of major agencies and *Table 4* for small agencies.)

(Total spending by agency, including one-time spending, is displayed in *Tables 5* and *6*.)

In addition, the long term estimates assume the continued annual suspension of \$496 million of funding formula requirements permanently authorized in law and the continued non-funding of \$197 million in non-statutory funding formulas for building renewal. (See *Table 7*.)

Baseline Balances

The Baseline balance estimates probably overstate the availability of funds for 2 reasons:

- The Baseline eliminates over \$240 million of spending that was labeled as "one-time" in the FY 2017 budget. There may be legislative interest in retaining some of this spending. The list of possible retention candidates is at least \$130 million (*see page S-1*).
- The Baseline does not include the preliminary estimate of \$23 million to fund the annual cost of provider rate increases for Proposition 206 minimum wage requirements.

These potential continued one-times and minimum wage adjustments would cost \$153 million in FY 2018. If these items were funded through FY 2020, the balances in FY 2019 and FY 2020 would be lower than the Baseline Estimates.

Table 2

January Baseline
Statement of General Fund Revenues and Expenditures 1/
With One-Time Financing Sources

	FY 2017 Baseline	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline
REVENUES				
Ongoing Revenues	\$10,040,595,900	\$10,434,418,500	\$10,757,988,100	\$11,199,698,600
Previously Enacted Changes		(107,200,000)	(66,400,000)	(23,000,000)
Urban Revenue Sharing	(663,582,200)	(680,770,100)	(680,860,200)	(698,850,600)
Net On-going Revenues	\$9,377,013,700	\$9,646,448,400	\$10,010,727,900	\$10,477,848,000
One-time Financing Sources				
Balance Forward	\$284,015,000	\$114,133,100		
Fund Transfers	79,361,600			
Subtotal One-time Revenues	\$363,376,600	\$114,133,100	\$0	\$0
Total Revenues	\$9,740,390,300	\$9,760,581,500	\$10,010,727,900	\$10,477,848,000
EXPENDITURES				
Operating Budget Appropriations	\$9,404,983,700	\$9,620,110,000	\$9,837,139,900	\$10,174,876,300
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Reversions	(140,000,000)	(120,000,000)	(120,000,000)	(120,000,000)
Subtotal Ongoing Expenditures	\$9,364,983,700	\$9,600,110,000	\$9,817,139,900	\$10,154,876,300
One-time Expenditures				
Capital Outlay	\$18,000,000			
Transportation Funding	86,500,000			
Operating One-Time Spending	139,467,800	25,578,600	25,670,900	62,066,100
FY 2017 Supplementals	17,305,700			
AHCCCS One-Time Savings		(24,130,900)		
Subtotal One-time Expenditures	\$261,273,500	\$1,447,700	\$25,670,900	\$62,066,100
Total Expenditures	\$9,626,257,200	\$9,601,557,700	\$9,842,810,800	\$10,216,942,400
Ending Balance 2/	\$114,133,100	\$159,023,800 3/	\$167,917,100 3/	\$260,905,600
Structural Balance 4/	\$12,030,000	\$46,338,400	\$193,588,000	\$322,971,700

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

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

3/ The projected ending balance is presumed to be allocated as part of the FY 2018 budget process.

