

Department of Environmental Quality

A.R.S. § 49-101

Director: Jacqueline E. Schafer

JLBC Analyst: Tom Mikesell

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Approved
<b>OPERATING BUDGET</b>			
Full Time Equivalent Positions	560.8	559.8	547.1 <sup>1/</sup>
Personal Services	11,004,400	11,588,500	12,047,300
Employee Related Expenditures	2,291,600	2,719,700	2,904,000
Professional and Outside Services	73,700	203,700	203,700
Travel - In State	225,800	234,200	234,200
Travel - Out of State	28,000	33,900	33,900
Other Operating Expenditures	6,032,200	6,864,400	7,032,100
Equipment	366,900	166,400	126,500
<i>Operating Subtotal</i>	20,022,600	21,810,800	22,581,700
<b>Waste Programs</b>			
WQARF Priority Site Remediation	14,598,200	5,000,000	10,000,000 <sup>2/3/4</sup>
Underground Storage Tank Program	1,550,000	122,000	22,000
Hazardous Waste Program	359,100	756,800	768,100
Solid Waste Program	2,087,400	3,329,800	3,395,200
Waste Tire Program	38,800	197,200	202,200
<b>Water Programs</b>			
Aquifer Protection Permit Program	721,200	783,700	814,000
Water Quality Program	1,375,200	3,544,600	3,610,600
Water Infrastructure Finance Authority	2,995,100	2,995,100	2,995,100 <sup>5/</sup>
<b>Air Programs</b>			
Air Permits Administration Program	4,086,000	5,119,000	5,294,000 <sup>6/</sup>
Air Quality Program	3,057,900	5,393,000	7,796,600 <sup>7/</sup>
Pima County Air Quality Programs		230,000	230,000 <sup>8/</sup>
Emissions Control Program-Administration	2,009,700	3,862,700	3,914,100
Emissions Control-Clean Air Fund Subsidy	1,411,700	3,600,000	0
Emissions Control Contractor Payment	0	15,869,800	31,739,600
Lump Sum Reduction	0	0	(426,300)
<b>TOTAL APPROPRIATIONS</b>	<b>54,312,900</b>	<b>72,614,500</b>	<b>92,936,900</b>
<b>FUND SOURCES</b>			
General Fund	31,239,100	20,878,900	25,872,400
<u>Other Appropriated Funds</u>			
Indirect Cost Recovery Fund	8,774,800	9,837,500	10,218,900
Air Permits Administration Fund	4,086,000	5,119,000	5,294,000
Air Quality Fee Fund	3,057,900	5,623,000	8,026,600
Clean Air Fund	90,000	0	0
Emissions Inspection Fund	3,331,400	23,332,500	35,653,700
Hazardous Waste Fund	359,100	756,800	768,100
Recycling Fund	1,476,800	2,044,000	2,073,200
Solid Waste Fee Fund	428,800	1,228,700	1,267,600
Underground Storage Tank Fund	0	122,000	22,000
Used Oil Fund	93,800	127,500	129,800
Water Quality Fee Fund	1,375,200	3,544,600	3,610,600
<i>Subtotal - Other Appropriated Funds</i>	23,073,800	51,735,600	67,064,500
<b>TOTAL APPROPRIATIONS</b>	<b>54,312,900</b>	<b>72,614,500</b>	<b>92,936,900</b> <sup>9/10/11/12/</sup>

**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.*

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Est./Actual	Estimate
• % of contaminated sites closed requiring no further action (cumulative) versus known sites	NA/58.7	64.4/64	70.5/69.6	74.3/78.0
• Number of remaining Aquifer Protection Permit actions in the inventory*	NA/493	400/340	260//297	208/126
• Vehicles that have failed inspection and later brought into compliance (in thousands)	NA/170.6	190.0/148.6	180.0/177.7	180.0
• % of statutorily set permit timelines met through Licensing Time Frames rule	NA	NA/99	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	0
• % of agency staff turnover	NA/11.4	NA/16.1	14.0/15.2	13.0
• Administration as a % of total cost **	NA	35.0/NA	36.6/NA	12.6
• Customer satisfaction rating for citizens (Scale 1-8)	NA	NA	NA/85	6.0

\* Number remaining of inventory benchmark on January 1, 2000. Does not include new actions.

