

Capital Outlay Summary

FY 2024
BASELINE

BUILDING RENEWAL

ADOA Building System	23,854,900
ADOT Building System	18,581,300
ABOR Building System	0
SUBTOTAL	42,436,200

INDIVIDUAL PROJECTS

ADOA Building System	50,565,800
ADOT Building System	489,243,000
ABOR Building System	0
SUBTOTAL	539,808,800

LOCAL ASSISTANCE

Phoenix Convention Center	25,498,600
Rio Nuevo District	17,000,000
SUBTOTAL	42,498,600

TOTALS

ADOA Building System	74,420,700
ADOT Building System	507,824,300
ABOR Building System	0
Other Funding (Lease-Purchase/Local Assistance)	42,498,600
TOTAL - ALL PROJECTS	624,743,600^{1/}

FUND SOURCES

General Fund	83,920,600
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	16,000,000
Department of Corrections Building Renewal Fund	5,864,300
Game and Fish Fund	1,776,400
State Lottery Fund	214,200
State Parks Revenue Fund	19,143,800
State Aviation Fund	35,441,900
State Highway Fund	462,382,400
SUBTOTAL - Other Appropriated Funds	540,823,000
SUBTOTAL - Appropriated Funds	624,743,600

Other Non-Appropriated Funds	711,498,000
Federal Funds	972,943,000
TOTAL - ALL SOURCES	2,309,184,600

DESCRIPTION — The Capital Outlay Budget consists of one-time appropriations to maintain, expand, enhance, or make a lease-purchase payment for the state's capital assets, which includes buildings, state parks, prisons, highways, and other facilities. For the purposes of capital management and planning, the state is divided into 3 building systems: the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. In addition, the state makes annual payments for local distributions for the Phoenix Convention Center and the Rio Nuevo District. Capital appropriations are typically made through the Capital Outlay Bill but may be made through other bills as well.

FOOTNOTES

^{1/} Includes \$10,000,000 appropriated from the General Fund and \$19,143,833 from the State Parks Revenue Fund in FY 2024 by Laws 2022, Chapter 309.

The following amounts are one-time appropriations:

(See the individual building systems' sections for more information.)

Summary

The Baseline includes a total of \$624,743,600 from Appropriated Funds in FY 2024. Of the total, \$83,920,600 is from the General Fund and \$540,823,000 is from Other Appropriated Funds. The budget consists of 4 main categories: 1) Building Renewal, 2) Individual Projects, 3) Debt and Lease-Purchase Financing, and 4) Local Assistance.

Local Assistance

The Baseline includes \$42,498,600 from the General Fund in FY 2024 for the state's share of the long term financing for the Phoenix Convention Center and the Rio Nuevo Multipurpose Facilities District. *(See the Local Assistance section for more information.)*

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 \$42,436,200 in FY 2024 for Building Renewal, which consists of Other Appropriated Funds. These amounts include:

	FY 2024
Arizona Department of Administration Capital Outlay Stabilization Fund @ 23.8% (excludes ADC, Game and Fish, Lottery buildings)	\$16,000,000
Department of Corrections ADC Building Renewal Fund @ 14.7%	5,864,300
Game and Fish Department Game and Fish Fund @ 100%	1,776,400
State Lottery Commission State Lottery Fund @ 100%	<u>214,200</u>
Subtotal - ADOA	\$23,854,900
Arizona Department of Transportation State Highway Fund @ 82.5%	\$18,139,400
State Aviation Fund @ 100%	<u>441,900</u>
Subtotal - ADOT	\$18,581,300

(See the individual building systems' section for more information.)

Individual Projects

The Baseline includes total funding of \$539,808,800 in FY 2024 for individual capital projects, which consists of \$41,422,000 General Fund and \$498,386,800 from Other Appropriated Funds.

Capital Outlay

Arizona Department of Administration Building System

FY 2024
BASELINE

BUILDING RENEWAL

Department of Administration	16,000,000 ^{1/2/}
Department of Corrections	5,864,300 ^{3/}
Game and Fish Department	1,776,400
Arizona State Lottery Commission	214,200
SUBTOTAL - Building Renewal	23,854,900

INDIVIDUAL PROJECTS

Arizona Department of Corrections

Replace Evaporative Cooling Statewide with HVAC 31,422,000

Arizona State Parks Board^{4/5/6/}

Catalina Main Entrance Bridge	5,813,000
Statewide Campground Improvements	4,100,000
Statewide Sunshade Structures	2,233,300
Statewide Water Conservation	1,339,000
Yuma Territorial Prison State Park Historic Building Renovation	750,000
Riordan Mansion State Park Historic Building Renovation	2,900,000
Oracle State Park Historic Building Renovation	2,008,500
SUBTOTAL - Arizona State Parks Board	19,143,800
SUBTOTAL - Individual Projects	50,565,800

TOTAL - ALL PROJECTS

74,420,700

FUND SOURCES

General Fund	31,422,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	16,000,000
Department of Corrections Building Renewal Fund	5,864,300
Game and Fish Fund	1,776,400
State Lottery Fund	214,200
State Parks Revenue Fund	19,143,800
SUBTOTAL - Other Appropriated Funds	42,998,700
SUBTOTAL - Appropriated Funds	74,420,700

TOTAL - ALL SOURCES

74,420,700^{7/8/9/}

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 2024 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

FOOTNOTES

- 1/ Notwithstanding section 41-793.01, Arizona Revised Statutes, the amounts appropriated in this section are appropriated for fiscal year 2023-2024 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 (Capital Outlay Appropriation Act footnote)
- 2/ 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 section 41-792.01, Arizona Revised Statutes, are insufficient to fund the appropriation to the department of administration for building renewal, the appropriation to the department of administration is reduced by the difference between the amount appropriated to the department of administration from the capital outlay stabilization fund and the balance in the capital outlay stabilization fund. ~~Notwithstanding title 41,~~

chapter 4, article 7, Arizona Revised Statutes, the department of administration may use monies appropriated for building renewal in fiscal year 2023-2024 for building projects related to retrofitting facilities for space consolidation initiatives. (Capital Outlay Appropriation Act footnote)

- 3/ The state department of corrections may not spend any of this appropriation on personal services or overhead expenses related to managing the funded projects. (Capital Outlay Appropriation Act footnote)
- 4/ Laws 2022, Chapter 309 appropriated \$19,143,833 in FY 2024 and \$19,117,333 in FY 2025 from the State Parks Revenue Fund for capital projects at the Arizona State Parks Board. As a result, these monies will not appear in the FY 2024 or FY 2025 Capital Outlay Appropriation Act.
- 5/ The Arizona state parks board shall report promptly to the joint committee on capital review and the governor's office of strategic planning and budgeting if the board revises the plan for any project for which monies are appropriated by this subsection because the board receives land and water conservation grant funding. (FY 2023 Capital Outlay Appropriation Act footnote)
- 6/ The Arizona state parks board may use up to ten percent of the monies from any project listed in subsection A of this section to pay for costs associated with another project listed in subsection A of this section. After review by the joint committee on capital review, the Arizona state parks board may use more than ten percent of the monies appropriated for a project in subsection A of this section to pay for costs associated with another project listed in subsection A of this section. (FY 2023 Capital Outlay Appropriation Act footnote)
- 7/ The department of administration may spend up to five percent of the amounts appropriated to the department in this act, excluding amounts to be distributed to non-state agencies, for expenditures for project management of building renewal and capital projects. All other monies appropriated to the department in this act may not be spent for personal services or employee-related expenditures or for maintenance contracts on building components and equipment without review by the joint committee on capital review. (Capital Outlay Appropriation Act footnote)
- 8/ Except as provided in subsection A of this section, the monies appropriated in this act may not be spent for personal services or employee-related expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 9/ Capital Outlay Appropriation Act funds are appropriated as a Lump Sum by Project by Agency.

