

Director: Don Cardon

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	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	79.9	73.9	66.9 ^{1/}
Personal Services	2,430,300	2,667,300	2,667,300
Employee Related Expenditures	785,100	922,200	927,300
Professional and Outside Services	170,900	66,400	66,400
Travel - In State	31,900	33,300	33,300
Travel - Out of State	24,100	17,500	17,500
Other Operating Expenditures	495,000	538,800	1,538,800
Equipment	54,500	44,400	44,400
OPERATING SUBTOTAL	3,991,800	4,289,900	5,295,000
SPECIAL LINE ITEMS			
International Development			
Arizona Trade Office in Sonora	25,000	25,000	25,000
International Trade Offices	1,491,400	1,716,600	1,716,600
National Law Center/Free Trade	200,000	200,000	200,000
Business Assistance Center			
Minority and Women Owned Business	94,600	129,600	130,400
Small Business Advocate	110,700	127,000	127,800
Rural Community Assistance			
Economic Development Matching Funds	33,700	104,000	104,000
Main Street	112,500	130,000	130,000
REDI Matching Grants	33,100	45,000	45,000
Rural Economic Development	319,400	340,100	340,100
Greater Arizona Development Authority	931,000	0	0 ^{2/}
National Marketing			
Advertising and Promotion	414,000	659,200	659,200
Motion Picture Development	334,900	0	0
Strategic Finance			
CEDC Commission	250,900	196,500	197,900
Other			
Apprenticeship Services	188,400	189,900	189,900
Oil Overcharge Administration	0	184,900	185,700
Military Airport Planning	4,608,200	100,000	2,100,000 ^{3/}
Nursing Education	2,632,000	2,632,000	2,632,000 ^{4/}
Lump Sum Reduction	0	(1,065,700)	(2,892,700)
AGENCY TOTAL	15,771,600	10,004,000	11,185,900^{5/}
FUND SOURCES			
General Fund	13,470,400	6,512,000	6,512,000
<u>Other Appropriated Funds</u>			
Bond Fund	140,400	144,700	145,400
CEDC Fund	1,881,800	2,884,400	4,074,700 ^{6/}
Lottery Fund	279,000	278,000	268,100
Oil Overcharge Fund	0	184,900	185,700
SUBTOTAL - Other Appropriated Funds	2,301,200	3,492,000	4,673,900
SUBTOTAL - Appropriated Funds	15,771,600	10,004,000	11,185,900
Other Non-Appropriated Funds	12,604,100	27,552,200	26,496,700
Federal Funds	5,249,300	5,469,700	5,469,700
TOTAL - ALL SOURCES	33,625,000	43,025,900	43,152,300

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 2006	FY 2007	FY 2008	FY 2010
	Actual	Actual	Actual	Approved
• Number of workers trained	11,678	24,922	18,270	25,000
• % of Job Training Fund monies distributed to small businesses	16	13	37	25
• Customer satisfaction rating for business development program (Percentage rating services as good or excellent)	86	84	NA	88

Comments: The agency did not submit information for any measure labeled as “NA” as required by the General Appropriation Act.

Operating Budget

The budget includes \$5,295,000 and 49.4 FTE Positions for the operating budget in FY 2010. These amounts consist of:

	FY 2010
General Fund	\$3,373,400
Commerce and Economic Development Commission (CEDC) Fund	1,686,500
Bond Fund	145,400
State Lottery Fund	89,700

Statewide Health Insurance Adjustments

The budget includes an increase of \$5,100 in FY 2010 for state employee health insurance statewide adjustments. This amount consists of:

Bond Fund	\$700
CEDC Fund	\$4,400

(Please see the General Provisions section)

Fund Shift

The budget includes an increase of \$1,000,000 from the CEDC Fund for a fund shift. These monies are to be used to offset a portion of the agency’s General Fund lump sum reduction and are to be used for the operating costs of the department.

International Development

Arizona Trade Office in Sonora

The budget includes \$25,000 from the CEDC Fund for the Arizona Trade Office in Sonora in FY 2010. This amount is unchanged from FY 2009.

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 promotes 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 includes \$1,716,600 and 7 FTE Positions for the International Trade Offices in FY 2010. These amounts consist of:

General Fund	749,800
CEDC Fund	966,800

1/ Includes 15 GF and 9.5 OF FTE Positions funded from Special Line Items in FY 2010 prior to the lump sum reductions.
 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).
 3/ Includes \$2,100,000 appropriated by Laws 2009, 3rd Special Session, Chapter 7 for deposit into the Military Installation Fund.
 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. As appropriated by Laws 2009, 1st Regular Session, Chapter 12.
 6/ Of the \$4,074,700 appropriated from the CEDC Fund in FY 2010, \$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).

These amounts are unchanged from FY 2009.

The line item funds business incentives and assistance procedures to retain, expand, or locate businesses and other qualified projects in the state. The program supports international trade offices in Mexico, the United Kingdom, Canada, Northern Ireland (European Office) and Japan, which assist Arizona businesses in exporting their products.

