

Capital Outlay
Summary

	FY 2015 BASELINE
BUILDING RENEWAL	
ADOA Building System	14,561,700
ADOT Building System	3,396,800
ABOR Building System	0
SUBTOTAL	17,958,500
INDIVIDUAL PROJECTS	
ADOA Building System	0
ADOT Building System	234,635,600
ABOR Building System	0
SUBTOTAL	234,635,600
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations	104,572,700
TOTALS	
ADOA Building System	119,134,400
ADOT Building System	238,032,400
ABOR Building System	0
TOTAL - ALL PROJECTS	357,166,800
FUND SOURCES	
General Fund	104,572,700
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
State Aviation Fund	20,661,500
State Highway Fund	217,370,900
State Lottery Fund	97,400
SUBTOTAL - Other Appropriated Funds	252,594,100
SUBTOTAL - Appropriated Funds	357,166,800
Other Non-Appropriated Funds	564,857,000
Federal Funds	669,949,000
TOTAL - ALL SOURCES	1,591,972,800

DESCRIPTION — The Capital Outlay Budget consists of one-time appropriations to maintain, expand, enhance, or make a lease-purchase payment for the state's capital stock, which includes office buildings, service centers, residential treatment centers, state parks, prisons, highways, and other. For the purposes of capital management and planning, the state is divided into 3 building systems, the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. Capital appropriations are typically made through the Capital Outlay Bill, but may be made through other bills as well.

The following amounts are one-time appropriations:

	FY 2015
Capital Outlay	GF \$104,572,700
	OF 252,594,100

The Baseline includes a total of \$357,166,800 from Appropriated Funds in FY 2015. Of the total, \$104,572,700 is from the General Fund and \$252,594,100 is from Other Appropriated Funds. The budget consists of 3 main categories: 1) Building Renewal, 2) Individual Projects, and 3) Lease-Purchase Payments.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review. The formula takes into account the replacement value, age, and life-cycle of a building. Available appropriations are administered by ADOA (or individual agencies within the ADOA Building System that have their own funding source for building renewal), ADOT, and ABOR.

The Baseline includes total funding of \$17,958,500 in FY 2015 for Building Renewal, which is from Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$9,000,000
Capital Outlay Stabilization Fund	
@ 26.5% (non-ADC buildings)	
Department of Corrections Building	5,464,300
Renewal Fund @ 33.3% (ADC-only	
buildings)	
State Lottery Fund @ 100%	<u>97,400</u>
Subtotal - ADOA	\$14,561,700
Arizona Department of Transportation	
State Highway Fund @ 28.5%	\$ 3,191,900
State Aviation Fund @ 100%	<u>204,900</u>
Subtotal - ADOT	\$ 3,396,800

(See the individual building systems' write-ups for more information.)

Individual Projects

The Baseline includes a total of \$234,635,600 from Other Appropriated Funds in FY 2015 for individual capital projects. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The Baseline includes \$104,572,700 from the General Fund in FY 2015 for payments related to prior year lease-purchase agreements to resolve budget shortfalls and the state's share of the long term financing for the Phoenix Convention Center. *(See the Debt and Lease-Purchase Financing write-up for more information.)*

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FOOTNOTES

Capital Standard Footnotes

Building Renewal

Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2015 and shall be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. Any monies appropriated for building renewal in FY 2015 that are unexpended or unencumbered on June 30, 2016 shall revert to the fund from which the monies were appropriated.

Individual Projects

Pursuant to A.R.S. § 41-1252, the Joint Committee on Capital Review shall review the scope, purpose, and estimated cost of a new capital project that has an estimated cost of more than \$250,000.

Unless otherwise specified, the monies appropriated in this act shall not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities.

Unless otherwise specified, the appropriations made in this act do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance.

Capital Outlay

Arizona Department of Administration Building System

FY 2015
BASELINE

BUILDING RENEWAL	
Department of Administration	9,000,000
Arizona Lottery Commission	97,400
Department of Corrections	5,464,300
SUBTOTAL	14,561,700
TOTAL - ALL PROJECTS	14,561,700

FUND SOURCES

Other Appropriated Funds

Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
State Lottery Fund	97,400
SUBTOTAL - Other Appropriated Funds	14,561,700
SUBTOTAL - Appropriated Funds	14,561,700

TOTAL - ALL SOURCES

14,561,700

DESCRIPTION — The Arizona Department of Administration (ADOA) Building System is comprised of all state agencies except the Arizona Board of Regents and the Arizona Department of Transportation. Capital appropriations may be made directly to an agency within the system, to ADOA on behalf of an agency, or to ADOA for the entire system. The following amounts for FY 2015 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

The following amounts are one-time appropriations:

FY 2015
Building Renewal OF \$14,561,700

The Baseline includes \$14,561,700 from Other Appropriated Funds in FY 2015 for Building Renewal within the ADOA Building System. This amount consists of:

- \$9,000,000 from the Capital Outlay Stabilization Fund (COSF) to ADOA. This continues the COSF amount funded in FY 2014 and represents 26.5% of the non-Department of Corrections (ADC) building renewal formula. The FY 2014 allocation had represented 32.1% of the non-ADC formula.
- \$0 from the Game and Fish Fund to the Arizona Game and Fish Department. The Baseline would typically continue to fund 100% of the agency's building renewal formula for a total of \$633,200. However, as of the end of FY 2013, the agency still has the entire \$523,300 of available building renewal funding from the agency's FY 2013 appropriations, along with \$547,600 allocated in FY 2014.
- \$97,400 from the State Lottery Fund to the Arizona State Lottery Commission, which continues to fund 100% of the building renewal formula. The FY 2014 budget included \$90,300 from the State Lottery Fund,

which also represented 100% of the agency's building renewal formula.

- \$5,464,300 from the ADC Building Renewal Fund to ADC for ADC building renewal and preventative maintenance projects. This continues to fund 33.3% of the ADC-only building renewal formula. The FY 2014 budget included \$5,000,000, which also represented 33.3% of the ADC-only formula.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The Baseline continues the footnote that allows up to \$275,000 and up to 5 FTE Positions be allocated each year from building renewal monies to ADOA for supervision and management of building renewal projects, and a requirement that unused building renewal monies revert on June 30, 2016.

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FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Building Renewal: The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay

Stabilization Fund are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration shall be reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund.

The State Department of Corrections shall report monthly to the Joint Legislative Budget Committee Staff on the status of the projects funded under this section. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects.

Individual Projects: The Department of Administration shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request.

The Department of Administration may allocate FTE Positions authorized for specific projects to other projects in this act provided that the funding for the FTE Positions is cost allocated among the projects receiving benefit. The Department of Administration shall report any FTE Position reallocations to the Joint Committee on Capital Review on or before December 31, 2014.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

COSF Rental Rate Change & Payment Adjustments

The Baseline includes \$(188,600) net General Fund decrease in all lease-purchase and rental charges. In total funds, the net decrease is \$(334,900). The lease-purchase and rent changes include the following adjustments:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 1,700,900	\$ 2,612,600
• PLTO	(1,889,500)	(2,951,200)
• Rent		
Adjustments	<u>0</u>	<u>3,700</u>
	\$ (188,600)	\$ (334,900)

Lease-Purchase

In FY 2015, lease-purchase payments will increase by \$2,612,600, of which \$1,700,900 is from the General Fund and \$911,700 from Other Appropriated Funds. This is largely the result of the recently refinanced Department of Health Services building being classified as lease-purchase, while it was previously financed under a privatized lease-to-own (PLTO) agreement. However, the overall net payment for the building will decline from the FY 2014 budgeted amount.

Privatized-Lease-to-Own

In FY 2015, PLTO payments will decrease by \$(2,951,200), of which \$(1,889,500) is from the General Fund, \$(1,093,200) is from Other Appropriated Funds, and \$31,500 is from Non-Appropriated Funds. This is largely the result of the recently refinanced Department of Health

Services building being classified as lease-purchase, while it was previously financed under a PLTO agreement. However, the overall net payment for the building will decline from the FY 2014 budgeted amount.

Rent Adjustments

The Baseline would fund an FY 2015 rent adjustment for the State Board of Psychologist Examiners, which received a partial rent exemption for FY 2014 in the amount of \$3,700.

In addition, the Baseline includes an updated Summary of Rent Charges, which reflects the most recent space utilization report from ADOA when applying the current rental rates (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). Any change in rental charges beyond the State Board of Psychologist Examiners adjustment would be funded from existing agency appropriations and would have no corresponding change in agency funding levels. *(Please see Summary of Rent Charges for additional information.)*

