

STATE OF ARIZONA

FY 2016

Appropriations Report

May 2015

JLBC

FY 2016 APPROPRIATIONS REPORT

This annual *Appropriations Report* provides detailed information on FY 2016 appropriations, as provided in the General Appropriation Act (Laws 2015, Chapter 8) and other legislative acts. The *Report* also includes the economic and state revenue forecast upon which the budget was based. This *Report* provides information relative to the legislative intent of appropriations.

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BUDGET HIGHLIGHTS

HIGHLIGHTS OF THE FY 2016 BUDGET

The FY 2016 budget is based primarily upon the actions of the 52nd Legislature's 1st Regular Session. On March 12, 2015, the Governor signed into law the FY 2016 budget for the year beginning July 1, 2015. The Legislature subsequently adjourned on April 3, 2015, the shortest Regular Session since 1968.

The state's FY 2016 General Fund budget is \$9.13 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$32.6 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

Revised FY 2015 Budget – At the time of publication of the *FY 2015 Appropriations Report* in June 2014 after the 51st Legislature's 2nd Regular Session and 2nd Special Session, the FY 2015 ending balance was forecasted to be \$130 million. By January 2015, however, the projected FY 2015 balance had become an estimated \$(148) million shortfall. The primary adjustments included:

- Decreased balance forward from FY 2014 of \$577 million, or \$(18) million below the original forecast.
- Decreased FY 2015 revenue of \$(175) million, the result of lower-than-budgeted FY 2014 revenues and a decrease in the FY 2015 growth rate from 5.3% to 4.3%.
- Increased one-time FY 2015 costs of \$85 million, primarily due to the timing of prior year expenditures and lower revertments of FY 2015 spending.

As part of the FY 2016 budget, the Legislature approved additional FY 2015 spending changes. In addition to those changes, the Legislature approved \$(20) million in net revenue reductions. This amount included an \$11 million increase in Disproportionate Share revenue and a \$15 million transfer from the state's share of the 2012 National Mortgage Settlement, as well as a \$(31) million revenue decrease from a continuation of a \$500,000 business expensing allowance. In April 2014, the Governor had vetoed a permanent continuation of a \$500,000 allowance.

The revised FY 2015 budget included a requirement that the ending balance be at least \$12 million; if the ending balance would otherwise be less, the difference was to be transferred from the Budget Stabilization Fund. This provision was assumed to require a \$144 million transfer. (*See FY 2015 General Fund Adjustments at the end of this Appropriations Report for more details.*)

Comparison to the JLBC Baseline – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2016 spending based on existing statutory

funding formulas and other technical requirements. The projected spending level was \$9.45 billion.

In comparison, the January Baseline Revenues were based on the 4-sector consensus projections. Excluding enacted statutory changes and one-time adjustments, base revenues were forecast to grow 4.3% in FY 2015 and 3.3% in FY 2016. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$8.77 billion in FY 2016.

The Legislature adjusted the January revenue growth rate for FY 2016 upward as part of the final budget. The increase from 3.3% to 3.8% generated an additional \$52 million in revenue. In addition, the budget assumed \$75 million in a fund transfer from the Arizona Competes Fund, \$145 million in fund transfers from 26 other funds, \$42 million from additional fraud detection efforts, \$15 million in one-time tax amnesty revenues, and \$17 million in disproportionate share revenue. The approval of the \$500,000 business expensing allowance reduced revenues by \$(31) million. After further adjusting the estimates for the enacted FY 2015 carry-forward balance of \$12 million, the FY 2016 General Fund budget was based on a revenue level of \$9.10 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.45 billion, which resulted in a final FY 2016 expenditure level of \$9.13 billion. The \$(312) million in changes to the Baseline included the following:

Major Increases to the Baseline

- \$74 million for additional K-12 education formula spending outside the statutorily-mandated amount.
- \$24 million for a School Facilities Board fund.
- \$18 million for retirement formula increases in the Department of Corrections (ADC) and Department of Public Safety (DPS).
- \$17 million in additional ADC health care and population growth spending.
- \$8 million in additional DCS services spending.
- \$5 million for capital outlay emergency projects.

Major Decreases from the Baseline

- \$(148) million in K-12 reductions, including \$(117) million from Additional Assistance, \$(7) million from beginning a phase-out of multi-site charter small school weight, and \$(22) million from eliminating a FY 2015 performance funding program.

- \$(20) million from limiting the state's liability in those larger districts whose total property tax bill for all jurisdictions exceeds the state's 1% cap.
- \$(99) million for a University lump sum reduction.
- \$(16) million for eliminating Maricopa and Pima community college funding and a Pinal District reduction.
- \$(40) million from re-estimates of Medicaid enrollment in both AHCCCS and the Department of Health Services (DHS).
- \$(37) million from a provider rate reduction of 5% in selected AHCCCS and DHS service areas.
- \$(40) million in total reductions to local jurisdictions, including \$(21) million for shifting Department of Revenue (DOR) costs to counties and cities, \$(17) million for shifting Department of Juvenile Corrections (DJC) costs to counties, and \$(2) million from eliminating pass-through aid to 3 counties.
- \$(16) million from reducing employer health contributions to reflect lower costs.

Under the JLBC Baseline, the FY 2016 budget was projected to have a \$(678) million ending shortfall, assuming the FY 2015 budget shortfall was resolved. The revenue changes and net spending reductions results in a FY 2016 projected ending balance shortfall of \$(35) million. *(Please see the General Fund Balance discussion below.)*

(See FY 2016 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2016 changes.)

Comparison to the FY 2015 Budget – Besides the comparison with the JLBC Baseline, the FY 2016 budget can also be viewed relative to the FY 2015 budget. General Fund revenues, including one-time monies, are projected to decrease from \$9.35 billion in FY 2015 to \$9.10 billion in FY 2016. After technical adjustments, the projected base growth is 3.8%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(112) million net loss from previously-enacted budget legislation.
- \$52 million net gain from budget legislation enacted in the 2015 Legislative Session, including \$42 million from DOR fraud detection programs, \$6 million from additional disproportionate share revenues, and \$6 million from Judiciary fund transfers.
- \$3 million gain due to decreased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2016 budget also has a net \$247 million in one-time revenues (in comparison, FY 2015 one-time revenues were \$791 million due to a \$577 million beginning

balance). The \$247 million amount reflects \$75 million in a fund transfer from the Arizona Competes Fund, \$145 million in fund transfers from 26 other funds, and \$15 million in one-time tax amnesty revenues. The net one-time revenues also include a \$12 million projected carry-forward balance from FY 2015.

General Fund spending is projected to decrease from \$9.34 billion in FY 2015 to \$9.13 billion in FY 2016, which is a decrease of \$(201) million, or (2.2)%.

The FY 2016 budget includes the following changes compared to the FY 2015 budget, as adjusted for supplementals:

- \$54 million for K-12 education, including \$149 million in formula changes (which includes statutorily-mandated inflation increase of 1.6%) and \$74 million for additional spending outside the mandated inflation increase. These adjustments were offset by \$(116) million from additional assistance reductions, \$(22) million from eliminating new performance funding program, and \$(20) million from reducing the state's liabilities for districts exceeding the 1% property tax cap.
- \$(108) million in decreased University funding, including \$(99) million for a lump sum reduction by campus.
- \$(17) million for reduced community college funding, including elimination of aid for Maricopa and Pima Counties.
- \$37 million in increased SFB spending, including \$24 million for a new school capital assistance program.
- \$(21) million in decreased AHCCCS spending, including \$11 million in new formula spending and a total of \$(26) million in provider reductions.
- \$(17) million in decreased DHS spending, including \$(4) million for Medicaid formula spending and \$(11) million in provider reductions.
- \$(5) million in decreased DCS spending, including \$(11) million to remove one-time increases and \$4 million for preventive services as specified in the FY 2015 budget, along with a \$(3) million decrease for eliminating a one-time reduction in the rollover. This amount was offset by \$8 million in services to address new caseload growth.
- \$33 million in ADC spending, including \$12 million for prison health costs, \$5 million for FY 2016 population growth, \$8 million to annualize the cost of medium and maximum security bed expansions, and \$14 million for retirement formula increases.
- \$(40) million in reductions to local jurisdictions, including \$(21) million for shifting DOR costs to counties and cities, \$(17) million for shifting DJC costs to

counties, and \$(2) million from eliminating pass-through aid to 3 counties.

- \$(41) million in technical estimates of net administrative adjustment spending and reverts.

These agency estimates incorporate \$(16) million of savings from reducing employer health contributions to reflect lower costs.

(See FY 2016 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

General Fund Balance – Based on \$9.10 billion in revenue and \$9.13 billion in spending, the FY 2016 General Fund cash balance is projected to be a \$(35) million shortfall. Since adjournment of the 1st Regular Session on April 3, General Fund revenue collections have been stronger than forecast. These gains have the potential to at least offset the \$(35) million shortfall.

Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. Ongoing spending is projected to exceed ongoing revenues by \$(276) million in FY 2016.

The state also faces uncertainty in terms of its spending level as a result of litigation. The primary example is the K-12 inflation lawsuit. In July 2014, the Maricopa Superior Court ruled that the state must “reset” the K-12 per pupil formula amount to adjust for inflation funding that was not provided during FY 2009-FY 2013. This “reset” would translate into increased K-12 spending of \$336 million in FY 2016. The FY 2016 budget did provide \$74 million in “extra” per pupil funding over and above normal inflation. If this \$74 million is counted toward the reset, the revised cost would be \$262 million. The plaintiffs and the state have been in discussions to resolve the litigation.

The ending balance estimates do not reflect the Budget Stabilization Fund (BSF) reserve. After an expected \$144 million FY 2015 transfer, the BSF is expected to have a balance of \$319 million at the end of FY 2016. The BSF transfer and resulting balance will be revised depending on the actual FY 2015 outcome.

Long-Term Projections – A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are based on existing statutory funding requirements, but also incorporate future-year changes, such as statutory changes with effective dates beyond the budget year.

Discussions on the FY 2016 budget included analyzing the impact of budget decisions on estimated FY 2017 and FY 2018 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-6 incorporates the FY 2017 and FY 2018 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2017 and FY 2018 estimates also include a) the continuation of FY 2016 initiatives which were considered to be ongoing, and b) new policy savings.

The figures reflected in the multi-year analysis on page BH-6 differ from the figures listed in the FY 2016 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of the budget bills. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted total FY 2017 revenues to be \$9.27 billion and expenditures to be \$9.29 billion, with a \$(23) million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2017 revenues are projected to be \$9.24 billion compared to the same spending of \$9.29 billion. The FY 2017 shortfall is estimated to be \$(50) million, assuming the \$(35) million FY 2016 shortfall is separately resolved. The structural shortfall for FY 2017 is estimated to be \$(150) million.

The FY 2017 spending includes statutory formula caseload growth and annualization of new policy changes. FY 2017 ongoing revenues are primarily based on a 4-sector consensus growth rate of 4.4%, but also incorporate separately enacted tax law changes.

There are several changes approved as part of the FY 2016 budget which will affect spending starting in FY 2017. Changes affecting General Fund spending include:

- \$(40) million for eliminating the declining enrollment hold harmless provision for K-12 schools.
- \$(30) million for reducing overlapping K-12 regular district/Joint Technological Education District (JTED) spending.
- \$24 million for 1,000 new prison beds at ADC.
- \$(9) million for reducing the lifetime limit for DES welfare cases from 24 to 12 months.
- \$(21) million for hiring freeze and consolidation savings.

In addition, the FY 2017 projection includes the following changes that reflect savings from increases presumed in the JLBC Baseline:

- \$(18) million for reducing the maximum capitation rate increase for AHCCCS and DHS to 1.5%
- \$(30) million for not further increasing the amount of Highway User Revenue Fund (HURF) monies shared with local governments as passed in the FY 2014 budget. The FY 2015 budget originally increased local HURF funding by \$30 million in FY 2015 and FY 2016 and by \$60 million in FY 2017.

The General Appropriation Act forecasted FY 2018 revenues to be \$9.55 billion and expenditures to be \$9.52 billion, with a \$27 million surplus. After accounting for separately enacted legislation and technical adjustments, FY 2018 revenues are projected to be \$9.51 billion compared to the same spending of \$9.52 billion. The FY 2018 budget is estimated to have a \$(8) million shortfall, assuming the \$(50) million FY 2017 shortfall is separately resolved. The structural shortfall for FY 2018 is also estimated to be \$(8) million.

The FY 2018 spending includes statutory formula caseload growth. There are no new policy issues with incremental FY 2018 costs or savings. FY 2018 ongoing revenues reflect the 4-sector consensus base growth rate of 5.1%, further adjusted for previously enacted tax law changes.

Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2016 through FY 2018 would change the ending balance calculations by \$575 million in the third year. As a result, these projections are subject to considerable change.

**Statement of General Fund Revenues and Expenditures 1/
with One-Time Financing Sources**

	<u>FY 2015 Enacted</u>	<u>FY 2016 Enacted</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>
REVENUES				
Ongoing Revenues	\$9,185,619,500	\$9,516,769,400	\$9,871,034,000	\$10,252,671,600
Previously Enacted Changes		(111,800,000)	(87,600,000)	(86,200,000)
Newly Enacted Changes	(19,800,000)	52,433,200	(24,116,600)	(21,800,000)
Urban Revenue Sharing	(608,935,700)	(605,634,300)	(616,849,700)	(631,335,300)
Net On-going Revenues	\$8,556,883,800	\$8,851,768,300	\$9,142,467,700	\$9,513,336,300
One-time Financing Sources				
Balance Forward	577,399,200	12,000,000		
Budget Stabilization Fund Transfer	144,281,200			
Tax Amnesty		15,000,000		
Fund Transfers	68,900,000	220,194,500	100,000,000	
Subtotal One-time Revenues	\$790,580,400	\$247,194,500	\$100,000,000	\$0
Total Revenues	\$9,347,464,200	\$9,098,962,800	\$9,242,467,700	\$9,513,336,300
EXPENDITURES				
Operating Budget Appropriations	\$9,321,780,500	\$9,169,439,300	\$9,331,723,100	\$9,567,694,500
Supplementals	(27,947,400)			
Administrative Adjustments	80,000,000	70,000,000	70,000,000	70,000,000
Revertments	(80,000,000)	(111,380,700)	(109,128,200)	(116,014,500)
Subtotal Ongoing Expenditures	\$9,293,833,100	\$9,128,058,600	\$9,292,594,900	\$9,521,680,000
One-time Expenditures				
Capital Outlay	\$41,631,100	\$6,200,000		
Subtotal One-time Expenditures	\$41,631,100	\$6,200,000	\$0	\$0
Total Expenditures	\$9,335,464,200	\$9,134,258,600	\$9,292,594,900	\$9,521,680,000
Ending Balance <u>2/</u>	\$12,000,000	(\$35,295,800)	(\$50,127,200)	(\$8,343,700)
Structural Balance <u>3/</u>	(\$736,949,300)	(\$276,290,300)	(\$150,127,200)	(\$8,343,700)
Ending Balance (w/ K-12 Litigation) <u>4/</u>	N/A	(\$297,582,200)	(\$317,127,100)	(\$280,123,100)
Structural Balance (w/ K-12 Litigation) <u>3/</u>	N/A	(\$538,576,700)	(\$417,127,100)	(\$280,123,100)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

3/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

4/ Expenditures include the impact of the Maricopa County Superior Court ruling in the K-12 litigation which would require the state to "reset" the per pupil amount prospectively to adjust for foregone inflation in prior years. Estimate assumes \$74.4 million in "extra" base support in the FY 2016 budget is applied to the reset cost. Expenditures do not include "back payments" for K-12 inflation payments which did not occur in prior years, as the Superior Court has not issued a ruling on this matter. Ending balance estimates do not include any Budget Stabilization Fund balance.

