

Department of Environmental Quality

A.R.S. § 49-101

Director: Jacqueline Schafer

JLBC Analyst: Tom Mikesell

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
OPERATING BUDGET				
Full Time Equivalent Positions	552.4	560.8	557.8 ^{1/}	557.8 ^{1/}
Personal Services	10,759,200	11,929,100	12,661,700	13,303,100
Employee Related Expenditures	2,086,900	2,534,200	2,852,000	2,768,100
Professional and Outside Services	635,500	105,400	203,700	143,700
Travel - In State	154,800	225,400	234,200	234,200
Travel - Out of State	23,100	44,200	48,700	48,700
Other Operating Expenditures	5,168,600	6,854,300	6,864,400	7,091,300
Equipment	1,506,700	155,400	166,400	226,700
<i>Operating Subtotal</i>	20,334,800	21,848,000	23,031,100	23,815,800
Waste Programs				
WQARF Priority Site Remediation	14,333,900	14,372,700	14,372,700 ^{2/3/4}	14,372,700 ^{2/3/4}
Underground Storage Tank Program	1,053,400	1,572,000	22,000	22,000
Hazardous Waste Program	425,500	475,800	560,500 ^{5/}	558,600 ^{5/}
Solid Waste Program	941,600	3,289,800	3,338,300	3,380,500
Waste Tire Program	117,400	192,800	198,400	203,500
Water Programs				
Aquifer Protection Permit Program	720,900	756,000	790,100	815,300
Water Quality Program	984,700	3,330,000	3,556,100	3,605,300
Water Infrastructure Finance Authority	2,995,100	2,995,100	2,995,100 ^{6/}	2,995,100 ^{6/}
Air Programs				
Air Permits Administration Program	4,185,400	4,963,900	5,145,800	5,275,800
Air Quality Program	3,655,000	4,258,300	4,078,200	4,203,300
Pima County Air Quality Programs	0	0	230,000 ^{7/}	165,000 ^{7/}
Emissions Control Program-Administration	2,228,800	3,863,700 ^{8/}	3,879,500	3,955,400
Emissions Control-General Fund Subsidy	1,500,000	0	0	0
Emissions Control-Clean Air Fund Subsidy	1,079,700	3,600,000	3,600,000	0
Emissions Control Contractor Payment	0	0	15,869,800	31,739,600
Voluntary Repair and Retrofit Grants	0	2,400,000	0	0
SUBTOTAL	54,556,200	67,918,100	81,667,600	95,107,900
Additional Appropriations -				
Appropriation; Underground Storage Tank Program (Ch. 272)	0	0	0	500,000 ^{9/}
Underground Storage Tank Funding; Commission (Ch. 293)	0	0	100,000 ^{10/}	0
Brown Cloud Study; Air Quality (Ch. 371)	0	0	1,325,000 ^{11/}	3,650,000 ^{11/}
TOTAL APPROPRIATIONS	54,556,200	67,918,100	83,092,600	99,257,900
FUND SOURCES				
General Fund	32,958,300	31,518,100	31,439,600	32,572,200
Other Appropriated Funds				
Indirect Cost Fund	8,737,100	10,130,500	9,876,200	10,053,500
Permits Administration Fund	4,185,400	4,963,900	5,145,800	5,275,800
Air Quality Fund	2,897,700	4,258,300	5,633,200	8,018,300
Clean Air Fund	0	2,500,000	0	0

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
Emissions Inspection Fund	3,308,500	7,363,700	23,349,300	35,695,000
Hazardous Waste Management Fund	425,500	475,800	560,500	558,600
Recycling Fund	0	2,033,600	2,046,700	2,060,700
Solid Waste Fee Fund	950,700	1,195,400	1,235,200	1,266,900
Underground Storage Tank Fund	0	22,000	122,000	22,000
Used Oil Fund	108,300	126,800	128,000	129,600
Water Quality Fee Fund	984,700	3,330,000	3,556,100	3,605,300
<i>Subtotal - Other Appropriated Funds</i>	<u>21,597,900</u>	<u>36,400,000</u>	<u>51,653,000</u>	<u>66,685,700</u>
TOTAL APPROPRIATIONS	54,556,200	67,918,100	83,092,600 ^{12/13/ 14/15/}	99,257,900 ^{12/13/ 14/15/}

