

Director: Jan Leshner

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	FY 2007 Actual	FY 2008 Estimate	FY 2009 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	70.1	79.9	73.9 ^{1/}
Personal Services	1,932,400	2,695,400	2,695,400
Employee Related Expenditures	605,300	844,000	847,000
Professional and Outside Services	227,900	257,400	257,400
Travel - In State	22,200	35,800	35,800
Travel - Out of State	12,300	23,500	23,500
Other Operating Expenditures	363,900	612,600	1,096,900
Equipment	47,000	43,800	43,700
OPERATING SUBTOTAL	3,211,000	4,512,500	4,999,700
SPECIAL LINE ITEMS			
International Development			
Arizona Trade Office in Sonora	25,000	25,000	25,000
International Trade Offices	1,302,300	1,716,500	1,716,600
National Law Center/Free Trade	200,000	200,000	200,000
Business Assistance Center			
Minority and Women Owned Business	121,000	129,600	129,600
Small Business Advocate	114,300	127,000	127,000
Rural Community Assistance			
Economic Development Matching Funds	99,500	104,000	104,000
Main Street	110,400	130,000	130,000
REDI Matching Grants	38,300	45,000	45,000
Rural Economic Development	278,200	340,000	340,100
Greater Arizona Development Authority	0	1,000,000	0
National Marketing			
Advertising and Promotion	576,300	659,200	659,200
Motion Picture Development	326,200	356,200	0 ^{2/}
Strategic Finance			
CEDC Commission	271,500	288,600	288,700
Other			
Apprenticeship Services	176,300	189,800	189,900
Oil Overcharge Administration	123,000	184,800	184,900
Military Base Economic Impact Study	250,000	0	0
Military Airport Planning	4,900,500	4,900,400	100,400 ^{3/}
Nursing Education	2,632,000	2,632,000	2,632,000 ^{4/}
Lump Sum Reduction	0	(528,000)	(802,400)
AGENCY TOTAL	14,755,800	17,012,600	11,069,700^{5/}
FUND SOURCES			
General Fund	11,482,500	14,078,400	7,385,200
Other Appropriated Funds			
Bond Fund	99,400	144,700	144,700
CEDC Fund	2,779,400	2,318,600	3,068,700 ^{6/7/}
Oil Overcharge Fund	123,000	184,800	184,900
State Lottery Fund	271,500	286,100	286,200
SUBTOTAL - Other Appropriated Funds	3,273,300	2,934,200	3,684,500
SUBTOTAL - Appropriated Funds	14,755,800	17,012,600	11,069,700
Other Non-Appropriated Funds			
Other Non-Appropriated Funds	9,887,200	57,225,000	31,969,900
Federal Funds	6,120,300	5,413,300	4,746,400
TOTAL - ALL SOURCES	30,763,300	79,650,900	47,786,000

^{1/} Includes 14 GF and 9.5 OF FTE Positions funded from Special Line Items in FY 2009.

^{2/} This amount does not reflect the \$337,700 and 6 FTE Positions appropriated from motion picture tax credits in the Budget Procedures Budget Reconciliation Bill (Laws 2008, Chapter 291).

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 2005	FY 2006	FY 2007	FY 2009
	Actual	Actual	Actual	Approved
• Number of workers trained	25,057	11,678	24,922	25,000
• % 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	13	25
• Customer satisfaction rating for business development program (Percentage rating services as good or excellent) Comments: The Department did not provide an estimate for FY 2007.	81	86	NA	88

This agency's FY 2008 and FY 2009 budget was originally appropriated in Laws 2007, Chapter 255. For details on this agency's original FY 2008 and FY 2009 budgets, please see the *FY 2008 Appropriations Report*. The following narrative provides a comprehensive listing of all FY 2009 changes, whether as part of Chapter 255 or this year's budget.

(Please see the FY 2008 Statewide Adjustments narrative at the end of this Appropriations Report for details.)

New Statewide Adjustments

The budget provides an increase of \$900 in FY 2009 for new statewide adjustments. This amount consists of:

General Fund	900
CEDC Fund	100

(Please see the New Statewide Adjustments narrative at the end of this Appropriations Report for details.)

Fund Shift

The budget provides a decrease of \$(500,000) and (4) FTE Positions from the General Fund in FY 2009 and a corresponding increase of \$500,000 and 4 FTE Positions from the CEDC Fund for a fund shift. This change would reverse the policy in the original FY 2008 budget to transfer more Commerce spending to the General Fund.