\*\* 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.

- 1/ Includes 223.2 FTE Positions funded from Special Line Items in 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. For FY 2003, Laws 2002, Chapter 328 temporarily suspends the provisions of A.R.S. § 49-282 and sets the transfer at \$10,000,000. Although the transfer is not included in the annual General Appropriation Act, it is shown here as a General Fund expenditure.
- 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 FY 2004 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/ The amounts appropriated for the Water Infrastructure Finance Authority in FY 2003 shall be used to provide a 20% match of the FY 2003 federal Safe Drinking Water and Clean Water Revolving Fund allocations to this state. Of the amount appropriated, any amount in excess of the required 20% match reverts to the state General Fund. (General Appropriation Act footnote)
- 6/ The appropriation from the Permit Administration Fund is an estimate representing all monies distributed to this fund, including balance forward, revenue and transfers during FY 2003. These monies are appropriated to the Arizona Department of Environmental Quality for the purposes established in A.R.S. § 49-455. The appropriation shall be adjusted as necessary to reflect actual final receipts credited to the Permit Administration Fund. (General Appropriation Act footnote)
- 7/ Pursuant to Laws 2001, Chapter 371, \$250,000 is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations.
- 8/ 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 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)
- 9/ 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)
- 10/ 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)
- 11/ The Department of Environmental Quality shall not delay the issuance of water quality permits as a result of budget reductions in FY 2003. On or before July 30, 2003 the Department of Environmental Quality shall report to the Joint Legislative Budget Committee on the actual permit processing times. The report shall include a comparison of FY 2002 and FY 2003 permit processing times. (General Appropriations Act footnote)
- 12/ General Appropriation Act (Laws 2002, Chapter 236 as amended by Laws 2002, Chapter 372) funds are appropriated as a Lump Sum by Agency with Special Line Items.

**Unfunded FTE Positions** — The approved amount includes a General Fund decrease of (12.7) FTE Positions below FY 2002 due to the statewide elimination of unfunded FTE Positions. For details on the methodology used to calculate the reduction, please see the *General Provisions* section at the front of the *Appropriations Report*.

**IT Security and Standards** — The approved amount includes a FY 2003 Other Funds increase of \$303,100 above FY 2002 to increase the internal and external security of the department’s information systems and to upgrade the department’s desktop office software. The approved amount provides for staff training, a 2-terabyte storage unit, and ongoing licensing costs for software upgrades. *Table 1* shows the FY 2003 funding distribution.

General Fund	\$158,500
Indirect Cost Recovery Fund	161,900
Air Permits Administration Fund	47,800
Air Quality Fee Fund	24,800
Emissions Inspection Fund	21,600
Hazardous Waste Fund	10,300
Recycling Fund	9,300
Solid Waste Fee Fund	12,400
Water Quality Fee Fund	15,000
<b>Total</b>	<b>\$461,600</b>

**Special Line Items**

**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 traditionally funded in part from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. For FY 2003, the Public Finance Omnibus Reconciliation Bill (Laws 2002, Chapter 328) temporarily suspends the statutory formula and sets the transfer amount at \$10,000,000. In addition to these monies, WQARF generates other revenue from various license and registration fees. (See *Additional Legislation* section for more detail)

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.

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 for review by the House and Senate Appropriations Committees. A General Appropriation Act footnote clarifies that the FY 2004 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 FY 2003 to pay the operating costs of the Underground Storage Tank Technical Appeals Panel and the Underground Storage Tank Policy Commission.

**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.

**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 2*.

	<b>FY 2003</b>
Solid Waste Fee Fund	\$1,065,400
Recycling Fund	2,073,200
Used Oil Fund	129,800
General Fund	126,800
<b>Total</b>	<b>\$3,395,200</b>

**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. According to a budget footnote, the Department shall not delay the issuance of water quality permits due to FY 2003 budget reductions. To demonstrate the maintenance of current timeframes, ADEQ shall report to the Joint Legislative Budget Committee on the actual FY 2002 and FY 2003 permit processing timeframes on or before July 30, 2003.