ENACTED GENERAL FUND SPENDING BY MAJOR BUDGET UNITS

	<u>FY 2015 Enacted</u>	<u>FY 2016 Enacted</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>
EXPENDITURES				
Operating Budget				
-- Department of Administration	\$11,193,000	\$10,377,300	\$10,330,700	\$10,330,700
-- ADOA - Automation Projects Fund	35,500,000	7,783,000	5,000,000	5,000,000
-- ADOA - Dept. of Child Safety	25,000,000			
-- AHCCCS	1,274,403,200	1,205,162,300	1,239,080,000	1,285,084,400
-- Attorney General	23,465,100	23,623,700	23,495,800	23,495,800
-- Department of Child Safety	361,005,400	356,448,200	347,355,600	347,355,600
-- Commerce Authority	31,800,000	26,800,000	21,800,000	21,800,000
-- Community Colleges	71,906,400	55,045,300	55,580,500	56,449,900
-- Department of Corrections	996,845,600	1,029,900,600	1,050,559,200	1,050,559,200
-- County Funding	7,650,500	6,000,500	6,000,500	6,000,500
-- Department of Economic Security	479,290,300	496,181,900	513,764,400	544,386,800
-- Department of Education	3,808,392,700	3,889,519,500	4,014,290,300	4,170,895,500
-- Department of Environmental Quality	7,000,000	7,000,000	7,000,000	7,000,000
-- Department of Health Services	613,362,100	602,738,300	606,536,700	622,466,300
-- Judiciary	110,495,600	106,178,000	105,910,200	105,910,200
-- Department of Juvenile Corrections	44,165,900	26,984,600	26,574,000	26,574,000
-- State Land Department	12,509,800	12,520,500	12,456,800	
-- Department of Public Safety	89,324,900	93,374,800	93,170,700	93,170,700
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	6,000,000
-- Department of Revenue	48,139,400	30,338,600	29,951,600	29,951,600
-- School Facilities Board	189,358,400	216,878,100	211,568,500	210,148,900
-- Office of Tourism	9,103,700	7,110,400	7,110,400	7,110,400
-- Universities	768,421,900	660,845,100	666,844,000	670,542,800
-- Department of Water Resources	13,330,300	12,803,100	12,758,300	12,758,300
-- All Other Budgets	169,543,600	165,245,100	164,702,300	158,889,800
-- Civic Center Payment	20,449,000	20,449,000	20,449,000	22,499,000
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,123,700	84,114,600	84,117,400	84,115,100
-- Hiring Freeze/Consolidations			(20,700,000)	(20,700,000)
-- Unallocated Adjustments		16,800	16,200	(101,000)
Total - Operating Budget	<u>\$9,321,780,500</u>	<u>\$9,169,439,300</u>	<u>\$9,331,723,100</u>	<u>\$9,567,694,500</u>
-- FY 2015 Supplementals	(27,947,400)			
-- Capital Outlay	41,631,100	6,200,000		
-- Administrative Adjustments	80,000,000	70,000,000	70,000,000	70,000,000
-- Revertments	(80,000,000)	(111,380,700)	(109,128,200)	(116,014,500)
Total Spending	<u>\$9,335,464,200</u>	<u>\$9,134,258,600</u>	<u>\$9,292,594,900</u>	<u>\$9,521,680,000</u>

ENACTED BUDGET 4-YEAR ANALYSIS ^{1/}

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
1 Beginning Balance	\$ 577.4	\$ 12.0	\$ -	\$ -
2 Revenues - January Baseline	\$ 8,630.6	\$ 8,768.2	\$ 9,093.5	\$ 9,505.7
3 Base Revenue Adjustment		52.0	52.0	52.0
4 Fraud Detection		41.9	28.3	15.3
5 Insurance Fraud Assessment		0.5	0.5	0.5
6 Income Tax Inflation Indexing		^{2/}	(15.4)	(24.7)
7 Increase Disproportionate Share Cap	11.0	16.5	8.6	
8 Insurance Premium Tax - Rate Reduction			(1.3)	(1.5)
9 Insurance Premium Tax - Retalitory Exemption		(1.5)	(1.5)	(1.5)
10 International Operations Center - TPT Exemption			(1.3)	(1.3)
11 IRS Conformity	(30.8)	(30.8)	(30.8)	(30.8)
12 Judiciary Transfers		6.0	6.0	6.0
13 Other Revenue Adjustments		(1.2)	3.9	(6.4)
14 One-Time Revenues				
15 Tax Amnesty		15.0		
16 Fund Transfers				
17 Budget Stabilization Fund Transfer	144.3			
18 ADOA - Health Insurance Trust Fund			100.0	
19 AHCCCS - Healthcare Group Fund		7.3		
20 Attorney General - Consumer Restitution Fund		5.4		
21 Attorney General - Mortgage Settlement	15.0			
22 Attorney General - S&P Settlement		16.0		
23 ACA - Competes Fund		75.0		
24 ACA - Job Training Fund		25.0		
25 Corp Comm. - Utility Regulation Fund		2.0		
26 Corrections - Special Services Fund		2.0		
27 Corrections - Inmate Store Proceeds Fund		2.5		
28 Corrections - Corrections Fund		1.3		
29 Corrections - Alcohol Abuse Treatment Fund		0.3		
30 Corrections - Building Renewal Fund		1.5		
31 Corrections - Correctional Industries Fund		0.5		
32 Corrections - Corrections Fund		1.1		
33 DES - Special Administration Fund		4.0		
34 ADE - State Facilities Fund		4.0		
35 ADE - Student Success Fund		2.4		

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

		FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
36	DEQ - Voluntary Vehicle Repair Fund		2.0		
37	DEQ - Air Quality Fund		5.5		
38	DEQ - Recycling Fund		2.5		
39	Housing - Housing Program Fund		5.0		
40	Parks - Off-Highway Vehicle Fund		4.0		
41	DPS - Highway Patrol Fund		5.2		
42	DPS - Fingerprint Clearance Fund		4.3		
43	ADOT - Economic Strength Fund		4.6		
44	ADOT - HELP Fund		20.0		
45	ADOT - State Aviation Fund		15.0		
46	ADOT - Motor Vehicle Liability Fund		2.0		
47	Total Revenues	\$ 9,347.5	\$ 9,099.0	\$ 9,242.5	\$ 9,513.3
48	Base FY 15 Spending	\$ 9,356.4	\$ 9,356.4	\$ 9,356.4	\$ 9,356.4
49	January Baseline Increase		90.2	427.5	730.8
50	Total JLBC Baseline	\$ 9,356.4	\$ 9,446.6	\$ 9,783.9	\$ 10,087.2
	Changes to JLBC Baseline				
51	ADOA - GAO Cost Shift		(0.6)	(0.6)	(0.6)
52	ADOA - Automation - AFIS Cost Shift		(6.9)	0.0	0.0
53	ADOA - Automation - ADE Funding		0.0	(5.4)	(5.4)
54	ADOA - Automation - DOR Projects		(1.7)	(1.7)	(1.7)
55	ADOA - Government Transformation Office		1.0	1.0	1.0
56	ADOA - Immigration Enforcement		(1.2)	(1.2)	(1.2)
57	ADOA - Named Claimants	0.2			
58	Agriculture - Nuclear Emergency Management Fund		0.2	0.2	
59	AHCCCS - Formula Changes to Baseline	(15.3)	(31.5)	(42.7)	(55.2)
60	AHCCCS - 1.5% Cap Rate (FY 17/FY 18)			(12.8)	(29.7)
61	AHCCCS - 5% Provider Rate Reduction		(25.7)	(34.2)	(34.2)
62	AHCCCS - Shift Dispro Share Pool 1 Match		(2.7)	(2.7)	(2.7)
63	AHCCCS - Ambulance Rate Reduction		(6.0)	(6.0)	(6.0)
64	AHCCCS - Inspector General Fraud Prevention		(1.3)	(1.3)	(1.3)
65	AHCCCS - Indiana Waiver 2% Premium/\$25 ER			(0.3)	(0.3)
66	Attorney General - Southern AZ Unit		1.2	1.2	1.2

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
67 Charter School Board - Remove One-Time Equipment		(0.1)	(0.1)	(0.1)
68 Charter School Board - Charter Renewal Funding		0.2	0.2	0.2
69 DCS - Permanency Caseload Growth		8.0	8.0	8.0
70 DCS - Increase Foster Care Rates		(2.0)	(2.0)	(2.0)
71 DCS - Revert Unused Transition Funding	(5.5)			
72 ACA - Retain Mexico City Trade Office		0.3	0.3	0.3
73 ACA - Reduce Competes Fund Deposit		(5.0)	(10.0)	(10.0)
74 Comm Colleges - State Aid Reduction		(15.6)	(15.6)	(15.6)
75 ADC - 1,000 New Beds		0.0	24.2	24.2
76 ADC - Health Care Litigation		6.6	8.1	8.1
77 ADC - Health Care Changes		5.0	5.0	5.0
78 ADC - Non-Health Care Population Growth		1.6	1.6	1.6
79 ADC - Health-Care Population Growth		3.7	3.7	3.7
80 ADC - Expand Transition Program 300 Inmates		(0.3)	(0.3)	(0.3)
81 ADC - Retirement Adjustment		13.5	15.4	15.4
82 ADC - Leap Year		0.9		
83 Counties - Eliminate Pinal/Yavapai/Mohave Funds		(1.7)	(1.7)	(1.7)
84 Counties - Restore Graham \$		0.5	0.5	0.5
85 DES - Formula Adjustments	7.9		(1.4)	(1.5)
86 DES - TANF Reduce Cash Benefits From 2 Yrs to 1 Yr			(9.0)	(9.0)
87 DES - DD Room and Board		0.0	0.0	0.0
88 DES - Eliminate Rural Autism Parenting	(0.3)	(0.3)	(0.3)	(0.3)
89 DES - Eliminate LTC Assisted Living	(0.3)	(0.3)	(0.3)	(0.3)
90 DES - Shift Child Care to CCDF	(4.0)	(4.0)	(4.0)	(4.0)
91 DES - Adult Protective Services Staff (11 FTE)		1.2	1.2	1.2
92 DES - Lump Sum		(2.0)	(2.0)	(2.0)
93 ADE - Formula Changes to Baseline		(5.0)	(12.0)	(12.0)
94 ADE - Base Level Increase		74.4	74.4	74.4
95 ADE - District Non-Classroom Reduction		(113.5)	(113.5)	(113.5)
96 ADE - Charter Additional Assistance Reduction		(3.0)	(3.0)	(3.0)
97 ADE - 3-Yr Multi-Site Charter Phase Out		(6.5)	(13.0)	(20.0)
98 ADE - 2-Yr District Sponsored Charter Phase-Out		(1.2)	(2.4)	(2.4)
99 ADE - Reduce IT Certification Funding		(1.0)	(1.0)	(1.0)
100 ADE - JTED Soft Capital		1.0	1.0	1.0
101 ADE - Shift Funding to Board of Education		(1.3)	(1.3)	(1.3)

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
102 ADE - Repeal Student Success Funding		(22.4)	(22.4)	(22.4)
103 ADE - 1% Property Tax Cap Limitations		(20.2)	(20.2)	(20.2)
104 ADE - Eliminate Declining Enrollment Hold Harmless			(40.0)	(40.0)
105 ADE - Reduce JTED/District Overlap			(30.0)	(30.0)
106 ADE - Alternative Teacher Development		0.5	0.5	0.5
107 ADE - Test Savings		(1.8)	(1.8)	(1.8)
108 Board of Education - Separate Budget Unit		1.3	1.3	1.3
109 DEMA - Nuclear Emergency Management Fund		1.4	1.4	
110 DEMA - Emergency Management Federal Match		1.5	1.5	1.5
111 DEMA - Navajo Camp Fund Shift		(1.0)	(1.0)	(1.0)
112 Forester - Environmental County Grants		0.1	0.1	0.1
113 DHS - Formula Changes to Baseline	(2.6)	(8.4)	(14.9)	(22.5)
114 DHS - 1.5% Cap Rate (FY 17/FY 18)			(5.1)	(12.2)
115 DHS - 5% Provider Rate Reduction		(11.4)	(15.2)	(15.2)
116 DHS - Indiana Waiver 2% Premium			(1.1)	(1.5)
117 DHS - State Hospital Increase		1.2	1.2	1.2
118 DHS - Eliminate School-Based Prevention Education		(0.3)	(0.3)	(0.3)
119 DHS - Eliminate Mental Health First Aid		(0.3)	(0.3)	(0.3)
120 DHS - Third Party Liability			(5.2)	(5.2)
121 Insurance - Fraud Investigations		0.5	0.5	0.5
122 Judiciary - Reduction (Ch. 276)		(3.6)	(3.6)	(3.6)
123 DJC - Local Cost Sharing		(12.0)	(12.0)	(12.0)
124 DJC - One-Time Shift from State Charitable Fund		(0.9)		
125 DJC - Admission Changes		(4.0)	(5.0)	(5.0)
126 Land - Self Fund Agency (Ballot Proposition)			0.0	(12.6)
127 Pioneers' Home - Fund Shift to Land Trust		(1.6)	(1.6)	(1.6)
128 DPS - Continue ACTIC Funding		0.8	0.8	0.8
129 DPS - Freeze HURF Shift			(30.0)	(30.0)
130 DPS - Retirement Adjustment		4.2	4.2	4.2
131 Racing - Eliminate Breeder Award		(0.3)	(0.3)	(0.3)
132 Rad Reg - Nuclear Emergency Management Fund		0.8	0.8	
133 DOR - Fraudulent Returns		3.2	3.2	3.2
134 DOR - Local Cost Sharing		(20.8)	(20.8)	(20.8)
135 SFB - New School Construction		1.5	0.7	
136 SFB - Access Our Best Public Schools		23.9	21.5	21.5

ENACTED BUDGET 4-YEAR ANALYSIS ^{1/}

\$ in Millions

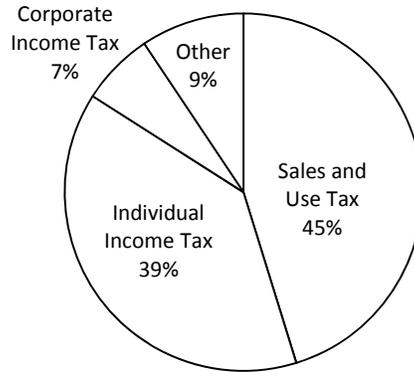
		FY 2015 Enacted		FY 2016 Enacted		FY 2017 Estimate		FY 2018 Estimate
137	SFB - Refinance					(1.7)		(1.7)
138	Universities - Funding Reduction			(99.0)		(90.8)		(90.8)
139	Veterans Services - Operating Costs			0.4		0.5		0.5
140	WIFA - Eliminate FY 15 Funding	(1.0)						
141	Water Resources - Water Banking Shift			(0.5)		(0.5)		(0.5)
142	Capital - Navajo Nation Highway Construction			1.2				
143	Capital - ADOA Building Renewal			5.0		0.0		0.0
144	Other - Hiring Freeze/Consolidations					(20.7)		(20.7)
145	Other - Administrative Adjustments			10.0		10.0		10.0
146	Other - Revertments			(26.4)		(9.1)		(16.0)
147	Other - Statewide AFIS Charge			1.9		1.9		1.9
148	Other - HITF Contribution Reduction			(16.2)		(32.4)		(32.4)
149	Other Spending Adjustments			0.5		0.4		0.4
150	Net Spending Issues Below JLBC Baseline	\$ (20.9)		\$ (312.3)		\$ (491.3)		\$ (565.5)
151	Total Spending	\$ 9,335.5		\$ 9,134.3		\$ 9,292.6		\$ 9,521.7
152	Ending Cash Balance	\$ 12.0		\$ (35.3)		\$ (50.1)		\$ (8.4)
153	Structural Balance (Ongoing)	\$ (737.0)		\$ (276.5)		\$ (150.1)		\$ (8.4)

^{1/} A.R.S. § 35-125 requires the Legislature to delineate revenue and expenditure projections for 3 years (the budget year and 2 succeeding years) in each General Appropriation Act. This chart presents revenues and expenditures during that time period using the January JLBC Baseline as a starting point. All changes are stated relative to the JLBC Baseline.

^{2/} FY 2016 impact of \$(6.1) M was part of the JLBC Baseline, as it was enacted by Laws 2014, Chapter 10.

FY 2016 General Fund Revenue - Where It Comes From

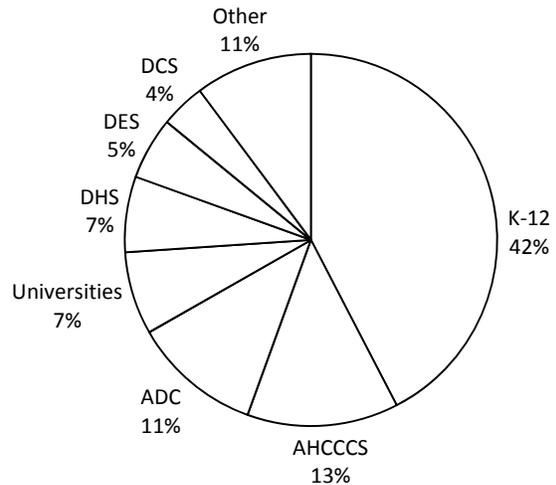
Source	Revenue (Millions)
Sales and Use Tax	\$ 4,276.3
Individual Income Tax	3,671.3
Corporate Income Tax	622.9
Other	886.9
TOTAL REVENUE	\$ 9,457.4 ^{1/}



^{1/} Includes all legislative revenue changes, but does not include beginning balance of \$12 million, urban revenue sharing, or other one-time revenue adjustments.

FY 2016 General Fund Appropriations - Where It Goes

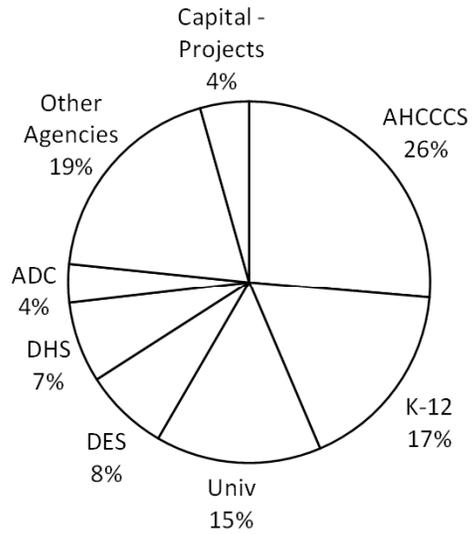
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 3,889.5
AHCCCS	1,205.2
Corrections	1,029.9
Universities	660.8
Health Services	602.7
Economic Security	496.2
Child Safety	356.4
Other Agencies	934.9
TOTAL BUDGET	\$ 9,175.6 ^{1/}



^{1/} Does not include administrative adjustments and revertments.