The following amounts are one-time appropriations:

Building Renewal

The Baseline includes \$23,854,900 from Other Appropriated Funds in FY 2024 for Building Renewal within the ADOA Building System. These amounts consist of:

- \$16,000,000 to ADOA, which consists of \$16,000,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 23.8% of the ADOA building renewal formula. The FY 2023 appropriation of \$53,594,200 which consisted of \$16,000,000 from COSF and \$37,594,200 from the General Fund represented 100% of the ADOA formula. In FY 2024, 100% of the formula would be \$67,232,000
- \$5,864,300 to the Arizona Department of Corrections (ADC), which consists of \$5,864,300 from the ADC Building Renewal Fund. This amount funds 14.7% of the ADC building renewal formula. The FY 2023 appropriation of \$36,415,400 which consisted of \$30,551,400 from the General Fund and \$5,864,300 from the ADC Building Renewal Fund represented 100% of the ADC formula. In FY 2024, 100% of the formula would be \$39,806,900.

- \$1,776,400 to Arizona Game and Fish Department from the Game and Fish Fund which funds 100% of the Game and Fish building renewal formula. The FY 2023 appropriation of \$1,459,600 from the Game and Fish Fund also represented 100% of the Game and Fish formula.
- \$214,200 to the Arizona State Lottery Commission from the State Lottery Fund, which funds 100% of the Lottery building renewal formula. The FY 2023 appropriation of \$176,400 from the State Lottery Fund also represented 100% of the Lottery building renewal formula.

Building renewal appropriations to the Department of Administration are used for major maintenance and repair activities for state buildings.

The Baseline deletes a one-time footnote allowing ADOA to use monies appropriated for building renewal to retrofit facilities for space consolidation initiatives.

Individual Projects

Arizona Department of Corrections

Replace Evaporative Cooling Statewide with HVAC

The Baseline includes \$31,422,000 from the General Fund in FY 2024 to replace evaporative cooling with HVAC at ADC prisons statewide.

The FY 2023 budget included \$47,600,000 for statewide HVAC projects at ADC. The FY 2023 enacted budget's 3-year spending projections also included the following future year amounts for statewide HVAC projects at ADC: \$31,422,000 in FY 2024, \$29,832,100 in FY 2025 and \$23,700,000 in FY 2026.

Arizona State Parks Board

The FY 2023 budget appropriated funding for various ASPB projects in FY 2024. As a result, these monies will not appear in the FY 2024 Capital Outlay Bill (*Please see the ASPB 3-year Capital Spending Plan section*).

Catalina Main Entrance Bridge

The Baseline includes \$5,813,000 from the State Parks Revenue Fund in FY 2024 to ASPB for the construction of a bridge in Catalina State Park. ASPB will work with ADOT on the project.

Statewide Campground Improvements

The Baseline includes \$4,100,000 from the State Parks Revenue Fund in FY 2024 to ASPB for statewide campground improvements.

Statewide Sunshade Structures

The Baseline includes \$2,233,333 from the State Parks Revenue Fund in FY 2024 to ASPB for the construction of shade structures statewide. These structures will provide shade to park visitors and electricity to the parks.

Statewide Water Conservation

The Baseline includes \$1,339,000 from the State Parks Revenue Fund in FY 2024 to ASPB for the statewide installation of low-flow fixtures and other water conservation efforts.

Yuma Territorial Prison State Park Historic Building Renovation

The Baseline includes \$750,000 from the State Parks Revenue Fund in FY 2024 to ASPB to repair the 1876 Yuma Prison at the Yuma Territorial Prison State Historic Park.

Riordan Mansion State Park Historic Building Renovation

The Baseline includes \$2,900,000 from the State Parks Revenue Fund in FY 2024 to ASPB to renovate and repair the Riordan Mansion State Park visitor center, museum, and gate house in Flagstaff.

Oracle State Park Historic Building Renovation

The Baseline includes \$2,008,500 from the State Parks Revenue Fund in FY 2024 to ASPB to renovate the Oracle State Park historic ranch house.

Other Issues

Arizona State Parks Board 3-Year Capital Spending Plan

The FY 2023 Capital Outlay Bill appropriated \$20,517,600 from the State Parks Revenue Fund to the Arizona State Parks Board (ASPB) in FY 2023, \$19,143,800 in FY 2024, and \$19,117,300 in FY 2025 for capital projects. *Table 1* shows a list of ASPB's planned capital projects through FY 2025.

Because the FY 2024 funding amounts have already been appropriated, the FY 2024 monies will not appear in the FY 2024 Capital Outlay Bill.

An FY 2023 budget footnote requires that prior to ASPB using more than 10% of a specific project's budget for another project that was allocated funding for that year, ASPB shall submit the proposed expenditure plan and funding reallocation to JCCR for review. At the July 2022 JCCR meeting, the Committee gave a favorable review of the ASPB expenditure plan for these capital projects.

Rent Adjustments

In FY 2023, state building rent payments total \$30,186,900 which is estimated to be paid from the following fund sources: \$16,933,000 from the General Fund, \$9,437,900 from Other Appropriated Funds, and \$3,816,000 from Non-Appropriated Funds.

The FY 2024 Baseline does not adjust agency budgets for any changes in space or rental charges. The current rental charges are as follows: Office - \$17.87 per sq. ft./Storage - \$6.43 per sq. ft. (*Please see the Summary of Rent Charges in the FY 2023 Appropriations Report for agency rent as of July 1, 2022.*)

Table 1			
List of FY 2023 - FY 2025 Parks Capital Projects			
	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Deadhorse Amphitheater - Cost Increase	\$210,000		
Rockin' River State Park - Cost Increase	336,800		
Jerome State Park Fire Suppression System	1,540,000		
Southern Construction Services Relocation	2,000,000		
Tonto Bridge State Park Historic Building Renovation	3,500,000		
Tombstone State Park Historic Building Renovation	2,008,500		
Rockin' River State Park Main House Renovation	1,750,000		
Catalina State Park Main Entrance Bridge	1,500,000	\$5,813,000	
Statewide Campground Improvements	4,100,000	4,100,000	\$4,100,000
Statewide Sunshade Structures	2,233,300	2,233,300	2,233,300
Statewide Water Conservation	1,339,000	1,339,000	1,339,000
Yuma Territorial Prison Park Historic Building Renovation		750,000	5,945,000
Riordan Mansion Park Historic Building Renovation		2,900,000	
Oracle State Park Historic Building Renovation		2,008,500	
Red Rock State Park Historic Building Renovation			4,000,000
San Rafael State Park Historic Building Renovation	<u>0</u>	<u>0</u>	<u>1,500,000</u>
Total	\$20,517,600	\$19,143,800	\$19,117,300

