Department of Environmental Quality

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	467.4	467.4	322.0
Personal Services	12,545,100	15,572,300	17,496,100
Employee Related Expenditures	5,328,700	6,927,300	7,362,500
Professional and Outside Services	1,349,200	5,561,600	5,561,600
Travel - In State	269,900	437,200	437,200
Travel - Out of State	3,300	43,300	43,300
Other Operating Expenditures	12,821,200	16,048,300	16,133,100
Equipment	474,800	327,900	327,900
OPERATING SUBTOTAL	**32,792,200**	**44,917,900**	**47,361,700**
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	20,832,800	20,119,500	21,119,500
WQARF Priority Site Remediation	7,000,000	7,000,000	7,000,000 1/2/3/
AGENCY TOTAL	**60,625,000**	**72,037,400** 4/	**75,481,200** 5/6/
FUND SOURCES			
General Fund	7,000,000	7,000,000	7,000,000
Other Appropriated Funds			
Air Permits Administration Fund	4,962,900	7,029,600	7,038,800 7/
Air Quality Fund	2,262,500	5,374,000	5,379,100
Clean Water Revolving Fund	4,162,500	0	0
Emissions Inspection Fund	24,039,800	25,550,500	28,354,300
Hazardous Waste Management Fund	942,600	1,716,400	1,718,900
Indirect Cost Recovery Fund	11,705,500	12,905,700	13,008,700 8/
Recycling Fund	0	0	1,200,000
Solid Waste Fee Fund	1,147,000	1,923,600	1,226,600
Underground Storage Tank Revolving Fund	0	22,000	22,000
Used Oil Fund	13,200	138,900	138,900
Water Quality Fee Fund	4,389,000	10,376,700	10,393,900
SUBTOTAL - Other Appropriated Funds	53,625,000	65,037,400	68,481,200
SUBTOTAL - Appropriated Funds	**60,625,000**	**72,037,400**	**75,481,200**
Other Non-Appropriated Funds	288,558,100	259,442,300	259,442,300
Federal Funds	35,601,900	20,571,600	20,571,600
TOTAL - ALL SOURCES	384,785,000	352,051,300	355,495,100

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

1/ A.R.S. § 49-282 requires an annual $15,000,000 transfer from the Corporate Income Tax to the Water Quality Assurance Revolving Fund. Although the transfer is not included in the annual General Appropriation Act, it is shown here as a General Fund expenditure. Laws 2012, Chapter 303 reduced this transfer to $7,000,000 in FY 2013.

2/ The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. This report shall also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. The FY 2013 report shall be submitted to the Joint Legislative Budget Committee by September 1, 2012. This budget shall specify the monies budgeted for each listed site during FY 2013. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, by October 2, 2012, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table shall include the stage of remediation for each site at the end of FY 2012, whether the current stage of remediation is anticipated to be completed in FY 2013, and the anticipated stage of remediation at each listed site at the end of FY 2013, assuming FY 2013 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)

Operating Budget

The budget includes $47,361,700 and 322 FTE Positions in FY 2013 for the operating budget. These amounts consist of:

	FY 2013
Air Permits Administration Fund	$7,038,800
Air Quality Fund	5,379,100
Emissions Inspection Fund	7,234,800
Hazardous Waste Management Fund	1,718,900
Indirect Cost Recovery Fund	13,008,700
Recycling Fund	1,200,000
Solid Waste Fee Fund	1,226,600
Underground Storage Tank Revolving Fund	22,000
Used Oil Fund	138,900
Water Quality Fee Fund	10,393,900

These amounts fund the following adjustments:

Solid Waste Program Adjustments

The budget includes an increase of $500,000 and 22.8 FTE Positions in FY 2013 for Solid Waste Program adjustments. These amounts fund the following adjustments:

Recycling Fund	1,200,000
Solid Waste Fee Fund	(700,000)

Laws 2011, Chapter 220 authorized the Director of ADEQ to establish fees by rule that would be deposited into the Solid Waste Fee Fund. ADEQ will lower the Solid Waste program fees. This loss of revenue is being offset by use of Recycling Program fees. Chapter 220 also authorized ADEQ to use Recycling Fund monies for the Solid Waste Program. In FY 2010 the Recycling Fund appropriation was eliminated, which frees up the use of these monies for the Solid Waste program.