FY 2016 Total Spending - All Sources 1/

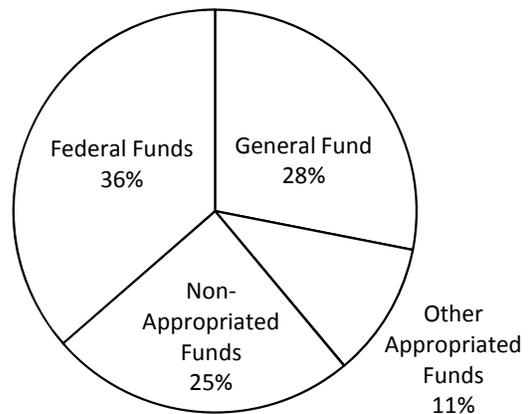
Budget Unit	Spending (Millions)
AHCCCS	\$ 8,610.6
Education (K-12)	5,623.7
Universities	4,833.7
Economic Security	2,463.6
Health Services	2,361.5
Corrections	1,136.7
Other Agencies	6,201.4
Capital - Projects	1,426.4
TOTAL	\$ 32,657.6 <u>2/</u>



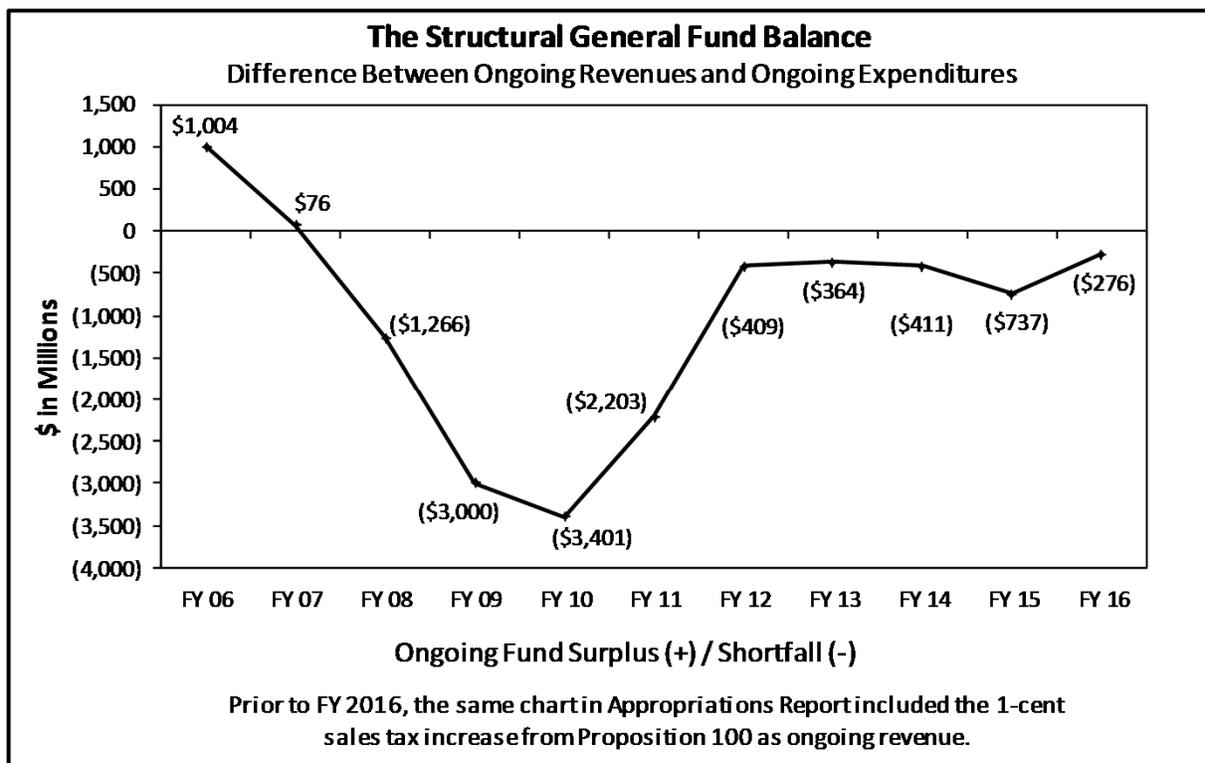
1/ Does not include administrative adjustments and revertsments.
2/ Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

FY 2016 Total Spending by Fund Source 1/

Fund Source	Spending (Millions)
General Fund	\$ 9,175.6
Other Appropriated Funds	3,537.2
Non-Appropriated Funds	8,056.2
Federal Funds	11,888.6
TOTAL	\$ 32,657.6 <u>2/</u>



1/ Does not include administrative adjustments and revertsments.
2/ Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

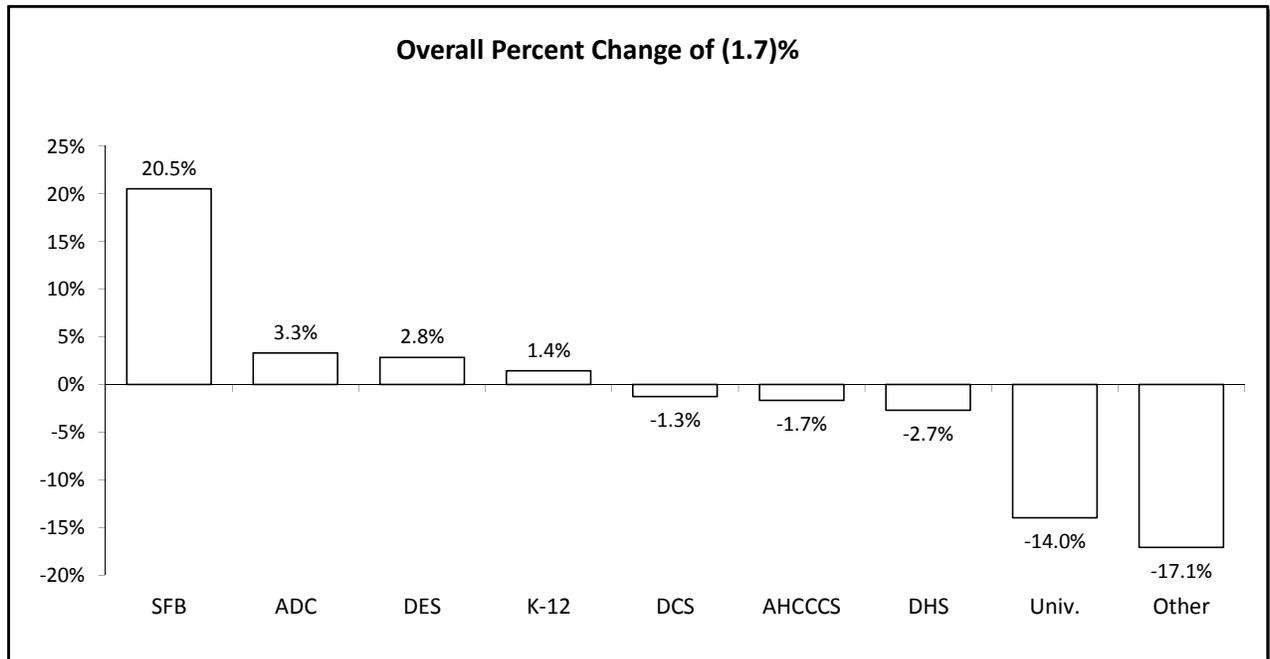
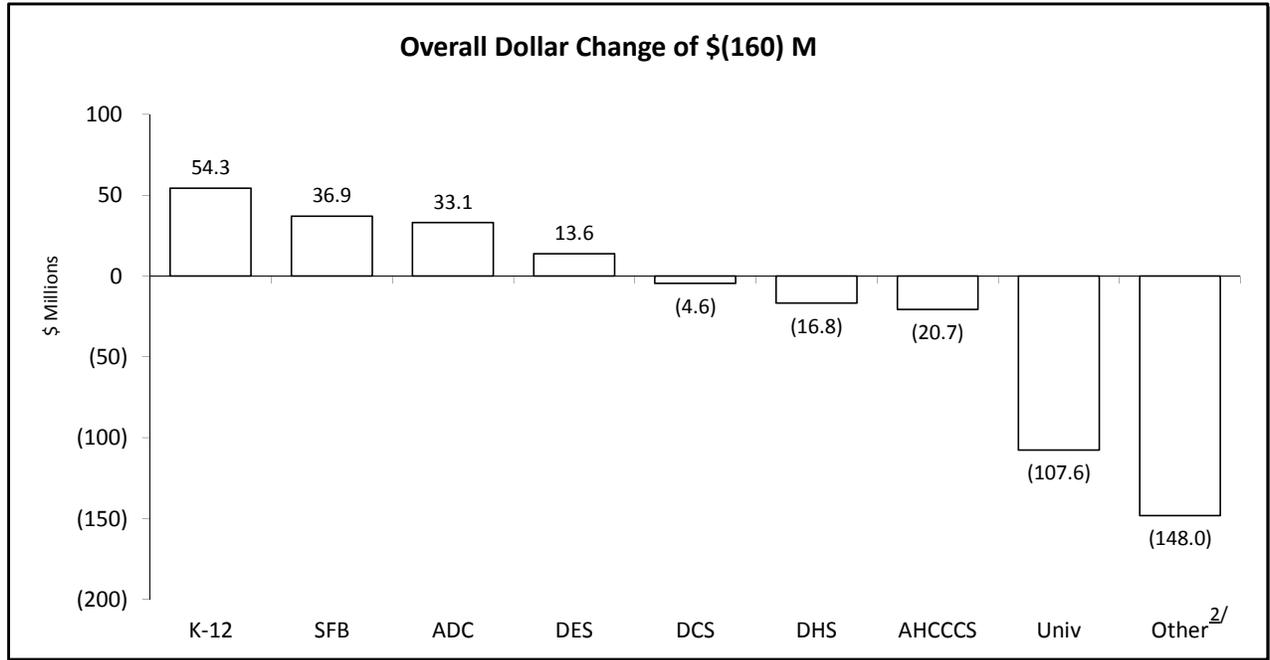


Recent History of Appropriated Ongoing General Fund Structural Balance ^{1/} (\$ in Millions)

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2006	9,259	8,255	1,004
2007	9,624	9,548	76
2008	8,765	10,031	(1,266)
2009	6,967	9,967	(3,000)
2010	6,297	9,698	(3,401)
2011	7,191	9,394	(2,203)
2012	7,789	8,198	(409)
2013	8,144	8,508	(364)
2014	8,361	8,772	(411)
2015	8,557	9,294	(737)
2016	8,852	9,128	(276)

^{1/} Excludes one-time revenues and expenditures.
^{2/} Prior to FY 2016, the same chart in Appropriations Reports included the 1-cent sales tax increase from Proposition 100 as ongoing revenue.

Changes to Major Agencies' General Fund Budget 1/ FY 2015 to FY 2016



^{1/} Represents change in total General Fund spending from FY 2015 (including supplementals and ex-appropriations) to FY 2016. See page BD-5.

^{2/} Includes net revertsments \$(41.4) M, Capital \$(35.4) M, Automation Projects Fund \$(27.7) M, DCS start-up \$(19.5) M, DOR \$(17.8) M, DJC \$(17.2) M, and Community Colleges \$(16.9) M.

FY 2016 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Balances

- Given forecasted FY 2016 General Fund revenues of \$9.13 billion and spending of \$9.13 billion, the budget had a projected FY 2016 balance of \$450,000 at the time of enactment. Given adjustments from subsequent legislation, the FY 2016 ending balance is projected to be \$(35) million.
- Under the 3-year budget plan, there was a projected ending shortfall of \$(23) million in FY 2017 and a balance of \$27 million in FY 2018. After subsequent legislation, the FY 2017 and FY 2018 ending balances are projected to be \$(50) million and \$(8) million, respectively.
- The budget transfers \$144 million from the state's Budget Stabilization Fund (BSF) to the General Fund, decreasing the BSF reserve to \$319 million. The ending balance projections exclude this reserve amount.

General Fund Revenues

- Projected FY 2016 revenues are \$9.10 billion. While base revenues are forecast to grow in FY 2016, overall net revenues would decline by \$(249) million compared to FY 2015.
 - ⇒ Base revenues are projected to grow by \$351 million, or 3.8%. The JLBC 4-sector January Baseline presumed 3.3% growth.
 - ⇒ The beginning balance would decrease by \$(565) million, from \$577 million at the beginning of FY 2015 to \$12 million at the start of FY 2016.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would decline from \$609 million to \$606 million, thereby increasing state revenue by \$3 million.
 - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(112) million, primarily from a reduction in corporate income taxes.
 - ⇒ Newly enacted changes would increase state revenue by \$69 million, including gains of \$42 million from enhanced tax fraud detection at the Department of Revenue, \$15 million from tax amnesty, \$6 million from an increased disproportionate share hospital cap, and \$6 million from ongoing Judiciary transfers.
 - ⇒ State revenue would be lowered by \$(2) million due to a change in insurance premium tax retaliatory exemptions.
 - ⇒ Fund transfers increased by a net amount of \$7 million. The budget shifts \$220 million from other funds to the General Fund in FY 2016, compared to \$213 million in FY 2015. The FY 2015 transfers included \$144 million from the BSF and \$69 million from various other funds.

General Fund Spending

- FY 2016 General Fund spending is projected to be \$9.13 billion, a decrease of \$(201) million, or (2.2)% below FY 2015.
- The entire FY 2016 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$32.6 billion.

Education

Department of Education

- ADE General Fund spending increases by \$54.3 million, or 1.4%, including:
 - ⇒ \$82.2 million for 1.4% student growth, for a total student count of 1,097,260.
 - ⇒ \$22.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$87.0 million for a 1.59% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$74.4 million for additional inflation funding.
 - ⇒ \$(38.3) million for an increase in property tax collections due to new construction.
 - ⇒ \$22.5 million for higher Homeowner's Rebate due to enacted property tax reductions.
 - ⇒ \$(24.5) million for eliminating funding of post-FY 2013 district sponsored charter school conversions (enacted in 2014).
 - ⇒ \$(1.2) million to fund "incremental monies" for pre-FY 2014 district sponsored charter schools at 50% for FY 2016, with the intent to eliminate all district charters in FY 2017.
 - ⇒ \$3.2 million for new voter-approved Yuma County JTED.
 - ⇒ \$(116.5) million for Additional Assistance reductions with the intent to increase total percentage spent on instruction, student support and instructional support.
 - ⇒ \$(1.0) million to eliminate funding of Information Technology certifications.
 - ⇒ \$1.0 million to increase JTED Soft Capital.

- ⇒ \$(1.3) million to shift funding to separate State Board of Education budget unit.
- ⇒ \$(22.4) million to repeal Student Success Funding.
- ⇒ \$(20.2) million to limit state responsibility when local property taxes exceed the constitutional 1% cap of a home's value.
- ⇒ \$0.5 million for Alternative Teacher Development.
- ⇒ \$(1.8) million for Achievement Testing costs.
- ⇒ \$(6.5) million for 3-year small school weight multi-site charter phase-out.
- ⇒ \$(3.0) million to eliminate one-time supplemental property tax settlement.
- ⇒ \$(2.3) million for miscellaneous.
- In FY 2017, ADE statutory changes include:
 - ⇒ \$(6.5) million for additional small school weight multi-site charter phase-out.
 - ⇒ \$(40.0) million to eliminate declining district hold harmless.
 - ⇒ \$(30.0) million to reduce JTED/District overlap.
- If the Superior Court ruling on the K-12 inflation litigation is upheld, ADE's budget would increase by another \$262 million in FY 2016 (if the \$74 million in additional inflation funding is applied to the cost). The Superior Court has held that the K-12 formula is to be adjusted for any foregone inflation payments between FY 2009 and FY 2013.

School Facilities Board

- SFB General Fund spending increases by \$36.9 million, or 20.5%, including:
 - ⇒ \$23.9 million for new Access Our Best Public Schools Fund to facilitate capital financing for schools with waiting lists.
 - ⇒ \$11.6 million for increased debt service associated with past lease-purchase agreements.
 - ⇒ \$1.4 million for construction of a school in Benson, which qualifies under the state's funding formula.

Universities

- The Universities' General Fund spending decreases by \$(107.6) million, or (14.0)%, including:
 - ⇒ \$(99.0) million for operating budget reductions.
 - ⇒ \$(2.5) million for previously appropriated adjustments from the refinancing of the lease-purchase payments for research infrastructure.
 - ⇒ \$(6.1) million for statewide adjustments (lower employer health insurance).
- Total university enrollment was 147,000 full-time equivalent students in the past year.

Community Colleges

- Community College General Fund spending decreases by \$(16.9) million, or (23.5)%, including:
 - ⇒ \$(15.6) million to eliminate state aid for the Maricopa and Pima Districts, and partially suspend STEM and Workforce Programs State Aid for the Pinal District.
 - ⇒ \$(1.3) million for state aid formula adjustments.
- FY 2014 enrollment decreased by (5,832) full-time equivalent students, or (4.4)%, for a total enrollment of 128,085.

Health and Welfare

Medicaid Agencies

- All 3 Medicaid agencies are adjusted for the following funding formula factors: enrollment changes, an increase in the federal match rate, and a 3% capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending decreases by \$(20.7) million, or (1.7)%, including:
 - ⇒ \$11.3 million for Medicaid physical health formula adjustments, including a 0.4% enrollment increase.
 - ⇒ \$(25.7) million to reduce provider rates by (5)% in aggregate.
 - ⇒ \$(2.4) million to reduce ambulance reimbursements to 68.6% of DHS established rates.
 - ⇒ \$(1.3) million in net savings from increased fraud recovery.
 - ⇒ \$(2.6) million to reduce payments to private disproportionate share hospitals.
- The hospital assessment continues to fund the state AHCCCS costs of the Proposition 204 population and Adult Expansion.
- In FY 2017, AHCCCS capitation growth is limited to 1.5%, thereby saving \$12.8 million relative to a projected Baseline increase of 3%.

