

Director: Donald E. Cardon

JLBC Analyst: Eric Billings

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	73.9	65.9	65.9 <sup>1/</sup>
Personal Services	2,308,200	1,051,600	1,030,600
Employee Related Expenditures	812,700	403,600	404,600
Professional and Outside Services	44,600	45,800	45,800
Travel - In State	12,800	36,800	36,800
Travel - Out of State	8,400	57,900	57,900
Other Operating Expenditures	401,600	764,500	764,500
Equipment	31,400	88,600	88,600
<b>OPERATING SUBTOTAL</b>	<b>3,619,700</b>	<b>2,448,800</b>	<b>2,428,800</b>
<b>SPECIAL LINE ITEMS</b>			
<b>International Development</b>			
Arizona Trade Office in Sonora	25,000	25,000	25,000
International Trade Offices	1,120,900	1,670,500	1,667,200
National Law Center/Free Trade	200,000	200,000	200,000
<b>Business Assistance Center</b>			
Minority and Women Owned Business	121,100	129,500	127,800
Small Business Advocate	118,400	126,900	125,200
<b>Rural Community Assistance</b>			
Economic Development Matching Funds	67,900	104,000	104,000
Main Street	114,600	130,000	130,000
REDI Matching Grants	28,600	45,000	45,000
Rural Economic Development	200,000	340,000	338,200
<b>National Marketing</b>			
Advertising and Promotion	266,900	659,200	659,200
<b>Strategic Finance</b>			
CEDC Commission	195,200	197,700	194,900
<b>Other</b>			
Apprenticeship Services	155,900	189,800	188,500
Oil Overcharge Administration	0	185,700	186,700
Military Airport Planning	80,400	2,100,000	2,100,000 <sup>2/</sup>
Nursing Education	0	2,632,000	0
5 <sup>th</sup> Special Session Reduction	0	(596,600)	(596,600)
<b>AGENCY TOTAL</b>	<b>6,314,600</b>	<b>10,587,500</b>	<b>7,923,900<sup>3/4/</sup></b>
<b>FUND SOURCES</b>			
General Fund	3,708,300	6,220,100	3,566,500
<u>Other Appropriated Funds</u>			
CEDC Fund	2,229,700	3,768,400	3,759,300
Commerce Development Bond Fund	124,600	145,400	146,300
Oil Overcharge Fund	0	185,700	186,700
State Lottery Fund	252,000	267,900	265,100
SUBTOTAL - Other Appropriated Funds	2,606,300	4,367,400	4,357,400
<b>SUBTOTAL - Appropriated Funds</b>	<b>6,314,600</b>	<b>10,587,500</b>	<b>7,923,900</b>
Other Non-Appropriated Funds	9,063,500	8,323,500	8,323,500
Federal Funds	8,295,400	48,319,800	48,319,800
<b>TOTAL - ALL SOURCES</b>	<b>23,673,500</b>	<b>67,230,800</b>	<b>64,567,200</b>

**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.

***Operating Budget***

The budget includes \$2,428,800 and 41.4 FTE Positions for the operating budget in FY 2011. These amounts consist of:

	<b><u>FY 2011</u></b>
General Fund	\$530,400
Commerce and Economic Development Commission (CEDC) Fund	1,681,900
Bond Fund	146,300
State Lottery Fund	70,200

These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes a decrease of \$(20,000) in FY 2011 for statewide adjustments. This amount consists of:

General Fund	(15,200)
CEDC Fund	(5,700)
Bond Fund	900

*(Please see the General Provisions section.)*

***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 2011. This amount is unchanged from FY 2010.

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 \$1,667,200 and 7 FTE Positions for the International Trade Offices in FY 2011. These amounts consist of:

General Fund	700,400
CEDC Fund	966,800

These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes a decrease of \$(3,300) from the General Fund in FY 2011 for statewide adjustments.

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 2011. This amount is unchanged from FY 2010.