AGENCY DESCRIPTION — *The Department of Environmental Quality's (ADEQ) purpose is to protect human health and the environment by enforcing standards of quality for Arizona's air, water, and land. The department's Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the clean up (remediation) of hazardous waste sites. The Office of Water Quality regulates drinking water and waste water systems, monitors and assesses waters of the state, and provides hydrologic analysis to support hazardous site remediation.*

- 1/ Includes 221.2 FTE Positions funded from Special Line Items in FY 2002 and FY 2003.
- 2/ A.R.S. § 49-282 requires an annual \$15,000,000 transfer from the Corporate Income Tax to the Water Quality Assurance Revolving Fund. Although the transfer is not included in the annual General Appropriation Act, it is shown here as a General Fund expenditure. The amount shown represents the \$15,000,000 adjusted for other fund revenue as directed in A.R.S. § 49-282.
- 3/ The Department of Environmental Quality shall report quarterly to the Legislature in writing 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 report to the members of the Joint Legislative Budget Committee and to the Director of the Joint Legislative Budget Committee Staff. (General Appropriation Act footnote)
- 4/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a budget for the Water Quality Assurance Revolving Fund before September 1, 2002, for review by the House and Senate Appropriations Committees. (General Appropriation Act footnote)
- 5/ This amount does not include a triggered appropriation made by Laws 2001, Chapter 235. Triggered appropriations in FY 2002 and FY 2003 depend on the availability of excess revenues. (For more information, refer to the "Hazardous Waste Program" description and the "Summary of Appropriations Triggered by Revenues" table at the front of this report.)
- 6/ The amounts appropriated for the Water Infrastructure Finance Authority in FY 2002 and FY 2003 shall be used to provide a 20% match of the FY 2002 and FY 2003 federal Safe Drinking Water and Clean Water Revolving Fund allocations to Arizona. Of the amount appropriated, any amount in excess of the required 20% match reverts to the state General Fund. (General Appropriation Act footnote)
- 7/ The monies appropriated in the Pima County Air Quality Programs Special Line Item are for use by Pima County to avoid being declared in non-attainment of particulate matter standards by establishing public notification and outreach programs, minimizing exposure to particulate matter concentrations, and to abatement and minimization of controllable sources of particulate matter through Best Available Control Measures. Of the monies in the Pima County Air Quality Programs Special Line Item in FY 2002 and FY 2003, \$50,000 shall be used for carbon monoxide monitoring as required by the Pima County Limited Maintenance Plan with the Federal Environmental Protection Agency. (General Appropriation Act footnote)
- 8/ Laws 2000, Chapter 1, 7th Special Session appropriated \$100,000 for compiling and maintaining an alternative fuels vehicles emissions testing database.
- 9/ Pursuant to Laws 2001, Chapter 293, this appropriation is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations.
- 10/ Pursuant to Laws 2001, Chapter 272, this appropriation is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations through June 30, 2004.
- 11/ Pursuant to Laws 2001, Chapter 371, \$250,000 is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations.
- 12/ Up to \$1,250,000 of the state General Fund appropriation may be used temporarily to maintain existing environmental programs for which an application for Federal Funds has been submitted. (General Appropriation Act footnote)
- 13/ When expenditures from the Hazardous Waste or Environmental Health Reserves are authorized, the Director of the Department of Environmental Quality shall report the nature of the emergency and the authorized expenditure amount to the President of the Senate, the Speaker of the House of Representatives, the Chairmen of the Senate and House Appropriations Committees and the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 14/ Included in the Modified Lump Sum appropriation is \$472,400 in FY 2002 and \$432,500 in FY 2003 for the National Pollution Discharge Elimination System. If state primacy for the National Pollution Discharge Elimination System is not granted through legislation in the 1st Regular Session of the 45th Legislature, these amounts shall revert to the state General Fund in the year they are appropriated. (General Appropriation Act footnote) Subsequent to the budget, Laws 2001, Chapter 357 was enacted with provisions that give the Department of Environmental Quality the authority to operate the National Pollution Discharge Elimination System program. (See *Additional Legislation for more information.*)
- 15/ General Appropriation Act funds are appropriated as a Modified Lump Sum by Agency with Special Line Items.