- The 3-year budget plan also includes anticipated savings from CMS approval of cost sharing changes recently adopted by Indiana that would require certain AHCCCS enrollees to pay a premium of up to 2% of their income and a \$25 co-pay to use the emergency room for non-emergency purposes. This policy change is estimated to generate savings of \$300,000 in FY 2017.
- AHCCCS enrollment is projected to grow to 1.61 million by June 2016. This level represents a caseload increase of 5,641, or 0.4%, above June 2015.

Department of Health Services

- DHS General Fund spending decreases by \$(16.8) million, or (2.7)%, including:
 - ⇒ \$(4.4) million for Medicaid behavioral health formula adjustments, including a 0.4% enrollment increase.
 - ⇒ \$(11.4) million to reduce provider rates by (5)% in aggregate.
 - ⇒ \$1.2 million to increase the Arizona State Hospital operating budget.
 - ⇒ \$(1.8) million to eliminate funding from Alzheimer’s Research, Mental Health First-Aid, and School-Based Prevention Education.
 - ⇒ \$(315,200) for statewide adjustments.
- In FY 2017, DHS capitation growth is limited to 1.5%, thereby saving \$5.1 million.
- The 3-year budget plan also includes anticipated savings from CMS approval of cost sharing changes recently adopted by Indiana that would require certain DHS enrollees to pay a premium of up to 2% of their income and a \$25 co-pay to use the emergency room for non-emergency purposes. This policy change is estimated to generate savings of \$1.1 million in FY 2017.

Department of Child Safety

- DCS General Fund spending decreases by \$(4.6) million, or (1.3)%, including:
 - ⇒ \$8.0 million for permanency caseload growth for adoption and permanent guardianship.
 - ⇒ \$4.0 million for preventive services funding.
 - ⇒ \$1.0 million to shift DCS-related funding from the Attorney General’s budget to DCS.
 - ⇒ \$270,800 to provide full-year funding for the Office of Child Welfare Investigation (OCWI) staff added in FY 2015.
 - ⇒ \$(1.5) million to eliminate one-time equipment funding for staff added in FY 2015.
 - ⇒ \$(2.0) million to increase teenage foster care rates, thereby facilitating the shift of these children out of more expensive group home placements.
 - ⇒ \$(3.0) million to eliminate one-time funding used to pay off a portion of the deferral.
 - ⇒ \$(10.7) million to eliminate one-time FY 2015 funding related to the backlog of 60-day non-active cases.
 - ⇒ \$(684,400) for statewide adjustments.
- The budget also removes \$(25.0) million in one-time funding to the Arizona Department of Administration (ADOA) for costs associated with the establishment of DCS and \$(5.0) million for the child welfare automated system.

Department of Economic Security

- DES General Fund spending increases by \$13.6 million, or 2.8%, including:
 - ⇒ \$14.9 million for Medicaid Developmental Disability formula adjustments, including a 4.5% enrollment and 3% capitation rate increase in FY 2016.
 - ⇒ \$1.2 million for Adult Protective Services caseload growth.
 - ⇒ \$(500,000) for removal of one-time Homeless Capital Grant funding.
 - ⇒ \$(2.0) million for a lump sum reduction to the DES operating budget.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending increases by \$33.1 million, or 3.3%, including:
 - ⇒ \$13.5 million for an employer retirement rate increase.
 - ⇒ \$11.6 million for prison health care.
 - ⇒ \$7.6 million for annualizing the costs of the 500 private medium-security beds and 500 maximum-security beds that opened this past winter.
 - ⇒ \$5.3 million for population growth.
 - ⇒ \$929,000 for leap year costs.
 - ⇒ \$(300,000) in savings from increased participation in the prisoner transition program.
 - ⇒ \$(5.5) million for statewide adjustments (lower employer health insurance).

- The total public and private population is projected to be 43,478, or a growth of 953 inmates above FY 2015. ADC would have a permanent bed shortfall of (5,297) in June 2016. The shortfall would be offset with the availability of 5,478 temporary beds.

Department of Juvenile Corrections

- DJC General Fund spending decreases by \$(17.2) million, or (38.9)%, including:
 - ⇒ \$(12.0) million for county cost sharing.
 - ⇒ \$(4.0) million for lower staffing costs associated with a declining committed population, including new limits on individuals who are younger than 14 years of age and have no felony convictions.
 - ⇒ \$(901,400) for a one-time cost shift to the State Charitable, Penal and Reformatory Institutions Land Fund.
 - ⇒ \$(279,900) for statewide adjustments.

Judiciary

- Judiciary General Fund spending decreases by \$(4.3) million, or (3.9)%, including:
 - ⇒ \$(500,000) for the elimination of one-time funding.
 - ⇒ \$(3.6) million for general reductions in agency operating budgets and probation funding.
 - ⇒ \$(227,100) for statewide adjustments.

Department of Public Safety

- DPS General Fund spending increases by \$4.0 million, or 4.5%, mostly due to an employer retirement rate increase.

Local Issues

Department of Revenue

- DOR General Fund spending decreases by \$(17.8) million, or (37.0)%, mostly due to shifting tax collection costs to participating counties, cities, and regional governments.

Counties and Cities

- The budget includes a decrease of \$(1.7) million, or (21.6)%, in reduced cash payments from the General Fund to county governments. Mohave, Pinal, and Yavapai Counties would no longer receive \$550,000 (Maricopa and Pima Counties are already excluded). Each county receives \$550,000 except Maricopa, Pima, Pinal, Yavapai, and Mohave. The budget also continues the extra allocation of \$500,000 to Graham County.
- The budget includes a decrease of \$(12.0) million for the county cost share of DJC operating costs.
- The budget includes a decrease of \$(20.8) million to participating counties, cities, and regional governments for DOR cost sharing.
- The budget includes a decrease of \$(3.3) million, or (0.5)%, for lower urban revenue sharing payments to city governments. Total funding is \$605.6 million.

General Government

Automation

- The budget includes \$24.8 million for large-scale automation projects. Of this amount, \$7.8 million is financed from the General Fund and \$17.0 million is financed from Other Funds. The \$24.8 million FY 2016 amount includes the following:
 - ⇒ \$9.5 million for technology projects at ADOA.
 - ⇒ \$7.0 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$5.0 million for projects to enhance e-licensing at ADEQ.
 - ⇒ \$2.4 million for the final year of a 4-year project to replace the state's financial and accounting system.
 - ⇒ \$936,000 for projects to enhance IT security at DES.

Arizona Commerce Authority

- ACA General Fund spending decreases by \$(5.0) million, or (15.7)%, due to a reduction in the Arizona Competes Fund deposit.

Payment Deferral

- The budget continues to defer \$1.2 billion in General Fund spending from FY 2015 to FY 2016, including:
 - ⇒ \$931 million of school district payments.
 - ⇒ \$200 million of payments to the University system.

- ⇒ \$21 million of DES payments.
- ⇒ \$11 million of DCS payments.

Revertments

- The budget sets the projected revertment level at \$(111.4) million, compared to \$(80.0) million in FY 2015. (Revertments are unspent appropriations.)
- FY 2016 Administrative Adjustments are forecast to be \$70.0 million, compared to \$80.0 million in FY 2015.

State Employee Issues

FTE Positions

- The budget increases the Full-Time Equivalent (FTE) ceiling by 128.1 Positions in FY 2016. The Department of Economic Security is adding 58.1 FTE Positions due to caseload growth. The DES base has been adjusted for 207 existing positions that were previously covered by vacant Department of Child Safety positions.
- These adjustments bring the total appropriated FTE Position ceiling to 50,815.8

Employee Pay and Salary Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will decrease from 11.60% to 11.47%.
- Employer and employee retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP).
 - ⇒ The employer contribution rate increases in PSPRS and CORP are primarily due to the *Fields v. Elected Officials' Retirement Plan* litigation, which restored the prior formula for permanent benefit increases.
 - ⇒ In PSPRS, the FY 2016 increase in the aggregate employer contribution rate will be 8.8%; the employee contribution rates will increase by up to 0.6% as part of prior-year retirement legislation.
 - ⇒ In CORP, the FY 2016 increase in the aggregate employer contribution rate will be 3.8%; the employee contribution rates will remain same.
- In the Elected Officials' Retirement Plan, both employer and employee contribution rates will remain the same as the rates are fixed in statute.
- The FY 2016 budget includes \$17.7 million from the General Fund and \$9.6 million in Other Appropriated Funds to fund the increased PSPRS and CORP employer contribution rates in ADC and DPS, respectively. The increases for employer contributions for PSPRS and CORP are detailed in their respective agencies above.

Capital

- The budget includes \$5.0 million from the General Fund for ADOA building renewal projects, compared to \$9.0 million in General Fund support in FY 2015. The \$5.0 million will be supplemented with \$9.0 million in non-General Fund monies.
- The budget includes \$1.2 million from the General Fund to fund road construction within the Navajo Nation.
- The budget removes funding that was used to complete 500 maximum-security prison beds operated by the Department of Corrections. The Department of Corrections opened these beds in December 2014.
- The budget includes no funded adjustment for lease-purchase and privatized lease-to-own payments changes, and also includes no adjustment for rent charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

Table 4

FY 2016 FUNDING FORMULA SUSPENSIONS 1/

	FY 2016 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 813,000 <u>2/</u>
Department of Education - District Additional Assistance	352,442,700 <u>3/</u>
Department of Education - Charter School Additional Assistance	18,656,000
Department of Education - Large JTEDs at 95.5%	1,747,400 <u>4/</u>
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>5/</u>
Department of Health Services - Sexually Violent Persons (SVP)	3,021,400 <u>6/</u>
Department of Public Safety - Highway User Revenue Fund (HURF)	86,812,300 <u>7/</u>
Universities - Financial Aid Trust	<u>14,669,600</u>
 Total - FY 2016 Statutory Funding Formula Suspensions	 \$ 487,062,400
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 22,080,400
Department of Corrections - Building Renewal	12,121,000
Universities - Building Renewal	<u>115,892,800</u>
 Total - FY 2016 Non-Statutory Funding Formula Suspensions	 \$ 150,094,200

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.

2/ Represents partial suspension of Pinal formula.

3/ Excludes approximately \$29 million suspended in non-state aid districts, which are not funded through the state budget.

4/ Estimate based on FY 2015 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).

5/ Excludes costs that counties incur to treat RTC patients in alternative facilities.

6/ Reflects estimate of remaining costs to counties for SVP care.

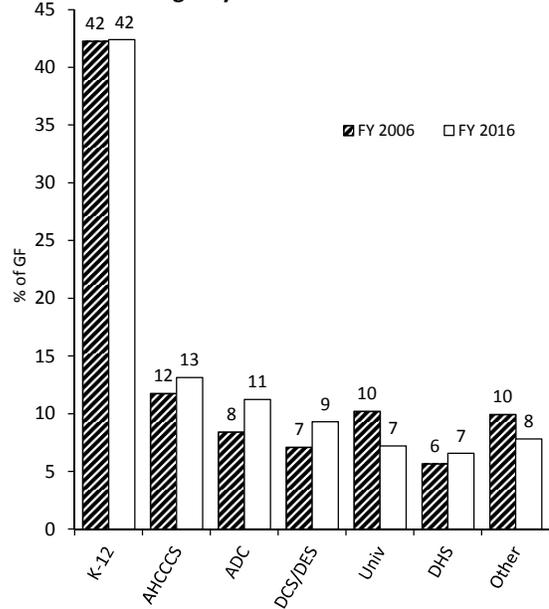
7/ This amount is in addition to the \$10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6993.

"THEN AND NOW" - FY 2006 vs. FY 2016 General Fund Spending

**Comparison of 10 Largest General Fund Budgets 1/
(\$ in Millions)**

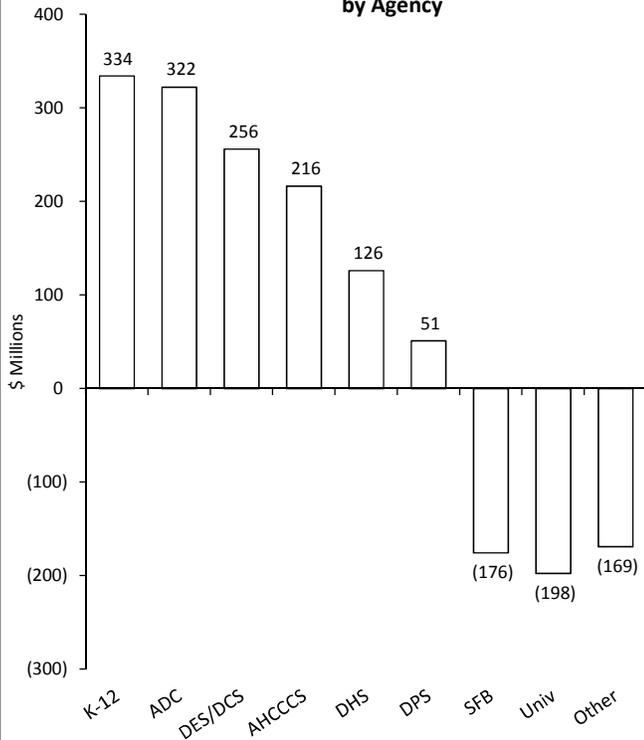
	FY 06 Actuals	FY 16 Approp.	\$ Change FY 06-16	% Change FY 06-16
Education (K-12)	\$ 3,555.3	\$ 3,889.5	\$ 334.2	9.4
AHCCCS	988.9	1,205.2	216.3	21.9
Corrections	707.7	1,029.9	322.2	45.5
Universities	858.4	660.8	(197.6)	(23.0)
Health Services	476.7	602.7	126.0	26.4
Economic Security	596.7	496.2	(100.5)	2/ (16.8)
Child Safety	-	356.4	356.4	2/ NA
School Facilities Board	392.5	216.9	(175.6)	(44.7)
Judiciary	119.4	106.2	(13.2)	(11.1)
Public Safety	42.3	93.4	51.1	120.8
Other	673.8	518.3	(155.5)	(23.1)
TOTAL	\$ 8,411.7	\$ 9,175.6	\$ 763.9	9.1%

Agency Share of General Fund

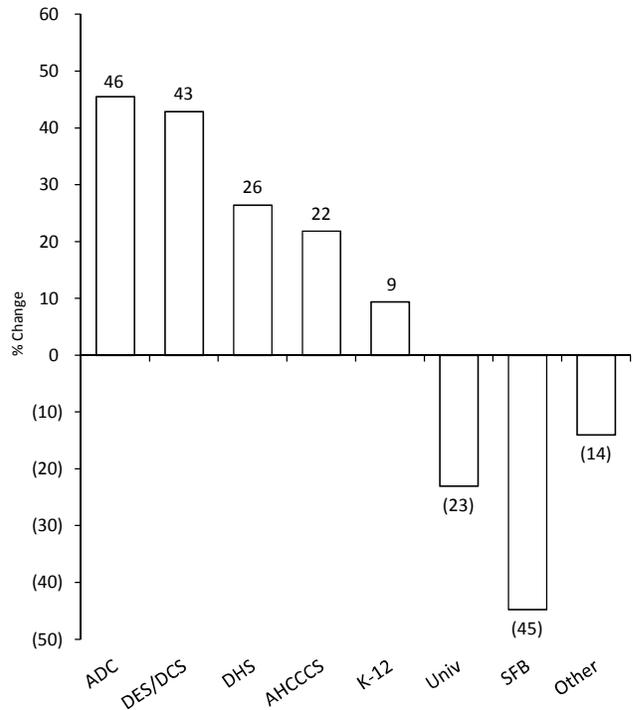


1/ Represents individual agency General Fund spending only. Excludes administrative adjustments, revertsments, and any Budget Stabilization Fund deposits.
2/ The decline in the Department of Economic Security represents shift in resources to the new Department of Child Safety.

**Dollar Change from FY 2006 to FY 2016
by Agency**



**Percent Change from FY 2006
to FY 2016 by Agency**



"THEN AND NOW" - FY 2006 vs. FY 2016 General Fund Revenue and Ending Balances

General Fund Revenue, Expenditures and Ending Balances (\$ in Millions)

Fiscal Year	Revenue	Expenditures	Ending Balance	Ending Balance as a % of Revenue
2006	9,923.7	8,877.2	1,046.5	10.5%
2007	10,897.5	10,368.4	529.0	4.9%
2008	10,045.1	10,044.1	1.0	0.0%
2009	8,248.5	8,729.2	(480.7)	-5.8%
2010	7,843.8	7,849.5	(5.7)	-0.1%
2011	8,378.0	8,374.8	3.2	0.0%
2012	9,066.7	8,669.7	397.0	4.4%
2013	9,559.5	8,664.0	895.5	9.4%
2014	9,381.3	8,803.9	577.4	6.2%
2015	9,347.5	9,335.5	12.0	0.1%
2016	9,099.0	9,134.3	(35.3)	-0.4%

General Fund Major Tax Sources as a Percent of Total Revenue ^{1/2/}

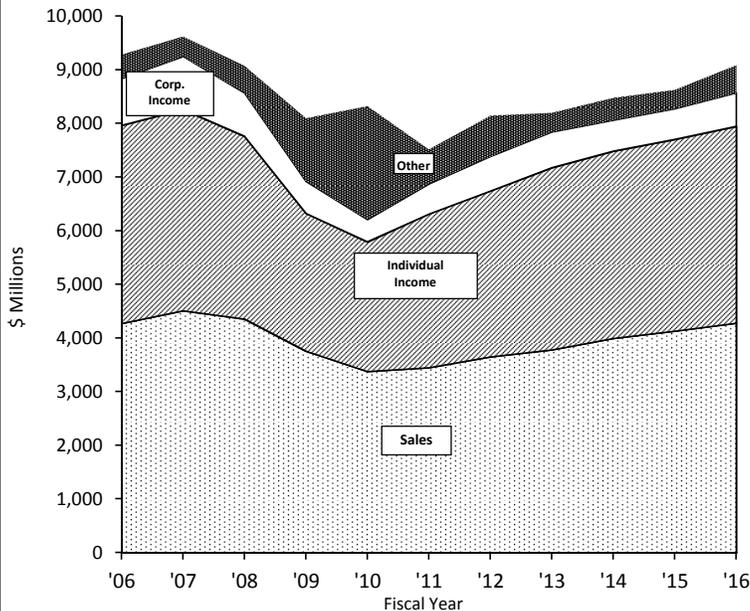
Fiscal Year	Sales	Individual Income	Corporate Income	Other
2006	46.0%	39.7%	9.4%	4.9%
2007	46.9%	38.9%	10.2%	4.0%
2008	47.9%	37.5%	8.9%	5.7%
2009	46.4%	31.7%	7.3%	14.6%
2010	40.6%	29.0%	5.0%	25.4%
2011 ^{3/}	45.9%	38.1%	7.4%	8.6%
2012 ^{3/}	44.8%	37.9%	7.9%	9.4%
2013 ^{3/}	46.1%	41.4%	8.1%	4.4%
2014	47.1%	41.1%	6.8%	5.0%
2015	47.9%	41.4%	6.6%	4.1%
2016	47.1%	40.4%	6.9%	5.7%

^{1/} Excludes balance forward from prior year.