FY 2015 CHANGE IN LEASE-PURCHASE AND RENT PAYMENTS - DETAIL BY AGENCY

Agency	Lease-Purchase 1/				PLTO 1/				Rent 2/				Total Adjustments			
	GF	OF	NA	Total	GF	OF	NA	Total	GF	OF	NA	Total	GF	OF	NA	Total
Accountancy, State Board of					0	2,700	0	2,700					0	2,700	0	2,700
Administration, AZ Dept. of 3/	3,900			3,900	20,400	52,600	5,500	78,500					24,300	52,600	5,500	82,400
Corrections, Arizona Department of	(95,200)	0	0	(95,200)									(95,200)	0	0	(95,200)
Criminal Justice Commission, Arizona					0	300	4,300	4,600					0	300	4,300	4,600
Deaf and Hard of Hearing, Commission for the					0	5,200	0	5,200					0	5,200	0	5,200
Environmental Quality, Department of					0	98,400	0	98,400					0	98,400	0	98,400
Environmental Quality, Department of - WIFA					0	0	2,800	2,800					0	0	2,800	2,800
Equalization, State Board of					2,100	0	0	2,100					2,100	0	0	2,100
Fire, Building and Life Safety, Dept. of					3,600	0	1,300	4,900					3,600	0	1,300	4,900
Forester, State					2,700	0	0	2,700					2,700	0	0	2,700
Gaming, Dept. of					0	15,200	0	15,200					0	15,200	0	15,200
Health Services, Dept. of	1,792,200	911,700	0	2,703,900	(1,919,100)	(1,279,500)	0	(3,198,600)					(126,900)	(367,800)	0	(494,700)
Housing, Dept. of					0	700	11,600	12,300					0	700	11,600	12,300
Insurance, Dept. of					0	0	1,400	1,400					0	0	1,400	1,400
Psychologist Examiners, State Board of										3,700		3,700	0	3,700	0	3,700
Racing, AZ Dept. of					0	3,800	0	3,800					0	3,800	0	3,800
Residential Utility Consumer Office					0	2,900	0	2,900					0	2,900	0	2,900
Tax Appeals, State Board of					800	0	0	800					800	0	0	800
Technical Registration, State Board of					0	4,500	0	4,500					0	4,500	0	4,500
Tourism, Office of					0	0	4,600	4,600					0	0	4,600	4,600
TOTAL	\$1,700,900	\$911,700	\$0	\$2,612,600	(\$1,889,500)	(\$1,093,200)	\$31,500	(\$2,951,200)	\$0	\$3,700	\$0	\$3,700	(\$188,600)	(\$177,800)	\$31,500	(\$334,900)

- 1/ Under a traditional lease-purchase agreement, the state issues certificates of participation (COPs) to generate proceeds to finance capital projects. Subject to annual legislative and continuing appropriations, the state pays off the lease-purchase over a period of time. Under a privatized lease-to-own (PLTO) agreement, a private entity constructs a building and leases it to the state. At the end of the term, the state takes possession of the building.
- 2/ The Baseline includes a change in rent funding for the State Board of Psychologist Examiners, which received a partial rent exemption for FY 2014 in the amount of \$3,700, as recommended by JCCR at its October 2013 meeting. In addition, the Baseline includes an updated Summary of Rent Charges, which reflects the most recent space utilization report from ADOA when applying the current rental rates (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.) Any change in rental charges beyond those displayed above would be funded from existing agency appropriations and would have no corresponding change in agency funding levels.
- 3/ The Department of Administration lease-purchase adjustment reflects the existing payment schedule for the state building sale/leaseback agreement. As such, this change would not be reflected in the ADOA operating budget.

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2014 - Appropriations Report				Fiscal Year 2015 - Baseline				FY 2015 - FY 2014 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Administration, AZ Department of Sale/Lease-Back	84,119,800	0	0	84,119,800	84,123,700			84,123,700	3,900	0	0	3,900
Corrections, Arizona Department of 1,000 Public Prison Beds ^{2/}	3,182,300	0	0	3,182,300	0			0	(3,182,300)	0	0	(3,182,300)
4,000 Public Prison Beds	16,052,700	0	0	16,052,700	16,064,400			16,064,400	11,700	0	0	11,700
Water and Wastewater Projects	656,700	0	0	656,700	657,500			657,500	800	0	0	800
1,000 Public Prison Beds - Refinance ^{2/}	0	0	0	0	3,074,600			3,074,600	3,074,600	0	0	3,074,600
Subtotal - AZ Department of Corrections	\$19,891,700	\$0	\$0	\$19,891,700	\$19,796,500	\$0	\$0	\$19,796,500	(\$95,200)	\$0	\$0	(\$95,200)
Health Services, Department of Health Services Building - Refinance ^{3/}					1,793,900	1,196,200		2,990,100	1,793,900	1,196,200	0	2,990,100
Health Lab ^{2/}	0	2,315,800	0	2,315,800		0		0	0	(2,315,800)	0	(2,315,800)
Health Lab - Refinance ^{2/}	0	0	0	0	0	2,031,300		2,031,300	0	2,031,300	0	2,031,300
Arizona State Hospital Forensic Unit	3,112,200	0	0	3,112,200	3,110,500			3,110,500	(1,700)	0	0	(1,700)
Subtotal - Department of Health Services	\$3,112,200	\$2,315,800	\$0	\$5,428,000	\$4,904,400	\$3,227,500	\$0	\$8,131,900	\$1,792,200	\$911,700	\$0	\$2,703,900
GRAND TOTAL	\$107,123,700	\$2,315,800	\$0	\$109,439,500	\$108,824,600	\$3,227,500	\$0	\$112,052,100	\$1,700,900	\$911,700	\$0	\$2,612,600

^{1/} Pursuant to A.R.S. § 41-792.01, state agencies occupying buildings being lease-purchased by the Arizona Department of Administration (ADOA) shall pay the higher of the billed amount reported [herein] by the Joint Legislative Budget Committee Staff or the pro rata share of the lease-purchase based on actual occupancy.

^{2/} As reviewed by JCCR in October 2012, ADOA refinanced the existing ADC 1,000 prison bed lease-purchase agreement (2004B) and DHS health lab lease-purchase agreement (2002A).

^{3/} As reviewed by JCCR in October 2012, ADOA refinanced the existing DHS building PLTO into a traditional lease-purchase agreement. The DHS building will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.

PRIVATIZED LEASE-TO-OWN APPROPRIATIONS 1/

	Fiscal Year 2014 - Appropriations Report				Fiscal Year 2015 - Baseline				FY 2015 - FY 2014 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
<u>Arizona Department of Administration Building</u>												
Accountancy, State Board of	0	107,700	0	107,700	0	110,400	0	110,400	0	2,700	0	2,700
Administration, Arizona Department of	799,400	2,059,900	215,200	3,074,500	819,800	2,112,500	220,700	3,153,000	20,400	52,600	5,500	78,500
Deaf and Hard of Hearing, Commission for the	0	206,700	0	206,700	0	211,900	0	211,900	0	5,200	0	5,200
Equalization, State Board of	84,300	0	0	84,300	86,400	0	0	86,400	2,100	0	0	2,100
Tax Appeals, State Board of	32,400	0	0	32,400	33,200	0	0	33,200	800	0	0	800
Subtotal - ADOA Building	\$916,100	\$2,374,300	\$215,200	\$3,505,600	939,400	2,434,800	220,700	3,594,900	\$23,300	\$60,500	\$5,500	\$89,300
<u>Arizona Department of Environmental Quality Building</u>												
Criminal Justice Commission, Arizona	0	10,900	169,300	180,200	0	11,200	173,600	184,800	0	300	4,300	4,600
Environmental Quality, Department of	0	3,855,300	0	3,855,300	0	3,953,700	0	3,953,700	0	98,400	0	98,400
Environmental Quality, Department of - WIFA	0	0	108,400	108,400	0	0	111,200	111,200	0	0	2,800	2,800
Fire, Building and Life Safety, Department of	141,100	0	52,100	193,200	144,700	0	53,400	198,100	3,600	0	1,300	4,900
Forester, State	107,500	0	0	107,500	110,200	0	0	110,200	2,700	0	0	2,700
Gaming, Department of	0	592,600	0	592,600	0	607,800	0	607,800	0	15,200	0	15,200
Housing, Department of	0	28,900	452,600	481,500	0	29,600	464,200	493,800	0	700	11,600	12,300
Insurance, Department of	0	0	54,900	54,900	0	0	56,300	56,300	0	0	1,400	1,400
Racing, Arizona Department of	0	148,000	0	148,000	0	151,800	0	151,800	0	3,800	0	3,800
Residential Utility Consumer Office	0	115,000	0	115,000	0	117,900	0	117,900	0	2,900	0	2,900
Technical Registration, State Board of	0	177,400	0	177,400	0	181,900	0	181,900	0	4,500	0	4,500
Tourism, Office of	0	0	182,700	182,700	0	0	187,300	187,300	0	0	4,600	4,600
Subtotal - ADEQ Building	\$248,600	\$4,928,100	\$1,020,000	\$6,196,700	\$254,900	\$5,053,900	\$1,046,000	\$6,354,800	\$6,300	\$125,800	\$26,000	\$158,100
<u>Arizona Department of Health Services Building</u>												
Health Services, Department of 2/	1,919,100	1,279,500	0	3,198,600	0	0	0	0	(1,919,100)	(1,279,500)	0	(3,198,600)
GRAND TOTAL	\$3,083,800	\$8,581,900	\$1,235,200	\$12,900,900	\$1,194,300	\$7,488,700	\$1,266,700	\$9,949,700	(\$1,889,500)	(\$1,093,200)	\$31,500	(\$2,951,200)

1/ Pursuant to Laws 2001, Chapter 317, the Arizona Department of Administration (ADOA) entered into 3 privatized lease-to-own (PLTO) agreements with private entities for the construction of 3 office buildings on the Capitol Mall. At the end of the lease period, the state will take possession of these buildings. The state currently has 2 outstanding PLTO agreements, as the original DHS Building PLTO has been converted to a traditional lease-purchase agreement. (See Footnote 2 for additional information.)

2/ As reviewed by JCCR in October 2012, ADOA refinanced the existing DHS building PLTO into a traditional lease-purchase agreement. The DHS building will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO agreement usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.

