

Director: Stephen Owens

JLBC Analyst: Jeremy Olsen

| | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|--|--------------------|---------------------|--------------------------------------|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 495.1 | 495.1 | 428.4 ^{1/} |
| Personal Services | 10,311,800 | 11,658,100 | 11,866,800 |
| Employee Related Expenditures | 2,723,200 | 2,925,400 | 2,855,200 |
| Professional and Outside Services | 132,400 | 140,000 | 140,000 |
| Travel - In State | 161,900 | 169,100 | 169,100 |
| Travel - Out of State | 4,300 | 28,600 | 28,600 |
| Other Operating Expenditures | 5,852,400 | 7,267,800 | 7,591,800 |
| Equipment | 337,800 | 104,600 | 104,600 |
| OPERATING SUBTOTAL | 19,523,800 | 22,293,600 | 22,756,100 |
| SPECIAL LINE ITEMS | | | |
| Waste Programs | | | |
| WQARF Priority Site Remediation | 10,000,000 | 10,000,000 | 11,000,000 ^{2/3/4/} |
| Underground Storage Tank Program | 5,800 | 22,000 | 22,000 |
| Hazardous Waste Program | 344,600 | 715,000 | 746,100 |
| Solid Waste Program | 1,970,800 | 3,347,700 | 3,467,400 |
| Waste Tire Program | 38,000 | 211,300 | 219,800 |
| Water Programs | | | |
| Aquifer Protection Permit Program | 739,600 | 756,100 | 766,200 |
| Water Quality Program | 1,983,600 | 3,786,500 | 3,853,200 |
| Water Infrastructure Finance Authority | 2,445,100 | 2,445,100 | 2,445,100 ^{5/} |
| Air Programs | | | |
| Air Permits Administration Program | 3,491,600 | 5,487,100 | 5,502,000 ^{6/} |
| Air Quality Program | 5,477,400 | 4,681,600 | 4,637,600 |
| Emissions Control Program-Administration | 2,354,400 | 4,018,900 | 4,012,500 |
| Emissions Control Contractor Payment | 27,671,300 | 31,739,600 | 31,739,600 |
| Pima County Air Quality Programs | 165,000 | 165,000 | 165,000 ^{7/} |
| Ch. 332 Environmental Protections Budget Reconciliation Bill | 0 | 0 | 4,000,000 ^{8/} |
| AGENCY TOTAL | 76,211,000 | 89,669,500 | 95,332,600^{9/10/11/} |
| FUND SOURCES | | | |
| General Fund | 22,858,500 | 23,142,100 | 24,347,000 |
| <u>Other Appropriated Funds</u> | | | |
| Air Permits Administration Fund | 3,491,600 | 5,487,100 | 5,502,000 |
| Air Quality - Clean Air Subaccount | 0 | 500,000 | 500,000 |
| Air Quality Fund | 5,642,400 | 4,846,600 | 8,802,600 |
| Emissions Inspection Fund | 30,025,700 | 35,758,500 | 35,752,100 |
| Hazardous Waste Management Fund | 344,600 | 715,000 | 746,100 |
| Indirect Cost Recovery Fund | 9,850,000 | 11,852,700 | 12,120,400 |
| Recycling Fund | 1,431,900 | 2,105,200 | 2,138,800 |
| Solid Waste Fee Fund | 520,600 | 1,321,300 | 1,411,800 |
| Underground Storage Tank Fund | 5,800 | 22,000 | 22,000 |
| Used Oil Fund | 56,300 | 132,500 | 136,600 |
| Water Quality Fee Fund | 1,983,600 | 3,786,500 | 3,853,200 |
| SUBTOTAL - Other Appropriated Funds | 53,352,500 | 66,527,400 | 70,985,600 |
| SUBTOTAL - Appropriated Funds | 76,211,000 | 89,669,500 | 95,332,600 |
| Other Non-Appropriated Funds | 233,481,000 | 241,386,400 | 241,911,500 |
| Federal Funds | 18,212,000 | 17,810,400 | 17,810,400 |
| TOTAL - ALL SOURCES | 327,904,000 | 348,866,300 | 355,054,500 |