^{2/} Excludes Budget Stabilization Fund transfers and withdrawals.

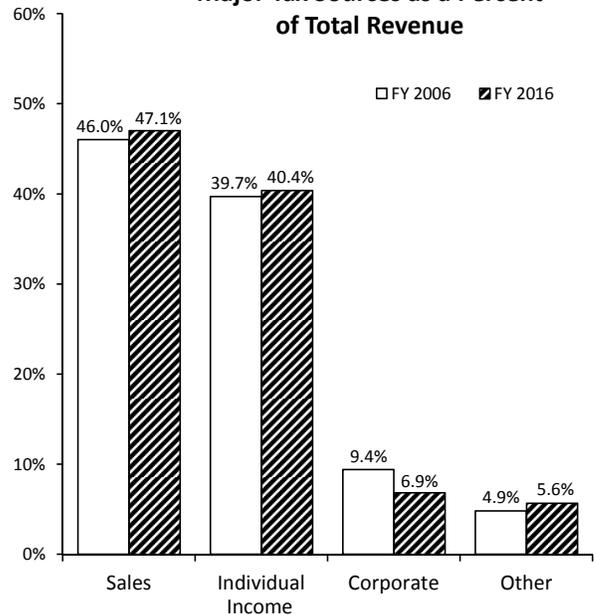
^{3/} Excludes temporary 1-cent sales tax.

General Fund Major Tax Sources as a Share of Total Revenue



FY 2006 vs. FY 2016

Major Tax Sources as a Percent of Total Revenue



BUDGET DETAIL

SUMMARY OF GENERAL FUND APPROPRIATIONS
By Individual Chapter
For Fiscal Years 2015 - 2017 1/2/3/

Chap. Bill No. Number Reference Title	FY 2015	FY 2016	FY 2017
	General Fund	General Fund	General Fund
<u>Fifty-second Legislature - First Regular Session (2015)</u>			
8 SB 1469 2015-2016; General Appropriations	(28,132,000)	7,878,148,200	1,162,727,700 <u>4/</u>
9 SB 1470 Capital Outlay; 2015-2016		6,200,000 C	
13 SB 1474 Environment; Budget Reconciliation; 2015-2016		(8,000,000)	
34 SB 1053 Appropriations; Named Claimants	184,600		
132 SB 1001 Nuclear Emergency Appropriations; Assessments		2,404,000	2,412,500
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION	<u>(27,947,400)</u>	<u>7,878,752,200</u>	<u>1,165,140,200</u>
<u>Fifty-first Legislature - Second Regular Session (2014)</u>			
13 HB 2707 Environment; Budget Reconciliation; 2014-2015	(7,500,000)		
15 HB 2709 Capital Outlay; 2014-2015	24,200,000 C		
18 HB 2703 2014-2015; General Appropriations* <u>5/</u>	7,202,801,100	1,131,115,600	4,242,400
39 HB 2620 Appropriations; Named Claimants	600		
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION	<u>7,219,501,700</u>	<u>1,131,115,600</u>	<u>4,242,400</u>
<u>Fifty-first Legislature - Second Special Session (2014)</u>			
2 SB 1002 Appropriations; Department of Child Safety	810,512,500	32,000,000 <u>6/</u>	
SUBTOTAL APPROPRIATIONS - 2nd SPECIAL SESSION	<u>810,512,500</u>	<u>32,000,000</u>	<u>0</u>
<u>Fifty-first Legislature - First Regular Session (2013)</u>			
13 HB 2034 Nuclear Emergency Appropriation and Assessment	2,269,100		
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION	<u>2,269,100</u>	<u>0</u>	<u>0</u>
<u>Fifty-first Legislature - First Special Session (2013)</u>			
1 HB 2001 2013-2014; General Appropriations	1,164,127,700 <u>7/</u>	(13,798,000) <u>8/</u>	
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION	<u>1,164,127,700</u>	<u>(13,798,000)</u>	<u>0</u>
<u>Fiftieth Legislature - Second Regular Session (2012)</u>			
294 SB 1524 General Appropriations; 2012-2013	20,000,000 <u>9/</u>	23,000,000 <u>9/</u>	
295 SB 1525 Capital Outlay; 2012-2013	17,431,100 C <u>10/</u>		
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION	<u>37,431,100</u>	<u>23,000,000</u>	<u>0</u>
<u>Permanent General Fund Appropriations and Allocations <u>11/</u> *</u>			
9-602 Phoenix Convention Center Financing	20,449,000	20,449,000	20,449,000
15-1469.01 Community College Rural County Allocation	3,195,500	3,195,500	3,195,500
15-1670 University Research Infrastructure Financing <u>12/</u>	34,625,000	34,625,000	34,625,000
35-192 General Emergency Authority <u>13/</u>	4,000,000	4,000,000	4,000,000
37-623 Wild Land Fire Emergency <u>13/</u>	3,000,000	3,000,000	3,000,000
38-810 Elected Officials' Retirement Plan Closure <u>14/</u>	5,000,000	5,000,000	5,000,000
42-5031 Rio Nuevo Multipurpose Facility District <u>15/</u>	10,000,000	10,000,000	10,000,000
42-5031.01 Indian Tribal Postsecondary Educational Institutions	2,625,000	2,625,000	2,625,000
43-409 Arizona Commerce Authority/Income Tax Withholding <u>16/</u>	31,500,000	26,500,000	21,500,000
49-282 WQARF Priority Site Remediation <u>17/</u>	15,000,000	15,000,000	15,000,000
L '04, Ch. 235 Military Airport Planning; Appropriation <u>18/</u>	175,000	175,000	175,000
SUBTOTAL APPROPRIATIONS - PERMANENT	<u>129,569,500</u>	<u>124,569,500</u>	<u>119,569,500</u>
TOTAL APPROPRIATIONS	<u>\$9,335,464,200</u>	<u>\$9,175,639,300</u>	<u>\$1,288,952,100</u>

* Appropriation beyond FY 2017.

C Designates a capital appropriation. All other appropriations are operating appropriations.

1/ For FY 2015 - FY 2017, this table summarizes all General Fund appropriations enacted in any session. Equals total spending less administrative adjustments and revertsments.

2/ All appropriations have been rounded to the nearest \$100.

3/ Excludes administrative adjustments, revertsments, and statutory revertsments.

4/ Laws 2015, Chapter 8 appropriates \$1,162,727,700 in FY 2017 for the payment of FY 2016 payment deferrals into FY 2017 as follows: Department of Child Safety (DCS) - \$11,000,000; Department of Economic Security (DES) - \$21,000,000; Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000.

5/ FY 2015 Amount - Reflects subsequent amendment by Laws 2014, 2nd Special Session, Chapter 2 to revise the Department of Economic Security appropriation for the creation of the new Department of Child Safety.

FY 2016 - FY 2019 Amounts - 1) Laws 2014, Chapter 18 appropriates \$1,130,727,700 in FY 2016 for the payment of FY 2015 payment deferrals into FY 2016 as follows: Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000; 2) Section 134 makes a \$(8,112,100) reduction to the University Research Infrastructure Financing allocation in FY 2016 and a \$(4,257,600) reduction in FY 2017; 3) Section 133 appropriates \$1,000,000 annually from the General Fund through FY 2019 for deposit into the employer account of the Prescott Fire Department to offset increased pension liability; 4) The bill appropriates \$4,500,000 to the Universities for operating expenditures in FY 2016 and FY 2017; and 5) Section 132 appropriates \$3,000,000 annually from the General Fund through FY 2019 to NAU for biotechnology medical research.

6/ Laws 2014, 2nd Special Session, Chapter 2 appropriates \$32,000,000 in FY 2016 for the payment of FY 2015 payment deferrals into FY 2016 as follows: Department of Child Safety - \$11,000,000; Department of Economic Security - \$21,000,000.

7/ Laws 2013, 1st Special Session, Chapter 1 appropriates \$1,165,727,700 in FY 2015 for the payment of FY 2014 payment deferrals into FY 2015 as follows: Department of Economic Security (DES) - \$35,000,000; Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000. The legislation also includes a reduction of \$(1,600,000) made to a prior appropriation to ADOA for automation projects.

8/ Laws 2013, 1st Special Session, Chapter 1, Section 1 includes a reduction of \$(13,798,000) made to a prior appropriation to ADOA for automation projects.

- 9/ Automation Funding contained in Laws 2012, Chapter 294 is adjusted as follows:
 - FY 2015 Amount - Original \$20,000,000 appropriation was reduced by Laws 2013, 1st Special Session, Chapter 1 by \$(1,600,000)
 - FY 2016 Amount - Original \$23,000,000 appropriation was reduced by 2 bills: 1) Laws 2013, 1st Special Session, Chapter 1 - \$(13,798,000) and Laws 2015, Chapter 8 - \$(6,819,000).
- 10/ This amount represents monies in FY 2015 for the Department of Corrections 500 Maximum Security Beds. This amount is from the \$50,000,000 originally appropriated to the Department of Corrections in FY 2013 and FY 2014, as Laws 2012, Chapter 295 made the amount available until completion of the project.
- 11/ Permanent law authorizes these appropriations and allocations.
- 12/ Starting in FY 2008 and continuing through FY 2031, A.R.S. § 15-1670 annually appropriates the collective total of \$34,625,000 to Arizona State University, Northern Arizona University, and the University of Arizona for debt service on research infrastructure projects. Laws 2015, Chapter 18 reduces the FY 2015 appropriation by \$(5,590,900), the FY 2016 appropriation by \$(8,112,100) and the FY 2017 appropriation by \$(4,257,600).
- 13/ In an emergency, the Governor can order the withdrawal of these monies from the General Fund without specific appropriation authority.
- 14/ Laws 2013, Chapter 217 appropriates \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability of the Elected Officials Retirement Plan.
- 15/ Represents an estimated distribution based on monies allocated under A.R.S. § 42-5031.
- 16/ The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12) reduces the Arizona Commerce Authority General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In FY 2017 and beyond, the deposit is reduced by \$(10,000,000) to \$11,500,000.
- 17/ A.R.S. § 49-282 directs \$18,000,000 annually to the Water Quality Assurance Revolving Fund (WQARF). The statute instructs the State Treasurer to transfer \$15,000,000 from corporate income tax receipts into WQARF at the start of each fiscal year. The statute also instructs the State Treasurer to adjust the corporate income tax deposit at the end of each fiscal year to supplement other deposits, so that WQARF receives \$18,000,000 total from all sources. Laws 2014, Chapter 13 and Laws 2015, Chapter 13 reduce the appropriations by \$8,000,000 for FY 2015 and FY 2016, respectively.
- 18/ \$90,000 to DEMA and \$85,000 to the Attorney General.

SUMMARY OF OTHER FUND APPROPRIATIONS By Individual Chapter For Fiscal Years 2015 and 2016 ^{1/2/3/}

Chap. Bill No. Number	Reference Title	FY 2015 Other Fund	FY 2016 Other Fund
<u>Fifty-first Legislature - First Regular Session (2015)</u>			
2 SB 1149	Arizona Medical Board; Fingerprinting; Disclosure	200,000	
8 SB 1469	2015-2016; General Appropriations	23,379,700	3,242,890,800
9 SB 1470	Capital Outlay; 2014-2015		282,447,500 C
149 SB 1147	Water Banking Fund ^{4/}		237,400
169 SB 1440	ALTCS; Developmental Disabilities; Rates; Appropriation		120,000
231 SB 1271	Virtual Border Fence; Appropriation ^{4/}		12,100
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		23,579,700	3,525,707,800
<u>Fifty-first Legislature - Second Regular Session (2014)</u>			
9 SB 1487	Revenue; Budget Reconciliation; 2014-2015	1,000,000	
15 HB 2709	Capital Outlay; 2014-2015	256,649,800 C	
17 SB 1488	K-12 Education; Budget Reconciliation; 2014-2015	300,000	246,800
18 HB 2703	2014-2015; General Appropriations*	2,738,389,900 ^{5/}	2,000,000 ^{6/}
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		2,996,339,700	2,246,800
<u>Fifty-first Legislature - Second Special Session (2014)</u>			
2 SB 1002	Appropriations; Department of Child Safety	463,539,400	
SUBTOTAL APPROPRIATIONS - 2nd SPECIAL SESSION		463,539,400	0
<u>Fifty-first Legislature - First Special Session (2013)</u>			
1 HB 2001	2013-2014; General Appropriations	26,533,000	9,202,000 ^{7/}
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION		26,533,000	9,202,000
TOTAL APPROPRIATIONS		<u>\$3,509,991,800</u>	<u>\$3,537,156,600</u>

- * Appropriation beyond FY 2016.
- C Designates a capital appropriation. All other appropriations are operating appropriations.
- ^{1/} For FY 2015 and FY 2016, this table summarizes all Other Fund appropriations enacted in any session.
- ^{2/} All appropriations have been rounded to the nearest \$100.
- ^{3/} Excludes administrative adjustments, revertsments, and statutory revertsments.
- ^{4/} Represents an estimated amount based on available monies.
- ^{5/} Includes an increase of \$109,270,200 for FY 2015 adjustments for the following items: University Tuition, Lottery Revenues, ADOA State Surplus Materials Revolving Fund collections, and ADOA Automation Operations Fund collections.
- ^{6/} Laws 2014, Chapter 18, Section 132 appropriates \$2,000,000 annually from the Health Research Fund through FY 2019 to DHS for biomedical genomic research.
- ^{7/} Laws 2015, Chapter 8 reduces this appropriation for ADOA automation by \$(6,819,000) in FY 2016.

SUMMARY OF FISCAL-RELATED VETOES
Fifty-Second Legislature - First Regular Session

Chapter/ Bill No.	Reference Title	Description of Vetoed Bill
SB 1145	restoration to competency; state costs	Would have directed a city or county to reimburse the Department of Health Services (DHS) for costs DHS incurred for a defendant's inpatient, in-custody competency restoration treatment and exempted from reimbursement requirements costs for treating a post-conviction defendant not competent to be sentenced.
SB 1200	mineral and mining museum; transfer	Would have transferred the Mining and Mineral Museum from the Arizona Historical Society (AHS) to the Arizona Geological Society (AGS). Would have transferred \$428,300 and 1 FTE Position from AHS to AGS in FY 2016 to operate the Museum and transferred all other Mining and Mineral Museum-related monies and Arizona Centennial Special Plate Fund monies to the Geological Survey Fund.
SB 1293	GIITEM subaccount; predictive policing technology	Would have appropriated \$1.15 million from the Concealed Weapons Permit Fund in FY 2016 for a predictive policing technology software pilot program. Would have required the Department of Public Safety to allocate most of the \$2.39 million of Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Subaccount monies to specific entities.
HB 2173	escrow agents; legal tender	Would have recognized coin or bullion with gold or silver content as permissible legal tender in Arizona. Would have prohibited the taxation of gold or silver legal tender from a capital gains perspective. The revenue impact could not be determined but would have depended on the extent to which gold or silver was used as legal tender.
HB 2358	TPT; exemption; crop dusters	Would have exempted crop dusters and aircraft and equipment associated with certain charter airlines from retail transaction privilege tax (TPT) and use tax. The exemption for crop dusters was estimated to reduce General Fund revenues by up to \$(9,300) annually, plus a one-time \$10,000 General Fund cost in FY 2016. The exemption for certain charter airlines was estimated to result in the foregone collection of \$700,000 pursuant to a recent court ruling. In the veto letter for the bill, however, the Governor requested that the Department of Revenue not pursue enforcement efforts on the 2 TPT categories.