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 \$127,800 and 2 FTE Positions from the CEDC Fund for Minority and Women Owned Business in FY 2011. These amounts fund the following adjustments:

<sup>1/</sup> Includes 15 GF and 9.5 OF FTE Positions funded from Special Line Items in FY 2011.

<sup>2/</sup> Includes \$2,100,000 appropriated by Laws 2010, 7<sup>th</sup> Special Session, Chapter 5 for deposit into the Military Installation Fund.

<sup>3/</sup> This amount does not reflect the \$337,700 and 6 FTE Positions appropriated from motion picture tax credits in the A.R.S. § 41-1517U.

<sup>4/</sup> General Appropriation Act Funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

### **Statewide Adjustments**

The budget includes a decrease of \$(1,700) from the CEDC Fund in FY 2011 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 includes \$125,200 and 2 FTE Positions from the CEDC Fund for Small Business Advocate in FY 2011. These amounts fund the following adjustments:

### **Statewide Adjustments**

The budget includes a decrease of \$(1,700) from the CEDC Fund in FY 2011 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 includes \$104,000 from the CEDC Fund for Economic Development Matching Funds in FY 2011. This amount is unchanged from FY 2010.

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 2011. This amount is unchanged from FY 2010.

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 7 grant recipients in FY 2010: Lake Havasu, Sedona, Pinetop-Lakeside, Prescott, Williams, 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 2011. This amount is unchanged from FY 2010.

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 2010: Show Low, Moenkopi, Maricopa, Eager, Florence, and the Copper Corridor.

#### ***Rural Economic Development***

The budget includes \$338,200 and 4 FTE Positions from the General Fund for Rural Economic Development in FY 2011. These amounts fund the following adjustments:

### **Statewide Adjustments**

The budget includes a decrease of \$(1,800) from the General Fund in FY 2011 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.

---

---

#### ***National Marketing***

---

---

#### ***Advertising and Promotion***

The budget includes \$659,200 from the CEDC Fund for Advertising and Promotion in FY 2011. This amount is unchanged from FY 2010.

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

---

---

#### ***Strategic Finance***

---

---

#### ***CEDC Commission***

The budget includes \$194,900 and 3.5 FTE Positions from the State Lottery Fund for the CEDC Commission in FY 2011. These amounts fund the following adjustments:

### **Statewide Adjustments**

The budget includes a decrease of \$(2,800) from the State Lottery Fund in FY 2011 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 includes \$188,500 and 3 FTE Positions from the General Fund for Apprenticeship Services in FY 2011. These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes a decrease of \$(1,300) from the General Fund in FY 2011 for statewide adjustments.

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

***Oil Overcharge Administration***

The budget includes \$186,700 and 2 FTE Positions from the Oil Overcharge Fund for Oil Overcharge Administration in FY 2011. These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes an increase of \$1,000 from the Oil Overcharge Fund in FY 2011 for 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 2011. These amounts are unchanged from FY 2010.

The FY 2011 General Government Budget Reconciliation Bill (Laws 2010, 7<sup>th</sup> Special Session, Chapter 5) continued to reduce the \$4,900,000 statutory deposit to the Military Installation Fund to \$2,100,000.

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. Laws 2009, 3<sup>rd</sup> Special Session, Chapter 7 reduced the \$4,900,000 statutory appropriation to \$2,100,000 in FY 2010.

- \$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.

Laws 2010, Chapter 208 shifts the administration of the Military Installation Fund from the Department of Commerce to the Department of Emergency and Military Affairs beginning on January 1, 2011. The law also redirects the pass-through of 80% of the Military Installation Fund appropriation for the Department of Veterans' Services to the Department of Emergency and Military Affairs.

***Nursing Education***

The budget includes no funding for Nursing Education in FY 2011. The FY 2011 adjustment is as follows:

**Elimination of Advance Appropriation**

The budget includes a decrease of \$(2,632,000) from the General Fund in FY 2011 due to the expiration of the Nursing Education SLI advance appropriation. No further new funding is provided for this program.