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

Transfer of DES Research Administration

The budget provides an increase of \$486,200 from the General Fund in FY 2009 to transfer the DES Research

Operating Budget

The budget provides \$4,999,700 for the operating budget in FY 2009. This amount consists of:

General Fund	\$4,167,300
Commerce and Economic Development Commission (CEDC) Fund	686,400
Bond Fund	146,000

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget continues an increase of \$195,300 in FY 2009 for FY 2008 statewide adjustments. This amount consists of:

General Fund	158,800
CEDC Fund	30,000
Bond Fund	6,500

3/ Includes \$4,900,000 appropriated by Laws 2004, Chapter 235 for deposit into the Military Installation Fund. This amount has been reduced by \$4,799,600 for FY 2009 in Laws 2008, Chapter 285 for a net appropriation of \$100,400.

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

5/ General Appropriation Act Funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

6/ Of the \$3,068,700 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).

7/ Laws 2008, Chapter 285 appropriated an additional \$791,000 from the CEDC Fund above the \$2,277,700 originally outlined in Laws 2007, Chapter 255.

Administration to the Department of Commerce. This increase matches an equivalent reduction from the DES budget. (Please see the Department of Economic Security Administrative Division for more information.)

This transfer will result in the centralization of all of the state's economic and labor research offices under one department. The Department of Commerce will assume responsibility for the collection and projection of labor statistics previously administered by DES.

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 2009. This amount is unchanged from FY 2008.

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 \$1,716,600 and 7 FTE Positions for the International Trade Offices in FY 2009. These amounts consist of:

General Fund	749,800
CEDC Fund	966,800

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$21,700 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments

The budget provides an increase of \$100 from the General Fund in FY 2009 for new statewide adjustments.

Continue International Trade Funding Decrease

The budget continues a decrease of \$(350,000) from the General Fund in FY 2009 originally enacted as part of the FY 2008 budget revisions. This amount represents half of the \$700,000 in additional resources originally appropriated in FY 2008 for the International Trade SLI.

Rollback Fund Shift

The budget provides a decrease of \$(250,000) from the General Fund in FY 2009 and a corresponding increase 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 2009 budget, the program supported international trade offices in Taiwan, Mexico, the United Kingdom, Canada, Germany, China, 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 2009. This amount is unchanged from FY 2008.

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 \$129,600 and 2 FTE Positions from the CEDC Fund for Minority and Women Owned Business in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$8,300 from the CEDC Fund in FY 2009 for FY 2008 statewide adjustments.

Small Business Advocate

The budget provides \$127,000 and 2 FTE Positions from the CEDC Fund for Small business Advocate in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$7,900 from the CEDC Fund in FY 2009 for FY 2008 statewide adjustments.

Rural Community Assistance

Economic Development Matching Funds

The budget provides \$104,000 from the CEDC Fund for Economic Development Matching Funds in FY 2009. This amount is unchanged from FY 2008.

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 2009. This amount is unchanged from FY 2008.

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 12 grant recipients in FY 2007 including Nogales, Globe, Pinetop-Lakeside, Florence, Williams, Casa Grande, Sedona, and four other non-municipal organizations.

REDI Matching Grants

The budget provides \$45,000 from the CEDC Fund for Rural Economic Development Initiative (REDI) Matching Grants in FY 2009. This amount is unchanged from FY 2008.

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 \$340,100 and 4 FTE Positions from the General Fund for Rural Economic Development in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$16,100 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments

The budget provides an increase of \$100 from the General Fund in FY 2009 for new 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 no funding from the General Fund in FY 2009 for the Greater Arizona Development Authority. This amount funds the following adjustments:

GADA Revolving Fund Deposit

The budget provides a decrease of \$(1,000,000) from the General Fund in FY 2009 to eliminate a one-time deposit into the GADA Revolving Fund. The original FY 2008 budget originally appropriated \$2,000,000 in FY 2008 and \$2,000,000 in FY 2009 for deposit into the GADA Revolving Fund. As part of the FY 2008 budget revisions, the \$2,000,000 in FY 2008 was reduced to \$1,000,000. The FY 2009 budget further eliminated the original \$2,000,000 appropriation.

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. Local authorities make debt service payments on GADA bonds to the authority, which in turn pays the monies to bondholders.

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 2009. This amount is unchanged from FY 2008.

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 no funding for Motion Picture Development in FY 2009. This amount funds the following adjustment:

Motion Picture Funding

The budget provides a decrease of \$(337,700) and (6) FTE Positions from the General Fund to shift funding for Motion Picture Development in FY 2009. This funding will instead be available through motion picture income tax credits, as discussed below.

The Budget Procedures Budget Reconciliation Bill (Laws 2008, Chapter 291) authorizes \$337,700 and 6 FTE Positions to be paid from the annual set aside amount from motion picture income tax credits in FY 2009. In Laws 2007, Chapter 225, the Motion Picture Development SLI was authorized to use \$180,000 and 2 FTE Positions from motion picture income tax credits in FY 2008.

Statute currently authorizes a total of \$50,000,000 in credits in calendar year 2009 and \$70,000,000 annually in calendar year 2010 and beyond. The credit is used to attract film and television projects to locations in Arizona through advertising and promotional campaigns.