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

| PERFORMANCE MEASURES | FY 2003 | FY 2004 | FY 2006 |
|--|---------|---------|----------|
| | Actual | Actual | Approved |
| • % of contaminated sites closed requiring no further action (cumulative) versus known sites | 72.6 | 74.0 | 77.0 |
| • Number of non-attainment areas exceeding national ambient air quality standards | -- | 15 | 5 |
| • % of statutorily set permit timelines met through Licensing Time Frames rule | 99 | 100 | 99 |
| • Number of days per year exceeding National Ambient Air Quality Standards for Ozone, Carbon Monoxide, or Particulates | 0 | 0 | 0 |
| • % of facilities from Drinking Water Priority Log assigned to enforcement staff | -- | 48 | 50 |
| • Customer satisfaction rating for citizens (Scale 1-8) | 6.6 | 7.4 | 7.4 |

Comments: There were 15 non-attainment areas that exceed national ambient air quality standards of Carbon Monoxide, Carbon Dioxide, Lead, Nitrogen Dioxide, Ozone, Particulate Matter, and Sulfur Oxides in FY 2004 and the department has petitioned the federal government to remove 10 areas from this list for FY 2005. The drinking water priority log is a list of water systems whose test results have contaminant levels which exceed federal drinking water standards, and have been classified as significantly noncompliant. The agency adds water systems which are continuously noncompliant to its priority log to begin the process of imposing enforcement actions to bring the facilities into compliance.

- 1/ Includes 12.2 GF and 169.2 OF FTE Positions funded from Special Line Items in FY 2006.
- 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 2006 Laws 2005, Chapter 332 temporarily suspends the provisions of A.R.S. § 49-282 and sets the transfer at \$11,000,000. 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 annually 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 by September 1, 2005. (General Appropriation Act footnote)
- 4/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2007 budget for the Water Quality Assurance Revolving Fund before September 1, 2005, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)
- 5/ The amounts appropriated for the Water Infrastructure Finance Authority in FY 2006 shall be used to provide a 20% match of the FY 2006 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 2006. 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/ 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 2006, \$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/ This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2008.
- 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 of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 11/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget provides \$22,756,100 for the operating budget in FY 2006. This amount consists of:

| | <u>FY 2006</u> |
|------------------------------------|-----------------------|
| General Fund | \$10,135,700 |
| Indirect Cost Recovery Fund | 12,120,400 |
| Air Quality - Clean Air Subaccount | 500,000 |

The approved amount includes an increase of \$601,600 in FY 2006 for statewide adjustments. This amount consists of \$333,900 from the General Fund and \$267,700 from the Indirect Cost Recovery fund. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

Vacant FTE Position Reduction

The approved amount includes a decrease of \$(139,100) and (28) FTE Positions from the General Fund and a decrease of (13) FTE Positions from the Indirect Cost Recovery Fund in FY 2006 for the elimination of vacant FTE Positions. By reducing the number of vacant FTE Positions, the budget reduced the amount of money appropriated for health, dental, and life insurance. These monies are passed through directly to the Arizona Department of Administration for statewide insurance costs and will not affect the amount of monies the agency has for other purposes. All other funding for these vacant positions had been previously eliminated.

Special Line Items

Waste Programs

WQARF Priority Site Remediation

The budget provides \$11,000,000 from the General Fund for WQARF Priority Site Remediation in FY 2006.

In FY 2006, the Environmental Protections Budget Reconciliation Bill (Laws 2005, Chapter 332) suspends the statutory funding formula in favor of a fixed Corporate Income Tax transfer of \$11,000,000 for the WQARF program.

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. Some types of revenue, including cost recovery collections and interest, are not included in this calculation. Therefore, actual program revenues can exceed \$18,000,000 in a year depending on how much is deposited from these other sources.

The WQARF program is similar to the federal Superfund program in that it is designed to monitor and remediate contaminated groundwater at specified sites. Program expenditures include searching for responsible polluters, conducting risk assessments and remediation feasibility studies, and contracting for remediation services.

Underground Storage Tank Program

The budget provides \$22,000 from the Underground Storage Tank Fund for the Underground Storage Tank (UST) Program in FY 2006. This amount is unchanged from FY 2005.

