

Department of Environmental Quality

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	12,181,100	15,716,500	15,716,500
Employee Related Expenditures	4,854,800	6,709,200	6,718,600
Professional and Outside Services	2,096,900	7,761,400	7,761,400
Travel - In State	239,700	472,700	472,700
Travel - Out of State	4,700	53,600	53,600
Other Operating Expenditures	11,905,700	15,381,400	15,479,800
Equipment	78,300	119,700	119,700
OPERATING SUBTOTAL	31,361,200	46,214,500	46,322,300
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	21,931,700	21,119,500	21,119,500
Safe Drinking Water Program	0	0	1,800,000 ^{1/}
WQARF Priority Site Remediation	7,000,000	7,000,000	7,000,000 ^{2/3/4/}
AGENCY TOTAL	60,292,900	74,334,000	76,241,800^{5/}
FUND SOURCES			
General Fund	7,000,000	7,000,000	7,000,000
<u>Other Appropriated Funds</u>			
Air Permits Administration Fund	4,506,600	7,143,900	7,145,300 ^{6/}
Air Quality Fund	3,400,800	5,376,400	5,377,200
Emissions Inspection Fund	26,786,400	26,592,300	28,392,900
Hazardous Waste Management Fund	1,209,000	1,742,700	1,743,000
Indirect Cost Recovery Fund	10,951,900	13,308,500	13,410,100 ^{7/}
Recycling Fund	713,300	1,359,400	1,359,700
Solid Waste Fee Fund	705,100	1,242,700	1,243,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Used Oil Fund	6,200	0	0
Water Quality Fee Fund	5,013,600	10,546,100	10,548,600
SUBTOTAL - Other Appropriated Funds	53,292,900	67,334,000	69,241,800
SUBTOTAL - Appropriated Funds	60,292,900	74,334,000	76,241,800
Other Non-Appropriated Funds	31,744,100	39,743,600	39,743,600
Federal Funds	16,249,200	18,947,000	18,947,000
TOTAL - ALL SOURCES	108,286,200	133,024,600	134,932,400

1/ Before spending any monies from the Safe Drinking Water Program line item, the department shall submit an expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

2/ 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 2014, Chapter 13 reduced this transfer to \$7,000,000 in FY 2015.

3/ 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 must also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. The department shall submit the FY 2015 report to the Joint Legislative Budget Committee on or before September 1, 2014. This budget must specify the monies budgeted for each listed site during FY 2015. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 2, 2014, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table must include the stage of remediation for each site at the end of FY 2014, indicate whether the current stage of remediation is anticipated to be completed in FY 2015 and indicate the anticipated stage of remediation at each listed site at the end of FY 2015, assuming FY 2015 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)

4/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2016 budget for the Water Quality Assurance Revolving Fund before September 1, 2014, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)

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.

Operating Budget

The budget includes \$46,322,300 and 322 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
Air Permits Administration Fund	\$7,145,300
Air Quality Fund	5,377,200
Emissions Inspection Fund	5,473,400
Hazardous Waste Management Fund	1,743,000
Indirect Cost Recovery Fund	13,410,100
Recycling Fund	1,359,700
Solid Waste Fee Fund	1,243,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,548,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$107,800 in FY 2015 for statewide adjustments. This amount consists of:

Air Permits Administration Fund	\$1,400
Air Quality Fund	800
Emissions Inspection Fund	600
Hazardous Waste Management Fund	300
Indirect Cost Recovery Fund	101,600
Recycling Fund	300
Solid Waste Fee Fund	300
Water Quality Fee Fund	2,500

(Please see the Agency Detail and Allocations section.)

As session law, the FY 2015 Environment Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 13) continues to allow the department to utilize up to \$6,531,000 from a combination of the Underground Storage Tank Fund and Regulated Substance Fund in FY 2015 for department administrative expenses.

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2015 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2014.

Monies appropriated to this line item are used 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. Statute does not specify a fee level, and the Director of the DEQ has the statutory authority to alter the fees.

