

Director: Jan Leshner

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	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved	FY 2009 Approved
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	74.9	74.9	79.9 ^{1/}	79.9 ^{1/}
Personal Services	2,118,700	2,377,300	2,799,800	2,726,300
Employee Related Expenditures	598,500	725,500	876,700	826,100
Professional and Outside Services	78,900	101,500	103,500	103,500
Travel - In State	39,500	36,800	40,800	40,800
Travel - Out of State	18,700	22,500	23,500	23,500
Other Operating Expenditures	425,800	560,000	613,600	560,700
Equipment	50,000	23,800	36,300	36,300
OPERATING SUBTOTAL	3,330,100	3,847,400	4,494,200	4,317,200
SPECIAL LINE ITEMS				
International Development				
Arizona Trade Office in Sonora	25,000	25,000	25,000	25,000
International Trade Offices	1,124,400	1,344,800	2,064,000	2,044,800
National Law Center/Free Trade	200,000	200,000	200,000	200,000
Business Assistance Center				
Minority and Women Owned Business	106,300	121,000	128,400	121,300
Small Business Advocate	103,600	118,800	125,800	119,100
Rural Community Assistance				
Economic Development Matching Funds	71,600	104,000	104,000	104,000
Main Street	129,900	130,000	130,000	130,000
REDI Matching Grants	45,000	45,000	45,000	45,000
Rural Economic Development	281,900	323,900	338,600	323,900
Greater Arizona Development Authority	0	0	2,000,000	2,000,000
National Marketing				
Advertising and Promotion	618,100	659,200	659,200	659,200
Motion Picture Development	248,800	337,700	354,100	337,700
Strategic Finance				
CEDC Commission	220,800	274,600	287,300	275,200
Other				
Apprenticeship Services	135,400	179,200	188,800	179,200
Oil Overcharge Administration	108,600	175,600	184,000	176,000
Military Base Economic Impact Study	0	250,000	0	0
Military Airport Planning	4,893,800	4,900,000	4,900,000 ^{2/}	4,900,000 ^{2/}
Nursing Education	2,565,500	2,632,000	2,632,000 ^{3/}	2,632,000 ^{3/}
AGENCY TOTAL	14,208,800	15,668,200	18,860,400^{4/}	18,589,600^{4/}
FUND SOURCES				
General Fund	11,125,600	12,050,200	15,925,100	15,722,200
<u>Other Appropriated Funds</u>				
Bond Fund	107,200	139,200	145,400	139,500
CEDC Fund	2,646,600	3,028,600	2,318,600 ^{5/}	2,276,700 ^{5/}
Oil Overcharge Fund	108,600	175,600	184,000	176,000
State Lottery Fund	220,800	274,600	287,300	275,200
SUBTOTAL - Other Appropriated Funds	3,083,200	3,618,000	2,935,300	2,867,400
SUBTOTAL - Appropriated Funds	14,208,800	15,668,200	18,860,400	18,589,600
Other Non-Appropriated Funds	9,353,000	25,069,900	25,069,900	25,069,900
Federal Funds	5,447,800	5,812,500	5,812,500	5,812,500
TOTAL - ALL SOURCES	29,009,600	46,550,600	49,742,800	49,472,000

^{1/} Includes 20 GF and 9.5 OF FTE Positions funded from Special Line Items in FY 2008 and FY 2009.

^{2/} Includes \$4,900,000 appropriated by Laws 2004, Chapter 235 for deposit into the Military Installation Fund.

AGENCY DESCRIPTION — The department promotes economic, community, and workforce development. The department’s duties include: economic research and information; support statewide for business expansion and attraction; international trade offices; workforce development and job training; online assistance for new business start-ups; community planning and rural assistance for infrastructure development; film and television production promotion.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	Approved
<ul style="list-style-type: none"> Number of workers trained Comments: The department attributes the decline in number of workers to be trained to the fluctuations in the number and type of employers that apply for grants. Few large businesses with many employees applied for grants in FY 2006. The department reports that the number of workers trained in FY 2007 is on track to exceed the FY 2005 total. 	21,535	25,057	11,678	25,000
<ul style="list-style-type: none"> % of Job Training Fund monies distributed to small businesses Comments: Statute requires that a minimum of 25% of the monies appropriated to the Job Training Fund shall be used to provide training to small businesses employing fewer than 100 employees before June 15 of each fiscal year. Thereafter any employer can apply for grants. 	--	23	16	25
<ul style="list-style-type: none"> Customer satisfaction rating for business development program (Percentage rating services as good or excellent) 	85	81	86	88