	Fiscal Year 2014 - Appropriations Report				Fiscal Year 2015 - Baseline				FY 2015 Baseline - FY 2014 Appropriations Report Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
1200 W Washington	0	528,000	0	528,000	0	527,800	0	527,800	0	(200)	0	(200)
1300 W Washington	0	382,500	0	382,500	0	382,400	0	382,400	0	(100)	0	(100)
1400 W Washington	0	154,200	0	154,200	0	154,200	0	154,200	0	0	0	0
400 W Congress, Tucson	5,500	47,800	3,100	56,400	5,500	47,900	3,100	56,500	0	100	0	100
Subtotal - Corporation Commission	\$5,500	\$1,112,500	\$3,100	\$1,121,100	\$5,500	\$1,112,300	\$3,100	\$1,120,900	\$0	(\$200)	\$0	(\$200)
Corrections, State Department of												
1601 W Jefferson	750,100	0	0	750,100	749,800	0	0	749,800	(300)	0	0	(300)
1645 W Jefferson	670,500	0	0	670,500	671,000	0	0	671,000	500	0	0	500
1831 W Jefferson	266,300	0	0	266,300	266,300	0	0	266,300	0	0	0	0
Subtotal - State Dept of Corrections	\$1,686,900	\$0	\$0	\$1,686,900	\$1,687,100	\$0	\$0	\$1,687,100	\$200	\$0	\$0	\$200
Deaf and the Hard of Hearing, Commission for the												
1400 W Washington	0	8,400	0	8,400	0	8,400	0	8,400	0	0	0	0
Economic Security, Department of												
1400 W Washington	0	0	100,400	100,400	0	0	100,400	100,400	0	0	0	0
1624 W Adams	64,200	29,200	23,400	116,800	64,100	29,200	23,400	116,700	(100)	0	0	(100)
1700 W Washington	15,600	7,100	5,700	28,400	15,500	7,100	5,700	28,300	(100)	0	0	(100)
1789 W Jefferson (DES West)	1,431,200	356,700	473,100	2,261,000	1,430,600	356,500	472,900	2,260,000	(600)	(200)	(200)	(1,000)
Kingman Building	50,800	104,100	70,000	224,900	50,700	104,000	69,900	224,600	(100)	(100)	(100)	(300)
400 W Congress, Tucson	202,000	190,300	91,600	483,900	201,900	190,200	91,600	483,700	(100)	(100)	0	(200)
DES Group Homes	149,900	215,600	0	365,500	139,200	200,100	0	339,300	(10,700)	(15,500)	0	(26,200)
Capitol Center	195,800	54,400	112,400	362,600	195,700	54,400	112,300	362,400	(100)	0	(100)	(200)
Subtotal - Department of Economic Security	\$2,109,500	\$957,400	\$876,600	\$3,943,500	\$2,097,700	\$941,500	\$876,200	\$3,915,400	(\$11,800)	(\$15,900)	(\$400)	(\$28,100)
Education, Department of												
1535 W Jefferson	301,700	103,200	561,700	966,600	301,600	103,200	561,600	966,400	(100)	0	(100)	(200)
400 W Congress, Tucson	0	12,000	42,600	54,600	0	12,000	42,500	54,500	0	0	(100)	(100)
416 W Congress, Tucson	0	900	21,200	22,100	0	900	21,100	22,000	0	0	(100)	(100)
Subtotal - Department of Education	\$301,700	\$116,100	\$625,500	\$1,043,300	\$301,600	\$116,100	\$625,200	\$1,042,900	(\$100)	\$0	(\$300)	(\$400)
Environmental Quality, Department of												
400 W Congress, Tucson	0	96,800	0	96,800	0	96,800	0	96,800	0	0	0	0
Equal Opportunity, Governor's Office of												
1700 W Washington	13,100	0	0	13,100	13,000	0	0	13,000	(100)	0	0	(100)
Equalization, State Board of												
416 W Congress, Tucson	1,400	0	0	1,400	1,400	0	0	1,400	0	0	0	0
Executive Clemency, Board of												
1645 W Jefferson	83,700	0	0	83,700	83,700	0	0	83,700	0	0	0	0
Financial Institutions, Department of												
2910 N 44th Street	166,000	32,400	0	198,400	166,000	32,400	0	198,400	0	0	0	0
Fire, Building, and Life Safety, Department of												
400 W Congress, Tucson	12,400	0	7,500	19,900	12,300	0	7,500	19,800	(100)	0	0	(100)
Funeral Directors & Embalmers, State Board of												
1400 W Washington	0	15,000	0	15,000	0	15,000	0	15,000	0	0	0	0
Gaming, Department of												
400 W Congress, Tucson	0	14,000	0	14,000	0	14,000	0	14,000	0	0	0	0
Geological Survey, AZ												
402 W Congress, Tucson	6,300	0	0	6,300	17,500	0	0	17,500	11,200	0	0	11,200
416 W Congress, Tucson	147,900	0	0	147,900	147,700	0	0	147,700	(200)	0	0	(200)
1520 W Adams	48,200	0	0	48,200	48,100	0	0	48,100	(100)	0	0	(100)
Subtotal - AZ Geological Survey	\$202,400	\$0	\$0	\$202,400	\$213,300	\$0	\$0	\$213,300	\$10,900	\$0	\$0	\$10,900
Governor, Office of the												
1645 W Jefferson	800	0	0	800	0	0	0	0	(800)	0	0	(800)
1700 W Washington	560,100	0	131,800	691,900	552,700	0	130,100	682,800	(7,400)	0	(1,700)	(9,100)
400 W Congress, Tucson	30,000	0	0	30,000	30,000	0	0	30,000	0	0	0	0
Subtotal - Office of the Governor	\$590,900	\$0	\$131,800	\$722,700	\$582,700	\$0	\$130,100	\$712,800	(\$8,200)	\$0	(\$1,700)	(\$9,900)
Gov's Ofc of Strategic Planning & Budgeting												
1700 W Washington	131,100	0	0	131,100	131,100	0	0	131,100	0	0	0	0
Health Services, Department of												
1740 W Adams	0	1,013,700	0	1,013,700	0	1,013,500	0	1,013,500	0	(200)	0	(200)
1818 W Adams	209,700	0	0	209,700	209,600	0	0	209,600	(100)	0	0	(100)
400 W Congress, Tucson	84,100	50,300	0	134,400	84,100	50,300	0	134,400	0	0	0	0
402 W Congress, Tucson	0	1,200	0	1,200	0	3,300	0	3,300	0	2,100	0	2,100
416 W Congress, Tucson	0	56,400	0	56,400	0	56,400	0	56,400	0	0	0	0

	Fiscal Year 2014 - Appropriations Report				Fiscal Year 2015 - Baseline				FY 2015 Baseline - FY 2014 Appropriations Report Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Subtotal - Department of Health Services	\$293,800	\$1,121,600	\$0	\$1,415,400	\$293,700	\$1,123,500	\$0	\$1,417,200	(\$100)	\$1,900	\$0	1,800
Historical Society, Arizona												
1502 W Washington	360,800	0	0	360,800	360,700	0	0	360,700	(100)	0	0	(100)
Homeland Security, AZ Dept of												
1700 W Washington	0	0	131,400	131,400	0	0	131,300	131,300	0	0	(100)	(100)
Homeopathic & Integrated Medicine Examiners, State Board of												
1400 W Washington	0	5,000	0	5,000	0	4,900	0	4,900	0	(100)	0	(100)
Independent Redistricting Commission												
1100 W Washington	24,200	0	0	24,200	24,200	0	0	24,200	0	0	0	0
Indian Affairs, AZ Commission of												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Insurance, Department of												
2910 N 44th Street	323,500	0	107,800	431,300	323,400	0	107,800	431,200	(100)	0	0	(100)
Judiciary - Court of Appeals												
400 W Congress, Tucson	380,900	0	0	380,900	380,700	0	0	380,700	(200)	0	0	(200)
Judiciary - Supreme Court												
1501 W Washington	2,860,700	0	0	2,860,700	2,859,800	0	0	2,859,800	(900)	0	0	(900)
400 W Congress, Tucson	83,900	0	0	83,900	83,800	0	0	83,800	(100)	0	0	(100)
Subtotal - Supreme Court	\$2,944,600	\$0	\$0	\$2,944,600	\$2,943,600	\$0	\$0	\$2,943,600	(\$1,000)	\$0	\$0	(\$1,000)
Subtotal - Judiciary	\$3,325,500	\$0	\$0	\$3,325,500	\$3,324,300	\$0	\$0	\$3,324,300	(\$1,200)	\$0	\$0	(\$1,200)
Juvenile Corrections, Department of												
1624 W Adams	364,900	0	0	364,900	364,700	0	0	364,700	(200)	0	0	(200)
Land Department, State												
1616 W Adams	0	780,000	0	780,000	0	779,700	0	779,700	0	(300)	0	(300)
Legislature - Auditor General												
2910 N 44th Street	387,500	0	0	387,500	342,200	0	0	342,200	(45,300)	0	0	(45,300)
Liquor Licenses and Control, Department of												
400 W Congress, Tucson	0	21,700	0	21,700	0	21,700	0	21,700	0	0	0	0
Medical Board, AZ												
9500 Doubletree Rd.	0	210,700	0	210,700	0	200,100	0	200,100	0	(10,600)	0	(10,600)
Massage Therapy Board												
1400 W Washington	0	28,500	0	28,500	0	28,500	0	28,500	0	0	0	0
Mine Inspector, State												
1700 W Washington	84,300	0	0	84,300	84,200	0	0	84,200	(100)	0	0	(100)
Naturopathic Physicians Medical Board												
1400 W Washington	0	4,300	0	4,300	0	4,200	0	4,200	0	(100)	0	(100)
Navigable Stream Adjudication Commission, AZ												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.												
1400 W Washington	0	23,000	0	23,000	0	23,000	0	23,000	0	0	0	0
Opticians, State Board of Dispensing												
1400 W Washington	0	5,200	0	5,200	0	5,200	0	5,200	0	0	0	0
Optometry, State Board of												
1400 W Washington	0	9,100	0	9,100	0	9,100	0	9,100	0	0	0	0
Osteopathic Examiners, AZ Board of												
9500 Doubletree Rd.	0	32,900	0	32,900	0	34,200	0	34,200	0	1,300	0	1,300
Parks Board, AZ State												
1300 W Washington	0	61,300	249,100	310,400	0	61,300	249,000	310,300	0	0	(100)	(100)
1616 W Adams	0	0	51,500	51,500	0	0	51,500	51,500	0	0	0	0
Subtotal - AZ State Parks Board	\$0	\$61,300	\$300,600	\$361,900	\$0	\$61,300	\$300,500	\$361,800	\$0	\$0	(\$100)	(\$100)
Personnel Board												
1400 W Washington	0	24,800	0	24,800	0	24,800	0	24,800	0	0	0	0
Pest Management, Office of												
1688 W Adams	0	46,300	0	46,300	0	46,300	0	46,300	0	0	0	0
400 W Congress, Tucson	0	4,000	0	4,000	0	3,900	0	3,900	0	(100)	0	(100)
Subtotal - Office of Pest Management	\$0	\$50,300	\$0	\$50,300	\$0	\$50,200	\$0	\$50,200	\$0	(\$100)	\$0	(\$100)
Pharmacy, AZ State Board of												
1616 W Adams	0	117,900	0	117,900	0	117,800	0	117,800	0	(100)	0	(100)
Podiatry Examiners, State Board of												
1400 W Washington	0	4,400	0	4,400	0	4,400	0	4,400	0	0	0	0