SUMMARY OF APPROPRIATED FUNDS BY AGENCY
Fiscal Years 2015 and 2016 1/

	Fiscal Year 2015			Fiscal Year 2016		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
BUDGET UNITS						
Accountancy, State Board of	\$0	\$1,936,800	\$1,936,800	\$0	\$1,939,100	\$1,939,100
Acupuncture Examiners, Board of	0	154,700	154,700	0	159,100	159,100
Administration, Arizona Department of	11,377,600	193,467,100	204,844,700	10,377,300	183,628,300	194,005,600
- Automation Projects Fund	35,500,000	70,034,700	105,534,700	7,783,000	24,794,400	32,577,400
- Department of Child Safety	19,500,000	0	19,500,000	0	0	0
Administrative Hearings, Office of	862,500	12,300	874,800	861,700	12,300	874,000
African-American Affairs, Arizona Commission of	125,000	0	125,000	125,000	0	125,000
Agriculture, Arizona Department of	8,323,000	0	8,323,000	8,287,400	0	8,287,400
AHCCCS	1,225,882,700	141,450,400	1,367,333,100	1,205,162,300	143,447,500	1,348,609,800
Appraisal, State Board of	0	861,800	861,800	0	0	0
Arts, Arizona Commission on the	0	1,000,000	1,000,000	0	0	0
Athletic Training, Board of	0	118,200	118,200	0	118,900	118,900
Attorney General - Department of Law	23,465,100	43,358,900	66,824,000	23,623,700	43,054,000	66,677,700
Automobile Theft Authority	0	5,297,800	5,297,800	0	5,297,500	5,297,500
Barbers, Board of	0	333,900	333,900	0	335,400	335,400
Behavioral Health Examiners, Board of	0	1,758,600	1,758,600	0	1,760,500	1,760,500
Charter Schools, State Board for	994,700	0	994,700	1,200,900	0	1,200,900
Child Safety, Department of	361,005,400	160,667,200	521,672,600	356,448,200	160,667,600	517,115,800
Chiropractic Examiners, State Board of	0	450,600	450,600	0	451,400	451,400
Commerce Authority, Arizona	31,800,000	0	31,800,000	26,800,000	0	26,800,000
Community Colleges, Arizona	71,906,400	0	71,906,400	55,045,300	0	55,045,300
Contractors, Registrar of	0	12,196,700	12,196,700	0	12,187,500	12,187,500
Corporation Commission	610,500	27,179,000	27,789,500	614,200	26,364,100	26,978,300
Corrections, State Department of	996,845,600	44,911,900	1,041,757,500	1,029,900,600	46,876,200	1,076,776,800
Cosmetology, Board of	0	1,785,000	1,785,000	0	1,807,700	1,807,700
County Funding	7,650,500	0	7,650,500	6,000,500	0	6,000,500
Criminal Justice Commission, Arizona	0	5,955,100	5,955,100	0	5,956,200	5,956,200
Deaf and the Blind, Schools for the	22,497,900	12,590,200	35,088,100	21,596,400	11,561,400	33,157,800
Deaf and the Hard of Hearing, Comm. for the	0	4,276,700	4,276,700	0	4,312,800	4,312,800
Dental Examiners, State Board of	0	1,215,100	1,215,100	0	1,215,500	1,215,500
Economic Security, Department of	482,542,300	306,942,400	789,484,700	496,181,900	306,981,800	803,163,700
Education, State Board of	0	0	0	1,325,200	379,800	1,705,000
Education, Department of	3,835,253,800	77,836,100	3,913,089,900	3,889,519,500	56,977,100	3,946,496,600
Emergency and Military Affairs, Dept. of	13,044,400	132,700	13,177,100	11,102,700	0	11,102,700
Environmental Quality, Department of	7,000,000	69,241,800	76,241,800	7,000,000	69,192,200	76,192,200
Equal Opportunity, Governor's Office of	188,600	0	188,600	189,000	0	189,000
Equalization, State Board of	641,800	0	641,800	642,800	0	642,800
Executive Clemency, Board of	958,600	0	958,600	956,000	0	956,000
Exposition and State Fair Board, Arizona	0	11,620,800	11,620,800	0	11,616,100	11,616,100
Financial Institutions, Department of	3,020,200	1,247,400	4,267,600	3,008,000	2,279,100	5,287,100
Fire, Building and Life Safety, Department of	2,205,300	0	2,205,300	2,202,000	0	2,202,000
Forester, State	9,103,800	0	9,103,800	9,012,300	0	9,012,300
Funeral Directors and Embalmers, Board of	0	353,700	353,700	0	352,200	352,200
Game and Fish Department, Arizona	0	40,474,200	40,474,200	0	41,845,400	41,845,400

	Fiscal Year 2015			Fiscal Year 2016		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Gaming, Department of	0	13,516,200	13,516,200	1,779,500	16,367,000	18,146,500
Geological Survey, Arizona	941,700	0	941,700	941,000	0	941,000
Governor, Office of the	6,920,100	0	6,920,100	6,889,000	0	6,889,000
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	1,994,000	0	1,994,000
Health Services, Department of	619,489,200	87,851,000	707,340,200	602,738,300	88,098,200	690,836,500
Historical Society, Arizona	3,156,000	0	3,156,000	3,157,200	0	3,157,200
Historical Society, Prescott	826,300	0	826,300	825,800	0	825,800
Homeopathic and Integrated Medicine Examiners, Board of	0	102,100	102,100	0	102,800	102,800
Housing, Arizona Department of	0	314,600	314,600	0	318,500	318,500
Independent Redistricting Commission	1,115,300	0	1,115,300	1,115,300	0	1,115,300
Indian Affairs, Arizona Commission of	56,900	0	56,900	57,400	0	57,400
Industrial Commission of Arizona	0	19,994,800	19,994,800	0	19,940,300	19,940,300
Insurance, Department of	5,366,700	0	5,366,700	5,867,400	0	5,867,400
Judiciary						
Supreme Court	16,012,900	27,575,800	43,588,700	17,951,100	28,952,200	46,903,300
Court of Appeals	14,380,200	0	14,380,200	14,315,500	0	14,315,500
Superior Court	80,102,500	13,531,600	93,634,100	73,911,400	12,066,600	85,978,000
SUBTOTAL - Judiciary	110,495,600	41,107,400	151,603,000	106,178,000	41,018,800	147,196,800
Juvenile Corrections, Department of	44,165,900	3,942,900	48,108,800	26,984,600	16,132,100	43,116,700
Land Department, State	12,574,000	5,622,500	18,196,500	12,520,500	4,525,400	17,045,900
Legislature						
Auditor General	18,246,400	0	18,246,400	17,933,300	0	17,933,300
House of Representatives	13,372,200	0	13,372,200	13,289,500	0	13,289,500
Joint Legislative Budget Committee	2,493,000	0	2,493,000	2,490,900	0	2,490,900
Legislative Council	8,248,900	0	8,248,900	8,233,300	0	8,233,300
Senate	8,283,800	0	8,283,800	8,223,900	0	8,223,900
SUBTOTAL - Legislature	50,644,300	0	50,644,300	50,170,900	0	50,170,900
Liquor Licenses and Control, Department of	0	3,589,200	3,589,200	0	3,355,300	3,355,300
Lottery Commission, Arizona State	0	103,731,300	103,731,300	0	108,854,600	108,854,600
Massage Therapy, Board of	0	438,700	438,700	0	455,800	455,800
Medical Board, Arizona	0	5,940,300	5,940,300	0	6,426,000	6,426,000
Mine Inspector, State	1,215,600	112,500	1,328,100	1,215,200	112,800	1,328,000
Naturopathic Physicians Medical Board	0	177,600	177,600	0	179,700	179,700
Navigable Stream Adjudication Commission	129,200	359,300	488,500	126,600	200,000	326,600
Nursing, State Board of	150,000	4,272,100	4,422,100	0	4,802,600	4,802,600
Nursing Care Institution Administrators Board <u>2/</u>	0	420,300	420,300	0	422,100	422,100
Occupational Therapy Examiners, Board of	0	184,200	184,200	0	172,000	172,000
Opticians, State Board of Dispensing	0	135,800	135,800	0	136,800	136,800
Optometry, State Board of	0	206,100	206,100	0	230,200	230,200
Osteopathic Examiners, Arizona Board of	0	801,700	801,700	0	803,700	803,700
Parks Board, Arizona State	500,000	12,842,100	13,342,100	0	12,854,800	12,854,800
Personnel Board, State	0	375,000	375,000	0	375,700	375,700
Pest Management, Office of	0	1,700,500	1,700,500	0	1,699,500	1,699,500
Pharmacy, Arizona State Board of	0	2,053,900	2,053,900	0	2,020,500	2,020,500
Physical Therapy, Board of	0	408,000	408,000	0	480,400	480,400
Pioneers' Home, Arizona	1,603,400	4,658,100	6,261,500	0	6,204,900	6,204,900
Podiatry Examiners, State Board of	0	147,300	147,300	0	148,200	148,200
Postsecondary Education, Commission for	1,396,800	1,535,400	2,932,200	1,396,800	1,534,800	2,931,600
Private Postsecondary Education, Board for	0	395,700	395,700	0	996,300	996,300
Psychologist Examiners, State Board of	0	413,600	413,600	0	448,500	448,500
Public Safety, Department of	89,324,900	155,232,300	244,557,200	93,374,800	164,164,700	257,539,500

	Fiscal Year 2015			Fiscal Year 2016		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Public Safety Personnel Retirement System	6,000,000	0	6,000,000	6,000,000	0	6,000,000
Racing, Arizona Department of	2,029,500	2,900,700	4,930,200	0	0	0
Radiation Regulatory Agency	1,468,900	853,200	2,322,100	1,595,000	851,200	2,446,200
Real Estate Department, State	2,989,700	0	2,989,700	2,985,200	0	2,985,200
Residential Utility Consumer Office	0	1,337,800	1,337,800	0	1,335,000	1,335,000
Respiratory Care Examiners, Board of	0	297,200	297,200	0	300,100	300,100
Retirement System, Arizona State	0	29,294,700	29,294,700	0	27,981,600	27,981,600
Revenue, Department of	48,139,400	25,513,600	73,653,000	30,338,600	47,484,400	77,823,000
School Facilities Board	179,942,500	0	179,942,500	216,878,100	23,900,000	240,778,100
Secretary of State	15,027,800	3,682,400	18,710,200	15,006,500	3,683,500	18,690,000
State Boards' Office	0	231,100	231,100	0	215,800	215,800
Tax Appeals, State Board of	265,600	0	265,600	266,400	0	266,400
Technical Registration, State Board of	0	2,124,600	2,124,600	0	2,122,600	2,122,600
Tourism, Office of	9,103,700	0	9,103,700	7,110,400	0	7,110,400
Transportation, Department of	50,400	366,314,700	366,365,100	50,400	367,364,400	367,414,800
Treasurer, State	1,205,100	5,005,700	6,210,800	1,205,100	5,044,000	6,249,100
Universities						
Board of Regents	21,928,400	0	21,928,400	21,928,400	0	21,928,400
Arizona State University - Tempe/DPC	290,104,300	516,830,500	806,934,800	239,189,400	516,159,000	755,348,400
Arizona State University - East Campus	25,853,400	31,509,500	57,362,900	22,162,700	31,466,500	53,629,200
Arizona State University - West Campus	33,328,100	42,575,500	75,903,600	28,754,100	42,517,600	71,271,700
Northern Arizona University	118,281,200	132,857,500	251,138,700	100,917,600	132,857,500	233,775,100
University of Arizona - Main Campus	209,341,200	301,560,300	510,901,500	179,499,400	300,783,000	480,282,400
University of Arizona - Health Sciences Center	69,585,300	43,434,900	113,020,200	68,393,500	43,315,600	111,709,100
SUBTOTAL - Universities	768,421,900	1,068,768,200	1,837,190,100	660,845,100	1,067,099,200	1,727,944,300
Veterans' Services, Department of	5,438,300	32,001,600	37,439,900	6,077,800	31,889,500	37,967,300
Veterinary Medical Examining Board	0	577,300	577,300	0	545,200	545,200
Water Resources, Department of	13,330,300	906,900	14,237,200	12,803,100	2,356,300	15,159,400
Weights and Measures, Department of	1,475,700	1,773,300	3,249,000	1,399,000	1,769,200	3,168,200
OPERATING BUDGET SUBTOTAL	\$9,179,260,400	\$3,253,027,300	\$12,432,287,700	\$9,054,858,900	\$3,253,096,100	\$12,307,955,000
Unallocated Adjustments	0	314,700	314,700	16,800	1,613,000	1,629,800
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Capital Outlay Projects	41,631,100	256,649,800	298,280,900	6,200,000	282,447,500	288,647,500
Capital Outlay - Debt Service	104,572,700	0	104,572,700	104,563,600	0	104,563,600
Administrative Adjustments	80,000,000	0	80,000,000	70,000,000	0	70,000,000
Revertments	(80,000,000)	0	(80,000,000)	(111,380,700)	0	(111,380,700)
GRAND TOTAL	\$9,335,464,200	\$3,509,991,800	\$12,845,456,000	\$9,134,258,600	\$3,537,156,600	\$12,671,415,200

1/ This table summarizes FY 2015 and FY 2016 appropriations from the 1st Regular Session of the 52nd Legislature and all prior sessions.

2/ The full agency name is the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers.

SUMMARY OF CAPITAL OUTLAY APPROPRIATIONS
(Capital Outlay Bill and Other Bills with Capital Appropriations) 1/2/3/

	FY 2015 ^{4/}		FY 2016 ^{5/}	
	General Fund	Other Funds	General Fund	Other Funds
ARIZONA DEPARTMENT OF ADMINISTRATION BUILDING SYSTEM				
Administration, Arizona Department of				
Building Renewal for ADOA System (excluding Corrections) ^{6/7/8/9/}	\$9,000,000	\$9,000,000	\$5,000,000	\$9,000,000
Corrections, State Department of				
Building Renewal for Corrections Facilities ^{10/11/}	3,000,000	5,464,300		5,464,300
500 Maximum Security Beds	17,431,100 ^{12/}			
Subtotal - State Department of Corrections	<u>\$20,431,100</u>	<u>\$5,464,300</u>	<u>\$0</u>	<u>\$5,464,300</u>
Exposition and State Fair Board, AZ				
Capital Improvement Projects ^{13/}		\$1,000,000		\$1,000,000
Game and Fish Department, Arizona				
Building Renewal ^{14/}				\$530,000
Lottery Commission, Arizona State				
Building Renewal ^{15/}		\$97,400		\$103,600
Parks Board, Arizona State				
Capital Improvement Projects ^{16/}		\$1,500,000		\$1,500,000
Public Safety, Department of				
Microwave Communications Systems Upgrade ^{17/}		\$2,000,000		
Veterans' Services, Department of				
Yuma Veterans' Home Construction ^{18/}	\$9,200,000			
SUBTOTAL - ADOA BUILDING SYSTEM	<u>\$38,631,100</u>	<u>\$19,061,700</u>	<u>\$5,000,000</u>	<u>\$17,597,900</u>
ARIZONA BOARD OF REGENTS				
Building Renewal ^{19/}	\$3,000,000			
ARIZONA DEPARTMENT OF TRANSPORTATION BUILDING SYSTEM				
Arizona Department of Transportation				
Building Renewal ^{20/}		3,396,800		3,396,800
Navajo Nation Projects ^{21/}			1,200,000	
Airport Planning and Development ^{22/23/}		20,012,300		21,791,800
Highway Construction ^{23/24/25/}		208,899,000		234,471,000
De-icer Storage		2,280,000		2,280,000
Vehicle Wash Systems		3,000,000		2,910,000
SUBTOTAL - ADOT BUILDING SYSTEM ^{26/27/}	<u>\$0</u>	<u>\$237,588,100</u>	<u>\$1,200,000</u>	<u>\$264,849,600</u>
GRAND TOTAL - ALL APPROPRIATIONS	<u>\$41,631,100</u>	<u>\$256,649,800</u>	<u>\$6,200,000</u>	<u>\$282,447,500</u>
SUMMARY OF CAPITAL APPROPRIATIONS BY SESSION				
Laws 2015, 1st Regular Session ^{5/23/}			\$6,200,000	\$282,447,500
Laws 2014, 2nd Regular Session ^{4/}	\$24,200,000	\$256,649,800		
Laws 2012, 2nd Regular Session ^{4/}	\$17,431,100			

- ^{1/} This table summarizes all capital appropriations for FY 2015 and FY 2016. Appropriations are listed by the state's "building systems." Capital Outlays are budgeted on an annual basis except under special circumstances.
- ^{2/} FY 2015 amounts represent appropriations from the FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15), except for the \$17,431,100 appropriation remaining for the Department of Corrections 500 Maximum Security Beds, which is from the FY 2013 Capital Outlay Bill (Laws 2012, Chapter 295). *See footnote 12 for more information.* FY 2016 amounts represent appropriations from the FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9).
- ^{3/} A.R.S. § 41-1252 requires review of any capital projects over \$250,000 by the Joint Committee on Capital Review (JCCR).
- ^{4/} 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. (FY 2015 Capital Outlay Appropriation Act footnote)
- ^{5/} Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2016 that are unexpended on June 30, 2017 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote). FY 2016 Arizona Department of Transportation (ADOT) airport and highway construction appropriations are exempt from this provision. *See footnote 23.*
- ^{6/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2016 to 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 Arizona Department of Administration (ADOA), up to \$275,000 in Personal Services and Employee Related Expenditures (ERE) 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 ERE or for maintenance contracts on building components and equipment without review by the JCCR. (Capital Outlay Appropriation Act footnote)
- ^{7/} ADOA shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund (COSF) established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the ADOA for building renewal, the appropriation to the ADOA is reduced by the difference between the amount appropriated to the ADOA from COSF and the balance in COSF. (Capital Outlay Appropriation Act footnote)