Operating Budget

The budget provides \$4,494,200 for the operating budget in FY 2008 and \$4,317,200 in FY 2009. These amounts consist of:

	FY 2008	FY 2009
General Fund	\$4,164,400	\$4,021,400
Commerce and Economic Development Commission (CEDC) Fund	184,400	156,300
Bond Fund	145,400	139,500

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$172,600 in FY 2008 and a decrease of \$(4,400) in FY 2009 for statewide adjustments. These amounts consist of:

General Fund	140,800	(2,200)
CEDC Fund	25,600	(2,500)
Bond Fund	6,200	300

(Please see the Statewide Adjustments section at the end of this Appropriations Report for details. The annualization of these adjustments for FY 2009 will be addressed in the 2008 budget process.)

Fund Shift

The budget provides an increase of \$500,000 and 4 FTE Positions from the General Fund in FY 2008 and FY 2009 and a corresponding decrease from the CEDC Fund for a fund shift. Funding for a part of the agency’s administrative operations, including Special Line Items, will shift to the General Fund, allowing for an increase in the amount of monies in the CEDC Fund available for non-appropriated grants and loans issued by the CEDC to businesses expanding or locating in Arizona.

Cumulatively, \$750,000 and 4 FTE Positions will be shifted from the CEDC Fund to the General Fund in FY 2008 and FY 2009. For details about the remaining \$250,000 of the fund shift, please see the International Trade Offices Special Line Item below.

Economic Development Staffing

The budget provides an increase of \$400,000 and 3 FTE Positions from the General Fund in FY 2008 and FY 2009 for economic development initiatives. The additional staff will help foster and coordinate broad-based economic development strategies with communities and businesses statewide to improve the global competitiveness of the Arizona economy. Coordination will occur across development fields such as innovation, zoning and land use, energy planning, and infrastructure.

^{3/} Includes \$2,632,600 appropriated by Laws 2005, Chapter 330 for deposit into the Nursing Education Demonstration Project Fund.

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{5/} Of the \$2,318,600 appropriated from the CEDC Fund in FY 2008 and the \$2,276,700 appropriated from the CEDC Fund in FY 2009, \$250,000 shall be utilized for implementation of cross-industry business/infrastructure development projects and related project coordination in support of regional technology councils and high technology clusters operating in Arizona. (General Appropriation Act footnote, as adjusted for statewide allocations)

Tax Administration

The budget provides an increase \$74,200 and 1 FTE Position from the General Fund in FY 2008 and FY 2009 to help administer 4 recently enacted tax incentive programs. The additional administrator will help existing staff implement and manage applications processing and auditing under the solar, healthy forest, motion picture, and venture capital tax incentive programs. Existing staff have encountered difficulty in meeting statutory application processing deadlines for these tax programs and the increased workload has delayed the drafting of administrative rules.

Special Line Items

International Development

Arizona Trade Office in Sonora

The budget provides \$25,000 from the CEDC Fund for the Arizona Trade Office in Sonora in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

Managed by the Arizona-Mexico Commission, the Arizona Trade Office in Sonora assists Arizona companies in search of trade opportunities in Mexico, as well as ensures that such business ventures into Mexico are effective. The office provides information and support activities that promote the interest of both states. An emphasis is placed on positioning both states to derive the maximum advantage from any free trade or other agreement between the 2 countries. The office also promotes the tourism destinations of Arizona and its state universities.

International Trade Offices

The budget provides \$2,064,000 and 7 FTE Positions for International Trade Offices in FY 2008 and \$2,044,800 and 7 FTE Positions in FY 2009. These amounts consist of:

General Fund	1,347,200	1,328,000
CEDC Fund	716,800	716,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$19,200 from the General Fund in FY 2008 and no funding in FY 2009 for statewide adjustments.

Additional Resources

The budget provides an increase of \$700,000 and 1 FTE Position from the General Fund in FY 2008 and FY 2009 to attract a greater share of foreign investment to Arizona. Monies will be used to establish new business attraction and investment programs in Canada, Germany, and China; strengthen existing international trade programs in the United Kingdom, Japan, and Mexico; and encourage public and private partners in Arizona to coordinate

foreign investment activities with the agency. Targeted industries include Aerospace and Defense, Optics, Sustainable Industries, and Information and Communication Technologies.