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• % of contaminated sites closed requiring no further action (cumulative) versus known sites	NA/58.7	64.4/64	70.5	74.3/78.0
• Number of remaining Aquifer Protection Permit actions in the inventory	NA/493	400/340	260	208/126
• Vehicles that have failed inspection and later brought into compliance (in thousands)	NA/170.6	190.0/148.6	190.0	180.0
• % of statutorily set permit timelines met through Licensing Time Frames rule	NA	NA/99	99	99
• Number of days per year exceeding National Ambient Air Quality Standards for Ozone, Carbon Monoxide, or Particulates	NA/0	0/0	0	0
• % of agency staff turnover	NA/11.4	NA/16.1	14.0	13.0
• Administration as a % of total cost *	NA	35.0/NA	36.6	12.6
• Customer satisfaction rating for citizens (Scale 1-8)	NA	NA	NA	6.0

* The FY 2002 and FY 2003 estimates of administrative cost include approximately \$33,000,000 in Vehicle Emissions Inspection contractor fees as part of total agency costs in each year.

National Pollution Discharge Elimination System — The approved amount includes a FY 2002 General Fund increase of \$472,400 and 9 FTE Positions above FY 2001 and a FY 2003 General Fund increase of \$432,500 and 9 FTE Positions above FY 2001 for state primacy over the National Pollution Discharge Elimination System (NPDES). The NPDES is the federal permit program that oversees discharge of pollutants into surface waters of the state. In the past, permitting and enforcement have been handled by the Federal Environmental Protection Agency (EPA). The approved positions and funding amounts will provide the department with the necessary resources to demonstrate the ability to operate the NPDES permitting program to the EPA. A General Appropriation Act footnote made these appropriations contingent on the passage of legislation giving ADEQ statutory authority to operate the NPDES program. Laws 2001, Chapter 357 gave ADEQ the appropriate statutory authority, and requires ADEQ to enter into a Memorandum of Understanding with the federal government which instills ADEQ with the primary authority over the NPDES program. (See *Additional Legislation section for more information*)

IT Security and Standards — The approved amount includes a FY 2002 General Fund increase of \$158,500 above FY 2001 and a FY 2003 total funds increase of \$468,400 above FY 2001 to increase the internal and external security of the department's information systems and to upgrade the department's desktop office software. In FY 2002, the approved amount is funded entirely from the General Fund. In FY 2003, the amount includes \$390,900 from the General Fund and \$77,500 from other appropriated funds. *Table 1* shows the funding distribution in FY 2003.

Table 1
FY 2003 IT Security and Standards Funding

General Fund	\$390,900
Indirect Cost Fund	27,900
Permits Administration Fund	15,900
Air Quality Fund	6,900
Emissions Inspection Fund	10,800
Hazardous Waste Management Fund	2,300
Recycling Fund	2,300
Solid Waste Fee Fund	4,400
Water Quality Fee Fund	7,000
Total	\$468,400

The FY 2002 amount funds system design costs, routing equipment for remote site connectivity, information system monitoring software, and training for staff. The FY 2003 amount provides for staff training, a 2-terabyte storage unit, and ongoing licensing costs for software upgrades.

Equipment Replacement — The approved amount includes a FY 2002 other funds decrease of \$(56,600) below FY 2001 and a FY 2003 other funds decrease of \$(55,100) below FY 2001 for lower costs associated with equipment replacement. The funds and amounts in each year are shown in *Table 2* below.

	FY 2002	FY 2003
Indirect Cost Fund	\$(56,600)	\$(53,700)
Air Quality Fund	0	(1,400)
Total	\$(56,600)	\$(55,100)

The approved amount also includes a \$(31,000) General Fund decrease in both FY 2002 and FY 2003 below FY 2001 for lower computer replacement costs. Beginning in FY 2001, the department chose to enter into a 3-year computer replacement lease through FY 2003. The lease arrangement requires \$(31,000) less from the General

Fund than was provided in the FY 2001 amount for computer replacement.

Waste Programs

WQARF Priority Site Remediation — The Water Quality Assurance Revolving Fund (WQARF) program is similar to the Federal Superfund program in that it is designed to monitor, contain, 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.

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. 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.

Although the CIT transfer is not included in the General Appropriation Act, the estimated amount of the adjusted transfer is shown as a General Fund expenditure. In FY 2000, WQARF fee revenue totaled \$3,666,100, resulting in a \$14,333,900 CIT transfer. ADEQ estimates receiving \$3,627,300 from WQARF fees in FY 2002 and FY 2003. As a result, the FY 2002 and FY 2003 adjusted CIT transfers are estimated to be \$14,372,700 in each year.

Expenditures from WQARF are not subject to legislative appropriation. A.R.S. § 49-282, however, requires ADEQ to submit a budget for the WQARF program by September 1, 2001. The statute further requires the House and Senate Appropriations Committees to review these budget requests. A General Appropriation Act footnote was added this year clarifying that this next submission is due on September 1, 2002. The Appropriations Committees would then review the request during the 2003 Legislative Session.