	Fiscal Year 2014 - Appropriations Report				Fiscal Year 2015 - Baseline				FY 2015 Baseline - FY 2014 Appropriations Report Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Private Postsecondary Education, State Board for												
1400 W Washington	0	13,600	3,300	16,900	0	13,600	3,300	16,900	0	0	0	0
Psychologist Examiners, State Board of												
1400 W Washington	0	16,900	0	16,900	0	20,600	0	20,600	0	3,700	0	3,700
Public Safety, Department of												
14 N 18th Avenue	20,300	5,300	5,600	31,200	20,100	5,300	5,600	31,000	(200)	0	0	(200)
1700 W Washington	51,000	13,300	14,000	78,300	50,900	13,300	14,000	78,200	(100)	0	0	(100)
1937 W Jefferson/Wayland	14,700	3,900	4,200	22,800	14,600	3,900	4,200	22,700	(100)	0	0	(100)
400 W Congress, Tucson	10,800	2,800	2,900	16,500	10,900	2,800	2,900	16,600	100	0	0	100
Subtotal - Department of Public Safety	\$96,800	\$25,300	\$26,700	\$148,800	\$96,500	\$25,300	\$26,700	\$148,500	(\$300)	\$0	\$0	(\$300)
Real Estate Department, State												
2910 N 44th Street	235,900	0	0	235,900	235,900	0	0	235,900	0	0	0	0
400 W Congress, Tucson	23,900	0	0	23,900	23,800	0	0	23,800	(100)	0	0	(100)
Subtotal - State Real Estate Department	\$259,800	\$0	\$0	\$259,800	\$259,700	\$0	\$0	\$259,700	(\$100)	\$0	\$0	(\$100)
Respiratory Care Examiners, Board of												
1400 W Washington	0	19,900	0	19,900	0	19,800	0	19,800	0	(100)	0	(100)
Revenue, Department of												
402 W Congress, Tucson	116,900	59,500	0	176,400	116,900	59,500	0	176,400	0	0	0	0
416 W Congress, Tucson	74,900	38,200	0	113,100	74,900	38,200	0	113,100	0	0	0	0
1600 W Monroe	1,377,700	709,700	0	2,087,400	1,377,200	709,400	0	2,086,600	(500)	(300)	0	(800)
Subtotal - Department of Revenue	\$1,569,500	\$807,400	\$0	\$2,376,900	\$1,569,000	\$807,100	\$0	\$2,376,100	(\$500)	(\$300)	\$0	(\$800)
Rio Nuevo Board												
400 W Congress, Tucson	0	0	11,200	11,200	0	0	11,200	11,200	0	0	0	0
School Facilities Board												
1700 W Washington	79,900	0	32,800	112,700	79,900	0	32,800	112,700	0	0	0	0
Secretary of State - Dept of State												
1100 W Washington	23,600	0	0	23,600	23,500	0	0	23,500	(100)	0	0	(100)
1700 W Washington	193,300	0	0	193,300	193,400	0	0	193,400	100	0	0	100
400 W Congress, Tucson	6,000	0	0	6,000	6,000	0	0	6,000	0	0	0	0
Records Management Addition	303,400	0	0	303,400	303,400	0	0	303,400	0	0	0	0
Polly Rosenbaum Building	1,593,500	0	0	1,593,500	1,593,000	0	0	1,593,000	(500)	0	0	(500)
Subtotal - Secretary of State - Dept of State	\$2,119,800	\$0	\$0	\$2,119,800	\$2,119,300	\$0	\$0	\$2,119,300	(\$500)	\$0	\$0	(\$500)
State Boards' Office												
1400 W Washington	0	19,300	0	19,300	0	19,300	0	19,300	0	0	0	0
Transportation, Department of												
1275 W Washington ^{3/}	0	127,600	0	127,600	0	127,500	0	127,500	0	(100)	0	(100)
Treasurer, State												
1700 W Washington	0	140,900	0	140,900	0	140,900	0	140,900	0	0	0	0
Veterinary Medical Examining Board, AZ State												
9500 Doubletree Rd.	0	18,800	0	18,800	0	23,300	0	23,300	0	4,500	0	4,500
GRAND TOTAL	\$16,844,800	\$8,620,500	\$3,208,300	\$28,673,600	\$16,788,600	\$8,600,600	\$3,206,400	\$28,595,600	(\$56,200)	(\$19,900)	(\$1,900)	(\$78,000)

^{1/} Continues to reflect the FY 2014 rental rates enacted by Laws 2013, 1st Special Session, Chapter 6, Section 7, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

^{2/} Pursuant to A.R.S. § 41-792.01, agencies occupying state-owned buildings shall pay the higher of the amount reported [herein] by the Joint Legislative Budget Committee or the pro rata share based on actual occupancy.

^{3/} Represents funding for space occupied by the Attorney General - Department of Law for provision of legal services to the Department of Transportation.

Capital Outlay

Arizona Department of Transportation Building System

FY 2015
BASELINE

BUILDING RENEWAL

ADOT Building Renewal	3,396,800
SUBTOTAL	3,396,800

INDIVIDUAL PROJECTS

Airport Planning and Development	20,456,600
Controlled Access Highways	84,426,000
Debt Service	111,075,000
Statewide Highway Construction	18,678,000
SUBTOTAL	234,635,600

TOTAL - ALL PROJECTS

238,032,400

FUND SOURCES

Other Appropriated Funds

State Aviation Fund	20,661,500
State Highway Fund	217,370,900
SUBTOTAL - Other Appropriated Funds	238,032,400
SUBTOTAL - Appropriated Funds	238,032,400

Other Non-Appropriated Funds	564,857,000
Federal Funds	669,949,000
TOTAL - ALL SOURCES	1,472,838,400

DESCRIPTION — The Arizona Department of Transportation (ADOT) Building System includes all buildings and highways controlled by ADOT. The following includes amounts for state highway construction and other projects related to ADOT's mission.

The following reflects one-time appropriations:

Building Renewal OF **FY 2015** **\$3,396,800**

The Baseline includes \$3,396,800 in FY 2015 for Building Renewal within ADOT's Building System. This amount consists of \$3,191,900 from the State Highway Fund (SHF) and \$204,900 from the State Aviation Fund. The SHF amount is for the ADOT Building System and the State Aviation amount is for the Grand Canyon Airport.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The formula is based on the square footage and replacement cost of existing buildings. The amounts represent 28.5% funding of the revised highways building renewal formula and 100% funding of the aviation building renewal formula.

Airport Planning and Development OF **20,456,600**

The Baseline includes \$20,456,600 from the State Aviation Fund in FY 2015 for ADOT's airport construction program. Fund revenues are generated from a flight property tax, aircraft lieu tax, and revenues from the operations of the Grand Canyon Airport.

Controlled Access Highways OF **84,426,000**

The Baseline includes \$84,426,000 from SHF in FY 2015 for the Highway User Revenue Fund (HURF) formula dedicated to the construction of urban freeways. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service OF **111,075,000**

The Baseline includes \$111,075,000 from SHF in FY 2015 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,614,680,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2015 debt service payments. (See Table 4 for more information on debt service.)

Statewide Highway Construction OF **18,678,000**

The Baseline includes \$18,678,000 from SHF in FY 2015 for highway construction. Please see Table 7 for the HURF distribution analysis, which shows that \$18,678,000 of net SHF monies will be available for statewide highway construction in FY 2015 from the FY 2015 HURF revenue cash flow. Only a small portion of the state's total \$1,433,819,000 highway construction funding is

appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. (See the Total Highway Construction Funding discussion and Table 4 in Other Issues for Legislative Consideration for additional information.)

Expenditure of highway construction funding is determined by the State Transportation Board, which develops a 5-year plan.

Table 1 shows the allocation of the Baseline related to highway construction.

Table 1	
FY 2015 Highway Construction & Debt Service	
	<u>Capital Outlay Bill</u>
Controlled Access	\$ 84,426,000
Debt Service	111,075,000
Highway Construction	<u>18,678,000</u>
Total	\$214,179,000

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Individual Projects

The amount is appropriated from the State Aviation Fund for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph.

The amount appropriated for highway construction is from the State Highway Fund for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph.