Fund Shift

The budget provides an increase of \$250,000 from the General Fund in FY 2008 and FY 2009 and a corresponding decrease from the CEDC Fund for a fund shift. (For details about the other \$500,000 and 4 FTE Positions of the fund shift, please see the agency's Operating Budget section above).

The line item funds business incentives and assistance procedures to retain, expand, or locate businesses and other qualified projects in the state. Prior to the FY 2008 budget, the program supported international trade offices in Taiwan, Mexico, the United Kingdom, and Japan, which assist Arizona businesses in exporting their products.

National Law Center/Free Trade

The budget provides \$200,000 from the CEDC Fund for National Law Center/Free Trade in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

The National Law Center for Inter-American Free Trade is a research and educational center, which seeks to identify and eliminate mechanical and structural obstacles to the free movement of goods and services among Mexico, Canada, and the United States. Funding is used to match private monies for additional research projects, in addition to defraying overhead and administrative costs.

Business Assistance Center

Minority and Women Owned Business

The budget provides \$128,400 and 2 FTE Positions from the CEDC Fund for Minority and Women Owned Business in FY 2008 and \$121,300 and 2 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$7,400 from the CEDC Fund in FY 2008 and an increase of \$300 in FY 2009 for statewide adjustments.

The line item funds programs to promote the economic development of minority and women-owned business enterprises.

Small Business Advocate

The budget provides \$125,800 and 2 FTE Positions from the CEDC Fund for Small Business Advocate in FY 2008 and \$119,100 and 2 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$7,000 from the CEDC Fund in FY 2008 and an increase of \$300 in FY 2009 for statewide adjustments.

The line item funds programs to promote the creation and growth of small Arizona businesses. The office also acts as an advocate for small business interests.

Rural Community Assistance

Economic Development Matching Funds

The budget provides \$104,000 from the CEDC Fund for Economic Development Matching Funds in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

The line item funds programs to support community growth management efforts, including the development of general and comprehensive land use plans.

Main Street

The budget provides \$130,000 from the CEDC Fund for Main Street in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

This line item provides funding for the historical preservation or refurbishment of downtown areas, or "main streets," in selected rural Arizona communities. The goal of the Main Street program is to attract new businesses, jobs, and private investment to rural towns by improving the physical appearance of their downtown areas. There were 6 grant recipients in FY 2006: Williams, Casa Grande, Florence, Pinetop-Lakeside, Globe, and Nogales Community Development Corporation.

REDI Matching Grants

The budget provides \$45,000 from the CEDC Fund for Rural Economic Development Initiative (REDI) Matching Grants in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

The REDI program offers special community project grants for technical assistance in implementing economic development programs for rural communities. There were 6 grant recipients in FY 2007: Bullhead City, Williams, Nogales, Payson, Show Low, and Copper Corridor Economic Development Coalition.

Rural Economic Development

The budget provides \$338,600 and 4 FTE Positions from the General Fund for Rural Economic Development in FY 2008 and \$323,900 and 4 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$14,700 from the General Fund in FY 2008 and no funding in FY 2009 for statewide adjustments.

The line item funds programs to assist rural Arizona communities in accessing financing mechanisms and technical assistance to better address community infrastructure needs.

Greater Arizona Development Authority

The budget provides \$2,000,000 from the General Fund for Greater Arizona Development Authority (GADA) in FY 2008 and FY 2009. These amounts fund the following adjustments:

GADA Revolving Fund Deposit

The budget provides an increase of \$2,000,000 from the General Fund in FY 2008 and FY 2009 for a one-time deposit into the GADA Revolving Fund. GADA serves as a bond guarantor and issuer, allowing local authorities to finance infrastructure improvements at lower interest rates than what they could otherwise obtain on the market. According to the Department of Commerce, the \$4,000,000 deposited in the GADA Revolving Fund will allow the authority to issue up to \$120,000,000 in bonds to finance infrastructure improvements. Local authorities make debt service payments on GADA bonds to the authority, which in turn pays the monies to bondholders. Since 1997, GADA has issued \$320,755,000 in bonds, saving local authorities \$8,578,100 through better interest rate terms and lower costs of bond issuance.