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

Table 3

**BASELINE GENERAL FUND SPENDING BY MAJOR BUDGET UNITS
ONGOING FUNDING LEVEL BY AGENCY**

	FY 2017 Baseline	FY 2018 \$ Above FY 2017	FY 2018 Baseline	FY 2019 \$ Above FY 2018	FY 2019 Baseline	FY 2020 \$ Above FY 2019	FY 2020 Baseline
EXPENDITURES							
Operating Budget	\$10,264,500		\$10,264,500		\$10,264,500		\$10,264,500
- Department of Administration	4,581,600	418,400	5,000,000		5,000,000		5,000,000
- ADOA - Automation Projects Fund	1,750,941,400	68,169,800	1,819,111,200	84,959,400	1,904,070,600	143,042,800	2,047,113,400
- AHCCCS	24,664,800		24,664,800		24,664,800		24,664,800
- Attorney General	379,179,400		379,179,400		379,179,400		379,179,400
- Department of Child Safety	21,800,000		21,800,000		21,800,000		21,800,000
- Commerce Authority	54,312,700	657,700	54,970,400	1,045,900	56,016,300	1,200,000	57,216,300
- Community Colleges	1,046,682,600	6,982,600	1,053,665,200	812,700	1,054,477,900	1,625,400	1,056,103,300
- Department of Corrections	6,000,500		6,000,500		6,000,500		6,000,500
- County Funding	529,784,400	18,644,500	548,428,900	26,579,700	575,008,600	29,539,200	604,547,800
- Department of Economic Security	4,030,627,800	118,060,000	4,148,687,800	135,121,300	4,283,809,100	168,265,400	4,452,074,500
- Department of Education	2,823,600		2,823,600		2,823,600		2,823,600
- Department of Environmental Quality	86,551,700		86,551,700		86,551,700		86,551,700
- Department of Health Services	109,069,000	618,400	109,687,400	97,600	109,785,000		109,785,000
- Judiciary	24,180,400		24,180,400		24,180,400		24,180,400
- Department of Juvenile Corrections	12,491,400	224,500	12,715,900		12,715,900		12,715,900
- State Land Department	106,095,700		106,095,700		106,095,700		106,095,700
- Department of Public Safety	6,000,000		6,000,000		6,000,000	(1,000,000)	5,000,000
- Public Safety Personnel Retirement System	29,998,300		29,998,300		29,998,300		29,998,300
- Department of Revenue	189,515,800	(1,419,500)	188,096,300	(35,474,500)	152,621,800	(2,416,700)	150,205,100
- School Facilities Board	7,112,000		7,112,000		7,112,000		7,112,000
- Office of Tourism	679,472,400	4,211,300	683,683,700	(900)	683,682,800	(3,019,900)	680,662,900
- Universities	12,762,600		12,762,600		12,762,600		12,762,600
- Department of Water Resources	165,504,700	(3,489,100)	162,015,600	3,384,500	165,400,100		165,400,100
- All Other Budgets	20,449,000	2,050,000	22,499,000	497,300	22,996,300	503,700	23,500,000
- Civic Center Payment	10,000,000		10,000,000		10,000,000		10,000,000
- Rio Nuevo Payment	84,117,400	(2,300)	84,115,100	6,900	84,122,000	(3,500)	84,118,500
- Asset Sale/Lease-Back Debt Service	\$9,404,983,700	\$215,126,300	\$9,620,110,000	\$217,029,900	\$9,837,139,900	\$337,736,400	\$10,174,876,300
Total - Operating Budget							
- FY 2017 Supplementals	17,305,700	(17,305,700)					
- Capital Outlay	18,000,000	(18,000,000)					
- Transportation Funding	86,500,000	(86,500,000)					
- Operating One-Time Spending	139,467,800	(113,889,200)	25,578,600	92,300	25,670,900	36,395,200	62,066,100
- AHCCCS One-Time Savings		(24,130,900)	(24,130,900)	24,130,900			
- Administrative Adjustments	100,000,000	20,000,000	100,000,000		100,000,000		100,000,000
- Revertments	(140,000,000)		(120,000,000)		(120,000,000)		(120,000,000)
Total Spending	\$9,626,257,200	(\$24,699,500)	\$9,601,557,700	\$241,253,100	\$9,842,810,800	\$374,131,600	\$10,216,942,400

Table 4

DETAIL OF SMALL AGENCIES ONGOING FUNDING BY AGENCY

	FY 2017 Baseline	FY 2018 \$ Above FY 2017	FY 2018 Baseline	FY 2019 \$ Above FY 2018	FY 2019 Baseline	FY 2020 \$ Above FY 2019	FY 2020 Baseline
Administrative Hearings, Office of	\$860,500		\$860,500		\$860,500		\$860,500
African-American Affairs Commission	125,000		125,000		125,000		125,000
Agriculture, Arizona Department of	9,162,700		9,162,700		9,162,700		9,162,700
Charter Schools, State Board for	1,185,200		1,185,200		1,185,200		1,185,200
Corporation Commission	611,600		611,600		611,600		611,600
Deaf and the Blind, Schools for the	21,378,100		21,378,100		21,378,100		21,378,100
Economic Opportunity, Office of	568,700	(84,600)	484,100		484,100		484,100
State Board of Education	1,094,000		1,094,000		1,094,000		1,094,000
Emergency & Military Affairs, Dept of	12,619,500		12,619,500		12,619,500		12,619,500
Equal Opportunity, Governor's Office of	189,100		189,100		189,100		189,100
Equalization, State Board of	643,000		643,000		643,000		643,000
Executive Clemency, Board of	952,600		952,600		952,600		952,600
Financial Institutions, Department of	2,978,200		2,978,200		2,978,200		2,978,200
Forestry and Fire Management, Department of	10,120,300	(20,000)	10,120,300		10,120,300		10,120,300
Gaming, Department of	1,779,500		1,779,500		1,779,500		1,779,500
Governor, Office of the	6,849,900		6,849,900		6,849,900		6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000		1,994,000		1,994,000		1,994,000
Historical Society, Arizona	2,722,900		2,722,900		2,722,900		2,722,900
Historical Society, Prescott	824,500		824,500		824,500		824,500
Housing, Department of	811,400		811,400		811,400		811,400
Independent Redistricting Commission	1,115,300		1,115,300		1,115,300		1,115,300
Insurance, Department of	5,824,300		5,824,300		5,824,300		5,824,300
Legislature							
Auditor General	17,866,500		17,866,500		17,866,500		17,866,500
House of Representatives	13,201,500		13,201,500		13,201,500		13,201,500
Joint Legislative Budget Committee	2,488,300		2,488,300		2,488,300		2,488,300
Legislative Council	8,215,400		8,215,400		8,215,400		8,215,400
Senate	9,408,500		9,408,500		9,408,500		9,408,500
SUBTOTAL - Legislature	\$51,180,200	\$0	\$51,180,200	\$0	\$51,180,200	\$0	\$51,180,200
Mine Inspector, State	1,212,500		1,212,500		1,212,500		1,212,500
Navigable Stream Adjudication Commission	124,000		124,000		124,000		124,000
Postsecondary Education, Commission for	1,396,800		1,396,800		1,396,800		1,396,800
Radiation Regulatory Agency	1,563,100		1,563,100		1,563,100		1,563,100
Real Estate Department, State	2,994,900		2,994,900		2,994,900		2,994,900
Secretary of State	14,969,200	(3,384,500)	11,584,700	3,384,500	14,969,200		14,969,200
Tax Appeals, State Board of	266,600		266,600		266,600		266,600
Transportation, Department of	50,400		50,400		50,400		50,400
Treasurer, State	1,205,100		1,205,100		1,205,100		1,205,100
Tribal Relations, Governor's Office on	57,500		57,500		57,500		57,500
Veterans' Services, Department of	6,054,100		6,054,100		6,054,100		6,054,100
Total Spending	\$165,504,700	(\$3,489,100)	\$162,015,600	\$3,384,500	\$165,400,100	\$0	\$165,400,100