Capital Outlay

Arizona Department of Transportation Building System

FY 2024
BASELINE

BUILDING RENEWAL

ADOT Building Renewal ^{1/}	18,581,300
SUBTOTAL	18,581,300

INDIVIDUAL PROJECTS

Airport Planning and Development ^{2/3/5/}	35,000,000
Controlled Access Highways ^{4/5/6/7/8/}	137,145,000
Debt Service ^{4/5/6/7/8/}	138,491,000
SR 97 Improvements near Bagdad ^{9/}	10,000,000
Statewide Highway Construction ^{4/5/6/7/8/}	168,607,000
SUBTOTAL	489,243,000

TOTAL - ALL PROJECTS ^{10/11/}	507,824,300
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FUND SOURCES

General Fund	10,000,000
<u>Other Appropriated Funds</u>	
State Aviation Fund	35,441,900
State Highway Fund	462,382,400
SUBTOTAL - Other Appropriated Funds	497,824,300
SUBTOTAL - Appropriated Funds	507,824,300

Other Non-Appropriated Funds	711,498,000
Federal Funds	972,943,000
TOTAL - ALL SOURCES	2,192,265,300

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.

FOOTNOTES

- 1/ Notwithstanding section 41-793.01, Arizona Revised Statutes, the amounts appropriated in this section are appropriated for fiscal year 2023-2024 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. (Capital Outlay Appropriation Act footnote)
- 2/ The sum of \$35,000,000 is appropriated from the state aviation fund established by section 28-8202, Arizona Revised Statutes, in fiscal year 2023-2024 to the department of transportation to plan, construct, develop and improve state, county, city or town airports as determined by the state transportation board. Any balances and collections in the state aviation fund that exceed the specific amounts appropriated in the general appropriations act and in this act are appropriated to the department of transportation in fiscal year 2023-2024 for the purposes provided in this subsection. (Capital Outlay Appropriation Act footnote)
- 3/ On or before December 31, 2023, the department of transportation shall report to the joint legislative budget committee staff on the status of all aviation grant awards and aviation grant distributions. The report shall delineate projects by individual airport and fiscal year, including any future year commitments. (Capital Outlay Appropriation Act footnote)
- 4/ The sum of \$444,243,000 is appropriated from the state highway fund established by section 28-6991, Arizona Revised Statutes, in fiscal year 2023-2024 to the department of transportation to plan and construct state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, to acquire rights-of-way and to provide for the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the state highway fund that exceed the specific amounts appropriated in

the general appropriations act and in this act are appropriated to the department for the purposes provided in this subsection. (Capital Outlay Appropriation Act footnote)

- 5/ Notwithstanding section 41-1252, Arizona Revised Statutes, the appropriations made in subsection A of this section are not subject to review by the joint committee on capital review. (Capital Outlay Appropriation Act footnote)
- 6/ On or before November 1, 2023, the department of transportation shall report to the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting have approved modifications to the format. (Capital Outlay Appropriation Act footnote)
- 7/ On or before November 1, 2023, the department of transportation shall report the department's estimated outstanding debt principal balance at the end of fiscal year 2024-2025 and the estimated debt service payment amount for each of fiscal years 2024-2025, 2025-2026, 2026-2027 and 2027-2028 to the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting. This report shall include state highway fund statewide construction bonds, Arizona highway user revenue fund bonds, Maricopa association of governments and Pima association of governments controlled access bonds, Maricopa regional area road fund bonds and grant anticipation notes and is intended to be comparable to the information in the fiscal year 2022-2023 appropriations report. (Capital Outlay Appropriation Act footnote)
- 8/ On or before November 1, 2023, the department of transportation shall report capital outlay information for fiscal years 2022-2023, 2023-2024 and 2024-2025 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 two, three and six, as found in the fiscal year 2022-2023 appropriations report. (Capital Outlay Appropriation Act footnote)
- 9/ The appropriation made in subsection A of this section reverts to the state general fund on June 30, 2025 if the department does not secure federal funding for the project on or before June 30, 2025. (FY 2023 Capital Outlay Appropriation Act Footnote)
- 10/ Unless otherwise specified, the monies appropriated in this act may not be spent for personal services or employee-related expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 11/ Capital Outlay Appropriation Act funds are appropriated as a Lump Sum by Project by Fund.

The following reflects one-time appropriations:

Building Renewal

Building Renewal

The Baseline includes \$18,581,300 in FY 2024 for Building Renewal within ADOT's Building System. This amount consists of \$18,139,400 from the State Highway Fund (SHF) and \$441,900 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 82.5% funding of the FY 2024 highway building renewal formula and 100% funding of the FY 2024 aviation building renewal formula. The FY 2023 budget appropriated \$18,139,400 from the SHF and \$467,800 from the SAF, which represented 100% funding of the FY 2023 highway building renewal formula and 100% funding of the FY 2023 aviation building renewal formula.

Individual Projects

Airport Planning and Development

The Baseline includes \$35,000,000 from the State Aviation Fund (SAF) in FY 2024 for ADOT's airport capital improvement program. Fund revenues are generated from the jet fuel tax and Grand Canyon Airport operational revenues. This amount corresponds to the programmed amount in the department's FY 2023-2027 Airport Capital Improvement Program (ACIP). ADOT develops an annual Five-Year ACIP to program airport planning and development monies, subject to the approval of the State Transportation Board. By aligning the airport planning and development appropriation with the programmed amount, the appropriation reflects the amount ADOT plans to award. In comparison, the FY 2023 budget included \$27,100,000 for this purpose.

Controlled Access Highways

The Baseline includes an estimated urban freeway controlled access funding level of \$137,145,000 from SHF in FY 2024. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%. These amounts are deposited into 4 subaccounts of the SHF: the MAG 12.6%

account, MAG 2.6% account, PAG 12.6% account, and PAG 2.6% account. The 12.6% accounts refer to the statutory HURF distribution and the 2.6% accounts refer to the State Transportation Board policy amount. ADOT spends these amounts as programmed by MAG and PAG.

Debt Service

The Baseline includes \$138,491,000 from SHF in FY 2024 for the appropriated portion of the debt service on bonds. ADOT has approximately \$1,097,260,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2024 debt service payments. *(Please see Table 5 for more information on debt service.)*

SR 97 Improvements near Bagdad

The Baseline includes \$10,000,000 from the General Fund in FY 2024 to improve State Route 97 near Bagdad. The FY 2023 Capital Outlay Bill appropriated \$10,000,000 for this project in FY 2024. As a result, these monies will not appear in the FY 2024 Capital Outlay Bill. That appropriation included a footnote to revert the funds on June 30, 2025 if the department does not secure federal funding for the project by that date.

Statewide Highway Construction

The Baseline includes \$168,607,000 from SHF in FY 2024 for new highway construction. Only a small portion of the state's total \$1,943,300,000 highway construction funding is appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. *(See the Total Highway Construction Funding discussion and Table 5 in Other Issues for additional information.)* A footnote in the FY 2024 Baseline appropriates any additional monies in SHF above the appropriation to ADOT for highway construction.