In addition to the General Fund deposit, the Budget Procedures Budget Reconciliation Bill (Laws 2007, Chapter 259) makes technical clarifications regarding projects and entities eligible for GADA assistance. The definition of "infrastructure" is broadened to include land, buildings, equipment, improvements, or other personal property in addition to facilities. Special Districts and Indian Tribes are added to sections of statute where they are otherwise not included in reference to eligible GADA borrowers.

National Marketing

Advertising and Promotion

The budget provides \$659,200 from the CEDC Fund for Advertising and Promotion in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

The line item funds programs advertising and promoting the department's various services through magazine ads, direct mail, and special events.

Motion Picture Development

The budget provides \$354,100 and 6 FTE Positions from the General Fund for Motion Picture Development in FY 2008 and \$337,700 and 6 FTE Positions FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$16,400 from the General Fund in FY 2008 and no funding in FY 2009 for statewide adjustments.

The funding is used to attract film and television projects to locations in Arizona through advertising and promotional campaigns.

Strategic Finance

CEDC Commission

The budget provides \$287,300 and 3.5 FTE Positions from the State Lottery Fund for the CEDC Commission in FY 2008 and \$275,200 and 3.5 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$12,700 from the State Lottery Fund in FY 2008 and an increase of \$600 in FY 2009 for statewide adjustments.

These administration expenses are related to the Commerce and Economic Development Commission, which consists of 35 public and private sector members serving at the request of the Governor. The purpose of the commission is to provide oversight for the short-term and long-term economic development initiatives in the statewide economic development strategic plan.

Other

Apprenticeship Services

The budget provides \$188,800 and 3 FTE Positions from the General Fund for Apprenticeship Services in FY 2008 and \$179,200 and 3 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$9,600 from the General Fund in FY 2008 and no funding in FY 2009 for statewide adjustments.

The line item funds programs to promote the implementation of apprenticeship programs.

Oil Overcharge Administration

The budget provides \$184,000 and 2 FTE Positions from the Oil Overcharge Fund for Oil Overcharge Administration in FY 2008 and \$176,000 and 2 FTE Positions in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$8,400 from the Oil Overcharge Fund in FY 2008 and an increase of \$400 in FY 2009 for statewide adjustments.

The line item funds administration of the oil overcharge grant and loan restitution programs.

Military Base Economic Impact Study

The budget provides no funding from the General Fund for the Military Base Economic Impact Study Special Line Item in FY 2008 and FY 2009. These amounts fund the following adjustments:

Offset of One-Time Monies

The budget provides a decrease of \$(250,000) from the General Fund in FY 2008 and FY 2009 to offset one-time monies for the Military Base Economic Impact Study.

One-time monies were appropriated in FY 2007 to contract with a consultant to estimate the annual economic impact of the state's military bases on the state's economy. The report is expected to be completed by the end of FY 2007. The last report was completed in May 2002.

The Budget Procedures Budget Reconciliation Bill (Laws 2007, Chapter 259) makes the FY 2007 military base economic impact study appropriation non-lapsing, which will enable the department to continue to fund the study.

Military Airport Planning

The budget provides \$4,900,000 and 1 FTE Position from the General Fund for Military Airport Planning in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

Laws 2004, Chapter 235 established the non-appropriated Military Installation Fund, to be administered by the Department of Commerce. Chapter 235 appropriated \$5,000,000 annually from the General Fund in FY 2005 and every year thereafter for the purpose of military installation preservation and enhancement projects. Therefore, this funding does not appear in the General Appropriation Act. Of the \$4,900,000 retained by the Department of Commerce:

- \$4,825,000 is allocated to the Military Installation Fund. Laws 2006, Chapter 119 requires the Department of Commerce to award 80% of the monies to the Department of Veterans' Services to acquire private property, real estate, property rights, and related infrastructure to preserve, support, or enhance a military installation. Of the 80%, 20% of this amount may be awarded to cities, towns, and counties for land acquisition purposes. The remaining 20% of the fund allocation is awarded to cities, towns, and counties for military installation preservation and enhancement projects. The Military Installation Fund is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations.
- \$75,000 and 1 FTE Position is appropriated to the Department of Commerce in order to implement the provisions of the legislation, including administering the Military Installation Fund.

The remaining \$100,000 for Military Airport Planning is appropriated to the Office of the Attorney General to pay for the department's duties under this act, including review of plans and determination of compliance with land use plans.