The Department of Transportation ~~and the General Accounting Office~~ shall report on or before November 1, 2014 to the Joint Committee on Capital Review on its

actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. ~~Before submitting the report, the Department of Transportation and the General Accounting Office shall provide the report format to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting for their review.~~ THE REPORT SHALL BE IN THE SAME FORMAT AS IN THE PRIOR YEAR UNLESS MODIFICATIONS HAVE BEEN APPROVED BY THE DIRECTORS OF THE JOINT LEGISLATIVE BUDGET COMMITTEE AND THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING.

On or before November 1, 2014, the Department of Transportation shall report capital outlay information for FY 2014, FY 2015 and FY 2016 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This information shall appear in the same format as tables 2, 3 and 6, as found in the *FY 2014 Appropriations Report*.

On or before November 1, 2014, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2016 and the estimated debt service payment amount for FY 2016 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This report shall include State Highway Fund statewide construction bonds, Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and Grant Anticipation Notes and is intended to be comparable to the information in the *FY 2015 Appropriations Report*.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Summary of Non-Appropriated Capital Funds Expended
Table 2 provides a summary of non-appropriated capital expenditures. For further background information regarding the funds, please see the ADOT Summary of Funds in the ADOT operating budget. The ADOT operating budget section does not include the non-appropriated capital expenditures as those only appear in Table 2.

Table 2

**Non-Appropriated Capital Fund Expenditures
(\$ in Thousands)**

	FY 2013	FY 2014	FY 2015
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Aviation Federal Funds	\$ 404	\$ 1,275	\$ 1,600
Federal Grants	685,310	668,349	668,349
Subtotal - Federal Funds	\$685,714	\$ 669,624	\$ 669,949
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	6,250	43,750
Local Agency Deposits Fund	104,913	100,000	100,000
Maricopa Regional Area Road Fund	216,729	542,463	420,107
Subtotal - Other Non-Appropriated Funds	\$ 322,642	\$ 649,713	\$ 564,857
Total	\$1,008,356	\$1,319,337	\$1,234,806

Summary of Highway Construction

The State Transportation Board oversees the department’s highway construction program. The 5-Year Highway Construction Program adopted by the Board on June 25, 2013 includes monies from SHF, Federal Funds, the Maricopa Regional Area Road Fund, HURF for controlled access roads, and bond revenues. The highway construction program adopted by the State Transportation Board totals \$1,044,722,000 for FY 2015. (Please see Table 3 for additional details.)

Total Highway Construction Funding

Only a small portion of the state’s total highway construction funding is appropriated. The Baseline provides \$214,179,000 for highway construction, including \$18,678,000 of net SHF monies for statewide highway construction.

Table 4 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2013 through FY 2015, on a cash flow basis as provided by ADOT. Table 3, which shows the highway construction program adopted by the State Transportation Board, presents a different view since it only shows the total dollar cost of highway projects scheduled to begin in FY 2015 by category of construction. Table 4 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

Table 3

**Highway Construction Projects Beginning in FY 2015
(\$ in Thousands)**

	FY 2015^{1/}
Construction	\$ 97,625
Urban Controlled Access ^{2/}	606,475
Pavement Preservation Maintenance	271,756
Other ^{3/}	68,866
Total	\$1,044,722

^{1/} Data from ADOT’s 2014-2018 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and the Maricopa Regional Area Road Fund (MRARF).

^{3/} Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

For FY 2013, Table 4 shows that total cash highway construction expenditures were \$1,018,500,000, meaning a billion dollars was spent building roads, while \$286,000,000 was spent on debt service. In FY 2014, total estimated cash highway construction expenditures are \$1,393,900,000 with total debt service of \$305,400,000. In FY 2015, total estimated cash highway construction expenditures are \$1,409,700,000 with total debt service of \$307,500,000. The major sources of highway construction funding are SHF, Federal Aid, the half-cent sales tax in Maricopa County (MRARF), bond proceeds, and the Local Agency Deposits Fund. The Local Agency Deposits Fund receives monies from the federal government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Table 4 does not include highway maintenance spending of \$141,830,000 in FY 2013, \$146,800,000 in FY 2014, and \$144,900,000 in FY 2015. Of the \$307,500,000 total debt service amount in Table 4, only \$111,075,000 is appropriated.

Table 4

Highway Construction and Debt Service Expenditures by Fund Source
(\$ in Millions)

<u>Sources</u>	<u>FY 2013</u> <u>Actual</u>	<u>FY 2014</u> <u>Estimate</u>	<u>FY 2015</u> <u>Estimate</u>
State Highway Fund (SHF)			
<i>Appropriated</i>			
HURF - Statewide Debt Service	\$ 102.5	\$ 112.3	\$ 111.1
HURF - MAG Debt Service	25.2	26.7	27.9
MAG/PAG 15.2% Controlled Access - Construction Expenditures	30.8	33.5	129.8
Net SHF Funds Available for Statewide Highway Construction Expenditures	<u>0.9</u>	<u>12.3</u>	<u>18.7</u>
Total SHF - Appropriated	\$ 159.4	\$ 184.8	\$ 287.5
<i>Non-Appropriated</i>			
SHF Highway Construction ^{1/}	\$ -	\$ 3.4	\$ 31.3
Total SHF - Non-Appropriated	\$ -	\$ 3.4	\$ 31.3
Total SHF Highway Construction Expenditures	\$ 159.4	\$ 188.2	\$ 318.8
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 826.3	\$ 823.0	\$ 823.0
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 13.6	\$ 373.4	\$ 239.3
MRARF Debt Service	103.2	103.6	103.6
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 116.8	\$ 477.0	\$ 342.9
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 25.8	\$ 62.7	\$ 218.8
MRARF - Highway Construction Expenditures	117.9	98.6	11.7
GAN - Highway Construction Expenditures	55.9	47.8	-
Total Bond Proceeds Highway Construction Expenditures	\$ 199.6	\$ 209.1	\$ 230.5
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 2.4	\$ 2.0	\$ 2.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 2.4	\$ 2.0	\$ 2.0
Total Highway Construction Expenditures	<u>\$ 1,304.5</u>	<u>\$ 1,699.3</u>	<u>\$ 1,717.2</u>
Total Debt Service			
SHF	\$ 127.7	\$ 139.0	\$ 139.0
Federal Aid	55.1	62.8	64.9
MRARF	103.2	103.6	103.6
Total Debt Service	\$ 286.0	\$ 305.4	\$ 307.5 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 31.7	\$ 49.2	\$ 179.8
Federal Aid	771.2	760.2	758.1
MRARF	13.6	373.4	239.3
Bond Proceeds	199.6	209.1	230.5
Local Agency Deposits Fund	2.4	2.0	2.0
Total Cash Highway Construction Expenditures	\$ 1,018.5	\$ 1,393.9	\$ 1,409.7
Total Highway Construction Expenditures	<u>\$ 1,304.5</u>	<u>\$ 1,699.3</u>	<u>\$ 1,717.2</u>

^{1/} Includes funding from STAN.

^{2/} Information provided by the department. Includes \$138,978,000 for HURF bonds (\$111,075,000 for statewide program and \$27,903,000 MAG program); \$64,895,000 for Grant Anticipation Notes; and \$103,593,000 for MRARF bonds as of June 30, 2013.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver’s license, and others. *Table 5* explains the formula distribution of HURF monies between state and local governments. *Table 7* presents the overall HURF distribution for FY 2013 through FY 2015. The line in *Table 7* showing Net SHF Available for Statewide Highway Construction, which totals \$18,678,000 for FY 2015, does not include Maricopa County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. The line represents the amount that is available from the discretionary SHF to fund the State Transportation Board’s 5-Year Plan.

The *Table 7* HURF estimates do not include the impact of the 2-year legislative proposal to offset the use of HURF for the Department of Public Safety (DPS) operating expenses in FY 2015 and FY 2016. The 2-year cost of the proposal is \$238,494,200. This proposal could be implemented either by depositing General Fund monies directly into HURF or by eliminating the use of HURF in the DPS budget and backfilling with the General Fund. In either circumstance, net HURF collections would increase by \$119,247,100 in FY 2015. *Table 6* displays the impact of the proposal on HURF beneficiaries.

Total FY 2013 HURF collections of \$1,210,024,000 were (0.1)% below FY 2012. HURF collections have been \$1.2 billion for the past 3 fiscal years. As of November 2013, HURF year-to-date collections are 3.0% higher than the prior year. The Baseline, however, continues to assume a 1.0% increase in total HURF revenue collections in FY 2014 and FY 2015.

Decreased HURF collections in FY 2013 were due to revenue loss in all major HURF revenue categories with the exception of VLT. VLT revenue increased 1.7% from FY 2012 because of growth in the number of brand new car and new-to-state vehicle purchase registrations. Gas tax collections declined (0.2)% over the prior fiscal year, while registration revenues decreased (0.2)%. Decreased commercial trucking, due to a lowered demand for goods, led to declines of (1.7)% and (0.1)% in the use fuel tax (diesel) and the motor carrier fee, respectively.

Table 5

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (50.5% of 15.2% = 7.7% displayed in the table above). The controlled access monies are divided: 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

Table 6

Annual Impact of HURF Shift Proposal on Beneficiaries
(\$ in millions)

<u>Beneficiaries</u>	<u>\$ Increase</u>	<u>Revised Total</u>
Cities	\$ 36.4	\$ 376.0
Counties	22.7	234.2
Controlled Access	9.2	93.6
State Highway Construction	51.1	69.7
Total	\$119.2 ^{1/}	\$773.5

^{1/} Numbers do not add due to rounding.