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 appropriated \$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 was allocated to the universities and \$2,632,000 was allocated to the community colleges. These amounts were based on FY 2005 graduation rates. Total grant amounts are higher than the \$2,632,000 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, allowing the department to expend any remaining monies. Laws 2009, Chapter 92, did not provide additional funding for the program.

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 \$931,800 in grants to community colleges. Grant awards declined from FY 2009 due to non-renewals for several colleges and legislative fund sweeps. The Department of Commerce reports a FY 2010 year-end fund balance of \$2,100,000 for the Nursing Education Demonstration Project Fund. (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	\$ 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	0
Scottsdale	171,500	0	0
Eastern Arizona	127,600	0	0
Central Arizona	257,800	437,000	176,500
Coconino	94,600	107,500	0
Mohave	157,900	157,900	0
Northland Pioneer	183,100	120,100	0
Pima	215,800	0	0
Yavapai	401,400	395,800	0
Arizona Western	261,300	445,300	0
<b>Total</b>	<b>\$3,485,100</b>	<b>\$3,039,400</b>	<b>\$931,800</b>

**5<sup>th</sup> Special Session Reduction**

The budget includes \$(596,600) in FY 2011 to continue the 5<sup>th</sup> Special Session FY 2010 Lump Sum Reduction. This amount was allocated to the operating budget in the General Appropriation Act pending agency decisions on how to allocate. This amount consists of:

General Fund	(291,000)
CEDC Fund	(305,600)

**Fund Transfers**

The budget includes transfers from this agency’s funds to the General Fund. (Please see the Fund Transfers section at the back of this report for more details.)

**Additional Legislation**

**Operating Funds**

The FY 2011 General Government Budget Reconciliation Bill (Laws 2010, 7<sup>th</sup> Special Session, Chapter 5) continues the FY 2010 provision to allow the department to use funds from the Bond, CEDC, and State Lottery Funds to help fund operating costs.

**Arizona 21<sup>st</sup> Century Competitive Initiative Fund Deposit**

The FY 2011 General Government Budget Reconciliation Bill (Laws 2010, 7<sup>th</sup> Special Session, Chapter 5) eliminates the \$27,500,000 deposit from the General Fund into the Arizona 21<sup>st</sup> Century Competitive Initiative Fund in FY 2011.

Laws 2006, Chapter 334 deposited \$35,000,000 from the General Fund into the Arizona 21<sup>st</sup> 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 21<sup>st</sup> Century Competitive Initiative Fund for each fiscal year from FY 2008 to FY 2011. The monies are further appropriated from the Arizona 21<sup>st</sup> 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 21<sup>st</sup> 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 21<sup>st</sup> 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, 1<sup>st</sup> Special Session, Chapter 1 amended Laws 2008, Chapter 291 by eliminating the \$(22,500,000) FY 2009 General Fund deposit into the Arizona 21<sup>st</sup> 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, 1<sup>st</sup> Special Session, Chapter 1. An analysis by the Arizona 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. Laws 2009, 4<sup>th</sup> Special Session, Chapter 3 appropriated \$18,474,923 from the Risk Management Fund to the Arizona 21<sup>st</sup> Century Fund to fulfill this obligation.

Laws 2009, 3<sup>rd</sup> Special Session, Chapter 7 eliminated the \$25,000,000 deposit from the General Fund into the Arizona 21<sup>st</sup> Century Competitive Initiative Fund in FY 2010.

#### ***Other Issues***

##### ***5% FTE Position Reduction***

Laws 2009, 3<sup>rd</sup> Special Session, Chapter 11, Section 17 mandated a 5% General Fund FTE Position reduction by February 1, 2010. This provision required the Department of Commerce to reduce 1 General Fund FTE Position in FY 2010 and an additional 1 General Fund FTE Position in FY 2011. These changes have been incorporated in the agency's budget.