**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 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.

**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. A General Appropriation Act footnote provides that in 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 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.*)

The contractor’s portion of the test fee, the ADEQ administrative fee and the total fee per test for Calendar Years 2002 through 2009 are displayed in *Table 3*.

	CY 2002 – 2009		
	Maricopa		Pima
	<u>IM-147</u>	<u>Standard</u>	<u>Standard</u>
Contract Fee	\$25.94	\$17.05	\$11.39
Administrative Fee	1.06	1.45	0.36
Clean Air Fund Subsidy	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Motorist Fee	\$27.00	\$18.50	\$11.75

*Table 4* displays the components of the Emission Control Program appropriations from the Emissions Inspection Fund in FY 2003.

<b>Table 4</b>	
<b>Emission Control Program</b>	
	<b>FY 2003</b>
Program Administration	\$ 3,914,100
Contractor Payment	31,739,600
In-Lieu Subsidy	<u>0</u>
<b>Total</b>	<b>\$35,653,700</b>

**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, which is set by ADEQ. (*See Table 3 above*)

**Emissions Control Clean Air Fund Subsidy** — Monies in this line item were used to buy down the emissions test fees in CY 2001. The buy down was funded with revenues received from owners of vehicle 5 years old or newer that did not receive an emissions test yet were required to pay a fee in-lieu of the test fee. These in-lieu fee revenues are normally deposited in the Arizona Clean Air Fund. These fees were estimated to total \$3,600,000 in FY 2002 and covered the last 6 months of CY 2001. The subsidies are not continued in FY 2003, therefore the approved amount reflects a \$(3,600,000) VEI Fund decrease below FY 2002 to reflect the termination of the subsidy.

**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 contract, the contractor remits 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. Since the new contract began halfway through FY 2002, the amount included only a half-year of contractor payments. The approved FY 2003 amount includes an Emissions Inspection Fund increase of \$15,869,800 above FY 2002 to reflect the first full year of contractor payments.

**Additional Legislation:** Clean Air Fund; Transfer: ADEQ (Chapter 260) — This bill transfers the Arizona Clean Air Fund and associated programs from the Arizona Department of Commerce to ADEQ in FY 2003. This provision is repealed beginning in FY 2004, at which time the fund sources and programs are transferred to an account in the Air Quality Fee Fund in ADEQ pursuant to Laws 2002, Chapter 296. *(See discussion below for more detail)*

Air Quality Fund; Control Measures (Chapter 296) — This bill includes several changes to state air quality funding sources and programs beginning in FY 2004. The bill continues the emissions inspection in-lieu fee beyond FY 2003, deposits the fee revenues into an account of the Air Quality Fee Fund, and exempts appropriations from the fund from statutory lapsing provisions. The bill also allows ADEQ to use 5% of fee revenues for administrative costs, and distributes the remaining monies to the following ADEQ programs:

- 5% for the Voluntary Lawn and Garden Equipment Emissions Reduction program
- 15% for the Voluntary Vehicle Repair and Retrofit program
- 30% for the Diesel Vehicle Low Emissions Incentive Grant Program (newly created by the bill)
- 10% for the voluntary accelerate purchase of Tier 2 and Tier 3 non-road equipment

- 15% for grants to counties with populations fewer than 400,000 for travel reduction and voluntary no drive day programs.
- 25% for other air quality programs and measures.

Additionally, the bill establishes the Diesel Vehicle Low Emissions Incentive Grant Program to provide grants from the Air Quality Fee Fund for diesel vehicles larger than 17,500 pounds to operate on alternative, clean burning, or ultra-low sulfur diesel fuel, or an engine with low particulate emissions. The bill also makes a number of changes to the School District Fleet Conversion Program.

Omnibus Budget Reconciliation: Public Finances (Chapter 328) — Among changes to statutory provisions affecting other state agencies, this bill specifies that \$10,000,000 in Corporate Income Tax revenues is to be deposited in the Water Quality Assurance Revolving Fund in FY 2003. *(See Water Quality Assurance Revolving Fund section for more information)*

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