Expenditure of highway construction funding is determined by the State Transportation Board, which approves a 5-Year Program developed by ADOT.

Highway construction monies represent the amount that is available for the discretionary SHF to fund the State Transportation Board's 5-Year Program after all other allocations have been made. *(Please see the Summary of Highway Construction section and Table 6 for more information.)*

Table 1 shows the allocation of the highway construction budget prior to any ADOT operating and capital issues and statewide adjustments made during the budget process, which would reduce the level of available highway construction funding.

As noted in the HURF distribution table *(please see Table 6)*, an additional amount of \$449,124,000 from the

balances of the MAG and PAG 12.6% and 2.6% subaccounts will also be available in FY 2024.

State Highway Fund FY 2024 Highway Construction & Debt Service	
	Capital Outlay Bill
Controlled Access	\$137,145,000
Debt Service	138,491,000
Highway Construction	<u>168,607,000</u>
Total	\$444,243,000

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 \$1,171,251,000 in FY 2022 to \$1,552,566,000 in FY 2023 and \$1,684,441,000 in FY 2024.

Non-Appropriated Capital Fund Expenditures (\$ in Thousands)			
	FY 2022	FY 2023	FY 2024
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Aviation Federal Funds	\$5,697	\$7,503	\$10,780
Highway Federal Grants	<u>843,961</u>	<u>878,589</u>	<u>962,163</u>
Subtotal - Federal Funds	\$849,658	\$886,092	\$972,943
Bond Proceeds	\$18	\$728	\$640
Economic Strength Project Fund	1,000	1,000	1,000
Local Agency Deposits Fund	2,939	15,651	28,477
Maricopa Regional Area Road Fund	317,636	649,095	681,381
Subtotal - Other Non-Appropriated Funds	\$321,593	\$666,474	\$711,498
Total	\$1,171,251	\$1,552,566	\$1,684,441

Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the *FY 2024 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, 2022 includes monies from SHF, Federal Funds,

MRARF, SHF for controlled access roads, and bond revenues. The highway construction program adopted by the State Transportation Board totals \$1,340,077,000 for FY 2024. (Please see Table 3 for additional details.)

Table 3	
State Highway Fund	
Highway Construction Projects Beginning in FY 2024	
(\$ in Thousands)	
	FY 2024 ^{1/}
Construction	\$270,400
Urban Controlled Access ^{2/}	530,303
Pavement Preservation Maintenance	447,961
Other ^{3/}	<u>91,413</u>
Total	\$1,340,077

^{1/} Data from ADOT's 2023-2027 5-Year Transportation Facilities Construction Program, representing the total cost of multi-year projects beginning in FY 2024.

^{2/} Includes expenditures from SHF 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 2024 Baseline includes \$444,243,000 for highway construction, including \$168,607,000 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 2022 through FY 2024 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 2024 by category of construction. Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

For FY 2022, Table 5 shows that total cash highway construction expenditures were \$1,167,300,000 while \$312,400,000 was spent on debt service. In FY 2023, total estimated cash highway construction expenditures are \$1,384,900,000 with total debt service of \$310,800,000. In FY 2024, total estimated cash highway construction expenditures are \$1,631,400,000 with total debt service of \$311,900,000.

The major sources of highway construction funding are SHF, Federal Aid, the half-cent sales tax in Maricopa County (MRARF), bond proceeds, and the Local Agency Deposits Fund. The Local Agency Deposits Fund receives

monies from the federal government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Table 5 does not include highway maintenance spending of \$126,144,700 in FY 2022, \$209,495,400 in FY 2023, and \$158,495,400 in FY 2024. Of the \$311,900,000 total FY 2024 debt service amount in Table 5, only \$138,500,000 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 2022 through FY 2024. The line in Table 6 showing net SHF Available for Statewide Highway Construction, which totals \$168,607,000 for FY 2024, does not include Maricopa County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. This line represents the amount that is available from the discretionary SHF to fund the State Transportation Board's 5-Year Program.

Total FY 2022 HURF collections of \$1,729,138,000 were 6.3% above FY 2021 collections. As of October 2022, FY 2023 HURF year-to-date collections were (2.4)% lower than the prior year collections.

VLT is the largest source of HURF collections, accounting for 31.4% of HURF revenue in FY 2022, a percentage which has been increasing in recent years. From FY 2018 to FY 2022, the gas tax share of total collections has decreased by (5.1)% while VLT's share has increased by 0.1%.

The gas tax comprises the second largest source of HURF collections at 31.1%.

ADOT forecasts HURF collections 10 years out each summer using a model based on the state's nominal personal income, population, non-farm employment, fleet fuel efficiency and nominal gas price.

Table 4 breaks down the distribution of HURF monies between cities, counties, controlled access, and the SHF.

Table 4

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (15.2% of 50.5% = 7.7% displayed in the table above). The controlled access monies are divided: 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

Statutory Changes

The Baseline would, as session law, modify the existing exemption of highway construction projects from ADOT's quarterly capital project status reports to the Joint Legislative Budget Committee Staff and the Governor's Office of Strategic Planning and Budgeting. ADOT would be required to provide a status report if the appropriation is for a specific highway or local transportation project.

Table 5

Highway Construction and Debt Service Expenditures by Fund Source
(\$ in Millions)

<u>Sources</u>	<u>FY 2022 Actual</u>	<u>FY 2023 Estimate</u>	<u>FY 2024 Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 108.4	\$ 118.0	\$ 114.3
HURF - MAG Debt Service	30.9	19.4	24.2
MAG/PAG 15.2% Controlled Access - Construction	12.9	40.0	28.5
Net SHF Funds Available for Statewide Highway	<u>222.3</u>	<u>50.8</u>	<u>168.6</u>
Total SHF - Appropriated	\$ 374.5	\$ 228.2	\$ 335.6
Non-Appropriated			
SHF Highway Construction ^{1/}	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total SHF - Non-Appropriated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total SHF Highway Construction Expenditures	\$ 374.5	\$ 228.2	\$ 335.6
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 844.0	\$ 878.6	\$ 962.2
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 115.1	\$ 429.1	\$ 473.0
MRARF Debt Service	143.1	143.4	143.4
Total Maricopa Regional Area Road Fund Highway	\$ 258.2	\$ 572.5	\$ 616.4
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 0	\$ 0.1	\$ 0
MRARF - Highway Construction Expenditures	0	0	0
GAN - Highway Construction Expenditures	0.1	0.6	0.6
Total Bond Proceeds Highway Construction Expenditures	\$ 0.1	\$ 0.7	\$ 0.6
Local Agency Deposits Fund			
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr.	2.9	15.7	28.5
Total Local Agency Deposits Fund Highway Construction	\$ 2.9	\$ 15.7	\$ 28.5
Total Highway Construction Expenditures	\$ 1,479.7	\$ 1,695.7	\$ 1,943.3
Total Debt Service			
SHF	\$ 139.3	\$ 137.4	\$ 138.5
Federal Aid	30.0	30.0	30.0
MRARF	143.1	143.4	143.4
Total Debt Service	\$ 312.4	\$ 310.8	\$ 311.9 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 235.2	\$ 90.8	\$ 197.1
Federal Aid	814.0	848.6	932.2
MRARF	115.1	429.1	473.0
Bond Proceeds	0.1	0.7	0.6
Local Agency Deposits Fund	2.9	15.7	28.5
Total Cash Highway Construction Expenditures	\$ 1,167.3	\$ 1,384.9	\$ 1,631.4
Total Highway Construction Expenditures	\$ 1,479.7	\$ 1,695.7	\$ 1,943.3

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$138,491,147 for HURF bonds (\$114,302,112 for statewide program and \$24,189,035 MAG program); \$29,970,250 for Grant Anticipation Notes; and \$143,388,676 for MRARF bonds.