Table 5

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

	FY 2017 Baseline w/ One-Times	FY 2018 \$ Above FY 2017 w/ One-Times	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
EXPENDITURES							
Operating Budget	\$10,264,500	\$0	\$10,264,500	\$0	\$10,264,500	\$0	\$10,264,500
- Department of Administration	14,881,600	(9,881,600)	5,000,000	0	5,000,000	0	5,000,000
- ADOA - Automation Projects Fund	1,750,941,400	44,038,900	1,794,980,300	109,090,300	1,904,070,600	143,042,800	2,047,113,400
- AFCCCS	24,664,800	0	24,664,800	0	24,664,800	0	24,664,800
- Attorney General	379,179,400	0	379,179,400	0	379,179,400	0	379,179,400
- Department of Child Safety	21,800,000	0	21,800,000	0	21,800,000	0	21,800,000
- Commerce Authority	54,312,700	657,700	54,970,400	1,045,900	56,016,300	1,200,000	57,216,300
- Community Colleges	1,046,682,600	6,982,600	1,053,665,200	812,700	1,054,477,900	1,625,400	1,056,103,300
- Department of Corrections	14,000,500	(8,000,000)	6,000,500	0	6,000,500	0	6,000,500
- County Funding	530,124,400	18,304,500	548,428,900	26,579,700	575,008,600	29,539,200	604,547,800
- Department of Economic Security	4,069,375,800	79,312,000	4,148,687,800	135,121,300	4,283,809,100	168,265,400	4,452,074,500
- Department of Education	2,823,600	0	2,823,600	0	2,823,600	0	2,823,600
- Department of Environmental Quality	86,551,700	0	86,551,700	0	86,551,700	0	86,551,700
- Department of Health Services	113,017,700	(3,330,300)	109,687,400	97,600	109,785,000	0	109,785,000
- Judiciary	24,180,400	0	24,180,400	0	24,180,400	0	24,180,400
- Department of Juvenile Corrections	12,491,400	224,500	12,715,900	0	12,715,900	0	12,715,900
- State Land Department	121,195,700	(15,100,000)	106,095,700	0	106,095,700	0	106,095,700
- Department of Public Safety	6,000,000	0	6,000,000	0	6,000,000	0	6,000,000
- Public Safety Personnel Retirement System	31,998,300	(2,000,000)	29,998,300	0	29,998,300	0	29,998,300
- Department of Revenue	228,094,400	(15,919,500)	212,174,900	(33,882,200)	178,292,700	33,978,500	212,271,200
- School Facilities Board	7,112,000	0	7,112,000	0	7,112,000	0	7,112,000
- Office of Tourism	698,472,400	(14,788,700)	683,683,700	(900)	683,682,800	(3,019,900)	680,662,900
- Universities	13,012,600	(250,000)	12,762,600	0	12,762,600	0	12,762,600
- Department of Water Resources	168,707,200	(5,191,600)	163,515,600	1,884,500	165,400,100	0	165,400,100
- All Other Budgets	20,449,000	2,050,000	22,499,000	497,300	22,996,300	503,700	23,500,000
- Civic Center Payment	10,000,000	0	10,000,000	0	10,000,000	0	10,000,000
- Rio Nuevo Payment	84,117,400	(2,300)	84,115,100	6,900	84,122,000	(3,500)	84,118,500
- Asset Sale/Lease-Back Debt Service							
Total - Operating Budget	\$9,544,451,500	\$77,106,200	\$9,621,557,700	\$241,253,100	\$9,862,810,800	\$374,131,600	\$10,236,942,400
- FY 2017 Supplementals	17,305,700	(17,305,700)					
- Capital Outlay	18,000,000	(18,000,000)					
- Transportation Funding	86,500,000	(86,500,000)					
- Administrative Adjustments	100,000,000	20,000,000	100,000,000		100,000,000		100,000,000
- Reversions	(140,000,000)		(120,000,000)		(120,000,000)		(120,000,000)
Total Spending	\$9,626,257,200	(\$24,699,500)	\$9,601,557,700	\$241,253,100	\$9,842,810,800	\$374,131,600	\$10,216,942,400