Emission Inspection Operating Increase

The budget includes an increase of $1,800,000 from the Emissions Inspection Fund in FY 2013 for the Safe Drinking Water program. The Environment Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 303) authorizes ADEQ to use up to $1,800,000 from the Emissions Inspection Fund for this purpose. The operating increase is supplanting the use of Water Infrastructure Financing Authority (WIFA) monies for the Safe Drinking Water program, which frees up the use of WIFA monies for low interest public water systems loans.

Statewide Adjustments

The budget includes an increase of $143,800 in FY 2013 for statewide adjustments. This amount consists of:

Air Permits Administration Fund	9,200
Air Quality Fund	5,100
Emissions Inspection Fund	3,800
Hazardous Waste Management Fund	2,500
Indirect Cost Recovery Fund	103,000
Solid Waste Fee Fund	3,000
Water Quality Fee Fund	17,200

(Please see the Agency Detail and Allocations section.)

Emissions Control Contractor Payment

The budget includes $21,119,500 from the Emissions Inspection Fund in FY 2013 for the Emissions Control Contractor Payment. This amount funds the following adjustments:

Emissions Payment Increase

The budget includes an increase of $1,000,000 from the Emissions Inspection Fund in FY 2013 for additional emissions costs. ADEQ projects an increase in the number of vehicles requiring inspections in FY 2013.

Monies appropriated to this line item are to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the Emissions Inspection Fund. ADEQ then determines the amount due to the contractor, based on the number of vehicles inspected, and makes payments to the contractor on a regular basis.

The Emissions Control Program is operated by an independent contractor in Maricopa and Pima Counties, with the purpose of identifying and repairing polluting motor vehicles. Pima County vehicle owners are subject only to the idle inspection. The program is funded through test fees that are charged to motorists at the time of inspection.

3/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2013 budget for the Water Quality Assurance Revolving Fund before September 1, 2012, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)

4/ In addition to these amounts, a total of $759,900 OF is appropriated in FY 2012 for costs associated with an additional pay period. *(Please see the Agency Detail and Allocations section.)*

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

6/ In addition to these amounts, the General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance payment holiday and employee retention payments. These specific adjustments will be allocated to individual agencies at a later time. *(Please see the General Provisions section.)*

7/ All Air Permits Administration revenues received by the Department of Environmental Quality in excess of $7,038,800 in FY 2013 are appropriated to the department. Before the expenditure of Air Permits Administration receipts in excess of $7,038,800 in FY 2013, the Department of Environmental Quality shall report the intended use of the mines to the Joint Legislative Budget Committee. (General Appropriation Act footnote as adjusted for statewide allocations)

8/ All Indirect Cost Fund Recovery revenues received by the Department of Environmental Quality in excess of $13,308,700 in FY 2013 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund receipts in excess of $13,308,700 in FY 2013, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote as adjusted for statewide allocations)

The Environment BRB requires the State Agency Fee Commission (SAFC) to recommend reductions to Emission Inspection fees by December 31, 2012, along with any proposed changes to the statutory usage of monies from the Emissions Inspection Fund.

WQARF Priority Site Remediation

The budget includes $7,000,000 from the General Fund in FY 2013 for the Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount is unchanged from FY 2012.

WQARF is funded in part from an annual $15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. Funding for this program, therefore, does not appear in the General Appropriation Act. In addition, WQARF generates other revenue from various license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the $15,000,000 CIT transfer so that, when combined with the WQARF fee generated revenue, the program receives $18,000,000 annually.