Table 7

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2013	FY 2014	FY 2015
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Total HURF Collections	\$1,210,024	\$1,222,124	\$1,234,345
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	625	652	652
Reversion from MVD Operations ^{3/}	(765)	0	0
Automation Projects Fund	0	5	0
Dept. of Public Safety Transfer from HURF ^{4/}	<u>119,873</u>	<u>119,247</u>	<u>119,247</u> ^{5/}
Net HURF Collections	\$1,089,291	\$1,101,220	\$1,113,446 ^{5/}
Less: Cities ^{6/}	332,234	335,872	339,601 ^{5/}
Counties ^{6/}	206,965	209,232	211,555 ^{5/}
VLT Transfer to Parity Compensation Fund ^{7/}	2,447	2,561	2,657
VLT Transfer to General Fund (5-Year VLT) ^{8/}	1,048	1,000	1,000
VLT Transfer to General Fund (Abandoned Vehicle) ^{9/}	3,155	3,200	3,200
Controlled Access ^{10/}	<u>82,603</u>	<u>83,502</u>	<u>84,426</u> ^{5/}
Net SHF (Discretionary)	\$ 460,839	\$ 465,853	\$ 471,007
Plus: Other Income ^{11/}	32,091	31,144	31,161
Less: Operating Budget ^{12/}	335,809	337,323	340,785
Dept of Public Safety Transfer from Highway Fund ^{13/}	6,780	6,744	6,744
Operating Carryovers, Adjustments and Transfers ^{14/}	5	5	5
Capital Outlay and Building Renewal	793	8,280	3,192
Motor Vehicle Third Party Payments ^{15/}	19,696	20,152	21,689
Debt Service ^{16/}	<u>110,223</u>	<u>112,237</u>	<u>111,075</u> ^{5/}
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{17/}	\$ 19,624	\$ 12,256	\$ 18,678 ^{5/}
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	196,340	223,176	249,654
STAN Account Beginning Balance	<u>37,995</u>	<u>38,266</u>	<u>35,177</u>
Total SHF Available for Statewide Highway Construction	\$ 253,959	\$ 273,698	\$ 303,509

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2014 General Appropriation Act amount of \$651,500 includes \$(400) for statewide adjustments and \$26,300 for the retention payment. The Baseline continues the statewide adjustments and retention payment.

^{3/} The FY 2012 General Appropriation Act shifted the funding for the Motor Vehicle Division (MVD) from SHF to HURF. The FY 2013 General Appropriation Act shifted the funding for MVD back to SHF.

^{4/} The FY 2014 General Appropriation Act amount of \$119,247,100 includes \$719,800 for statewide adjustments and \$5,900 for the retention payment. The Baseline continues the statewide adjustments and retention payment.

^{5/} Does not include the impact of the 2-year legislative proposal to offset the use of Highway User Revenue Fund (HURF) for DPS operating expenses in FY 2015 and FY 2016. The 2-year cost of the proposal is \$238,494,200. This proposal could be implemented either by depositing General Fund monies directly into HURF or by eliminating the use of HURF in the DPS budget and backfilling with the General Fund. In either circumstance, net HURF collections for state and local transportation uses would increase by \$119,247,100 in FY 2015. Table 6 displays the impact if the proposal is enacted.

^{6/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{7/} Laws 2005, Chapter 306 transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{8/} A.R.S. § 28-5808E transfers the SHF share of the HURF VLT to the state General Fund that is generated from the difference between a 2-year registration and a 5-year registration.

^{9/} A.R.S. § 28-5808D also transfers the SHF share of the HURF VLT to the state General Fund that is equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B to the state General Fund.

^{10/} A statutorily defined distribution of SHF monies for design, acquisition and construction of controlled access highways. The monies are divided 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

^{11/} Includes interest and rental income, transfers from the Public Roads Fund, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2013 amount of \$32,091,000 includes \$31,466,000 in miscellaneous revenue and \$625,000 for the Registration Compliance program. The FY 2014 estimate of \$31,143,500 includes \$30,492,000 in miscellaneous revenue and \$651,500 for the Registration Compliance program. The FY 2015 estimate of \$31,161,000 includes \$30,509,000 in miscellaneous revenue and \$651,500 for the Registration Compliance program.

^{12/} The FY 2014 General Appropriation Act amount of \$337,323,200 includes \$(295,400) in statewide adjustments, \$5,410,800 for the retention payment. The Baseline adds \$3,461,900 for new lane miles and continues the statewide adjustments and retention payment.

^{13/} The FY 2014 General Appropriation Act amount of \$6,743,800 includes \$(36,200) in statewide adjustments. The Baseline continues the statewide adjustments and retention payment.

^{14/} Includes \$5,000 annual transfer to Legislative Council for multistate highway transportation agreement.

^{15/} Statutory payments to third parties from VLT collected by third parties.

^{16/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{17/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2015
 BASELINE

BUILDING RENEWAL

Arizona Board of Regents

TOTAL

0
 0

FUND SOURCES

General Fund

TOTAL - ALL SOURCES

0
 0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by the Universities.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review (JCCR). The formula takes into account the replacement value, age, and life cycle of a building. The ABOR formula, however, has not been funded in recent years and is not included in the FY 2015 Baseline.

Lease-Purchase Projects

In FY 2015, ABOR is projected to have \$757,552,000 in outstanding lease-purchase balances, with an overall debt service payment of \$76,509,800. The General Fund share of the debt service is \$29,073,500. The General Fund share receives an annual appropriation of \$34,625,000, but the actual debt service will be \$(5,551,400) below this amount in FY 2015 due to refinancing Certificates of Participation. According to ABOR, savings from this refinancing is estimated to result in excess appropriations of \$(25,984,500), of which a significant portion will occur in FY 2015 - FY 2017. (See *Capital Outlay - Debt and Lease-Purchase Financing for more information.*)

Bonding

In FY 2015, ABOR is projected to have \$2,143,740,000 in outstanding bond balances, including both system revenue and Lottery bonds. The projected debt service is \$171,118,200. (See *Capital Outlay - Debt and Lease-Purchase Financing for more information.*)

University Lottery Bonds

Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9 authorized ABOR to enter into lease-to-own and bond transactions up to a maximum of \$800,000,000 to pay facilities. The bonds are to be paid with 80% Lottery monies and 20% university system revenues.

Of the \$800,000,000, not more than \$167,671,200 could be issued in FY 2009 and not more than \$400,000,000 in FY 2010. ABOR is required to allocate \$376,000,000 of the \$800,000,000 for the Phoenix Biomedical Campus. ABOR also decided to allocate \$16,000,000 to Arizona State University's (ASU) School of Construction. With the Phoenix Biomedical Campus and School of Construction set-asides, \$408,000,000 remained to be allocated. ABOR then initially split this amount evenly to each of the 3 universities (\$136,000,000 each) for building renewal, deferred maintenance, and new construction projects.

\$408,000,000 Allocation

In terms of the \$408,000,000 allocation, JCCR favorably reviewed:

- \$167,700,000 for building renewal bond projects in November 2008 and February 2009, which were issued in April, June, and August 2010, as well as in May 2011. To date, \$163,430,000 of the favorably reviewed \$167,700,000 has been issued.
- The Committee favorably reviewed \$32,388,000 in September 2011 for ASU building renewal projects, of which \$30,915,000 was issued in November 2011.
- In October and December 2012, the Committee favorably reviewed \$38,000,000 for ASU building renewal projects, of which \$35,000,000 was issued in January 2013, with the remaining \$3,000,000 to be issued in May 2014.
- The Committee favorably reviewed \$66,500,000 for the University of Arizona (UA) new construction projects in December 2012, which was issued in April 2013.
- In April 2013, the Committee favorably reviewed \$71,215,000 for Northern Arizona University (NAU) for a new construction project at its Flagstaff campus, which will partially be paid in cash.

Additionally, in August 2013, the Committee favorably reviewed \$33,265,000 for ASU building renewal projects.

As a result of these actions, the entire \$407,400,000 has been favorably reviewed by JCCR. Of this amount, \$394,850,000 has been issued.

Phoenix Biomedical Campus

The Committee also favorably reviewed \$172,940,000 for Phase I of the Phoenix Biomedical Campus in March 2010, which represents a portion of the \$376,000,000 requirement and was to be collaboration between the 3 universities. Subsequent to the March 2010 JCCR meeting, ASU withdrew its partnership altogether from the Phoenix Biomedical Campus. As a result, ASU's \$43,235,000 portion of the \$172,940,000 will not be issued. UA issued \$122,245,000 in June 2010. NAU planned to issue \$7,685,000 in late spring 2011 but decided in March 2011 to pay for its \$7,685,000 portion in cash. If any of the ASU and NAU portions are not being spent for their originally reviewed purposes, the new uses of those monies would need further JCCR review before issuance.

All of the NAU and UA bonds and 73% of the ASU bonds that were issued prior to December 2010 were issued as Build America Bonds (BABs). BABs, which expired December 2010, were taxable bonds which entitled the issuing entity to a 35% interest subsidy from the federal government. This left the issuing entity paying the remaining 65% of interest costs, together with principal, associated with the lease-purchase agreement.

School of Construction

The Committee also favorably reviewed \$16,000,000 for the ASU School of Construction in October 2012, which represents the total \$16,000,000 allocation for that portion of bonding authority. The entire \$16,000,000 was issued in April 2013.

Summary

Between the Phoenix Biomedical Campus, the ASU School of Construction and other projects, \$563,545,000 of the Chapter 287 authority has been reviewed (*see Table 1*). Of that amount, \$524,615,000 has been issued. An additional \$24,555,000 has been reviewed by the Committee and is planned to be issued by the end of FY 2015. At this time, a total of \$250,830,000 in remaining authority is available for university lottery bonding projects, including \$237,680,000 for Phoenix Biomedical Campus expansion. (*See Table 1 for the statutory distribution amounts, the reviewed and planned issuances, and the remaining bonding authority by university.*)

Under Chapter 287, the annual debt service payments were designed to be paid from the University Capital Improvement Lease-to-Own and Bond (UCI) Fund and would be comprised of up to 80% Lottery revenues and at

least 20% state university system revenues, as required by Chapter 287. The \$524,615,000 of total issuances will result in a total debt service payment of \$24,359,600 in FY 2015.