Table 6

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

	FY 2017 Baseline w/ One-Times	FY 2018 \$ Above FY 2017 w/ One-Times	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
Administrative Hearings, Office of	\$860,500		\$860,500		\$860,500		\$860,500
African-American Affairs Commission	125,000		125,000		125,000		125,000
Agriculture, Arizona Department of	9,162,700		9,162,700		9,162,700		9,162,700
Charter Schools, State Board for	1,185,200		1,185,200		1,185,200		1,185,200
Corporation Commission	2,611,600	(2,000,000)	611,600		611,600		611,600
Deaf and the Blind, Schools for the	21,378,100		21,378,100		21,378,100		21,378,100
Economic Opportunity, Office of	1,068,700	(584,600)	484,100		484,100		484,100
State Board of Education	1,094,000		1,094,000		1,094,000		1,094,000
Emergency & Military Affairs, Dept of	12,619,500		12,619,500		12,619,500		12,619,500
Equal Opportunity, Governor's Office of	189,100		189,100		189,100		189,100
Equalization, State Board of	643,000		643,000		643,000		643,000
Executive Clemency, Board of	952,600		952,600		952,600		952,600
Financial Institutions, Department of	2,978,200		2,978,200		2,978,200		2,978,200
Forestry and Fire Management, Department of	10,442,800	(322,500)	10,120,300		10,120,300		10,120,300
Gaming, Department of	1,979,500	(200,000)	1,779,500		1,779,500		1,779,500
Governor, Office of the	6,849,900	1,500,000	8,349,900	(1,500,000)	6,849,900		6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000		1,994,000		1,994,000		1,994,000
Historical Society, Arizona	2,722,900		2,722,900		2,722,900		2,722,900
Historical Society, Prescott	824,500		824,500		824,500		824,500
Housing, Department of	811,400		811,400		811,400		811,400
Independent Redistricting Commission	1,115,300		1,115,300		1,115,300		1,115,300
Insurance, Department of	5,824,300		5,824,300		5,824,300		5,824,300
Legislature							
Auditor General	18,066,500	(200,000)	17,866,500		17,866,500		17,866,500
House of Representatives	13,201,500		13,201,500		13,201,500		13,201,500
Joint Legislative Budget Committee	2,488,300		2,488,300		2,488,300		2,488,300
Legislative Council	8,215,400		8,215,400		8,215,400		8,215,400
Senate	9,408,500		9,408,500		9,408,500		9,408,500
SUBTOTAL - Legislature	\$51,380,200	(\$200,000)	\$51,180,200	\$0	\$51,180,200	\$0	\$51,180,200
Mine Inspector, State	1,212,500		1,212,500		1,212,500		1,212,500
Navigable Stream Adjudication Commission	124,000		124,000		124,000		124,000
Postsecondary Education, Commission for	1,396,800		1,396,800		1,396,800		1,396,800
Radiation Regulatory Agency	1,563,100		1,563,100		1,563,100		1,563,100
Real Estate Department, State	2,994,900		2,994,900		2,994,900		2,994,900
Secretary of State	14,969,200	(3,384,500)	11,584,700	3,384,500	14,969,200		14,969,200
Tax Appeals, State Board of	266,600		266,600		266,600		266,600
Transportation, Department of	50,400		50,400		50,400		50,400
Treasurer, State	1,205,100		1,205,100		1,205,100		1,205,100
Tribal Relations, Governor's Office on	57,500		57,500		57,500		57,500
Veterans' Services, Department of	6,054,100		6,054,100		6,054,100		6,054,100
Total Spending	\$168,707,200	(\$5,191,600)	\$163,515,600	\$1,884,500	\$165,400,100	\$0	\$165,400,100

Table 7

FY 2018 FUNDING FORMULA SUSPENSIONS ^{1/}

	FY 2018 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 714,100 ^{2/}
Department of Education - District Additional Assistance	352,442,700 ^{3/}
Department of Education - Charter School Additional Assistance	18,656,000
Department of Education - Large JTEDs at 95.5%	1,897,900 ^{4/}
Department of Environmental Quality - Water Quality Assurance Revolving Fund (WQARF)	12,176,400 ^{5/}
Department of Health Services - Restoration to Competency (RTC)	900,000 ^{6/}
Department of Health Services - Sexually Violent Persons (SVP)	2,988,100 ^{7/}
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	86,006,100 ^{8/}
Universities - Financial Aid Trust	<u>20,520,400</u>
 Total - FY 2018 Statutory Funding Formula Suspensions	 \$ 496,301,700
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 41,417,700
Department of Corrections - Building Renewal	15,466,500
Universities - Building Renewal	<u>140,600,000</u>
 Total - FY 2018 Non-Statutory Funding Formula Suspensions	 \$ 197,484,200

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

^{2/} Represents partial suspension of Pinal formula.