The FY 2013 Environment BRB (Laws 2012, Chapter 303) required the State Agency Fee Commission to recommend reductions to Emissions Inspection fees by December 31, 2012, along with any proposed changes to the statutory use of monies from the Emissions Inspection Fund. The Fee Commission recommended that the current fee structure remain unchanged and that the Legislature set a statutory cap of 140% of Emission Inspection contract costs.

The FY 2014 budget did not implement a statutory fee cap on Emissions Inspection contract costs, as monies from the Emissions Inspection Fund have been transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund.

5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
 6/ All Air Permits Administration revenues received by the Department of Environmental Quality in excess of \$7,145,300 in FY 2015 are appropriated to the department. Before the expenditure of Air Permits Administration receipts in excess of \$7,145,300 in FY 2015, 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)
 7/ All Indirect Cost Recovery Fund revenues received by the Department of Environmental Quality in excess of \$13,410,100 in FY 2015 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund receipts in excess of \$13,410,100 in FY 2015, 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)

In response to the report, DEQ intends to decrease the primary VEI fee in Maricopa County by more than 25% on July 1, 2014. The fee for Phoenix Metropolitan area residents who have 1981 and newer cars and light duty trucks will be reduced from \$27.25 to \$20.00. Sufficient VEI monies will remain after the fee reduction to fund the automation project and the Safe Drinking Water Program. (Please see the ADOA-Automation Projects Fund and the Safe Drinking Water Program sections for more information.)

Safe Drinking Water Program

The budget includes \$1,800,000 from the Emissions Inspection Fund in FY 2015 for the Safe Drinking Water Program. This amount funds the following adjustments:

Safe Drinking Water Program

The budget includes a one-time increase of \$1,800,000 from the Emissions Inspection Fund in FY 2015 for the Safe Drinking Water Program.

As session law, the FY 2015 Environment BRB allows the department to use up of \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program. Before any monies in the line item are expended, the department shall submit an expenditure plan to the Joint Legislative Budget Committee for its review.

WQARF Priority Site Remediation

The budget includes \$7,000,000 from the General Fund in FY 2015 for the Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount is unchanged from FY 2014.

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 FY 2015 Environment BRB continues to notwithstanding these statutory provisions and reduces the General Fund allocation to \$7,000,000. Table 1 describes program activity for FY 2013 and FY 2014. The budget continues the deposit at the reduced level in FY 2015.

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,

Table 1

WQARF Activity		
	Actual FY 2013	Estimated FY 2014
Balance Forward	\$ 8,273,500	\$ 8,996,100
General Fund	7,000,000	7,000,000
Other Revenue	<u>4,889,800</u>	<u>4,249,400</u>
Total Funds Available	\$20,163,300	\$20,245,500
General Fund Expenditures	\$ 5,728,000	\$ 7,000,000
Other Funds Expended	5,139,200	1,285,600
Funds Transferred		
Dept. of Water Resources	<u>\$ 300,000</u>	<u>\$ 300,000</u>
Year-End Fund Balance	\$ 8,996,100	\$ 11,659,900

conducting risk assessments and remediation feasibility studies, and contracting for remediation services.

Additional Legislation

Underground Storage Tank Tax Extension & Program

Laws 1990, Chapter 328 established the Underground Storage Tank (UST) Tax, a 1¢ excise tax on petroleum products and hazardous substances regulated under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax was deposited in the UST Assurance Account, which financed corrective action costs of repairing leaking underground storage tanks incurred by the department, owners, operators, or political subdivisions. The basic Assurance Account limit of coverage is \$500,000 per UST release with certain exceptions. An eligible owner may receive up to 90% of their costs. The deadline to make a claim against the Assurance Account was June 30, 2010.

Laws 2004, Chapter 273 repealed the UST Program and the associated 1¢ excise tax no later than December 31, 2013 and required that the program be replaced by the Regulated Substance Fund (RSF), which receives its funding from underground storage tank revenues, reimbursements, donations, monies encumbered by the department for implementing work plans and corrective action plans. The RSF would then be the funding source for underground storage tanks where the owner cannot be located.