Table 6

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2022 <u>Actual</u>	FY 2023 <u>Estimate</u>	FY 2024 <u>Estimate</u>
Total HURF Collections Before Authorized Third-Party (ATP) Expenses	\$1,755,937	\$1,775,564	\$1,856,912
Less: ServiceArizona ATP Fee Retention	6,644	6,717	6,991
Brick and Mortar ATP Fee Retention	7,611	7,695	8,010
ServiceArizona ATP Credit Card Fee Reimbursements	10,388	10,502	10,931
Brick and Mortar ATP Credit Card Fee Reimbursements	<u>2,156</u>	<u>2,179</u>	<u>2,269</u>
Total HURF Collections	\$1,729,138	\$1,748,471	\$1,828,711
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program	702	907	907
State Lake Improvement Fund/Off-Highway Vehicle Recreation Fund	<u>11,564</u>	<u>11,359</u>	<u>11,918</u>
Net HURF Collections	\$1,715,872	\$1,735,205	\$1,814,886
Less: Cities ^{2/}	523,341	529,237	553,541
Counties ^{2/}	326,016	329,689	344,829
VLT Transfer to Parity Compensation Fund ^{3/}	4,020	4,200	4,549
VLT Transfer to General Fund (5-Year VLT) ^{4/}	3,385	3,550	3,700
VLT Transfer to General Fund (Abandoned Vehicle) ^{5/}	4,876	5,800	6,000
Controlled Access ^{6/}	<u>129,844</u>	<u>131,135</u>	<u>137,145</u>
Net SHF (Discretionary)	\$ 724,390	\$ 731,594	\$ 765,122
Plus: Other Income ^{7/}	78,438	85,561	91,674
Less: Operating Budget	372,537	516,951	458,610
Dept of Public Safety Transfer from Highway Fund	8,167	8,167	8,167
Capital Outlay	6,900	19,416	0
Building Renewal	15,400	18,139	18,139
ServiceArizona ATP VLT Retention ^{8/}	20,514	23,066	24,418
Brick and Mortar ATP VLT Retention ^{8/}	15,033	22,072	23,364
HURF Exchange Program ^{9/}	2,702	21,191	17,000
Debt Service ^{10/}	<u>139,321</u>	<u>137,359</u>	<u>138,491</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{11/}	\$ 222,254	\$ 50,794	\$ 168,607
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	343,110	407,465	449,124
STAN Account Beginning Balance	<u>0</u>	<u>0</u>	<u>0</u>
Total SHF Available for Statewide Highway Construction	\$ 565,364	\$ 458,259	\$ 617,731

^{1/} Provides monies for economic strength highway projects recommended by the Arizona Commerce Authority and approved by the State Transportation Board.

^{2/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{3/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{4/} 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.

^{5/} 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.

^{6/} 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.

^{7/} Includes transfers from the MAG 12.6% subaccount to the SHF for debt service on HURF bonds, miscellaneous receipts, rental income, sale of capital assets, underground storage tank deposits, investment income, grants from Governor's Office of Highway Safety, retained MVD fees, oversize permits, and abandoned vehicle fees. This excludes the \$925,447,500 of TPT General Fund collections that were deposited into the State Highway Fund to fund individual transportation projects in FY 2023.

^{8/} Statutory payments to third parties from VLT collected by third parties. Non-VLT fees to ATPs are listed at the top of the chart.

^{9/} Local entities can exchange federal aid monies for State Highway Fund monies.

^{10/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{11/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Capital Outlay

Arizona Board of Regents Building Systems

FY 2024
BASELINE

BUILDING RENEWAL

Arizona Board of Regents

TOTAL - ALL PROJECTS

0

0^{1/2/}

FUND SOURCES

General Fund

TOTAL - ALL SOURCES

0

0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by ABOR on behalf of the universities.

FOOTNOTES

- 1/ A.R.S. § 15-1670 appropriates \$33,026,400 to the universities from the General Fund in FY 2024 to finance lease-purchase payments for research infrastructure projects.
- 2/ A.R.S. § 15-1671 appropriates \$29,518,300 to the universities from the General Fund in FY 2024 for capital infrastructure projects.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on a formula determined by the Joint Committee on Capital Review (JCCR). As required by A.R.S. § 41-793.01, the formula accounts for the replacement value, age, and life cycle of a building. In FY 2024, ABOR reports funding 100% of the building renewal formula would be \$219,663,700. The Baseline includes no funding for Building Renewal in the ABOR Building System.

ASU (all campuses)	\$201,221,900
NAU	40,275,600
UA (all campuses)	<u>148,295,900</u>
Total	\$389,793,400

In addition to University system revenues being allocated for FY 2024 debt service payments, \$37,783,200 would be paid by Lottery monies, \$33,026,400 would be paid by the General Fund for 2003 research infrastructure projects, and \$17,083,900 would be paid by the General Fund for 2017 Capital Infrastructure Funding projects.

Summary of University Debt

ABOR estimates that as of the end of FY 2024, the universities' outstanding principal balances for bonds and lease-purchase agreements will total \$4,197,053,600, of which \$3,899,377,200 is for outstanding bonds and \$297,676,400 is for lease-purchase projects. This debt would be held by the 3 universities as follows:

ASU (all campuses)	\$2,468,773,200
NAU	394,755,000
UA (all campuses)	<u>1,333,525,400</u>
Total	\$4,197,053,600

ABOR estimates that the universities' total debt service payments for bonds and lease-purchase agreements in FY 2024 will be \$389,793,400. The debt service payments made by each of the universities would be as follows:

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.)*

State Bonding Programs

University Lottery Bonds

One component of the \$3,899,377,200 bond balance is university lottery revenue (Stimulus Plan for Economic and Educational Development (SPEED)) bonds. Pursuant to A.R.S. § 5-522 and § 15-1682.03, ABOR is authorized to enter into bond transactions up to a maximum of \$800,000,000 to pay for building renewal projects and new facilities. Debt service payments for SPEED bonds will total \$47,229,900 in FY 2024, of which 80% will be paid by Lottery monies and 20% with university system revenues.

2017 Capital Infrastructure Appropriations

Another component of the \$3,899,377,200 bond balance is 2017 Capital Infrastructure funding. Pursuant to A.R.S. § 15-1671, universities receive annual General Fund appropriations from FY 2019 to FY 2043 for new university research facilities, building renewal, or other capital construction projects. The universities may use this funding to pay cash for projects or for debt service. In the latter case, the General Fund may only pay for 50% of debt service (with the remainder financed through other university system revenues).