^{3/} Excludes approximately \$27 million suspended in non-state aid districts, which are not funded through the state budget.

^{4/} Estimate based on FY 2017 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).

^{5/} In addition to the \$2,823,600 General Fund allocation, the FY 2018 Baseline also includes \$1,685,200 from the Air Quality Fund and \$2,491,200 from the Emissions Inspection Fund for WQARF. As a result, WQARF is receiving \$7,000,000 in total funds in FY 2018, compared to the statutory allocation of \$15,000,000.

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

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

^{8/} This amount is in addition to the \$10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6537.

TECHNICAL BUDGET ASSUMPTIONS

TECHNICAL BUDGET ASSUMPTIONS

Baseline

This book reflects General Fund baseline revenue and spending estimates. The revenue projections are based on a consensus economic forecast while the spending estimates represent funding formula requirements and other obligations. The Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the Baseline is only a starting point for discussion on the FY 2018 budget.

FY 2018 Budget

A.R.S. § 35-101 specifies 17 state agencies as “annual budget units” receiving one annual appropriation; all other agencies are “biennial budget units” receiving biennial appropriations with the dollar amounts itemized for each fiscal year. The biennial period starts with the even-numbered year. Since the FY 2017 budget suspended biennial budgeting and permitted all agencies to only submit a FY 2018 budget request, the Baseline includes only FY 2018 funding for all budget units. The Baseline also includes supplemental FY 2017 funding for selected budget units. All FY 2018 changes are referenced to the original FY 2017 appropriated amount.

Changes from Prior Year

The Baseline includes adjustments for one-time appropriations, annualization of any items funded for a partial year, and funding formula requirements.

The individual agency descriptions in this volume provide further narrative detail on these changes. In addition, the book provides the line item detail for individual agency budgets. The major technical issues with regard to each of these line items are described below.

The individual agency descriptions also include the following years of budget data:

- *FY 2016 Actual* - This dollar amount represents the FY 2016 expenditures as reported by the agency. The amount may include administrative adjustments, or payments for obligations incurred in FY 2015 but for which the state was not billed until FY 2016.
- *FY 2017 Estimate* - This dollar amount represents the FY 2017 appropriations as of the end of the 52nd Legislature, 2nd Regular Session.

- *FY 2018 Baseline* - This dollar amount represents the FY 2018 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 2018.

ERE Rates - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2017 to FY 2018 in the Baseline.

Medical and Dental Insurance - The Baseline includes no changes to agency budgets for medical and dental insurance costs.

Total FY 2018 ongoing medical and dental insurance costs are estimated to be approximately \$887.4 million in total funds, a combination of estimated ongoing FY 2017 costs of \$859.8 million plus \$27.6 million of new FY 2018 costs, reflecting 3.2% medical expenditure growth. The Baseline assumes that this 3.2% increase will be funded by drawdowns of the Health Insurance Trust Fund (HITF) balance.

In addition, the FY 2016 budget authorized the transfer of \$100.0 million from HITF to the General Fund in FY 2017. The FY 2017 budget modified this amount to \$78.9 million. The transfer will generate a requirement to reimburse the federal government for its share of the transfer. This amount is estimated at \$8.9 million.

After all adjustments are incorporated, the FY 2018 ending balance is estimated at \$101.6 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 2017 rate.

Unemployment Insurance - 0.10% of Personal Services for each agency, unchanged from the FY 2017 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2017 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into State Personnel System oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)
- 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 2017 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 2017 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Attorney General Legal Services - \$1,798,500 in charges to selected state agencies for Attorney General services, a decrease of \$(11,000) from the FY 2017 amount. *(Please see the Attorney General narrative for details.)*

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2017 workers' compensation rates. ADOA estimates the average statewide rate is 0.78% in FY 2017, a slight decrease from the FY 2017 rate of 0.79%. The Baseline does not adjust agency budgets for changes in workers' compensation rates.

Federal Insurance Contributions Act (FICA) - Effective January 1, 2017, Social Security employer taxes are paid at a rate of 6.20% up to \$127,500, an increase from the previous maximum of \$118,500. The rate is unchanged from FY 2016. 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 2016. Effective January 1, 2013, the federal Affordable Care Act imposed an additional 0.9% Medicare withholding on employees for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

Retirement - Most FY 2017 rates as determined by the state's retirement systems have changed from the FY 2016 rates. The total contribution from ASRS employees and employers combined will remain at 22.68% in FY 2018, unchanged from FY 2017; both employers and employees will each continue to pay 11.34% in FY 2018. These rates exclude disability insurance.

Employee contribution rates for the Elected Officials Retirement Plan and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute. The Baseline does not adjust agency budgets for changes in retirement rates.

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, increased slightly from the FY 2017 rate of 0.14%. The employee rate will also increase to 0.16%. For PSPRS employers, the disability insurance rate will increase to 2.33% in FY 2018, an increase of 0.41% from the FY 2017 rate of 1.92%. For CORP employers, the rate is 0.28%, increased slightly from the FY 2017 rate of 0.27%. 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 2017 rates.