National Law Center/Free Trade

The budget includes \$200,000 from the CEDC Fund for National Law Center/Free Trade in FY 2010. This amount is unchanged from FY 2009.

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 includes \$130,400 and 2 FTE Positions from the CEDC Fund for Minority and Women Owned Business in FY 2010. These amounts fund the following adjustments:

Statewide Health Insurance Adjustments

The budget includes an increase of \$800 from the CEDC Fund in FY 2010 for state employee health insurance statewide adjustments.

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

Small Business Advocate

The budget includes \$127,800 and 2 FTE Positions from the CEDC Fund for Small Business Advocate in FY 2010. These amounts fund the following adjustments:

Statewide Health Insurance Adjustments

The budget includes an increase of \$800 from the CEDC Fund in FY 2010 for state employee health insurance 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 includes \$104,000 from the CEDC Fund for Economic Development Matching Funds in FY 2010. This amount is unchanged from FY 2009.

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 includes \$130,000 from the CEDC Fund for the Main Street program in FY 2010. This amount is unchanged from FY 2009.

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 8 grant recipients in FY 2009: Casa Grande, Pinetop-Lakeside, Prescott, Show Low, Williams, Nogales, Globe, and Safford.

REDI Matching Grants

The budget includes \$45,000 from the CEDC Fund for Rural Economic Development Initiative (REDI) Matching Grants in FY 2010. This amount is unchanged from FY 2009.

The REDI program offers special community project grants for technical assistance in implementing economic development programs for rural communities. There were 11 grant recipients in FY 2009: Yuma, Oracle, Moenkopi, Kingman, Mammoth, Pinetop-Lakeside, Maricopa, Prescott Valley, Parker, Flagstaff, and the Central Arizona Regional Economic Development Foundation.

Rural Economic Development

The budget includes \$340,100 and 4 FTE Positions from the General Fund for Rural Economic Development in FY 2010. These amounts are unchanged from FY 2009.

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 includes no funding from the General Fund in FY 2010 for the Greater Arizona Development Authority (GADA). This amount is unchanged from FY 2009.

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.

National Marketing

Advertising and Promotion

The budget includes \$659,200 from the CEDC Fund for Advertising and Promotion in FY 2010. This amount is unchanged from FY 2009.

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 includes no funding for Motion Picture Development in FY 2010. This amount is unchanged from FY 2009.

Laws 2008, Chapter 291 altered A.R.S. § 41-1517U to permanently authorize \$337,700 and 6 FTE Positions from the annual set-aside amount from motion picture income tax credits beginning in FY 2009. In Laws 2007, Chapter 225, the Motion Picture Development Special Line Item 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 includes \$197,900 and 3.5 FTE Positions from the State Lottery Fund for the CEDC Commission in FY 2010. These amounts fund the following adjustments:

Statewide Health Insurance Adjustments

The budget includes an increase of \$1,400 from the State Lottery Fund in FY 2010 for state employee health insurance 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 includes \$189,900 and 3 FTE Positions from the General Fund for Apprenticeship Services in FY 2010. These amounts are unchanged from FY 2009.

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

Oil Overcharge Administration

The budget includes \$185,700 and 2 FTE Positions from the Oil Overcharge Fund for Oil Overcharge Administration in FY 2010. These amounts fund the following adjustments:

Statewide Health Insurance Adjustments

The budget includes an increase of \$800 from the Oil Overcharge Fund in FY 2010 for state employee health insurance statewide adjustments.

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

Military Airport Planning

The budget includes \$2,100,000 and 1 FTE Position from the General Fund for Military Airport Planning in FY 2010. These amounts fund the following adjustments:

Military Installation Fund Increase

The budget includes an increase of \$2,000,000 from the General Fund in FY 2010 for land and property rights acquisition around military installations.

The FY 2010 General Government Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 7) reduces the statutory deposit of \$4,900,000 to the Military Installation Fund to \$2,100,000. For FY 2009, all but \$100,000 of the deposit was suspended.

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:

- \$4,800,000 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 eliminated the FY 2009 deposit.
- \$100,000 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. In FY 2007, \$6,030,000 was awarded for land acquisitions and \$965,000 was awarded for military enhancement and preservation projects. In FY 2008, \$4,146,300 was awarded for land acquisitions and \$528,800 was awarded for enhancement and preservation projects. In FY 2009 no awards were made. Award decisions for FY 2010, made from the continuing balance of the fund, will be determined at the beginning of FY 2011.

Nursing Education

The budget includes \$2,632,000 from the General Fund for Nursing Education in FY 2010. This amount is unchanged from FY 2010.

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 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. Total grant amounts are higher than the \$2.6 million appropriation in FY 2007 through FY 2009 given the carry forward amounts from previous years. The project was set to expire at the end of FY 2010; however, Laws 2009, Chapter 92, extended the expiration date until the end of FY 2015.