Monies in the UST Program are utilized 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 vast majority of fund revenues are not appropriated by the Legislature; however, an amount of \$22,000 from the SAF in FY 2006 is allocated for the operating costs of the Underground Storage Tank Technical Appeals Panel and the Underground Storage Tank Policy Commission.

Laws 2005, Chapter 332 suspends the UST Revolving Fund Assurance Account administrative cap amount for FY 2006 and allows the department to utilize up to \$6,031,000. This will allow the agency to continue funding 3 FTE Positions for the Leak Prevention and Compliance Program, and to provide funding for the Used Oil Program. Expenditures from the Assurance Account are not appropriated by the Legislature and, therefore, are not reflected in the data table above.

Hazardous Waste Program

The budget provides \$746,100 and 9.4 FTE Positions from the Hazardous Waste Management Fund for the Hazardous Waste Program in FY 2006.

The approved amount includes an increase of \$31,100 from the Hazardous Waste Management Fund in FY 2006 for statewide adjustments.

Vacant FTE Position Reduction

The approved amount includes a decrease of (1) FTE Position from the Hazardous Waste Fund in FY 2006 for the elimination of vacant FTE Positions. *(See the Operating Budget narrative for more information.)*

Monies in this line item are used to regulate and inspect 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.

Solid Waste Program

The budget provides \$3,467,400 and 19.4 FTE Positions for the Solid Waste Program in FY 2006. This amount consists of:

| | |
|----------------------|-----------|
| Recycling Fund | 2,138,800 |
| Solid Waste Fee Fund | 1,192,000 |
| Used Oil Fund | 136,600 |

The approved amount includes an increase of \$119,700 in FY 2006 for statewide adjustments. This amount consists of:

| | |
|----------------------|--------|
| Recycling Fund | 33,600 |
| Solid Waste Fee Fund | 82,000 |
| Used Oil Fund | 4,100 |

Vacant FTE Position Reduction

The approved amount includes a decrease of (1) FTE Position from the Recycling Fund and a decrease of (2) FTE Positions from the Solid Waste Fee Fund in FY 2006 for the elimination of vacant FTE Positions. (See the *Operating Budget narrative for more information.*)

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.

Waste Tire Program

The budget provides \$219,800 and 2.8 FTE Positions from the Solid Waste Fee Fund for the Waste Tire Program in FY 2006. The approved amount includes an increase of \$8,500 from the Solid Waste Fee Fund in FY 2006 for statewide adjustments.

This program oversees county programs that dispose of and/or recycle waste tires.

Water Programs

Aquifer Protection Permit Program

The budget provides \$766,200 and 12.2 FTE Positions from the General Fund for the Aquifer Protection Permit Program in FY 2006. The approved amount includes an increase of \$21,700 from the General Fund in FY 2006 for statewide adjustments.

Vacant FTE Position Reduction

The approved amount includes a decrease of \$(11,600) and (2.5) FTE Positions from the General Fund in FY 2006 for the elimination of vacant FTE Positions. (See the *Operating Budget narrative for more information.*)

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.

Water Quality Program

The budget provides \$3,853,200 and 25.6 FTE Positions from the Water Quality Fee Fund for the Water Quality Program in FY 2006. The approved amount includes an increase of \$66,700 from the Water Quality Fee Fund in FY 2006 for statewide adjustments.

Vacant FTE Position Reduction

The approved amount includes a decrease of (4) FTE Positions from the Water Quality Fee Fund in FY 2006 for the elimination of vacant FTE Positions. (See the *Operating Budget narrative for more information.*)

This program ensures water quality by monitoring and regulating drinking and wastewater sources.

Water Infrastructure Finance Authority (WIFA)

The budget provides \$2,445,100 from the General Fund for the Water Infrastructure Finance Authority in FY 2006. This amount is unchanged from FY 2005.

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%.

Air Programs

Air Permits Administration Program

The budget provides \$5,502,000 and 54.2 FTE Positions from the Air Permits Administration Fund for the Air Permits Administration Program in FY 2006. The approved amount includes an increase of \$14,900 from the Air Permits Administration Fund in FY 2006 for statewide adjustments.