The original legislation appropriated \$27,000,000 from the General Fund to the universities in FY 2019 and increases the appropriation each year thereafter by 2.0% or the rate of inflation, whichever is less. The FY 2024 Baseline assumes a 2.0% increase from FY 2023, resulting in an FY 2024 General Fund appropriation of \$29,518,300. If the universities utilized the full appropriation for debt service, this amount would support \$59,036,600 in debt service payments.

Since FY 2019, however, the universities have not fully used their debt service capacity and have used a portion of their appropriation to fund projects with cash. As a result, the appropriation does not equate to the annual debt service payments. Debt service payments are projected to total \$34,167,700 in FY 2024, of which 50% will effectively be supported by the General Fund.

For additional information on state bonding programs for universities, please see the *Lottery Bonds and Capital Infrastructure Funding Program Summary* on the JLBC website.

University Debt Ratio Policy

In authorizing ABOR to issue bonds on behalf of the universities, A.R.S. § 15-1683 limits the debt service payments each university is allowed to make based on its financial resources.

Specifically, the statute requires that the projected debt service payments on outstanding and proposed bonds and certificates of participation (COPs) not exceed 8.0% of each institution's total projected expenditures and mandatory transfers in any fiscal year. University SPEED bonds are exempt from the debt ratio calculations. The universities' Capital Improvement Plans project expected debt ratios through FY 2027. The rate and year in which each university is projected to have its highest debt ratio is listed below. The ratio is also displayed if the university lottery bonds were applied to the calculation.

- ASU: 5.3% (5.7% with SPEED) in FY 2026
- NAU: 5.1% (6.7% with SPEED) in FY 2025
- UA: 5.3% (6.4% with SPEED) in FY 2024

These ratios incorporate the debt service impact of planned construction projects. The universities estimate that they have the capacity to issue \$2,800,100,000 in additional debt beyond the planned projects based on these debt service ratios.

Capital Outlay

Debt and Lease-Purchase Financing

Long-Term Financing Summary

The state's long-term financing consists of 2 different types of transactions.

Lease-Purchase Facilities

Under a traditional lease-purchase agreement, the state issues Certificates of Participation (COPs) to generate proceeds to finance capital projects. ADOA and the Universities have entered into lease-purchase agreements for the acquisition and construction of state facilities. The School Facilities Board (SFB) also entered into lease-purchase agreements for the construction of new schools prior to FY 2012.

At the end of FY 2024, the outstanding balance of lease-purchase agreements is expected to be \$694.4 million.

Table 1 provides information related to current state lease-purchase agreements.

Bonding Summary

The Arizona Board of Regents, on behalf of the Universities and the Arizona Department of Transportation have issued bonds to renovate, acquire, and construct facilities, as well as to purchase equipment.

At the end of FY 2024, the outstanding balance of bond financing is expected to be \$4.86 billion.

Table 1 provides information related to current outstanding state bond financing.

January 31 JLBC Debt Report

A.R.S. § 41-1277 requires the JLBC Staff to present to the House and Senate Appropriations Committees a report on state debt and obligations. Due by January 31 of each year, the report includes the following information from the prior fiscal year:

- The statewide aggregate level of outstanding principal, by type of debt or obligation;
- The principal and interest payments on each of the state's long-term obligations;
- A description of the state's payment deferrals ("rollovers") by agency, including: the date the payment was originally scheduled to be made, interest paid to date on the deferral, and interest paid in the prior and current fiscal years; and

- Historical information on the state's overall debt balance and per capita debt obligations, based on available data.

To the extent possible, A.R.S. § 41-1277 requires data contained in the report to be based on the Department of Administration's (ADOA) Report of Bonded Indebtedness, which is published annually along with an online searchable database.

This report provides a current and historical summary of the state's outstanding financing obligations. In addition, it includes specific details on each of the individual financing issuances and the state's payment deferrals.

While the January 31, 2023 debt report would typically provide debt information on the prior fiscal year (FY 2022), the FY 2023 budget allocated additional funds for debt payoff, with that transaction being executed in August 2022 (beginning of FY 2023). To provide a more accurate display of the state's current outstanding debt, the January 31, 2023 report will include information from *Table 1*, which shows debt payments and year-end balances for the upcoming fiscal year (FY 2024).

Table 1

Lease-Purchase and Bonding Summary

	<u>Overall</u> <u>Balance</u>	<u>1/</u> <u>GF Balance</u>	<u>Overall</u> <u>FY 24 Payment</u>	<u>2/</u> <u>FY 24</u> <u>GF Payment</u>	<u>3/</u> <u>Retirement</u> <u>FY</u>
<u>Lease-Purchase Summary</u>					
<u>ADOA Building System</u>					
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 10,375,000	\$ 6,225,000	\$ 2,409,800	\$ 1,445,900	FY 29
2015 A Issuance					
PLTO Refinance - Capitol Mall	\$ 19,630,000	\$ 8,440,900	\$ 6,224,800	\$ 2,676,700	FY 28
<i>Subtotal - ADOA</i>	\$ 30,005,000	\$ 14,665,900	\$ 8,634,600	\$ 4,122,600	
<u>School Facilities Board</u>					
Federal Bonds	\$ 20,155,500	\$ 20,155,500	\$ 9,938,100 <u>3/</u>	\$ 9,938,100 <u>3/</u>	FY 28
<u>ABOR Building System</u>					
Arizona State University	\$ 155,296,000	\$ 93,425,000	\$ 23,420,200	\$ 13,468,200	FY 39
Northern Arizona University	28,875,000	28,875,000	5,302,900	5,302,900	FY 31
University of Arizona	113,505,400	82,385,000	33,498,500	14,255,300	FY 72
<i>Subtotal - ABOR</i>	\$ 297,676,400	\$ 204,685,000	\$ 62,221,600	\$ 33,026,400	
Phoenix Convention Center <u>4/</u>	\$ 346,610,000	\$ 346,610,000	\$ 25,498,600	\$ 25,498,600	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 694,446,900	\$ 586,116,400	\$ 106,292,900	\$ 72,585,700	
<u>Bonding Summary</u>					
Department of Transportation <u>5/</u>	\$ 960,125,000	\$ -	\$ 168,461,400	\$ -	FY 14 - 38
<u>ABOR Building System</u>					
Arizona State University	\$ 1,742,505,000	\$ -	\$ 148,100,200	\$ -	FY 55
Northern Arizona University	276,730,000	-	24,923,500	-	FY 44
University of Arizona	744,610,000	-	73,151,400	-	FY 48
University Lottery Bond (SPEED)	561,562,200 <u>6/</u>	-	47,229,000	-	FY 48
University Infrastructure (2017) <u>7/</u>	573,970,000	286,985,000	34,167,700	17,083,900	FY 44
<i>Subtotal - ABOR</i>	\$ 3,899,377,200	\$ 286,985,000	\$ 327,571,800	\$ 17,083,900	
<i>TOTAL - Bonding</i>	\$ 4,859,502,200	\$ 286,985,000.00	\$ 496,033,200	\$ 17,083,900	
TOTAL - Lease-Purchase & Bonding	\$ 5,553,949,100	\$ 873,101,400	\$ 602,326,100	\$ 89,669,600	

1/ Represents principal balances as of June 30, 2024. 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 24 GF Payment" column.