After all Lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$44,924,100 in FY 2015. Since the maximum 80% Lottery portion of the debt service is expected to be only \$19,487,700 in FY 2015, the remaining \$25,436,400 will be deposited to the General Fund. The 20% share of the university payment, which will be paid for with university system revenues, is \$4,871,900 in FY 2015.

Chapter 287 also provided that the monies distributed from the UCI Fund would be exempt from the university debt limit calculations. However, each university is required to submit their debt limit calculations with and without this bonding package as part of their annual Capital Improvement Plans.

Table 2 shows the current projections for UCI Fund revenues and a summary of the payment schedule for the Phoenix Biomedical Campus, ASU School of Construction and building renewal projects if the maximum of 80% of the debt service was paid from Lottery funds.

University Issuances						
Purpose	University	Statutory Distribution	Reviewed Issuance	Actual Issuance	Remaining Authority	Planned Issuance ^{1/}
Phoenix Biomedical Campus	UA	\$360,960,000	\$132,045,000	\$130,845,000	\$230,115,000	\$ 0
	NAU	15,040,000	8,100,000	7,475,000	7,565,000	0
ASU's School of Construction	ASU	16,000,000	16,000,000	16,000,000	0	0
Building Renewal/ New Construction	ASU	136,000,000	136,000,000	111,445,000	0	24,555,000
	NAU	136,000,000	136,000,000	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>135,400,000</u>	<u>126,350,000</u>	<u>9,650,000</u>	<u>0</u>
<i>Subtotal</i>		<u>408,000,000</u>	<u>407,400,000</u>	<u>370,295,000</u>	<u>13,150,000</u>	<u>0</u>
TOTAL		\$800,000,000	\$563,545,000	\$524,615,000	\$250,830,000	\$ 24,555,000

^{1/} Planned issuances by end of FY 2015.

University Lottery Bonding Projects ^{1/}						
		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Projected Lottery Revenue to UCI Fund ^{2/}		\$28,268,400	\$34,167,500	\$44,924,100	\$54,186,000	\$63,909,200
Building Renewal Projects						
Lottery Debt Service	80%	\$ 6,484,900	\$ 13,645,000	\$14,241,500	\$24,528,500	\$24,639,500
University Debt Service	20%	<u>1,621,300</u>	<u>3,411,300</u>	<u>3,560,400</u>	<u>6,132,200</u>	<u>6,159,900</u>
Total Debt Service for \$370.3 M ^{3/}		\$ 8,106,200	\$17,056,300	\$17,801,900	\$30,660,700	\$30,799,400
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 4,120,600	\$ 4,725,900	\$ 4,637,000	\$ 6,703,100	\$ 6,636,100
University Debt Service	20%	<u>1,030,100</u>	<u>1,181,500</u>	<u>1,159,300</u>	<u>1,675,800</u>	<u>1,659,000</u>
Total Debt Service for \$138.3 M ^{4/5/}		\$ 5,150,700	\$ 5,907,400	\$ 5,796,300	\$ 8,378,900	\$ 8,295,100
ASU School of Construction						
Lottery Debt Service	80%		\$ 388,900	\$ 609,200	\$ 817,500	\$ 782,700
University Debt Service	20%		<u>97,200</u>	<u>152,200</u>	<u>204,400</u>	<u>195,700</u>
Total Debt Service for \$16.0 M			\$ 486,100	\$ 761,400	\$ 1,021,900	\$ 978,400
Total Lottery Share at 80% ^{6/}		\$10,605,500	\$18,759,800	\$19,487,700	\$32,049,100	\$32,058,300
Projected University Cost ^{7/}		\$ 2,651,400	\$ 4,690,000	\$ 4,871,900	\$ 8,012,400	\$ 8,014,600

^{1/} Represents JCCR reviewed projects and planned FY 2014 and FY 2015 issuances not yet reviewed by JCCR.
^{2/} Revenue estimates are based on a 5% annual increase in Lottery revenues. Represents that maximum amount of revenue available to the UCI Fund. UCI Fund revenues would not exceed the actual total lottery share of debt service in a given year. See Total Lottery share at 80% line.
^{3/} In FY 2015, includes \$12,818,100 in debt service for projects that have been reviewed by JCCR through 2013.
^{4/} UA has already issued its \$122,245,000 share, NAU will be paying cash for its \$7,685,000 share, and ASU's \$43,235,000 share will not be issued as a result of the withdrawal of their partnership from the Phoenix Biomedical Campus.
^{5/} In FY 2015, includes \$4,871,900 in debt service for projects that have been reviewed by JCCR through 2013.
^{6/} The sum of Total Lottery Share at 80% and Projected University Cost represents the total debt service for the bond issuances. See the Capital Debt and Lease-Purchase section for more information.
^{7/} Represents the 20% university share.

Capital Outlay
Debt and Lease-Purchase Financing

FY 2015
 BASELINE

LEASE-PURCHASE PAYMENTS*

Arizona Department of Administration - 2010 Leaseback Financing	84,123,700
Phoenix Convention Center	20,449,000
TOTAL - ALL PROJECTS	104,572,700

* Represents only General Fund lease-purchase payments not included in individual agency budgets. All other debt and lease-purchase payments are reflected in individual agency budgets. (Please see Table 2.)

FUND SOURCES

General Fund	104,572,700
TOTAL - ALL SOURCES	104,572,700

DESCRIPTION — This section summarizes the state’s debt and lease-purchase obligations.

FY 2015

2010 Leaseback Financing GF \$84,123,700

The Baseline includes \$84,123,700 from the General Fund in FY 2015 for lease-purchase payments related to the \$1,035,419,300 state building sale/lease-back agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 6) and Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/lease-back agreements in FY 2010 for existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at an average tax-exempt interest rate ranging from 4.37% to 4.57%. These issuances range up to 20 years in period of time. (Please see the *Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.*)

Unless the state exceeds its working capital reserve (see below), the certificates are not subject to optional prepayment by the state until FY 2020.

The sale/lease-back agreements were issued as a tax-exempt deficit financing mechanism in which the proceeds were used for state operational expenses. In this circumstance, the federal government essentially requires the state to set aside any cash reserves above certain thresholds.

At the current time, these set aside requirements are based on the state’s total cash reserve, which is defined by the federal government to consist of: the General Fund balance, the Budget Stabilization Fund (BSF), and monies in certain Department of Revenue clearing accounts. In a given fiscal year, the limit on cash reserves is the lesser of the following amounts: 1) A calculation of cash reserves for a fixed 3-year period before the issuance occurred; or

2) 5% of General Fund spending for that fiscal year. For FY 2013, the lesser of these items is the 5% of General Fund spending, which leaves a cash reserve limit of \$436 million.

The FY 2011 Budget Procedures BRB (Laws 2010, 7th Special Session, Chapter 3) requires ADOA to annually submit to JLBC by December 31 of each year a Working Capital Surplus Report associated with meeting the requirements for tax-exempt deficit financing concerning agreements entered into after January 1, 2009. At the time of this writing, ADOA has not submitted the Working Capital Surplus Report for FY 2013.

If the working capital threshold is exceeded in any fiscal year during FY 2012 – FY 2014, the state is required to purchase tax-exempt securities to the extent that the state’s total cash reserve exceeds the limitation. The state is able to meet this requirement as part of its ongoing investment of the state’s operating fund balance, and as such these funds do not need to be appropriated for this specific purpose. These temporary investments are held throughout the fiscal year as long as the state’s cash reserve (which includes the BSF) remains above the threshold. However, the state may divest these funds as needed to meet budgeted expenditures.

Beginning with the working capital report for FY 2015 (published in mid-FY 2016 as required by statute), the state may be required to commence the process of early payback of these issuances by the amount that its cash reserve exceeds the limitations. The Executive is currently exploring how the FY 2015 ending balance will be treated for the purposes of any mandatory repayment of operating issuances made during the FY 2010 shortfall.

Phoenix Convention Center GF 20,449,000

The Baseline includes \$20,449,000 from the General Fund in FY 2015 related to the state participating in repayment

of \$300,000,000 for the expansion of the Phoenix Convention Center. The City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs) in FY 2005. The project was completed in January 2009.

Laws 2003, Chapter 266 initially enacted a debt service schedule related to this issuance, which was later modified by the FY 2012 Revenue BRB (Laws 2011, Chapter 28). The FY 2015 payment amount reflects this new payment schedule.

Statute requires the Auditor General to conduct or contract for an economic and fiscal impact analysis of the expansion project. The study will be conducted in 2014 and will estimate how amounts of General Fund revenues resulting from the expansion compare to debt service payments made by the state since the project's 2009 completion. If the study finds that debt service payments exceeded General Fund revenues, the state will reduce its debt service payments to the City of Phoenix by the shortfall amount. Each year thereafter, the Auditor General is required to update the study's estimate.

* * *

FORMAT — Lump Sum by Project by Fund

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

State Debt Rating

With both major credit rating agencies, Arizona has the fourth highest rating out of 10 possible levels (Standard & Poor's: AA- and Moody's: Aa3). In comparison to other states, only California and Illinois have a lower Standard & Poor's (S&P) credit rating, while 3 states share a similar S&P credit rating as Arizona (New Jersey, Kentucky, and Michigan). Along with an overall rating, credit agencies also provide an outlook in terms of the future direction of rating changes. As of December 2013, both major agencies have a positive outlook for Arizona.