Underground Storage Tank Program — The Underground Storage Tank (UST) Program is designed to detect and clean up hazardous leakage from USTs. The program's regulatory component is funded from annual tank registration fees. The clean-up component is funded from a 1¢ per gallon excise tax on gasoline and diesel fuel. The excise tax is deposited into the UST Fund's State Assurance Fund (SAF). Monies in the SAF are used to partially reimburse tank owners for corrective actions due to leaking tanks and to reimburse ADEQ for actions taken by the agency. The majority of fund revenues are not appropriated by the Legislature, however the approved amount includes \$22,000 from the SAF in both FY 2002 and FY 2003 to pay the operating costs of the Underground Storage Tank Technical Appeals Panel and the Underground Storage Tank Policy Commission. Also,

Laws 2001, Chapter 293 appropriates \$100,000 from the SAF in FY 2002 to pay for an actuarial study to analyze the financial health of the SAF. (*See Additional Appropriations section for more detail.*)

In recent years the Legislature provided General Fund appropriations to the UST Fund in legislation separate from the General Appropriation Act. These appropriations are intended to repay the fund for monies transferred to other funds in the early 1990's. This was done again this year, as Laws 2001, Chapter 272 appropriated \$500,000 from the General Fund to the UST Fund in FY 2003. (*See Additional Appropriations section for additional detail.*)

An additional component of the UST Program is the UST Grant account. This account received 10% of the annual revenues to the SAF until August 1994, at which time fund revenue from the excise tax reached a statutory cap of \$5,600,000. Since that time, the only revenue to the fund has been interest on the fund balance. In the past, the UST Grant account provided grants up to \$100,000 to owners of USTs for the purpose of meeting tank performance standards, removing tanks for closure or replacement, or paying the portion of corrective action costs that are less than the deductible amount under the SAF. Laws 2001, Chapter 341 transfers all unobligated balances from the UST Grant account to the newly created Municipal Tank Closure and Corrective Action Program Account on December 31, 2001. Monies in the new account will be used by ADEQ to perform permanent closures of USTs in cities and towns with fewer than 15,000 people. (*See Additional Legislation section for more detail.*)

Hazardous Waste Program — This program regulates and inspects hazardous waste treatment, storage and disposal facilities. It educates hazardous waste handlers on how to comply with federal and state standards. It also oversees cleanup of hazardous waste sites. The approved appropriation is funded from the Hazardous Waste Fund. The approved amount includes \$63,300 in FY 2002 above FY 2001 and \$43,300 in FY 2003 above FY 2001 for 1 Hazardous Waste Inspector FTE Position to help address hazardous waste transportation issues at the Arizona-Mexico border. In addition, Laws 2001, Chapter 235 appropriates an additional amount from the General Fund for 2 additional FTE Positions to address these issues. These General Fund appropriations are contingent on the availability of excess revenues in FY 2001 and FY 2002. (*See Triggered Appropriations for more detail on the conditions of these appropriations.*)

Solid Waste Program — This program is responsible for issuing permits to landfills and other solid waste facilities, conducting facility inspections, initiating remediation actions related to compliance issues, and recycling grants and public information. The program is funded from the Solid Waste Fee Fund, the Used Oil Fund, the Recycling Fund, and the General Fund as shown in *Table 3*.

Table 3

Solid Waste Program		
	<u>FY 2002</u>	<u>FY 2003</u>
Solid Waste Fee Fund	\$1,036,800	\$1,063,400
Recycling Fund	2,046,700	2,060,700
Used Oil Fund	128,000	129,600
General Fund	<u>126,800</u>	<u>126,800</u>
Total	\$3,338,300	\$3,380,500

Waste Tire Program — This program oversees county programs that dispose of and/or recycle waste tires. The program is funded from the Solid Waste Fee Fund.

Water Programs

Aquifer Protection Permit Program — This program issues aquifer protection permits to facilities whose activities, including waste discharges, pose a threat to groundwater. The program also reviews facility plans for waste discharge. This program is funded from the General Fund.