3/ This type of financing originally entitled the state to a federal interest rate subsidy of 4.86% (out of the 6% due on the bonds), shortly after each payment. Taking into account prior federal budget reductions, in FY 2024 this subsidy is expected to be \$3,729,900 of the \$9,938,100 payment.

4/ The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the city to pay this portion of the lease-purchase payment. Laws 2015, Chapter 10 made a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.

5/ Includes \$841,095,000 for Highway User Revenue Fund bonds and \$119,030,000 for Grant Anticipation Notes.

6/ Represents outstanding balance as of the end of FY 2024 from projects counted under the \$800,000,000 University Lottery bonding authority, otherwise known as SPEED. SPEED was originally authorized by Laws 2008, Chapter 287. (Please see the Capital Outlay Arizona Board of Regents Building System narrative for more information.)

7/ The universities will receive \$29,518,300 from the General Fund in FY 2024 for the 2017 Capital Infrastructure Funding program. The General Fund is expected to pay \$17,083,900 in FY 2024 for debt service.

**LEASE-PURCHASE APPROPRIATIONS 1/
Department of Administration Building System**

	Fiscal Year 2023 - Appropriations Report				Fiscal Year 2024 - Baseline				Difference FY 2024 - FY 2023			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Arizona Department of Administration Buildings												
Accountancy, State Board of		\$76,800		\$76,800		\$75,000		\$75,000	-	(\$1,800)	-	(\$1,800)
Administration, Arizona Department of	\$136,300	351,100	\$36,700	524,100	\$147,300	379,600	\$39,700	566,600	\$11,000	28,500	\$3,000	42,500
Deaf and the Hard of Hearing, Commission for the		147,300		147,300		143,800		143,800	-	(3,500)	-	(3,500)
Education, Department of	247,900	68,900	371,900	688,700	242,100	67,300	363,200	672,600	(5,800)	(1,600)	(8,700)	(16,100)
Equalization, State Board of	60,100			60,100	58,700			58,700	(1,400)	-	-	(1,400)
Gaming, Department of		256,700		256,700		250,300		250,300	-	(6,400)	-	(6,400)
Insurance & Financial Institutions, Department of	219,200	41,700		260,900	214,600	40,900		255,500	(4,600)	(800)	-	(5,400)
Juvenile Corrections, Department of	181,500			181,500	177,300			177,300	(4,200)	-	-	(4,200)
Real Estate Department, State	119,100			119,100	116,500			116,500	(2,600)	-	-	(2,600)
Tax Appeals, State Board of	23,100			23,100	22,600			22,600	(500)	-	-	(500)
Subtotal - ADOA Building	\$987,200	\$942,500	\$408,600	\$2,338,300	\$979,100	\$956,900	\$402,900	\$2,338,900	(\$8,100)	\$14,400	(\$5,700)	\$600
Department of Environmental Quality Building												
Agriculture, Department of	\$188,100		\$166,800	\$354,900	\$239,900		\$212,700	\$452,600	\$51,800	-	\$45,900	\$97,700
Citizens Clean Elections Commission			58,500	58,500			44,300	44,300	-	-	(14,200)	(14,200)
Criminal Justice Commission, Arizona		\$7,200	113,400	120,600		\$7,800	121,800	129,600	-	\$600	8,400	9,000
Environmental Quality, Department of		1,183,900		1,183,900		1,186,100		1,186,100	-	2,200	-	2,200
Forestry and Fire Management, AZ Department of	146,700		21,900	168,600	140,900		21,000	161,900	(5,800)	-	(900)	(6,700)
Housing, AZ Department of	21,500	7,200	114,900	143,600	20,700	6,900	110,200	137,800	(800)	(300)	(4,700)	(5,800)
Independent Redistricting Commission	24,900			24,900	23,900			23,900	(1,000)	-	-	(1,000)
State Land Department	548,600			548,600	525,900			525,900	(22,700)	-	-	(22,700)
Arizona State Parks Board			200,000	200,000			191,900	191,900	-	-	(8,100)	(8,100)
Pharmacy, Arizona State Board of		79,800		79,800		80,800		80,800	-	1,000	-	1,000
Residential Utility Consumer Office		72,300		72,300		69,400		69,400	-	(2,900)	-	(2,900)
Technical Registration, State Board of		131,000		131,000		119,200		119,200	-	(11,800)	-	(11,800)
Tourism, Office of	137,000			137,000	117,000			117,000	(20,000)	-	-	(20,000)
Water Resources, Department of	660,900			660,900	645,500			645,500	(\$15,400)	-	-	(15,400)
Subtotal - ADEQ Building	\$1,727,700	\$1,481,400	\$675,500	\$3,884,600	\$1,713,800	\$1,470,200	\$701,900	\$3,885,900	(\$13,900)	(\$11,200)	\$26,400	\$1,300
Health Services, Department of												
Health Services Building - Refinance	\$1,400,700	\$933,800		\$2,334,500	\$1,445,900	\$963,900		\$2,409,800	\$45,200	\$30,100	-	\$75,300
Health Lab - Refinance		2,049,900		2,049,900		-		-	-	(2,049,900)	-	(2,049,900)
Subtotal - Department of Health Services	\$1,400,700	\$2,983,700	\$0	\$4,384,400	\$1,445,900	\$963,900	\$0	\$2,409,800	\$45,200	(\$2,019,800)	\$0	(\$1,974,600)
GRAND TOTAL	\$4,115,600	\$5,407,600	\$1,084,100	\$10,607,300	\$4,138,800	\$3,391,000	\$1,104,800	\$8,634,600	\$23,200	(\$2,016,600)	\$20,700	(\$1,972,700)

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.

Capital Outlay
Local Assistance

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 BASELINE
DISTRIBUTIONS			
Phoenix Convention Center	24,498,500	24,999,400	25,498,600 ^{1/}
Rio Nuevo District	16,516,600	17,000,000	17,000,000 ^{2/}
TOTAL - ALL DISTRIBUTIONS	41,015,100	41,999,400	42,498,600 ^{3/}
FUND SOURCES			
General Fund	41,015,100	41,999,400	42,498,600
TOTAL - ALL SOURCES	41,015,100	41,999,400	42,498,600

DESCRIPTION — The State Treasurer makes distributions to the City of Phoenix to service debt on the Phoenix Convention Center and to the Rio Nuevo Multipurpose Facility District for use in authorized development projects and to service debt issued by the district.

FOOTNOTES

- 1/ Pursuant to section 9-602, Arizona Revised Statutes, \$25,498,550 of state general fund revenue is allocated in fiscal year 2023-2024 to the Arizona convention center development fund established by section 9-601, Arizona Revised Statutes. (General Appropriation Act footnote)
- 2/ Pursuant to section 42-5031, Arizona Revised Statutes, 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 \$17,000,000 in fiscal year 2023-2024. The actual amount of the distribution will be made pursuant to section 42-5031, Arizona Revised Statutes. (General Appropriation Act footnote)
- 3/ General Appropriation Act funds are appropriated as a Lump Sum by Project by Fund.