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 2010, the Department of Commerce plans to distribute a total of \$1,456,700 in grants to community colleges. Grant awards declined from FY 2009 due to non-renewals for several colleges. (*Table 1 shows grant distribution amounts.*)

<u>Community College</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Chandler/Gilbert	\$ 174,200	\$ 0	\$ -
Estrella Mountain	79,600	119,200	124,900
Gateway	383,200	257,700	242,700
Glendale	292,800	393,500	253,400
Phoenix	332,500	484,300	134,300
Rio Salado	351,800	121,100	-
Scottsdale	171,500	0	-
Eastern Arizona	127,600	0	-
Central Arizona	257,800	437,000	176,500
Coconino	94,600	107,500	-
Mohave	157,900	157,900	-
Northland Pioneer	183,100	120,100	-
Pima	215,800	0	-
Yavapai	401,400	395,800	-
Arizona Western	<u>261,300</u>	<u>445,300</u>	<u>524,900</u>
Total	\$3,485,100	\$3,039,400	\$1,456,700

Lump Sum Reduction

The budget includes an agencywide lump sum reduction of \$(1,065,700) for the midyear FY 2009 revisions and \$(2,892,700) for FY 2010. The latter reduction reflects the adjustment to the originally enacted FY 2009 appropriation.

	<u>FY 2009</u>	<u>FY 2010</u>
Lump Sum Reduction		
General Fund	\$(738,500)	\$(2,738,500)
Fund Reduction and Transfer		
CEDC Fund	(153,500)	0
Personnel Expense Reduction		
General Fund	(134,700)	(134,700)
CEDC Fund	(30,800)	0
State Lottery Fund	(8,200)	(19,500)

FTE Position Reduction

The budget includes a decrease of (7) FTE Positions for a lump sum FTE Position reduction. *(Please see the General Provisions section.)*

Laws 2009, 3rd Special Session, Chapter 11, Section 17 requires every General Fund supported agency, board, commission, or other state entity to reduce its number of FTE Positions by 5% on or before February 1, 2010. This reduction has not been recorded in the summary table above. The actual impact of this provision is to be determined.

Fund Transfers

The budget includes the following midyear FY 2009 revisions and FY 2010 transfers to the General Fund from the funds listed below:

	<u>FY 2009</u>	<u>FY 2010</u>
CEDC - EBT	(5,374,700)	(2,161,200)
CEDC - FRAT	(153,500)	0
CEDC - Salary	(30,800)	0
Commerce Bond - EBT	(1,142,700)	(699,000)
Commerce Workshops - EBT*	(273,900)	0
Commerce Workshops - FRAT*	(25,800)	(51,600)
GADA - EBT*	(3,158,000)	(500,000)
GADA - FRAT*	(27,800)	(50,000)
GADA - Salary*	(8,300)	(18,800)
Job Training - EBT*	(21,279,200)	(18,275,000)
Job Training - FRAT*	(925,000)	(1,835,000)
Job Training - Salary*	(13,000)	(100,000)
Military Installation - EBT*	(1,780,100)	0
Military Installation - FRAT*	(286,100)	0
State Lottery - Salary	(8,200)	(19,500)

* These transfers are from non-appropriated funds.

Additional Legislation

Operating Funds

The FY 2010 General Government Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 7) allows the department to use funds from the Bond, CEDC, and State Lottery Funds to help fund operating costs.

Arizona 21st Century Competitive Initiative Fund Deposit

The FY 2010 General Government Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 7) eliminates the \$25,000,000 deposit from the General Fund into the Arizona 21st Century Competitive Initiative Fund in FY 2010.

Laws 2007, Chapter 260 deposited \$25,000,000 from the General Fund into the Arizona 21st Century Competitive Initiative Fund for FY 2010. The monies are further appropriated from the Arizona 21st Century Competitive Initiative Fund to the Commerce and Economic Development Commission (CEDC), which oversees expenditures from the fund. The appropriations are non-lapsing.

Background – Laws 2006, Chapter 334 deposited \$35,000,000 from the General Fund into the Arizona 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 FY 2008 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 Arizona 21st Century Competitive Initiative Fund to the 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 Arizona 21st Century Fund to \$22,500,000 and increasing the deposit in FY 2011 to \$27,500,000. The legislation also amended Laws 2007, Chapter 260 by modifying the matching requirement for state monies expended from the Arizona 21st Century Competitive Initiative 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.

Laws 2009, 1st Special Session, Chapter 1 amended Laws 2008, Chapter 291 by eliminating the \$(22,500,000) FY 2009 General Fund deposit into the Arizona 21st Century Competitive Initiative Fund. Subsequent to the legislation, the Science Foundation Arizona filed an invoice with the CEDC, in the amount of \$18,474,923, for obligations prior to the enactment of Laws 2009, 1st Special Session, Chapter 1. An analysis by the Department of Administration found that the Science Foundation Arizona was in compliance with their contract with the CEDC when it made grants and expenditures in that amount.