- 8/ The FY 2015 appropriation represents 53.0% of the non-Department of Corrections (ADC) building renewal formula, while the FY 2016 appropriation represents 38.8%.
- 9/ On or before January 31, 2016 and July 31, 2016, the Department of Administration shall report to the Joint Legislative Budget Committee (JLBC) Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)
- 10/ On or before January 31, 2016 and July 31, 2016, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- 11/ The FY 2015 appropriations represent 51.6% of the Department of Corrections (ADC) building renewal formula, while the FY 2016 appropriation represents 31.1%.
- 12/ Monies in FY 2015 for ADC 500 Maximum Security Beds. This amount is from the \$50,000,000 originally appropriated to ADC in FY 2013 and FY 2014, as Laws 2012, Chapter 295 made the amount available until completion of the project.
- 13/ The sum of \$1,000,000 is appropriated from the Arizona Exposition and State Fair Fund established by A.R.S. § 3-1005, in FY 2016 to the Arizona Exposition and State Fair Board for capital improvements. The Arizona Exposition and State Fair Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 14/ The FY 2016 appropriation represents 69.1% funding of the building renewal formula.
- 15/ Both the FY 2015 and FY 2016 appropriations represent 100% funding of the building renewal formula.
- 16/ The sum of \$1,500,000 is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21, in FY 2016 to the Arizona State Parks Board for capital improvements. The Arizona State Parks Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 17/ The sum of \$2,000,000 is appropriated from the Arizona Highway Patrol Fund established by A.R.S. § 41-1752, in FY 2015 to the Department of Public Safety (DPS) for the design, construction and implementation of a microwave communications system upgrade. The DPS shall submit an expenditure plan and project timeline to the JCCR for its review before expending any monies appropriated for the microwave communications system upgrade. (FY 2015 Capital Outlay Appropriation Act footnote)
- 18/ The sum of \$9,200,000 is appropriated from the state General Fund in FY 2015 to the Department of Veterans' Services for construction and establishment of a veterans' home facility in Yuma. The amount appropriated in subsection A of this section is intended to be this state's share of the costs, and is not subject to expenditure for any purpose unless the Department of Veterans' Services has irrevocable commitments from the United States government for funding at least 65% of the total costs. The appropriation made in subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. The Department of Veterans' Services shall submit the scope, purpose and estimated cost of the veterans' home facility in Yuma to the JCCR for its review pursuant to A.R.S. § 41-1252. (FY 2015 Capital Outlay Appropriation Act footnote)
- 19/ The Arizona Board of Regents (ABOR) shall require each university to establish a major maintenance and repair account for deposit of amounts allocated by the board to the university from the appropriation made in this subsection. Amounts deposited in this account may be used only for the purposes provided in subsection A of this section. (FY 2015 Capital Outlay Appropriation Act footnote)
- 20/ Includes \$3,191,900 from the State Highway Fund to fund 28.5% of the revised highways building renewal formula in FY 2015 and 27.1% of the formula in FY 2016. Also includes \$204,900 from the State Aviation Fund to fund 100% of the aviation building renewal formula in FY 2015 and 93.2% of the formula in FY 2016.
- 21/ The sum of \$1,200,000 is appropriated from the state General Fund in FY 2016 to ADOT for distribution to the Navajo Nation for transportation projects on reservation land in this state. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 22/ The amount is appropriated from the State Aviation Fund established in A.R.S. § 28-8202 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 ADOT for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 23/ An appropriation made in Section 7 of this act does 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 encumbrance. (Capital Outlay Appropriation Act footnote)
- 24/ The amount appropriated for highway construction is from the SHF established by A.R.S. § 28-6991, 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 SHF 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. (Capital Outlay Appropriation Act footnote)
- 25/ The Department of Transportation shall report on or before November 1, 2015 to JCCR 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. The report must be in the same format as in the prior year unless modifications have been approved by the Directors of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB). (Capital Outlay Appropriation Act footnote)
- 26/ On or before November 1, 2015, ADOT shall report capital outlay information for FY 2015, FY 2016, and FY 2017 to the Directors of JLBC and OSPB. This information must appear in the same format as tables 2, 3 and 6, as found in the *FY 2015 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 27/ On or before November 1, 2015, ADOT shall report the Department's estimated outstanding debt principal balance at the end of FY 2017 and the estimated debt service payment amount for FY 2017 to the Directors of the JLBC and OSPB. This report must include State Highway Fund statewide construction bonds, Arizona 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*. (Capital Outlay Appropriation Act footnote)

SUMMARY OF ADDITIONAL OPERATING AND STATUTORY APPROPRIATIONS 1/ 2/

GENERAL FUND

	FY 2015	FY 2016
Administration, Arizona Department of Laws 2015, Ch. 34 (SB 1053) Appropriations; Named Claimants	184,600	
Agriculture, Department of Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments Laws 2013, Ch. 13 (HB 2034) Nuclear Emergency Appropriation and Assessment	198,400	198,400
Attorney General - Department of Law 23-263 - Military Airport Planning; Appropriation	85,000	85,000
Commerce Authority, Arizona 43-409 - Arizona Commerce Authority Income Tax Withholding	31,500,000	26,500,000 <u>3/</u>
Community Colleges 42-5031.01 - Indian Tribal Postsecondary Educational Institutions 15-1469.01 - Rural County Allocation Subtotal - Community Colleges	2,625,000 3,195,500 5,820,500	2,625,000 3,195,500 5,820,500
Corporation Commission Laws 2014, Ch. 39 (HB 2620) Appropriations; Named Claimants	600	
Emergency and Military Affairs, Department of 26-263 - Military Airport Planning; Appropriation	90,000	90,000
Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments Laws 2013, Ch. 13 (HB 2034) Nuclear Emergency Appropriation and Assessment	1,375,400	1,385,900
35-192 - Governor's Emergency Authority Subtotal - Department of Emergency and Military Affairs	4,000,000 5,465,400	4,000,000 5,475,900
Environmental Quality, Department of 49-282 - WQARF Priority Site Remediation Laws 2015, Ch. 13 (SB 1474) Environment BRB Laws 2014, Ch. 13 (HB 2707) Environment BRB Subtotal - Department of Environmental Quality	15,000,000 (8,000,000) 7,000,000	15,000,000 (8,000,000) 7,000,000
Forester, State 37-623 - Wild Land Fire Emergency	3,000,000	3,000,000
Gaming, Department of Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		1,779,500
Judiciary - Supreme Court Laws 2015, Ch. 276 (HB 2088) Magistrates; Municipal Courts (Reallocation of Judiciary funding)		2,810,500
Judiciary - Superior Court Laws 2015, Ch. 276 (HB 2088) Magistrates; Municipal Courts (Reallocation of Judiciary funding)		(2,810,500)
Parks Board, Arizona State Laws 2014, Ch. 13 (HB 2707) Environment BRB (Yarnell Hill Memorial)	500,000	
Public Safety Personnel Retirement System 38-810 - EORP Closure	5,000,000	5,000,000
Racing, Department of Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		(1,779,500)
Radiation Regulatory Agency Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments Laws 2013, Ch. 13 (HB 2034) Nuclear Emergency Appropriation and Assessment	695,300	819,700
Arizona State University - Tempe/DPC 15-1670 - University Research Infrastructure Financing Laws 2014, Ch. 18 (HB 2703) General Appropriations Subtotal - Arizona State University - Tempe/DPC	13,555,000 (522,600) 13,032,400	13,555,000 (3,045,900) 10,509,100

Arizona State University - West Campus		
15-1670 - University Research Infrastructure Financing	917,000	917,000
Northern Arizona University		
15-1670 - University Research Infrastructure Financing	5,900,000	5,900,000
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(408,500)	(406,800)
Subtotal - Northern Arizona University	<u>5,491,500</u>	<u>5,493,200</u>
University of Arizona - Main Campus		
15-1670 - University Research Infrastructure Financing	14,253,000	14,253,000
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(4,659,800)	(4,659,400)
Subtotal - University of Arizona - Main Campus	<u>9,593,200</u>	<u>9,593,600</u>
Other		
9-602 - Phoenix Convention Center Financing	20,449,000	20,449,000
42-5031 - Rio Nuevo Multi-Purpose Facility District <u>4/5/</u>	10,000,000	10,000,000
GENERAL FUND TOTAL	<u>118,932,900</u>	<u>110,861,400</u>

OTHER FUNDS

	<u>FY 2015</u>	<u>FY 2016</u>
Appraisal, State Board of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		(821,400)
Arts, Arizona Commission on the		
Laws 2014, Ch. 9 (SB 1487) Revenue BRB	1,000,000	
Economic Security, Department of		
Laws 2015, Ch. 169 (SB 1440) ALTCS; Developmental Disabilities; Rates; Appropriation		120,000
Education, Department of		
Laws 2014, Ch. 17 (SB 1488) K-12 Education BRB (English Language Pilot)	300,000	246,800
Emergency and Military Affairs, Department of		
Laws 2015, Ch. 208 (HB 2274) Emergency and Military Affairs Omnibus (Emergency Response)		(132,800)
Environmental Quality, Department of		
Laws 2015, Ch. 208 (HB 2274) Emergency and Military Affairs Omnibus (Emergency Response)		132,800
Financial Institutions, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		821,400
Gaming, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		2,894,200
Medical Board, Arizona		
Laws 2015, Ch. 2 (SB 1149) Arizona Medical Board; Fingerprinting; Disclosure	200,000	
Racing, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB		(2,894,200)
Treasurer, State		
Laws 2015, Ch. 231 (SB 1271) Virtual Border Fence; Appropriation <u>4/</u>		12,100
Water Resources, Department of		
Laws 2015, Ch. 149 (SB 1147) Water Banking Fund <u>4/</u>		237,400
OTHER FUNDS TOTAL	<u>1,500,000</u>	<u>616,300</u>

1/ All appropriations have been rounded to the nearest \$100.

2/ Excludes all FY 2016 General Appropriation Act and all FY 2016 Capital Outlay Appropriations bills.

3/ The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12, Section 6) permanently reduced the annual General Fund deposit into the Arizona Competes Fund to \$16,500,000 in FY 2016 and \$11,500,000 for each fiscal year after 2016. The distribution to the Arizona Commerce Authority Fund remains at \$10,000,000 each fiscal year.

4/ Represents an estimate of available funding.

5/ In prior years, allocation was displayed as a revenue offset.

**SUMMARY OF TOTAL SPENDING AUTHORITY BY AGENCY
(APPROPRIATED AND NON-APPROPRIATED FUNDS)
Fiscal Years 2015 and 2016 1/**

	Fiscal Year 2015			Fiscal Year 2016		
	Non-		Total	Non-		Total
	Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>		Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>	
BUDGET UNITS						
Accountancy, State Board of	\$1,936,800	\$0	\$1,936,800	\$1,939,100	\$0	\$1,939,100
Acupuncture Examiners, Board of	154,700	0	154,700	159,100	0	159,100
Administration, Arizona Department of	204,844,700	1,001,158,000	1,206,002,700	194,005,600	1,034,339,100	1,228,344,700
- Automation Projects Fund	105,534,700	0	105,534,700	32,577,400	0	32,577,400
- Department of Child Safety	19,500,000	0	19,500,000	0	0	0
Administrative Hearings, Office of	874,800	873,400	1,748,200	874,000	873,400	1,747,400
African-American Affairs, Arizona Commission of	125,000	0	125,000	125,000	0	125,000
Agriculture, Arizona Department of	8,323,000	16,147,800	24,470,800	8,287,400	16,143,000	24,430,400
AHCCCS	1,367,333,100	7,188,207,800	8,555,540,900	1,348,609,800	7,262,000,300	8,610,610,100
Appraisal, State Board of	861,800	0	861,800	0	0	0
Arts, Arizona Commission on the	1,000,000	3,543,700	4,543,700	0	3,543,700	3,543,700
Athletic Training, Board of	118,200	0	118,200	118,900	0	118,900
Attorney General - Department of Law	66,824,000	48,561,200	115,385,200	66,677,700	50,248,800	116,926,500
Automobile Theft Authority	5,297,800	0	5,297,800	5,297,500	0	5,297,500
Barbers, Board of	333,900	0	333,900	335,400	0	335,400
Behavioral Health Examiners, Board of	1,758,600	0	1,758,600	1,760,500	0	1,760,500
Charter Schools, State Board for	994,700	101,900	1,096,600	1,200,900	101,900	1,302,800
Child Safety, Department of	521,672,600	328,005,200	849,677,800	517,115,800	332,103,500	849,219,300
Chiropractic Examiners, State Board of	450,600	0	450,600	451,400	0	451,400
Citizens Clean Elections Commission	0	10,041,600	10,041,600	0	10,041,600	10,041,600
Commerce Authority, Arizona	31,800,000	27,710,000	59,510,000	26,800,000	19,450,200	46,250,200
Community Colleges, Arizona	71,906,400	17,696,600	89,603,000	55,045,300	17,696,600	72,741,900
Constable Ethics Standards and Training Board	0	391,400	391,400	0	391,400	391,400
Contractors, Registrar of	12,196,700	4,666,800	16,863,500	12,187,500	4,666,800	16,854,300
Corporation Commission	27,789,500	700,000	28,489,500	26,978,300	700,000	27,678,300
Corrections, State Department of	1,041,757,500	59,969,300	1,101,726,800	1,076,776,800	59,939,500	1,136,716,300
Cosmetology, Board of	1,785,000	0	1,785,000	1,807,700	0	1,807,700
County Funding	7,650,500	0	7,650,500	6,000,500	0	6,000,500
Criminal Justice Commission, Arizona	5,955,100	16,613,600	22,568,700	5,956,200	11,738,300	17,694,500
Deaf and the Blind, Schools for the	35,088,100	19,881,300	54,969,400	33,157,800	19,881,300	53,039,100
Deaf and the Hard of Hearing, Comm. for the	4,276,700	0	4,276,700	4,312,800	0	4,312,800
Dental Examiners, State Board of	1,215,100	0	1,215,100	1,215,500	0	1,215,500
Early Childhood Development and Health Board, Arizona	0	167,487,200	167,487,200	0	143,303,100	143,303,100
Economic Security, Department of	789,484,700	1,651,813,900	2,441,298,600	803,163,700	1,660,476,500	2,463,640,200
Education, State Board of	0	0	0	1,705,000	0	1,705,000
Education, Department of	3,913,089,900	1,637,753,200	5,550,843,100	3,946,496,600	1,677,164,200	5,623,660,800
Emergency and Military Affairs, Dept. of	13,177,100	57,903,900	71,081,000	11,102,700	50,389,800	61,492,500
Environmental Quality, Department of	76,241,800	53,026,200	129,268,000	76,192,200	53,026,200	129,218,400
Equal Opportunity, Governor's Office of	188,600	200	188,800	189,000	200	189,200
Equalization, State Board of	641,800	0	641,800	642,800	0	642,800

	Fiscal Year 2015			Fiscal Year 2016		
	Non-		Total	Non-		Total
	Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>		Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>	
Executive Clemency, Board of	958,600	0	958,600	956,000	0	956,000
Exposition and State Fair Board, Arizona	11,620,800	0	11,620,800	11,616,100	0	11,616,100
Financial Institutions, Department of	4,267,600	2,000,300	6,267,900	5,287,100	1,126,300	6,413,400
Fire, Building and Life Safety, Department of	2,205,300	710,000	2,915,300	2,202,000	710,000	2,912,000
Forester, State	9,103,800	27,121,800	36,225,600	9,012,300	27,121,800	36,134,100
Funeral Directors and Embalmers, Board of	353,700	0	353,700	352,200	0	352,200
Game and Fish Department, Arizona	40,474,200	66,730,600	107,204,800	41,845,400	66,730,600	108,576,000
Gaming, Department of	13,516,200	0	13,516,200	18,146,500	90,000	18,236,500
Geological Survey, Arizona	941,700	5,760,600	6,702,300	941,000	1,688,600	2,629,600
Governor, Office of the	6,920,100	23,316,300	30,236,400	6,889,000	23,316,300	30,205,300
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	1,994,000	0	1,994,000
Health Services, Department of	707,340,200	1,636,913,500	2,344,253,700	690,836,500	1,670,697,900	2,361,534,400
Historical Society, Arizona	3,156,000	1,177,500	4,333,500	3,157,200	1,111,300	4,268,500
Historical Society, Prescott	826,300	589,200	1,415,500	825,800	589,200	1,415,000
Homeland Security, Arizona Department of	0	34,680,800	34,680,800	0	12,983,000	12,983,000
Homeopathic and Integrated Medicine Examiners, Board of	102,100	0	102,100	102,800	0	102,800
Housing, Arizona Department of	314,600	88,582,000	88,896,600	318,500	92,886,800	93,205,300
Independent Redistricting Commission	1,115,300	0	1,115,300	1,115,300	0	1,115,300
Indian Affairs, Arizona Commission of	56,900	22,400	79,300	57,400	22,400	79,800
Industrial Commission of Arizona	19,994,800	35,753,400	55,748,200	19,940,300	25,212,400	45,152,700
Insurance, Department of	5,366,700	11,391,700	16,758,400	5,867,400	22,254,400	28,121,800
Judiciary						
Supreme Court	43,588,700	21,427,600	65,016,300	46,903,300	21,427,600	68,330,900
Court of Appeals	14,380,200	0	14,380,200	14,315,500	0	14,315,500
Superior Court	93,634,100	752,100	94,386,200	85,978,000	752,100	86,730,100
SUBTOTAL - Judiciary	151,603,000	22,179,700	173,782,700	147,196,800	22,179,700	169,376,500
Juvenile Corrections, Department of	48,108,800	1,954,000	50,062,800	43,116,700	1,954,000	45,070,700
Land Department, State	18,196,500	1,601,300	19,797,800	17,045,900	806,600	17,852,500
Legislature						
Auditor General	18,246,400	1,744,900	19,991,300	17,933,300	1,744,900	19,678,200
House of Representatives	13,372,200	0	13,372,200	13,289,500	0	13,289,500
Joint Legislative Budget Committee	2,493,000	0	2,493,000	2,490,900	0	2,490,900
Legislative Council	8,248,900	0	8,248,900	8,233,300	0	8,233,300
Senate	8,283,800	0	8,283,800	8,223,900	0	8,223,900
SUBTOTAL - Legislature	50,644,300	1,744,900	52,389,200	50,170,900	1,744,900	51,915,800
Liquor Licenses and Control, Department of	3,589,200	974,500	4,563,700	3,355,300	974,500	4,329,800
Lottery Commission, Arizona State	103,731,300	553,956,400	657,687,700	108,854,600	603,119,500	711,974,100
Massage Therapy, Board of	438,700	0	438,700	455,800	0	455,800
Medical Board, Arizona	5,940,300	0	5,940,300	6,426,000	0	6,426,000
Mine Inspector, State	1,328,100	339,000	1,667,100	1,328,000	339,000	1,667,000
Naturopathic Physicians Medical Board	177,600	0	177,600	179,700	0	179,700
Navigable Stream Adjudication Commission	488,500	0	488,500	326,600	0	326,600
Nursing, State Board of	4,422,100	414,700	4,836,800	4,802,600	414,700	5,217,300
Nursing Care Institution Administrators Board <u>3/</u>	420,300	0	420,300	422,100	0	422,100
Occupational Therapy Examiners, Board of	184,200	0	184,200	172,000	0	172,000
Opticians, State Board of Dispensing	135,800	0	135,800	136,800	0	136,800