Phoenix Convention Center

The Baseline includes \$25,498,600 from the General Fund in FY 2024 for state participation in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center. Adjustments are as follows:

Distribution Increase

The Baseline includes an increase of \$499,200 from the General Fund in FY 2024 to increase the distribution to the City of Phoenix pursuant to A.R.S. § 9-602.

Background – In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs) to finance expansion of the Phoenix Convention Center. Of that amount, \$300,000,000 will be repaid by the state. The project was completed in January 2009.

There is a statutory debt service schedule for these payments. Under this schedule, the state’s annual contribution is scheduled to gradually increase to \$29,998,925 by FY 2044.

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Fiscal Year</u>	<u>Debt Service</u>
FY 2024	25,498,550	FY 2035	29,995,775
FY 2025	25,998,700	FY 2036	29,999,975
FY 2026	26,497,375	FY 2037	29,995,825
FY 2027	26,997,100	FY 2038	29,995,850
FY 2028	27,495,125	FY 2039	29,996,750
FY 2029	27,998,700	FY 2040	29,995,225
FY 2030	28,499,525	FY 2041	29,997,975
FY 2031	28,999,575	FY 2042	29,996,150
FY 2032	29,495,550	FY 2043	29,996,175
FY 2033	29,999,150	FY 2044	29,998,925
FY 2034	29,996,250		

Statute requires the Auditor General to estimate annually how the amounts of General Fund revenues resulting from the Convention Center expansion compare to debt service payments made by the state since the project’s calendar year (CY) 2009 completion. If the cumulative estimated revenues from the project fail to meet the state’s cumulative debt service, the state is to reduce its payments to the City of Phoenix by the shortfall amount.

The latest study found that estimated General Fund revenues exceeded the state's debt service payments by \$12,829,500 through CY 2021 (see Table 2). As a result, the state has not reduced payments to the City of Phoenix during this time.

Table 2
Project Revenue and Debt Service Payments
(\$ in Millions)

Calendar Year ^{1/}	Project Revenue	Debt Service	Annual Net Revenues ^{2/}	Cumulative Net Revenues
2021	\$6.6	\$24.5	(17.9)	\$12.8
2020	7.2	24.0	(16.8)	30.7
2019	23.6	23.5	0.1	47.5
2018	23.5	23.0	0.5	47.4
2017	19.0	22.5	(3.5)	46.9
2016	20.6	20.4	0.2	50.4
2015	20.5	20.4	0.1	50.2
2014	15.0	20.4	(5.4)	50.1
2013	9.1	20.4	(11.3)	55.5
2012	13.6	5.6	8.0	66.8
2011	15.4	0.0	15.4	58.8
2010	14.7	10.0	4.7	43.4
2009	17.3	5.0	12.3	38.7
2004-2008	26.4	0.0	26.4	26.4

^{1/} Statute requires the Auditor General study to include estimates by calendar year but specifies the state's debt service obligation by fiscal year. Debt service payments for fiscal years are listed in the calendar year they were made.
^{2/} Represents gross revenue less debt service for each fiscal year.

Source: Auditor General report, *An Economic and Fiscal Impact Analysis Update, Phoenix Convention Center (2021)*

The study compares current convention center revenues to a "base scenario" (had the facility not been upgraded) in order to determine the project's net revenues. This "base scenario" assumed the facility would become functionally obsolete and generate minimal revenues by 2021.

Rio Nuevo District

The Baseline includes \$17,000,000 from the General Fund in FY 2024 for distributions to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facilities District. This amount is unchanged from FY 2023.

The FY 2023 General Appropriation Act displays a \$16,000,000 estimated distribution in FY 2023. This amount was based on assuming the Rio Nuevo distribution would generally return to pre-pandemic levels (the FY 2019 distribution was \$15,958,900). While the General Appropriation Act displays a projected amount for information purposes, the actual amount distributed to the district will reflect allocations required by A.R.S. § 42-5031.

Subsequent to the passage of the FY 2023 General Appropriation Act, actual FY 2022 information became available, and the FY 2022 actual distribution was \$16,516,600. Given the recent growth trends of overall Sales Tax growth, the FY 2023 estimate has been revised to \$17,000,000 and that same amount has been continued into FY 2024 in the Baseline.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District. The district receives a diversion of state Transaction Privilege Tax (TPT) revenue to finance the development of a multipurpose facility and supporting projects. The district stretches east from Downtown Tucson along the retail-intensive Broadway Boulevard. (See Table 3 for the history of Rio Nuevo TPT payments).

Table 3
State TPT Payments to the Rio Nuevo District

Fiscal Year	Distributions
FY 2022	\$16,516,600
FY 2021	9,525,700
FY 2020	14,478,800
FY 2019	15,958,900
FY 2018	13,562,700
FY 2017	13,988,500
FY 2016	13,088,800
FY 2015	6,958,000
FY 2014	9,486,100
FY 2013	9,755,800
FY 2012	11,957,900
FY 2011	14,099,900
FY 2010	8,727,300
FY 2009	10,399,300
FY 2008	15,456,200
FY 2007	14,974,900
FY 2006	10,968,200
FY 2005	7,469,600
FY 2004	5,081,200
Total	\$222,454,400

A.R.S. § 48-4203 requires that any construction project (or other improvement to real property) controlled by the District with a cost of more than \$500,000 be presented to the Joint Committee on Capital Review (JCCR).

At the April 2019 JCCR meeting, the Committee gave a favorable review of 3 projects that were approved by the Rio Nuevo Board of Directors and have executed development agreements in place. The board agreed to spend up to a total of \$12,400,000 on these projects.

The Rio Nuevo Board of Directors submitted information to JCCR in October 2022 regarding 4 projects that have been approved by the District. The board agreed to spend a total of \$6,800,000 on these projects. The Committee took no action on this report.

Other Issues

Auditor General Report

In November 2022, the Auditor General published a performance and financial audit for the Rio Nuevo Multipurpose Facilities District. As required by A.R.S. § 48-4231.01, the Auditor General is to contract with an independent auditor every 3 years to review the district's revenues, spending and capital projects.

The audit recommended the following items to improve the district's compliance with statutory requirements:

- Submit the required annual report relating to revenue, spending and activities (due October 1).
- Submit the required capital reporting to JCCR (for projects over \$500,000).
- Comply with the total required Board membership (current Board has only 7 of 9 authorized members).

In addition, the audit recommended the following actions to improve long-term operations and planning:

- Hire accounting/finance staff to maintain required reporting while also serving the district's increasing project portfolio.
- Implement a multi-year budget planning process (minimum 3 years, up to 5 years).
- Develop a capital planning process to evaluate results of prior projects and improve process for approving proposed projects (requiring data on revenues, attendance and improvement to property values).
- Implement a detailed district master plan, including for the Tucson Convention Center complex.

Under A.R.S. § 48-4231.01, within 45 days after the audit is released, the Rio Nuevo Board of Directors is required to hold a public hearing on the audit's recommendations and adopt a public response to each recommendation in the audit.