However, Laws 2013, Chapter 244 extended the UST tax to December 31, 2015. All monies collected from the tax will first be deposited into the UST Program. The bill also included the following provisions:

1. Extends eligibility for corrective action coverage from the UST Assurance Account for releases that could not have been reasonably reported prior to July 1, 2006. This provision was subsequently repealed by Laws 2014, Chapter 14.
2. Allows an owner or operator of a UST to apply for preapproval of corrective action costs until December 21, 2014 and extends reimbursement for corrective action until December 31, 2015.

3. Forms an UST study committee and requires the committee to consider and make recommendations related to funding the UST program, financial responsibility, requirements, tank compatibility issues, leak protection, and tank inspections.
4. Requires a report of the committee's findings by December 31, 2013.
5. Specifies that the department is not required to take any action on an application for coverage until after the study committee reports its findings and recommendations; however, reimbursement is contingent upon available funding. This provision was subsequently amended by Laws 2014, Chapter 14 to state that the department is not required to take action until a new revised UST corrective action program is effective.
6. If the UST Assurance Account does not have sufficient monies to pay for coverage of releases reported after July 1, 2006, those releases reported before July 1, 2006 have priority for coverage. This provision was subsequently repealed by Laws 2014, Chapter 14.
7. After payment of claims, the department is required to transfer any monies remaining in the Assurance Account to the RSF up to a maximum of \$60,000,000.
8. Any monies deposited to the RSF in excess of \$60,000,000 will be transferred to the State Highway Fund. This transfer was modified by Laws 2014, Chapter 14, as described below.

During FY 2014, the RSF reached \$60,000,000 in deposits. Any monies deposited to the RSF in excess of \$60,000,000 are now transferred to the State Highway Fund (SHF). At the end of May 2014, \$9,974,919 has been transferred to the SHF.

A provision in the FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14) eliminates the transfer of monies to the State Highway Fund effective January 1, 2015. After that date, any deposits to the RSF will remain the RSF (the 1¢ excise tax, however, expires on December 31, 2015.) The bill also included the following provisions:

1. Repeals the previous Laws 2013, Chapter 244 provision which extended eligibility for corrective action coverage from the UST Assurance Account for releases that could not have been reasonably reported prior to July 1, 2006.
2. Changes the provision from Laws 2013, Chapter 244 that the department is not required to take any action until after the committee report to when a new revised UST corrective action program is effective.
3. Extends "stop order" authority on delivery of regulated substance to an underground storage tank if owner has not submitted a statement of financial responsibility.

The Budget Procedures BRB, as amended by Laws 2014, Chapter 247, offered a legislative intent statement that monies in the UST account be used to fund a new and revised corrective action program and the existing UST Leak Prevention program. The intent of the Legislature within the Budget Procedures BRB is that the new program:

1. Requires DEQ to use UST monies to conduct a baseline assessment of all existing USTs to determine whether they are leaking. Laws 2014, Chapter 247 amended this provision to add that the new program must allow an owner or operator an opportunity as an alternative to the baseline to demonstrate to DEQ that state and federal financial responsibility requirements are already being met.
2. Requires the department to perform any corrective action necessary in consultation with the owner or operator and/or remove USTs at the request of the owner or operator.
3. Requires owners and operators using private insurance to meet the financial responsibility requirements to obtain a standard policy to be developed by DEQ in cooperation with the Department of Insurance and insurance carriers. Laws 2014, Chapter 247 amended this provision to add that DEQ must allow an owner or operator an opportunity, as an alternative to the standard policy, to demonstrate to DEQ that state and federal responsibility requirements are already being met.
4. Prohibit delivery to any UST that does not meet the requirements of the new program and to establish reasonable deductibles to be paid by owners and operators to defray the costs for the baseline assessments, corrective actions, and tank removals.

At the final meeting of the UST Study Committee on February 28, 2014, a motion passed that DEQ be given the authority to convene stakeholder meeting(s) to discuss the proposed program ideas and directed DEQ to spend up to \$200,000 for an actuarial study to assess the issues and costs associated with a new and revised program. DEQ is currently planning to solicit a vendor and conduct the actuarial study by the fall.

Other Issues

DEQ Web Portal Development

The budget includes FY 2015 transfers from Department funds associated with the development of the DEQ web portal that will automate many permitting and compliance processes now conducted with paper. (*Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.*)