In FY 2005 no awards were made while administrative rules for the Military Installation Fund were drafted and approved. Two years of General Fund deposits were used for awards in FY 2006, with \$6,176,000 being awarded for land acquisitions and \$1,579,000 being awarded for military enhancement and preservation projects. Land acquisition awards were made for 8 properties near Marine Corps Air Station-Yuma, Davis-Monthan Air Force Base in Tucson, and Gila Bend Air Force Auxiliary Field. Military enhancement and preservation awards were made for projects in Yuma and Tucson. Award decisions for FY 2007 will be made at the beginning of FY 2008.

Nursing Education

The budget provides \$2,632,000 from the General Fund for Nursing Education in FY 2008 and FY 2009. These amounts are unchanged from FY 2007.

Laws 2005, Chapter 330 established the Arizona Partnership for Nursing Education Demonstration Project. The purpose of the project is to enhance nursing education programs in Arizona, with the goal of doubling the current number of nursing graduates in the state by FY 2010.

Chapter 330 also established the Nursing Education Demonstration Project Fund. Monies in the fund are allocated to Arizona public universities and community colleges based on a comparison of the number of nursing students graduating in FY 2005 from those institutions. Monies allocated to the universities are administered by the Arizona Board of Regents, while monies allocated to the community colleges are passed through the Department of Commerce.

Chapter 330 annually appropriates \$4,000,000 from the General Fund to the Nursing Education Demonstration Project Fund from FY 2006 through FY 2010. These amounts do not appear in the General Appropriation Act. Of the total \$4,000,000 annual appropriation, \$1,368,000 is allocated to the universities and \$2,632,000 is allocated to the community colleges. These amounts are based on FY 2005 graduation rates.

The community college funds are distributed using a competitive grant process. Three criteria were used to determine funding: the quality of the nursing program, how the program meets the geographic and diverse needs of its community, and the program budget.

In FY 2008 the Department of Commerce plans to distribute a total of \$3,223,900 in grants to community colleges. This amount includes monies carried forward from FY 2007. New awards will be made this summer. (*Table 1 shows grant distribution amounts.*)

Community College	FY 2006	FY 2007	FY 2008
Chandler/Gilbert	\$ 164,300	\$ 172,700	\$ 174,200
Estrella Mountain	79,600	159,300	79,600
Gateway	173,900	370,100	383,300
Glendale	0	162,700	292,800
Phoenix	0	214,700	332,500
Rio Salado	0	221,500	351,800
Scottsdale	188,500	370,500	171,500
Eastern Arizona	239,600	310,500	127,600
Central Arizona	0	89,900	257,800
Coconino	0	1,500	94,600
Mohave	0	160,700	157,900
Northland Pioneer	150,000	174,900	183,100
Pima	35,000	134,900	215,800
Yavapai	0	268,900	401,400
Total	\$1,030,900	\$2,812,800	\$3,223,900

Additional Legislation

Arizona 21st Century Competitive Initiative Fund Deposit

The General Revenues Budget Reconciliation Bill (Laws 2007, Chapter 260) deposits \$25,000,000 from the General Fund into the Arizona 21st Century Competitive Initiative Fund for each fiscal year from FY 2008 to FY 2011. The monies are further appropriated from the 21st Century Competitive Initiative Fund to the Commerce and Economic Development Commission (CEDC), which oversees expenditures from the fund. The appropriations are non-lapsing.

Laws 2006, Chapter 334 deposited \$35,000,000 from the General Fund into the 21st Century Competitive Initiative Fund in FY 2006 to build and strengthen medical, scientific, and engineering research programs and infrastructure for the purpose of promoting statewide economic development. The CEDC entered into a memorandum of understanding (MOU) with a nonprofit corporation, Science Foundation Arizona (SFAz), in FY 2007 to use monies from the fund. SFAz is required to report, through the CEDC, on a quarterly basis on investments made with 21st Century Competitive Initiative Fund monies and report annually on performance measures. The Joint Legislative Budget Committee is required to review expenditures from the fund at least quarterly, as well as any changes to the MOU between the CEDC and SFAz.

Laws 2007, Chapter 260 also requires SFAz to identify and document written agreements for private or philanthropic investments that are equivalent to \$25,000,000 or more for each fiscal year of state funding for the 21st Century Fund. State monies shall be drawn down from the 21st Century Fund incrementally as the private or philanthropic match is received by SFAz and documented by the CEDC. The CEDC and SFAz will amend the 21st Century Fund MOU to conform the agreement to the private/philanthropic match provisions.