Water Quality Program — This program ensures water quality by monitoring and regulating drinking and wastewater sources. The program is funded from the Water Quality Fee Fund. The approved amount includes a FY 2002 increase of \$139,200 above FY 2001 and a FY 2003 increase of \$133,200 above FY 2001 for additional travel and operating expenditures. In past years, statutory restrictions on the fees charged for issuing Aquifer Protection permits have limited the amount of revenue generated for the program by imposing a \$16,000 cap on the total fees charged per permit. For some complex permits, the cost of issuing the permit exceeded this statutory cap, thereby generating an imbalance between program revenues and costs.

Laws 2000, Chapter 399 raised the maximum fee cap to \$75,000. The approved amount allows the program to expend the additional revenues on permitting activities.

Water Infrastructure Finance Authority (WIFA) — WIFA administers the Clean Water Revolving and the Safe Drinking Water Revolving Funds, which are used to make loans to wastewater treatment and drinking water facilities in need of infrastructure improvements. Under the Federal Clean Water Act, Arizona receives a Federal Fund allocation to be used for loans each year. The act requires that states match the federal allocation at 20%. In FY 2002 and FY 2003, the approved amount provides state match for \$14,975,400 in Federal Funds. The approved appropriation is funded from the General Fund. A General Appropriation Act footnote requires that any amount of the WIFA appropriation in excess of 20% of the actual federal allocation revert to the General Fund.

Air Programs

Air Permits Administration Program — This program regulates and inspects stationary air pollution sources, including enforcement actions necessary to comply with federal clean air regulations. The Air Permits Administration Fund, which derives its revenues from permits and fees, support program activities.

Air Quality Program — Expenditures are for air quality research and programs to bring non-attainment areas into attainment with federal clean air standards. Revenues to the fund are from the \$1.50 air quality fee collected at the time of vehicle registration. The approved amount reflects a decrease of \$(230,000) in FY 2002 below FY 2001 and a decrease of \$(165,000) in FY 2003 below FY 2001 to reflect a funding shift to the newly created Pima County Air Quality Programs Special Line Item.

Pima County Air Quality Programs — Monies in this line item are for use by Pima County to establish air quality public notification and outreach programs, to minimize exposure to particulate matter concentrations, and for abatement and minimization of controllable sources of particulate matter through best available control measures. This line item was newly created in the 2001 Legislative Session, and the approved amounts reflect a shift of \$230,000 in FY 2002 and \$165,000 in FY 2003 from the existing Air Quality Programs Special Line Item to this new line item. A General Appropriation Act footnote provides that in both FY 2002 and FY 2003, \$50,000 of the approved amount is to be used for carbon monoxide monitoring as required by the Pima County limited maintenance plan with the federal government.

Emissions Control Program — The Emissions Control Program is operated by an independent contractor in Maricopa and Pima Counties, with the purpose of identifying and repairing polluting motor vehicles. Vehicle owners in Maricopa County are subject to either an Inspection and Maintenance (IM-147) or On-Board Diagnostic inspection if the vehicle was manufactured in 1981 or after, or a loaded idle inspection if the vehicle was manufactured prior to 1981. Pima County vehicle owners are subject only to the idle inspection. The program is funded through test fees that are charged to motorists at the time of inspection.

The current emissions inspection contract is set to expire at the end of Calendar Year (CY) 2001. On December 15, 2000, ADEQ awarded a new contract to operate the Vehicle Emissions Inspection Program to Gordon-Darby Arizona Testing, Incorporated. The contract will begin on January 2, 2002 and will extend for 7 years. The contract specifies the fees to be charged by type of test in each area over the entire 7-year period. Under the old contract, the contractor would collect the fee from the motorist and remit a portion to ADEQ for administration expenses. The

remainder would be retained by the contractor to pay for its operational costs.

Under the new contract, the contractor collects the test fee and remits the entire portion for deposit in the Vehicle Emission Inspection (VEI) Fund. Monies are then appropriated from the VEI Fund to either pay for ADEQ's program administration costs or to pay the independent contractor's operational expenses. The approved amount from the VEI Fund provides for these administration and operational expenses through separate line items. (See *Emissions Control Program Administration and Emissions Control Contractor Payment discussions below for more detail.*) Also, the current contractual test fees are subsidized by the Arizona Clean Air Fund through December 31, 2001. The new contract test fees are not subsidized. (See *Emissions Control Clean Air Fund Subsidy discussion below for more detail.*)