Rent - Individual agency budgets' Other Operating Expenditures include monies to pay rent for state-owned, lease-purchase or privatized lease-to-own (PLTO) space, as well as for privately-owned space.

ADOA charges \$13.08 per square foot for all state agencies occupying state-owned space and \$4.74 per square foot for state-owned storage space in FY 2017. These rates are based upon usable square feet. The Baseline assumes no changes to these rates for FY 2018.

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 2018 ceiling of Full-Time Equivalent (FTE) Positions for the agency, along with the FTE Position ceiling for FY 2016 and FY 2017. 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 approval of the Joint Legislative Budget Committee before moving any funds into or out of the Personal Services or ERE line items (A.R.S. § 35-173(e)). In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
All Other Operating Expenditures	<u>25,000</u>
Total Appropriations - Agency X	\$100,000

Detailed Line Item - The appropriation consists of each line item listed in this book, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures, and Equipment. Any Special Line Items would be listed separately. While the same rules govern Personal Services/ERE transfers as noted in the Modified Lump Sum description, the detailed line item appropriation requires the agency to seek ADOA approval before transferring monies between any other line items.

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
Professional & Outside Services	3,000
Travel - In State	7,500
Travel - Out of State	2,500
Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$100,000

Footnotes

The individual agency sections of this book include proposed footnotes, which are narrative statements in the General Appropriation Act that establish conditions for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program's authorizing law. Footnotes are classified into one of the following categories:

- *Standard Footnotes*
- *New Footnotes*
- *Deletion of Prior Year Footnotes*

Please see the Major Footnote Changes section for a listing of major footnote changes from FY 2017.

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 2017 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 2018 for submission to the JLBC Director by October 1, 2018. 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, 2017 on the number of filled, appropriated and non-appropriated FTE Positions by fund source as of September 1, 2017.

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 2017 General Fund ending balance by September 15, 2017. The JLBC Staff shall report to JLBC by October 15, 2017 as to whether FY 2018's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections.

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 2018 - FY 2020 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 2018 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 2019.

Other Issues

This section may also include other information of general interest, including FY 2017 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 2017 for FY 2016 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2016, but for which the state was unbilled until FY 2017. An agency's administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$100,000,000 is an increase of \$30,000,000 from the originally-budgeted FY 2017 total. The FY 2017 amount is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends. 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 2017 figure, the Baseline assumes a FY 2018 administrative adjustment total of \$100,000,000, unchanged from the revised FY 2017 total. The FY 2018 amount reflects 71% of prior-year reversionments (*see Reversionments discussion below*).

Reversionments - The Baseline assumes that state agencies will revert \$(140,000,000) of FY 2017 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 2018. This amount is an increase of reversionments of \$29,317,500 from the originally-budgeted FY 2017 total of \$(110,682,500).

In addition to the FY 2017 estimate, the Baseline also assumes a FY 2018 reversionment total of \$(120,000,000), a decrease of \$(20,000,000) from the revised FY 2017 total.