The Environment BRB notwithstands these statutory provisions and reduces the General Fund allocation to $7,000,000. *Table 1* describes program activity for FY 2011 and FY 2012.

Table 1

WQARF Activity

	Actual FY 2011	Estimated FY 2012
Balance Forward	$ 5,060,200	$ 3,502,300
General Fund	7,000,000	7,000,000
Other Revenue	3,910,000	4,085,500
Total Funds Available	**$15,970,200**	**$14,587,800**
General Fund Expenditures	$ 6,958,200	$ 7,000,000
Other Funds Expended	4,699,100	1,142,800
Funds Transferred		
Dept. of Water Resources	$ 300,000	$ 300,000
Legislative Fund Transfers	510,600	536,200
Year-End Fund Balance	**$ 3,502,300**	**$ 5,608,800**

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

Additional Legislation

Underground Storage Tank Revolving Fund Cap

The Environment BRB suspends the Underground Storage Tank (UST) Revolving Fund Assurance Account administrative cap for FY 2013 and allows the department to utilize up to a combined $6,531,000 from the UST Revolving Fund Assurance Account and the Regulated Substance Fund (RSF) for administrative costs.

The UST fund receives revenues from a 1 cent per gallon gas tax. These monies are expended for the clean up of regulated USTs from the UST Assurance Account. The deadline to make a claim against the Assurance Account was June 30, 2010.

If there are any funds remaining in the Assurance Account, they are to be deposited into the Regulated Substance Fund (RSF) which was established for cleanup of existing and future UST releases. The excise tax sunsets upon the RSF receiving $60 million, or December 31, 2013, whichever occurs first.

Wastewater Permits

The Environment BRB requires ADEQ to transfer the ownership of all wastewater permits to a municipality that is assuming ownership of a wastewater plant from a county.

Other Issues

Reduce Vacant FTE Positions

The FY 2013 budget reduced FTE ceilings for large agencies with a significant number of unfunded, unfilled positions. Although there were variations, the general policy was to reduce the vacancy factor to 10% for agencies with more than 100 FTE Positions. The budget for ADEQ includes a reduction of (168.2) OF FTE Positions in FY 2013 for this policy, incorporated into the figures above.

The Department's 322 FTE ceiling is allocated as follows:

Fund	FTE
Air Permits Administration Fund	45
Air Quality Fee Fund	27
Emissions Inspection Fund	26
Hazardous Waste Management Fund	18
Indirect Cost Recovery Fund	94
Recycling Fund	5
Solid Waste Fee Fund	19
Water Quality Fee Fund	88

As of March 31, 2012, the department had 230 filled appropriated FTE Positions (plus 120 non-appropriated and 128 federal FTE Positions). The department plans to fill 69 FTE Positions and transfer in FTE Positions for a total of 322 appropriated FTE Positions.

Attorney General Charge

Laws 2012, Chapter 302, the FY 2013 Criminal Justice BRB, revises the mechanism for agencies to pay their Attorney General prorata charges. Prior to FY 2013, agencies paid a percent of their personal services to the Attorney General as part of a statewide allocation of that department's expenses. This prorata charge was separate from any funding arrangement contained in an agency's intergovernmental agreement with the Attorney General.

The Criminal Justice BRB eliminated the prorata personal services charge. An agency's General Fund appropriation

will no longer be charged for Attorney General Services. The prorata Non-General Fund charge has been converted into a flat dollar amount as annually specified by the General Appropriations Act. Section 134 of the General Appropriations Act specifies a statewide FY 2013 Non-General Fund charge of $1,906,400 for Attorney General services. ADEQ's share of this Non-General Fund charge will be $135,600. Agencies will pay this charge from their appropriated and non-appropriated non-General Fund sources; the Criminal Justice BRB requires agencies to report to JLBC by September 1 annually the specific funds used.

Fund Transfers

The budget includes the following FY 2013 transfer from this agency's fund to the General Fund:

Emissions Inspection Fund	10,000,000