The contractor's portion of the test fee, the ADEQ administrative fee and the total fee per test for Calendar Years 2001 through 2009 are displayed in *Table 4*. The Maricopa IM-147 test fee was originally contracted to be \$26.67 from CY 2002 through CY 2009. However, a provision in the new contract allowed for a \$0.32 reduction in this fee in the event that the Legislature eliminated the statutory provision requiring emissions testing of constant 4-wheel drive vehicles. Laws 2001, Chapter 371 eliminated this statutory provision, therefore the contracted Maricopa IM-147 fee of \$26.35 in *Table 4* reflects the fee after the automatic reduction allowed in the contract. (See *Additional Appropriations section for more information.*)

	Emission Control Program	
	FY 2002	FY 2003
Program Admin.	\$ 3,879,500	\$ 3,955,400
Contractor Payment	15,869,800	31,739,600
In-Lieu Subsidy	<u>3,600,000</u>	<u>0</u>
Total	\$23,349,300	\$35,695,000

Emissions Control Program Administration — This line item includes activities such as providing program information and assistance to the public, reviewing the eligibility of those seeking vehicle repair grants or test waivers, and overseeing the inspection contract. This line item is funded from the VEI Fund. These activities are funded from the Administrative portion of the inspection fee paid by motorists. (See *Table 4 above.*) In addition, the Arizona Clean Air Fund will provide \$3,600,000 to subsidize this cost for the first half of FY 2002.

The approved amount includes a \$(100,000) Clean Air Fund decrease in both FY 2002 and FY 2003 below FY 2001. Laws 2000, 7th Special Session, Chapter 1 appropriated \$100,000 from the Clean Air Fund in FY 2001 to ADEQ for the costs of compiling and maintaining emissions testing data for alternative fuels vehicles. This was a one-time expense, therefore it is not included in the FY 2002 and FY 2003 approved amounts.

Emissions Control Contractor Payment — Monies appropriated to this line item are to pay the Emissions Control Program contractor. This line item is funded from contractor inspection fees deposited in the VEI Fund. Under the current contract, the contractor retains the portion of emission inspection fees necessary to cover its operational costs and remits the remainder to ADEQ for its administrative costs. Under the new contract, the contractor will remit the entire amount of the fee to ADEQ for deposit in the VEI Fund. ADEQ will then determine the amount due to the contractor based on the number of vehicles inspected and make payments to the contractor on a regular basis. The approved amount includes an initial appropriation of \$15,869,800 above FY 2001 and a FY 2003 increase of \$31,739,600 above FY 2001 to make the payments to the contractor based on estimated test volumes. Since the new contract begins halfway through FY 2002, the approved amount includes only a half-year of contractor payments. The FY 2003 reflects the first full year of contractor payments.

Emissions Control Clean Air Fund Subsidy — Monies in this line item are used to buy down the emissions test fees in CY 2001. The current contractual fee is \$31.50 for the Maricopa test and \$10.00 for the Pima test. The subsidy buys down the actual test fee in CY 2001 to \$25 in Maricopa County and \$9 in Pima County. (See *Table 4 above.*)

	CY 2001		
	Maricopa		Pima
	IM-147	Standard	Standard
Contract Fee	\$28.50	\$14.25	\$ 9.25
Administrative Fee	3.00	1.50	0.75
Clean Air Fund			
Subsidy	<u>(6.50)</u>	<u>0.00</u>	<u>(1.00)</u>
Motorist Fee	\$25.00	\$15.75	\$9.00
	CY 2002 - 2009		
	Maricopa		Pima
	IM-147	Standard	Standard
Contract Fee	\$26.35	\$17.32	\$11.56
Administrative Fee	3.00	1.50	0.75
Clean Air Fund			
Subsidy	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Motorist Fee	\$29.35	\$18.82	\$12.31

Table 5 displays the components of the Emission Control Program appropriations from the Emissions Inspection Fund in FY 2002 and FY 2003.

The buy down is funded with revenues received from owners of vehicle 5 years old or newer that do not receive an emissions test yet are required to pay a fee in-lieu of the test fee. These revenues are normally deposited in the Arizona Clean Air Fund. Laws 2000, Chapter 405 set in-lieu fees at \$25 in Maricopa County and \$9 in Pima County and diverts a portion of the fees to the VEI Fund in CY 2001 to accomplish the buydown. These fees are estimated to total \$3,600,000 in FY 2002 and will cover the last 6 months of CY 2001. The subsidies are not continued in FY 2003, therefore the approved FY2003 amount reflects a \$(3,600,000) reduction in expenditure authority from the VEI Fund.