***JLBC STAFF
AND
AGENCY DIRECTORY LISTINGS***

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of January 13, 2017)**

<u>AGENCY/DEPT./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	Pete Gonzalez [Director]	602-542-3095
Administration, Arizona Department of	Rebecca Perrera	Craig Brown [Director]	602-542-1500
Administrative Hearings, Office of	Ben Murphy	Greg Hanchett [Interim Director]	602-542-9830
African-American Affairs, Arizona Commission of	Ben Murphy	Cloves Campbell [Executive Director]	602-542-5484
Agriculture, Arizona Department of	Henry Furtick	Mark Killian [Director]	602-542-5729
Arizona Health Care Cost Containment System	Jon Stall/Patrick Moran	Thomas J. Betlach [Director]	602-417-4111
Arizona State University	Matt Beienburg	Michael Crow, Ph.D. [President]	480-965-8972
Arts, Arizona Commission on the	Morgan Dorcheus	Robert Booker [Executive Director]	602-771-6501
Athletic Training, Board of	Henry Furtick	Karen Whiteford [Executive Director]	602-589-8353
Attorney General - Department of Law	Eric Billings	Honorable Mark Brnovich [Attorney General]	602-542-5025
Auditor General	Steve Grunig	Debra K. Davenport [Auditor General]	602-553-0333
Automobile Theft Authority	Eric Billings	Frederick Zumbo [Executive Director]	602-364-2888
Barbers, Board of	Ben Murphy	Sam Barcelona [Executive Director]	602-542-4498
Behavioral Health Examiners, Board of	Morgan Dorcheus	Tobi Zavala [Executive Director]	602-542-1882
Charter Schools, State Board for	Morgan Dorcheus	Ashley Berg [Executive Director]	602-364-3080
Child Safety, Department of	Patrick Moran	Greg McKay [Director]	602-542-5844
Chiropractic Examiners, State Board of	Morgan Dorcheus	Justin Bohall [Executive Director]	602-864-5088
Citizens Clean Elections Commission	Ben Murphy	Thomas M. Collins [Executive Director]	602-364-3477
Commerce Authority, Arizona	Eric Billings	Sandra Watson [President and CEO]	602-845-1252
Community Colleges, Arizona	Steve Schimpp	--	--
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]	602-542-0765
Corrections, State Department of	Micaela Larkin	Charles L. Ryan [Director]	602-542-5225
Cosmetology, Board of	Ben Murphy	Donna Aune [Director]	480-784-4539
Court of Appeals, Division I	Eric Billings	Honorable Michael Brown [Chief Judge]	602-542-1432
Court of Appeals, Division II	Eric Billings	Honorable Peter Eckerstrom [Chief Judge]	520-628-6950
Criminal Justice Commission, Arizona	Josh Hope	Andrew LeFevre [Executive Director]	602-364-1146
Deaf and the Blind, Arizona State Schools for the	Henry Furtick	Annette Reichman [Superintendent]	520-770-3704
Deaf and the Hard of Hearing, Commission for the	Henry Furtick	Sherri L. Collins [Executive Director]	602-542-3383
Dental Examiners, State Board of	Morgan Dorcheus	Elaine Hugunin [Executive Director]	602-542-4451
Early Childhood Development and Health Board, Arizona	Chris Gustafson	Sam Leyvas [Executive Director]	602-771-5100
Economic Opportunity, Office of	Eric Billings	Paul Shannon [Director]	602-771-0478
Economic Security, Department of	Chris Gustafson/ Patrick Moran	Henry Darwin [Interim Director]	602-542-5678
Education, State Board of	Matt Beienburg	Karol Schmidt [Executive Director]	602-542-5057
Education, Department of	Steve Schimpp/ Matt Beienburg	Honorable Diane Douglas [Superintendent of Public Instruction]	602-542-5460
Emergency and Military Affairs, Department of	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]	602-542-1301
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	Rodolfo R. Thomas [Executive Director]	602-542-8152
Game and Fish Department, Arizona	Ben Murphy	Larry Voyles [Director]	602-942-3000
Gaming, Department of	Henry Furtick	Daniel Bergin [Director]	602-771-4263
Governor, Office of the	Steve Grunig	Honorable Doug Ducey [Governor]	602-542-4331
Governor's Office of Strategic Planning and Budgeting	Steve Grunig	Lorenzo Romero [Director]	602-542-5381