Strategic Finance

CEDC Commission

The budget provides \$288,700 and 3.5 FTE Positions from the State Lottery Fund for the CEDC Commission in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$13,400 from the State Lottery Fund in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments

The budget provides an increase of \$100 from the State Lottery Fund in FY 2009 for new 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 \$189,900 and 3 FTE Positions from the General Fund for Apprenticeship Services in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$10,600 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments

The budget provides an increase of \$100 from the General Fund in FY 2009 for new statewide adjustments.

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

Oil Overcharge Administration

The budget provides \$184,900 and 2 FTE Positions from the Oil Overcharge Fund for Oil Overcharge Administration in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget provides an increase of \$8,800 from the Oil Overcharge Fund in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments

The budget provides an increase of \$100 from the Oil Overcharge Fund in FY 2009 for new 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 2009. This amount funds the following adjustments:

New Statewide Adjustments

The budget provides an increase of \$400 from the General Fund in FY 2009 for new statewide adjustments.

Continue Offset of One-Time Monies

The budget continues a decrease of \$(250,000) from the General Fund in 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 beginning of FY 2009. The last report was completed in May 2002.

Laws 2007, Chapter 259 made 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 \$100,400 and 1 FTE Position from the General Fund for Military Airport Planning in FY 2009. These amounts fund the following adjustment:

Military Airport Planning Funding

The budget provides a decrease of \$(4,800,000) from the General Fund in FY 2009 to reduce the deposit to the Military Installation Fund.

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. Laws 2008, Chapter 285, section 23 reduced the size of the FY 2008 deposit from \$4,825,000 to \$4,800,000.
- \$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. The same occurred in FY 2007, with \$6,030,000 being awarded for land acquisitions and \$965,000 being awarded for military enhancement and preservation projects. Award decisions for FY 2008 will be made at the beginning of FY 2009.

Nursing Education

The budget provides \$2,632,000 from the General Fund for Nursing Education in FY 2009. This amount is unchanged from FY 2008.

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 estimates a total distribution of \$3,223,900 in grants to community colleges. This amount includes monies carried forward from FY 2007. Actuals are provided for FY 2006 and FY 2007. New awards will be made this summer. (*Table 1 shows grant distribution amounts.*)

Table 1**Distribution of Nursing Grants**

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 Budget Procedures Budget Reconciliation Bill (Laws 2008, Chapter 291) reduces the FY 2009 deposit from the General Fund into the Arizona 21st Century Competitive Initiative Fund by \$(2,500,000). Chapter 291 compensates for this loss by increasing the scheduled deposit by \$2,500,000 in FY 2011.

Background - 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.

The General Revenues Budget Reconciliation Bill (Laws 2007, Chapter 260) deposited \$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 2008, Chapter 291 amended Laws 2007, Chapter 260 by reducing the FY 2009 General Fund deposit into the 21st Century Fund to \$22,500,000 and increasing the deposit in FY 2011 to \$27,500,000.

Laws 2008, Chapter 291 also amended Laws 2007, Chapter 260 by modifying the matching requirement for state monies expended from the Arizona 21st Century Fund. Prior to this change, the non-profit entity receiving these monies was required to expend an equal amount of private monies. The change allows the non-profit to have

a maximum of 50% of its matching funds in the form of governmental investments and other auditable cash equivalents.

Lump Sum Reduction

The budget provides \$(802,400) in FY 2009 for a lump sum reduction. This amount consists of:

General Fund	(794,300)
CEDC Fund	(4,300)
State Lottery Fund	(2,500)
Commerce Development Bond Fund	(1,300)

These amounts fund the following adjustments:

Continue Hiring Freeze Reduction

The budget continues a decrease of \$(28,000) in FY 2009 for the hiring freeze originally enacted as part of the FY 2008 budget revisions. This amount consists of:

General Fund	(19,900)
CEDC Fund	(4,300)
State Lottery Fund	(2,500)
Commerce Development Bond Fund	(1,300)

This amount represents the agency's share of a statewide hiring freeze reduction. (*Please see the Statewide Hiring Freeze Reduction section at the end of this Appropriations Report for details.*)

Additional Lump Sum Reduction

The budget provides an additional decrease of \$(274,400) from the General Fund in FY 2009 from the department's budget for a lump sum reduction. The agency is responsible for identifying savings sufficient to meet this reduction.

Fund Transfers

The budget provides a transfer of \$13,300,000 to the General Fund in FY 2008 and \$16,400,000 in FY 2009. These amounts comprise transfers from the funds listed below:

	FY 2008	FY 2009
CEDC Fund	0	1,100,000
GADA Fund	0	2,000,000
Job Training Fund	13,000,000	10,300,000
Military Installation Fund	300,000	3,000,000

These transfers are not part of the agency's appropriation and are not reflected in the table above.