Voluntary Vehicle Repair and Retrofit Grants — Monies in this line item are appropriated to the Voluntary Vehicle Repair and Retrofit Fund to provide repair and retrofit matching grants to qualifying motorists whose vehicles fail emissions inspections. This line item is funded from the Arizona Clean Air Fund. Laws 2000, Chapter 405 appropriated \$2,400,000 from the Clean Air Fund to the Voluntary Vehicle Repair and Retrofit (VRR) Fund in FY 2001. This was a one-time appropriation for grants, and it is not continued in FY 2002 and FY 2003.

Additional Appropriations: Appropriation: Underground Storage Tank Program (Chapter 272) ? This bill appropriates \$500,000 from the state General Fund in FY 2003 to the Maricopa County portion of the Underground Storage Tank Assurance Account, to be used for paying claims for partial coverage of UST cleanup costs. The appropriation is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations through June 30, 2004. (*See Underground Storage Tank Program Section above for additional program information.*)

Underground Storage Tank Funding: Commission (Chapter 293) ? This bill appropriates \$100,000 from the Underground Storage Tank Assurance Account in FY 2002 to ADEQ to contract for an actuarial study to analyze the financial health of the account. The actuarial study is to be completed by October 1, 2001. The results are to be analyzed by ADEQ and the Underground Storage Tank Policy Commission in order for both parties to make recommendations to the Legislature by December 1, 2001 on the future financial management of the Assurance Account. This appropriation is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (*See Underground Storage Tank Program Section above for additional program information.*)

Brown Cloud Study: Air Quality (Chapter 371) ? This bill makes several appropriations and statutory changes for air quality improvement purposes. The bill also makes changes to the uses of monies in the Arizona Clean Air Fund (ACAF), which is a Department of Commerce fund. (*See Department of Commerce discussion for additional*

detail.) The bill include the following items affecting ADEQ programs:

Air Quality Program:

- Expands the geographical boundaries of Area A. The bill also transfers \$125,000 from the ACAF to the Air Quality Fund (AQF) in FY 2002 and appropriates an equivalent amount from the AQF in FY 2002 to assist local governments in complying with the expansion of Area A.
- Requires a Committee of Reference review of state air quality programs by December 14, 2001.
- Eliminates the annual transfer of \$250,000 from the AQF to the ACAF.
- Appropriates \$250,000 from the AQF in both FY 2002 and FY 2003 for Air Quality Program purposes. These appropriations are exempt from the provisions of A.R.S. § 35-190 relating to the lapsing of appropriations.
- Requires ADEQ to develop a visibility index by December 31, 2003. The bill also transfers \$450,000 from the ACAF to the AQF in FY 2002 and \$300,000 from the ACAF to the AQF in FY 2003. These transferred monies are appropriated from the AQF to ADEQ in the year they are transferred for the purpose of developing the visibility index.
- Transfers \$300,000 from the ACAF to the AQF in both FY 2002 and FY 2003. These monies are appropriated from the AQF to ADEQ in the year they are transferred for the purpose of assisting and supporting the development of an emissions cap trading program.

Emissions Control Program:

- Establishes a Random Roadside Diesel Testing program beginning July 1, 2003.
- Establishes a Random Roadside Diesel Testing Pilot Program and Diesel Vehicle Emissions Testing Study Committee through February 1, 2003. The bill transfers \$200,000 from the ACAF to the AQF in FY 2002 and \$200,000 from the ACAF to the AQF in FY 2003, and in turn appropriates equivalent amounts from the AQF in the year the transfers are received for the purposes of the pilot program.
- Transfers \$400,000 from the ACAF to the Voluntary Vehicle Repair and Retrofit (VRR) Fund in FY 2002. VRR is a non-appropriated fund that provides repair and retrofit grants to motorists whose vehicles fail emissions tests. Also, transfers \$2,600,000 from ACAF to AQF in FY 2003. This amount is then appropriated from the AQF to VRR to provide monies for repair and retrofit grants. The bill also provides that up to 25% of the VRR Fund may be used to provide grants to diesel vehicles that fail emissions tests
- Eliminates the vehicle emissions testing in-lieu fee for motorists having vehicles that are 5 years old or newer, beginning in FY 2004.

In total, this bill appropriates \$1,325,000 from the AQF in FY 2002 and \$3,650,000 from the AQF in FY 2003 as shown in *Table 6*.