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Health Services, Department of Historical Society, Arizona Historical Society of Arizona, Prescott Homeland Security, Arizona Department of Homeopathic and Integrated Medicine Examiners, Board of	Morgan Dorcheus Josh Hope Josh Hope Josh Hope Steve Grunig	Dr. Cara Christ [Director] Anne I. Woosley [Executive Director] Fred Veil [Executive Director] Gilbert M. Orrantia [Director] Christine Springer [Executive Director]	602-542-1025 520-628-5774 928-445-3122 602-542-7013 602-542-3095
House of Representatives Housing, Arizona Department of Independent Redistricting Commission Industrial Commission of Arizona Insurance, Department of	Steve Grunig Henry Furtick Ben Murphy Ben Murphy Jeremy Gunderson	Honorable J.D. Mesnard [Speaker of the House] Michael Traylor [Director] Ray Bladine [Executive Director] James Ashley [Director] Leslie Hess [Interim Director]	602-926-3312 602-771-1007 602-542-5221 602-542-4411 602-364-3471
Joint Legislative Budget Committee Juvenile Corrections, Department of Land Department, State Legislative Council Liquor Licenses and Control, Department of	Steve Grunig Chris Gustafson Henry Furtick Steve Grunig Jeremy Gunderson	Richard Stavneak [Director] Jeff Hood [Interim Director] Lisa Atkins [Land Commissioner] Mike E. Braun [Executive Director] John Cocca [Director]	602-926-5491 602-364-4051 602-542-4621 602-926-4236 602-542-9020
Lottery Commission, Arizona State Massage Therapy, Board of Medical Board, Arizona Mine Inspector, State Naturopathic Physicians Medical Board	Jeremy Gunderson Steve Grunig Morgan Dorcheus Henry Furtick Steve Grunig	Gregory Edgar [Executive Director] Kathleen Phillips [Executive Director] Patricia McSorley [Executive Director] Honorable Joe Hart [State Mine Inspector] Gail Anthony [Director]	480-921-4505 602-542-8804 480-551-2700 602-542-5971 602-542-8242
Navigable Stream Adjudication Commission, Arizona Northern Arizona University Nursing, State Board of Nursing Care Institution Administrators and Assisted Living Facility Managers, Board of Examiners of Occupational Therapy Examiners, Board of	Henry Furtick Matt Beienburg Morgan Dorcheus Steve Grunig Steve Grunig	George Mehnert [Executive Director] Rita Cheng, Ph.D. [President] Jo Elizabeth Ridenour [Executive Director] Allen Imig [Executive Director] Karen Whiteford [Executive Director]	602-542-9214 928-523-3232 602-771-7800 602-542-8156 602-589-8352
Opticians, State Board of Dispensing Optometry, State Board of Osteopathic Examiners, Arizona Board of Parents Commission on Drug Education and Prevention, AZ Parks Board, Arizona State	Steve Grunig Steve Grunig Morgan Dorcheus Morgan Dorcheus Ben Murphy	Lori D. Scott [Executive Director] Margaret Whelan [Executive Director] Jenna Jones [Executive Director] Debra Moak [Program Administrator] Sue Black [Executive Director]	602-542-8158 602-542-8155 480-657-7703 602-364-0417 602-542-4174
Personnel Board, State Pharmacy, Arizona State Board of Physical Therapy, Board of Pioneers' Home, Arizona Podiatry Examiners, State Board of	Ben Murphy Henry Furtick Steve Grunig Morgan Dorcheus Steve Grunig	Laurie Barcelona [Executive Director] Kamlesh Gandhi [Executive Director] Charles Brown [Executive Director] Ted Ihrman [Superintendent] Ryan Edmonson [Executive Director]	602-542-3888 602-771-2740 602-542-8157 928-445-2181 602-542-8151
Postsecondary Education, Commission for Power Authority, Arizona Private Postsecondary Education, State Board for Psychologist Examiners, State Board of Public Safety, Department of	Morgan Dorcheus Josh Hope Steve Grunig Steve Grunig Eric Billings	April L. Osborn [Executive Director] John Underhill [Interim Executive Director] Teri R. Stanfill [Executive Director] Cindy Olvey [Director] Frank Milstead [Director]	602-258-2435 602-368-4265 602-542-2399 602-542-8162 602-223-2359
Public Safety Personnel Retirement System Radiation Regulatory Agency Real Estate Department, State Regents, Arizona Board of Residential Utility Consumer Office	Josh Hope Henry Furtick Ben Murphy Matt Beienburg Jeremy Gunderson	Jared Smout [Administrator] Brian Goretzki [Acting Director] Judy Lowe [Commissioner] Eileen Klein [President] David Tenney [Director]	602-255-5575 602-255-4845 602-771-7799 602-229-2500 602-364-4835
Respiratory Care Examiners, Board of Retirement System, Arizona State Revenue, Department of School Facilities Board Secretary of State, Department of State	Steve Grunig Josh Hope Jeremy Gunderson Rebecca Perrera Micaela Larkin	Jack Confer [Director] Paul Matson [Director] David Briant [Director] Paul Bakalis [Director] Honorable Michele Reagan [Secretary of State]	602-542-5995 602-240-2000 602-716-6090 602-542-6504 602-542-4285
Senate State Boards' Office Superior Court Supreme Court Tax Appeals, State Board of	Steve Grunig Steve Grunig Eric Billings Eric Billings Jeremy Gunderson	Honorable Steve Yarbrough [President of the Senate] Susie Myers [Administrator] David K. Byers [Director] Scott Bales [Chief Justice] Karen Rice-Brogdon [Chairperson]	602-926-4371 602-542-3095 602-452-3301 602-452-3534 602-364-1102

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Technical Registration, State Board of Tourism, Office of Transportation, Department of Treasurer, State Tribal Relations, Governor's Office on	Henry Furtick Henry Furtick Ben Murphy Ben Murphy Ben Murphy	Melissa Cornelius [Executive Director] Debbie Johnson [Director] John Halikowski [Director] Honorable Jeff DeWit [State Treasurer] Kristine FireThunder [Executive Director]	602-364-4930 602-364-3717 602-712-6594 602-542-7800 602-542-4421
University of Arizona Veterans' Services, Department of Veterinary Medical Examining Board, Arizona State Water Resources, Department of	Micaela Larkin Morgan Dorcheus Steve Grunig Micaela Larkin	Ann Weaver Hart, Ph.D. [President] Colonel Wanda Wright [Director] Victoria Whitmore [Executive Director] Thomas Buschatzke [Director]	520-621-5511 602-255-3373 602-542-8150 602-771-1301
<u>OTHER ASSIGNMENTS</u>			
Capital Review Economic and Revenue Forecast	Jack Brown Hans Olofsson Jack Brown Jon Stall		
Federal/Non-Appropriated Funds Fiscal Note Manager	Stefan Shepherd Stefan Shepherd		

[] Denotes Title for Information Purposes

**STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE**

- Director Richard Stavneak
- Office Manager Linda Monsanto
- Deputy Directors Steve Schimpp
..... Stefan Shepherd
- Assistant Director Jack Brown
- Chief Economist Hans Olofsson
- Principal Fiscal Analyst Eric Billings
- Senior Fiscal Analysts Steve Grunig
..... Chris Gustafson
..... Micaela Larkin
..... Rebecca Perrera
..... Jon Stall
- Fiscal Analysts Matt Beienburg
..... Morgan Dorcheus
..... Henry Furtick
..... Jeremy Gunderson
..... Josh Hope
..... Patrick Moran
- Assistant Fiscal Analyst Ben Murphy
- Administrative Assistant/JLBC & JCCR Clerk Kristy Paddack