In adopting their credit ratings for Arizona, the major agencies have listed some of the following concerns: 1) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108; 2) continued economic weakness; and 3) concerns about the disposition of current short-term budget surpluses. While noting these challenges, the agencies also indicated Arizona's comparably moderate debt levels and stabilized financial position as positive trends.

Long Term Financing Summary

The state's long-term financing consists of 3 different types of transactions.

Privatized Lease-to-Own Facilities

Under a privatized lease-to-own (PLTO) agreement, a private entity finances and constructs a building and leases

it to the state. At the end of the lease term, the state takes possession of the building.

ADOA currently has PLTO agreements with private entities for 2 office buildings on the Capitol Mall. The 2 buildings house ADOA and the Department of Environmental Quality. *Table 1* provides information on current lease-to-own agreements.

<u>Fund Type</u>	<u>FY 2015 Payment</u>	<u>Lease Completion</u>
General Fund	\$1,194,300	FY 2028
Other Approp.	7,488,700	FY 2028
Non-Approp.	<u>1,266,700</u>	FY 2028
Total	\$9,949,700	NA

These payments are not included in *Table 2's* Lease-Purchase and Bonding Summary since the debt is not held by the state.

Lease-Purchase Facilities

Under a traditional lease-purchase agreement, the state issues COPs to generate proceeds to finance capital projects. ADOA and the universities have entered into lease-purchase agreements for the acquisition and construction of state facilities.

The School Facilities Board (SFB) also entered into lease-purchase agreements between FY 2003 and FY 2005 for the construction of new schools. In FY 2006 and FY 2007, new school construction was financed on a cash basis. Since FY 2008, any new school construction has been done by lease-purchase financing.

The FY 2010 K-12 Education BRB (Laws 2009, 3rd Special Session, Chapter 12) allowed SFB to enter into up to \$100,000,000 of new construction lease-purchase agreements to be financed by a federal program known as Qualified School Construction Bonds (QSCB). The lease-purchase agreement was issued for \$91,325,000 in October 2010 and will be retired in FY 2028. (*Please see the SFB budget narrative for more information.*)

The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) authorized SFB to enter into a refinancing agreement, provided that the agreement must: 1) reduce SFB lease-purchase payments by a combined total of at least \$4,000,000 in FY 2014 and FY 2015; and 2) not increase or decrease SFB lease-purchase payments in any other fiscal year by more than \$100,000.

The refinance received a favorable review from JCCR in October 2013 and reduces SFB's total lease-purchase payments by \$(1,445,200) in FY 2014 and \$(3,800,800) in FY 2015.

In addition, all other lease-purchase payments and PLTO payments that are made from the General Fund are

budgeted to decrease by \$(188,600) from the General Fund in FY 2015. (Please see the Capital Outlay ADOA Building System narrative for more information.)

Table 2 provides information related to current state lease-purchase agreements.

Bonding Summary

The Arizona Board of Regents, on behalf of the universities; the Arizona Department of Transportation; and SFB have issued bonds to renovate, acquire, and construct facilities, as well as to purchase equipment.

SFB has also issued Qualified Zone Academy Bonds (QZABs). The QZAB program, enacted through federal legislation, allows state and local agencies to issue QZABs at low interest rates by providing federal tax credits to bond holders. SFB issued a total of \$26,350,000 in QZABs through 2 issuances in FY 2001 and FY 2003. The debt service on QZABs is paid from Proposition 301

sales tax revenues and Permanent State School Fund revenues.

Laws 2010, 6th Special Session, Chapter 4 authorized ADOA to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. Payments started in FY 2011 and have been made from the Lottery revenues that would have otherwise been deposited into the General Fund. The FY 2015 bond payment will be \$37,499,000. This results in the General Fund receiving \$(37,499,000) less in Lottery revenues in FY 2015.

The federal requirements pertaining to setting aside any cash reserves above a certain threshold also apply to the Lottery Revenue Bonds. (Please see the 2010 Leaseback Financing section in the earlier part of this narrative for more information on these requirements.)

Lease-Purchase Summary	Overall		Overall		FY 15		Retirement FY	
	Balance	1/	GF Balance	1/	FY 15 Payment	2/		GF Payment
<u>ADOA Building System</u>								
2008A Issuance								
ADC 4000 Prison Beds, Water, and Wastewater	\$ 158,660,000		\$ 158,660,000		\$ 16,713,400		\$ 16,713,400	FY 23, FY 28
DHS Forensic Hospital	20,685,000		20,685,000		3,108,900		3,108,900	FY 23
<i>Subtotal</i>	\$ 179,345,000		\$ 179,345,000		\$ 19,822,300		\$ 19,822,300	
2010 A/B Issuance								
Sale/Leaseback	\$ 886,415,000		\$ 886,415,000		\$ 84,123,700		\$ 84,123,700	FY 30
2013 A Issuance								
PLTO Refinance - DHS Building	\$ 22,345,000		\$ -		\$ 1,790,300		\$ -	FY 29
2013 B Issuance								
Refinance - 2002A Health Lab	\$ 13,420,000		\$ -		\$ 2,031,300		\$ -	FY 23
Refinance - 2004B Prisons	\$ 11,140,000		\$ 11,140,000		\$ 3,074,600		\$ 3,074,600	FY 19
<i>Subtotal - ADOA</i>	\$ 1,112,665,000		\$ 1,076,900,000		\$ 110,842,200		\$ 107,020,600	
<u>School Facilities Board</u>								
New School Construction - FY 2003 - FY 2005	\$ 273,535,000		\$ 273,535,000		\$ 82,721,100		\$ 82,721,100	FY 20
New School Construction - FY 2008 - FY 2009	419,360,000		419,360,000		58,644,400		58,644,400	FY 24
Federal Bonds	74,201,600		74,201,600		11,187,300	3/	11,187,300	3/
2011 Refinance	58,785,000		58,785,000		2,449,800		2,449,800	FY 20
2013 Refinance	67,435,000		67,435,000		15,152,600		15,152,600	FY 20
<i>Subtotal - SFB</i>	\$ 893,316,600		\$ 893,316,600		\$ 170,155,200		\$ 170,155,200	
<u>ABOR Building System</u>								
Arizona State University	\$ 301,602,000		\$ 156,055,000		\$ 31,423,000		\$ 13,989,000	FY 34
Northern Arizona University	59,960,000		59,960,000		5,695,800		5,491,500	FY 31
University of Arizona	395,990,000		154,075,000		39,391,000		9,593,000	FY 72
<i>Subtotal - ABOR</i>	\$ 757,552,000		\$ 370,090,000		\$ 76,509,800		\$ 29,073,500	
Phoenix Convention Center 4/5/	\$ 260,124,300		\$ 260,124,300		\$ 20,449,000		\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 3,023,657,900		\$ 2,600,430,900		\$ 377,956,200		\$ 326,698,300	

(Continued)

Table 2 (Continued)

Bonding Summary	Overall Balance	1/ GF Balance	Overall FY 15 Payment	2/ FY 15 GF Payment	Retirement FY
School Facilities Board					
Deficiencies Correction:					
Proposition 301	\$ 316,650,400	\$ -	\$ 65,732,300	\$ -	FY 20
State Land Trust - FY 2004	63,500,000	\$ -	23,291,000	-	FY 18
<i>Subtotal - SFB</i>	\$ 380,150,400	\$ -	\$ 89,023,300	-	
Department of Transportation <u>6/</u>	\$ 1,808,500,000	\$ -	\$ 203,873,000 <u>7/</u>	\$ -	FY 14 - 38
ABOR Building System					
Arizona State University	815,530,000	-	79,781,800	-	FY 44
Northern Arizona University	268,640,000	-	22,002,800	-	FY 41
University of Arizona	510,400,000	-	44,974,000	-	FY 48
University Lottery Bond (SPEED)	524,615,000 <u>8/</u>	-	24,359,600	-	FY 48
<i>Subtotal - ABOR</i>	\$ 2,119,185,000	\$ -	\$ 171,118,200	\$ -	
Lottery Revenue Bond <u>4/</u>	\$ 372,880,000	\$ 372,880,000	\$ 37,499,000	\$ 37,499,000	FY 29
<i>TOTAL - Bonding</i>	\$ 4,680,715,400	\$ 372,880,000	\$ 501,513,500	\$ 37,499,000	
TOTAL - Lease-Purchase & Bonding	\$ 7,704,373,300	\$ 2,973,310,900	\$ 879,469,700	\$ 364,197,300	

1/ Represents principal balances as of June 30, 2015. The "GF Balance" column represents the portion of the overall balance paid from General Fund sources.

2/ Represents lease-purchase or debt service payments, including the portion paid from a General Fund source, which is represented in the "FY 15 GF Payment" column.

3/ This type of financing originally entitled the state to a federal interest rate subsidy of 4.86% (out of the 6% due on the bonds), shortly after each payment. Taking into account recent federal budget reductions, in FY 2015 this subsidy is expected to be \$4,052,300 of the \$11,187,300 payment.

4/ These obligations will be repaid with foregone General Fund revenues.

5/ The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the the city to pay this portion of the lease-purchase payment. The FY 2015 payment amount reflects the changes to the payment schedule enacted by Laws 2011, Chapter 28.

6/ Includes \$1,613,830,000 for Highway User Revenue Fund bonds and \$194,670,000 for Grant Anticipation Notes.

7/ Future debt service schedule is: FY 2016 - \$202,886,000; FY 2017 - \$165,145,000; FY 2018 - \$165,146,000.

8/ Represents outstanding balance as of the end of FY 2015 from projects counted under the \$800,000,000 University Lottery bonding authority, otherwise known as SPEED. SPEED was originally authorized by Laws 2008, Chapter 287. (Please see the Capital Outlay Arizona Board of Regents Building System narrative for more information.)