	<u>FY 2002</u>	<u>FY 2003</u>
Air Quality Program		
Expand Area A	\$ 125,000	\$ 0
Air Quality Program	250,000	250,000
Visibility Index	450,000	300,000
Emissions Cap Trading	300,000	300,000
Emissions Control Program		
Random Roadside Diesel Testing Pilot Program	200,000	200,000
Voluntary Vehicle Repair And Retrofit Grants	0	2,600,000
Total	\$1,325,000	\$3,650,000

Triggered Appropriations: Conditional Appropriations; Taxation; Revenue Forecasts (Chapter 235) — This act appropriates \$129,100 in FY 2002 and \$87,800 from the General Fund to address solid and hazardous waste issues at the Arizona-Mexico border if FY 2001 General Fund revenues exceed the forecast by \$79,708,400. Prior to September 1, 2001, JLBC and OSPB will calculate total FY 2001 revenues and determine if sufficient monies are available to trigger the appropriations. If FY 2001 revenues do not exceed the forecast by the required amount, but FY 2002 General Fund revenues exceed the forecast by \$73,512,300, the act appropriates \$129,100 from the General Fund in FY 2003 to address solid and hazardous waste issues at the Arizona-Mexico border. Prior to September 1, 2002, JLBC and OSPB will calculate total FY 2002 revenues and determine if sufficient monies are available to trigger the appropriation. (See the *Hazardous Waste Management Program discussion above for more information. For more information on this and other triggered appropriations see the “Summary of Appropriations Triggered by Revenues” table at the front of this report.*)

Additional Legislation: Water Monitoring Aid (Chapter 178) — This bill extends the sunset date of the Water Monitoring Assistance Program from January 2002 to January 2005. The Monitoring Assistance Program helps public water systems comply with Federal Safe Drinking Water Act water monitoring requirements. The program is funded by the non-appropriated Monitoring Assistance Fund which receives revenue from fees assessed on participating public water systems. The bill limits the allowable percentage of the Monitoring Assistance Fund that can be used for program administration to the lesser of 15 % of available funds or \$184,000. In addition, the bill provides that annual fund balances in excess of \$200,000 may be used to reduce fees charged in the subsequent year.

Air Quality Fee: Diesel (Chapter 229) — This bill levies a \$10 fee on every diesel vehicle registered in the state that weighs greater than 8,500 pounds and an apportioned \$10 fee on every person who pays an apportioned fee. Apportionment refers to the method used to assess state registration fees on commercial vehicles that are regularly operated in more than one state. Fee revenues are deposited into the VVRR Fund. It is estimated that up to \$1,890,000 in fee revenue could be deposited into the fund in FY 2002 and FY 2003, however, this estimate does not include an unknown level of revenue from out-of-state vehicles paying an apportioned fee to Arizona. The bill also expands the use of the VVRR Fund to include grants of up to \$1,000 to diesel vehicle owners whose vehicles fail centralized emissions tests in Pima and Maricopa Counties.

Omnibus Budget Reconciliation; Public Finances (Chapter 238) — Among changes to statutory provisions affecting other state agencies, this bill eliminates the requirement to complete a Program Authorization Review (PAR) of the Water Quality Assurance Revolving Fund program in 2002 and every 5 years thereafter.

Underground Storage Tank; Fund Transfers (Chapter 341) — This bill establishes the Municipal Tank Closure and Corrective Action Program to perform corrective actions and tank closures on underground storage tanks in cities and towns requesting program assistance. Cities and towns must be incorporated and have fewer than 15,000 people to be eligible for the program. The Municipal Tank Closure and Corrective Action Program Account is established to fund the program. The primary revenue to the fund will be from legislative appropriations, gifts, grants, donations, and unobligated monies transferred from the UST Grant Account by December 31, 2001. It is estimated that there will be approximately \$2,300,000 in unobligated monies in the UST Grant account at the time of the transfer.

Environment; Water Quality; AZPDES (Chapter 357) — The Federal Clean Water Act requires the permitting of all point sources, such as mines, utilities, and treatment plants, that directly discharge pollutants to navigable waters of the United States under a National Pollution Discharge Elimination System (NPDES) permit program. Currently, this program is operated by the Federal Environmental Protection Agency (EPA) in Arizona. This bill provides ADEQ with statutory authority to operate the NPDES program and requires that ADEQ enter into a Memorandum of Understanding with the EPA to take over NPDES program authority. The approved budget includes \$472,400 and 9 FTE Positions in FY 2002 and \$432,500 and 9 FTE Positions in FY 2003 from the General Fund in order to provide the resources necessary to run the permit program. (See *National Pollution Discharge Elimination System section for more information.*)

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