Vacant FTE Position Reduction

The approved amount includes a decrease of (7.2) FTE Positions from the Air Permit Administration Fund in FY 2006 for the elimination of vacant FTE Positions. (See the *Operating Budget narrative for more information.*)

This program regulates and inspects stationary air pollution sources, including enforcement actions necessary to comply with federal clean air regulations

Air Quality Program

The budget provides \$4,637,600 and 23.8 FTE Positions from the Air Quality Fund for the Air Quality Program in FY 2006. The approved amount includes an increase of

\$91,000 from the Air Quality Fund in FY 2006 for statewide adjustments.

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.

Vacant FTE Position Reduction

The approved amount includes a decrease of (3) FTE Positions from the Air Quality Fund in FY 2006 for the elimination of vacant FTE Positions. (See the Operating Budget narrative for more information.)

Air Quality Study

The budget provides a decrease of \$(135,000) from the Air Quality Fund in FY 2006 due to a one-time FY 2005 expenditure for a study to determine the air quality impacts of shortening the winter season use of CARB 3 gasoline, including vapor pressure and oxygenate requirements. CARB 3 gasoline is cleaner burning and causes less air pollution than standard gasoline.

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.

Table 1 displays the components of the Emission Control Program appropriation from the Emissions Inspection Fund for FY 2006.

| Table 1 | |
|---------------------------------|---------------------|
| Emission Control Program | |
| | FY 2006 |
| Program Administration | \$ 4,012,500 |
| Contractor Payment | 31,739,600 |
| Total | \$35,752,100 |

Emissions Control Program - Administration

The budget provides \$4,012,500 and 34 FTE Positions from the VEI Fund for the Emissions Control Program in FY 2006. The approved amount includes a decrease of

\$(6,400) from the Emissions Inspection Fund in FY 2006 for statewide adjustments.

Vacant FTE Position Reduction

The approved amount includes a decrease of (5) FTE Positions from the Emissions Inspection Fund in FY 2006 for the elimination of vacant FTE Positions. (See the Operating Budget narrative for more information.)

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. These activities are funded from the administrative portion of the inspection fee, which is set by ADEQ.

Emissions Control Contractor Payment

The budget provides \$31,739,600 from the VEI Fund for the Emissions Control Contractor Payment in FY 2006. This amount is unchanged from FY 2005.

Monies appropriated to this line item are to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the 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.

Pima County Air Quality Programs

The budget provides \$165,000 from the Air Quality Fund for the Pima County Air Quality Programs in FY 2006. This amount is unchanged from FY 2005.

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.

Ch. 332 Environmental Protections Budget Reconciliation Bill

Laws 2005, Chapter 332 includes an appropriation of \$4,000,000 from the Air Quality Fund in FY 2006 for school bus and air quality grants. This amount is an estimate and is dependent upon the amount of revenue received into the Air Quality Fund. Laws 2005, Chapter 332 allocates the first \$10,000,000 received into the Air Quality Fund to the state General Fund. The next \$500,000 of revenue received into the Air Quality Fund is appropriated to ADEQ's operating budget, and any revenues deposited into the fund in excess of \$10,500,000 are available for school bus and air quality grants. The monies appropriated to ADEQ for operating expenses are included in the General Appropriation Act and appear in the operating budget in the table above.

Of the \$4,000,000 estimated amount, at least 40% is dedicated to grants for diesel vehicle filters; at least 40% is allocated for grants to school districts for buses which are fueled by Compressed Natural Gas (CNG); and any remaining funds are available for expenditure as defined by A.R.S. 49-551, which includes the following programs: the Voluntary Vehicle Repair and Retrofit program, the Voluntary Lawn and Garden Equipment Emissions Reduction Program, the Diesel Vehicle Low Emissions Incentive Grant program, and travel reduction programs. This appropriation is exempt from the provisions of A.R.S. 35-190, relating to the lapsing of appropriations, until June 30, 2008.

Fund Transfers

Air Quality Fund

The Environmental Protections Budget Reconciliation Bill (Laws 2005, Chapter 332) transfers the first \$10,000,000 of in-lieu fee fund revenue from the Air Quality Fund to the General Fund in FY 2006. This transfer is not part of the agency's appropriation and is not reflected in the above table.

In-lieu fees are paid by owners of vehicles in Maricopa or Pima County which are 5 years old or newer in lieu of vehicle emission inspection fees. Laws 2005, Chapter 332 repeals this fee effective June 30, 2006.