	Fiscal Year 2015			Fiscal Year 2016		
	Non-		Total	Non-		Total
	Appropriated General and Other Funds	Appropriated Federal and Other Funds 2/		Appropriated General and Other Funds	Appropriated Federal and Other Funds 2/	
Optometry, State Board of	206,100	0	206,100	230,200	0	230,200
Osteopathic Examiners, Arizona Board of	801,700	0	801,700	803,700	0	803,700
Parents Commission on Drug Educ. & Prev., Arizona	0	4,986,700	4,986,700	0	4,986,700	4,986,700
Parks Board, Arizona State	13,342,100	26,861,900	40,204,000	12,854,800	16,510,200	29,365,000
Personnel Board, State	375,000	0	375,000	375,700	0	375,700
Pest Management, Office of	1,700,500	113,500	1,814,000	1,699,500	113,500	1,813,000
Pharmacy, Arizona State Board of	2,053,900	429,400	2,483,300	2,020,500	429,400	2,449,900
Physical Therapy, Board of	408,000	0	408,000	480,400	0	480,400
Pioneers' Home, Arizona	6,261,500	32,300	6,293,800	6,204,900	32,300	6,237,200
Podiatry Examiners, State Board of	147,300	0	147,300	148,200	0	148,200
Postsecondary Education, Commission for	2,932,200	1,148,800	4,081,000	2,931,600	579,600	3,511,200
Power Authority, Arizona	0	34,823,500	34,823,500	0	34,823,500	34,823,500
Private Postsecondary Education, Board for	395,700	136,600	532,300	996,300	136,600	1,132,900
Psychologist Examiners, State Board of	413,600	0	413,600	448,500	0	448,500
Public Safety, Department of	244,557,200	77,239,300	321,796,500	257,539,500	67,733,400	325,272,900
Public Safety Personnel Retirement System	6,000,000	12,009,000	18,009,000	6,000,000	12,245,900	18,245,900
Racing, Arizona Department of	4,930,200	90,000	5,020,200	0	0	0
Radiation Regulatory Agency	2,322,100	316,100	2,638,200	2,446,200	316,100	2,762,300
Real Estate Department, State	2,989,700	230,100	3,219,800	2,985,200	230,100	3,215,300
Residential Utility Consumer Office	1,337,800	0	1,337,800	1,335,000	0	1,335,000
Respiratory Care Examiners, Board of	297,200	0	297,200	300,100	0	300,100
Retirement System, Arizona State	29,294,700	96,005,500	125,300,200	27,981,600	100,609,000	128,590,600
Revenue, Department of	73,653,000	5,847,400	79,500,400	77,823,000	5,847,400	83,670,400
School Facilities Board	179,942,500	89,747,600	269,690,100	240,778,100	89,062,800	329,840,900
Secretary of State	18,710,200	5,071,700	23,781,900	18,690,000	4,978,800	23,668,800
State Boards' Office	231,100	0	231,100	215,800	0	215,800
Tax Appeals, State Board of	265,600	0	265,600	266,400	0	266,400
Technical Registration, State Board of	2,124,600	0	2,124,600	2,122,600	0	2,122,600
Tourism, Office of	9,103,700	13,580,200	22,683,900	7,110,400	13,580,200	20,690,600
Transportation, Department of	366,365,100	171,568,800	537,933,900	367,414,800	171,568,800	538,983,600
Treasurer, State	6,210,800	4,772,400	10,983,200	6,249,100	4,772,400	11,021,500
Universities						
Board of Regents	21,928,400	17,329,800	39,258,200	21,928,400	12,250,500	34,178,900
Arizona State University - Tempe/DPC	806,934,800	1,149,678,700	1,956,613,500	755,348,400	1,232,270,000	1,987,618,400
Arizona State University - East Campus	57,362,900	20,273,900	77,636,800	53,629,200	21,013,000	74,642,200
Arizona State University - West Campus	75,903,600	31,515,500	107,419,100	71,271,700	32,544,000	103,815,700
Northern Arizona University	251,138,700	276,496,100	527,634,800	233,775,100	289,487,900	523,263,000
University of Arizona - Main Campus	510,901,500	1,155,485,600	1,666,387,100	480,282,400	1,185,237,100	1,665,519,500
University of Arizona - Health Sciences Center	113,020,200	324,075,400	437,095,600	111,709,100	332,964,000	444,673,100
SUBTOTAL - Universities	1,837,190,100	2,974,855,000	4,812,045,100	1,727,944,300	3,105,766,500	4,833,710,800
Veterans' Services, Department of	37,439,900	9,930,300	47,370,200	37,967,300	10,068,300	48,035,600
Veterinary Medical Examining Board	577,300	0	577,300	545,200	0	545,200
Water Infrastructure Finance Authority	0	146,988,500	146,988,500	0	146,988,500	146,988,500
Water Resources, Department of	14,237,200	9,375,000	23,612,200	15,159,400	9,375,000	24,534,400
Weights and Measures, Department of	3,249,000	0	3,249,000	3,168,200	0	3,168,200
OPERATING BUDGET SUBTOTAL	\$12,432,287,700	\$18,516,328,400	\$30,948,616,100	\$12,307,955,000	\$18,807,048,300	\$31,115,003,300

	Fiscal Year 2015			Fiscal Year 2016		
	Non-		Total	Non-		Total
	Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>		Appropriated General and Other Funds	Appropriated Federal and Other Funds <u>2/</u>	
Unallocated Adjustments	314,700	0	314,700	1,629,800	0	1,629,800
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Capital Outlay Projects	298,280,900	1,480,203,000	1,778,483,900	288,647,500	1,137,740,000	1,426,387,500
Capital Outlay - Debt Service	104,572,700	0	104,572,700	104,563,600	0	104,563,600
Administrative Adjustments	80,000,000	0	80,000,000	70,000,000	0	70,000,000
Revertments	(80,000,000)	0	(80,000,000)	(111,380,700)	0	(111,380,700)
GRAND TOTAL	\$12,845,456,000	\$19,996,531,400	\$32,841,987,400	\$12,671,415,200	\$19,944,788,300	\$32,616,203,500

1/ This table summarizes FY 2015 and FY 2016 appropriations from the 1st Regular Session of the 52nd Legislature and all prior sessions.

2/ The amounts shown are generally based on estimates published in the JLBC Staff's Baseline Book (January 2015), but may have been updated for later information.

3/ The full agency name is the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers.

STATE PERSONNEL SUMMARY

Full-Time Equivalent Positions by Agency for Fiscal Years 2015 and 2016 1/

BUDGET UNITS	Fiscal Year 2015			Fiscal Year 2016		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
Accountancy, State Board of	0.0	13.0	13.0	0.0	13.0	13.0
Acupuncture Board of Examiners	0.0	1.0	1.0	0.0	1.0	1.0
Administration, Arizona Department of	86.2	417.9	504.1	114.2	417.9	532.1
Automation Projects Fund	0.0	75.0	75.0	0.0	75.0	75.0
Capital Outlay	0.0	5.0	5.0	0.0	5.0	5.0
SUBTOTAL - Administration, Arizona Department of	86.2	497.9	584.1	114.2	497.9	612.1
Administrative Hearings, Office of	12.0	0.0	12.0	12.0	0.0	12.0
African-American Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Agriculture, Arizona Department of <u>2/</u>	162.9	0.0	162.9	162.9	0.0	162.9
AHCCCS	429.2	594.0	1,023.2	432.2	597.0	1,029.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>3/</u>	993.4	1,214.9	2,208.3	996.4	1,217.9	2,214.3
Appraisal, State Board of <u>4/</u>	0.0	9.0	9.0	0.0	0.0	0.0
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law <u>5/</u>	234.2	336.7	570.9	199.7	366.2	565.9
Automobile Theft Authority	0.0	6.0	6.0	0.0	6.0	6.0
Barbers, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Behavioral Health Examiners, Board of	0.0	17.0	17.0	0.0	17.0	17.0
Charter Schools, State Board for	11.0	0.0	11.0	14.0	0.0	14.0
Child Safety, Department of <u>5/ 6/</u>	1,633.2	1,411.9	3,045.1	1,645.2	1,411.9	3,057.1
Chiropractic Examiners, State Board of	0.0	5.0	5.0	0.0	5.0	5.0
Contractors, Registrar of	0.0	105.6	105.6	0.0	105.6	105.6
Corporation Commission	6.0	294.9	300.9	6.0	294.9	300.9
Corrections, State Department of	9,528.0	6.0	9,534.0	9,528.0	6.0	9,534.0
Cosmetology, Board of	0.0	24.5	24.5	0.0	24.5	24.5
Criminal Justice Commission, Arizona	0.0	9.0	9.0	0.0	9.0	9.0
Deaf and the Blind, Arizona State Schools for the	263.8	277.4	541.2	263.8	277.4	541.2
Deaf and the Hard of Hearing, Commission for the	0.0	15.0	15.0	0.0	15.0	15.0
Dental Examiners, State Board of	0.0	11.0	11.0	0.0	11.0	11.0
Economic Security, Department of <u>7/ 8/</u>	1,310.4	2,779.2	4,089.6	1,336.1	2,811.6	4,147.7
Education, Department of <u>9/</u>	143.2	32.7	175.9	137.2	27.7	164.9
Education, State Board of <u>9/</u>	0.0	0.0	0.0	6.0	5.0	11.0
Emergency and Military Affairs, Department of <u>2/ 10/</u>	68.6	0.0	68.6	69.6	0.0	69.6
Environmental Quality, Department of	0.0	322.0	322.0	0.0	322.0	322.0
Equal Opportunity, Governor's Office of	4.0	0.0	4.0	4.0	0.0	4.0
Equalization, State Board of	7.0	0.0	7.0	7.0	0.0	7.0
Executive Clemency, Board of	14.0	0.0	14.0	14.0	0.0	14.0
Exposition and State Fair Board, Arizona	0.0	184.0	184.0	0.0	184.0	184.0
Financial Institutions, State Department of <u>4/</u>	46.1	14.0	60.1	46.1	23.0	69.1
Fire, Building and Life Safety, Department of	48.0	0.0	48.0	48.0	0.0	48.0
Forester, State	55.0	0.0	55.0	55.0	0.0	55.0
Funeral Directors and Embalmers, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Game and Fish Department, Arizona	0.0	273.5	273.5	0.0	273.5	273.5
Gaming, Department of <u>11/</u>	0.0	115.3	115.3	0.0	155.8	155.8
Geological Survey, Arizona	10.3	0.0	10.3	10.3	0.0	10.3
Governor's Office of Strategic Planning and Budgeting	22.0	0.0	22.0	22.0	0.0	22.0
Health Services, Department of	904.3	272.4	1,176.7	900.9	275.8	1,176.7
Historical Society, Arizona	51.9	0.0	51.9	51.9	0.0	51.9
Historical Society of Arizona, Prescott	13.0	0.0	13.0	13.0	0.0	13.0
Homeopathic and Integrated Medicine Examrs., Bd. of	0.0	1.0	1.0	0.0	1.0	1.0
Housing, Department of	0.0	3.0	3.0	0.0	3.0	3.0
Indian Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Industrial Commission of Arizona	0.0	235.6	235.6	0.0	235.6	235.6
Insurance, Department of	90.5	0.0	90.5	95.5	0.0	95.5
Judiciary						
Supreme Court	136.6	38.4	175.0	136.6	38.4	175.0
Court of Appeals	136.8	0.0	136.8	136.8	0.0	136.8
Superior Court	128.8	8.7	137.5	128.8	8.7	137.5
SUBTOTAL - Judiciary	402.2	47.1	449.3	402.2	47.1	449.3
Juvenile Corrections, Department of	698.5	40.0	738.5	698.5	40.0	738.5
Land Department, State	125.7	5.0	130.7	125.7	4.0	129.7
Legislature						
Auditor General	184.8	0.0	184.8	184.8	0.0	184.8
Joint Legislative Budget Committee	29.0	0.0	29.0	29.0	0.0	29.0
Legislative Council	49.0	0.0	49.0	49.0	0.0	49.0
SUBTOTAL - Legislature	262.8	0.0	262.8	262.8	0.0	262.8
Liquor Licenses and Control, Department of	0.0	45.2	45.2	0.0	45.2	45.2
Lottery Commission, Arizona State	0.0	98.8	98.8	0.0	98.8	98.8
Massage Therapy, Board of	0.0	5.0	5.0	0.0	5.0	5.0
Medical Board, Arizona	0.0	58.5	58.5	0.0	58.5	58.5
Mine Inspector, State	14.0	0.0	14.0	14.0	0.0	14.0
Naturopathic Physicians Medical Board	0.0	2.0	2.0	0.0	2.0	2.0
Navigable Stream Adjudication Commission, Arizona	2.0	0.0	2.0	2.0	0.0	2.0
Nursing, State Board of	0.0	42.2	42.2	0.0	42.2	42.2
Nursing Care Institution of Administrators, Bd	0.0	6.0	6.0	0.0	6.0	6.0
Occupational Therapy Examiners, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Opticians, State Board of Dispensing	0.0	1.0	1.0	0.0	1.0	1.0

BUDGET UNITS	Fiscal Year 2015			Fiscal Year 2016		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Optometry, State Board of	0.0	2.0	2.0	0.0	2.0	2.0
Osteopathic Examiners, Arizona Board of	0.0	6.7	6.7	0.0	6.7	6.7
Parks Board, Arizona State	0.0	163.0	163.0	0.0	163.0	163.0
Personnel Board, State	0.0	3.0	3.0	0.0	3.0	3.0
Pest Management, Office of	0.0	30.0	30.0	0.0	30.0	30.0
Pharmacy, Arizona State Board of	0.0	18.0	18.0	0.0	18.0	18.0
Physical Therapy, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Pioneers' Home, Arizona	17.0	89.3	106.3	17.0	89.3	106.3
Podiatry Examiners, State Board of	0.0	1.0	1.0	0.0	1.0	1.0
Postsecondary Education, Commission of	0.0	5.0	5.0	0.0	5.0	5.0
Private Postsecondary Education, Board for	0.0	4.0	4.0	0.0	4.0	4.0
Psychologist Examiners, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Public Safety, Department of	683.7	1,224.0	1,907.7	683.7	1,224.0	1,907.7
Racing, Arizona Department of <u>11/</u>	0.0	40.5	40.5	0.0	0.0	0.0
Radiation Regulatory Agency <u>2/</u>	24.5	9.0	33.5	25.5	9.0	34.5
Real Estate Department, State	37.0	0.0	37.0	37.0	0.0	37.0
Residential Utility Consumer Office	0.0	11.0	11.0	0.0	11.0	11.0
Respiratory Care Examiners, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Retirement System, Arizona State	0.0	246.9	246.9	0.0	250.9	250.9
Revenue, Department of	835.8	45.0	880.8	867.8	13.0	880.8
School Facilities Board	17.0	0.0	17.0	17.0	0.0	17.0
Secretary of State, Department of State	130.9	10.2	141.1	131.1	10.0	141.1
State Boards' Office	0.0	3.0	3.0	0.0	3.0	3.0
Tax Appeals, State Board of	4.0	0.0	4.0	4.0	0.0	4.0
Technical Registration, State Board of	0.0	25.0	25.0	0.0	25.0	25.0
Tourism, Office of	28.0	0.0	28.0	28.0	0.0	28.0
Transportation, Department of	2.0	4,546.0	4,548.0	2.0	4,546.0	4,548.0
Treasurer, State	0.0	30.4	30.4	0.0	30.4	30.4
Universities <u>12/</u>						
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University - Tempe/DPC Campus	6,142.9	0.0	6,142.9	6,142.9	0.0	6,142.9
Arizona State University - East Campus	425.6	0.0	425.6	425.6	0.0	425.6
Arizona State University - West Campus	562.9	0.0	562.9	562.9	0.0	562.9
Northern Arizona University	2,057.2	0.0	2,057.2	2,057.2	0.0	2,057.2
University of Arizona - Main Campus	5,393.0	0.0	5,393.0	5,393.0	0.0	5,393.0
University of Arizona - Health Sciences Center	1,054.1	0.0	1,054.1	1,054.1	0.0	1,054.1
SUBTOTAL - Universities	15,661.6	0.0	15,661.6	15,661.6	0.0	15,661.6
Veterans' Services, Department of	104.3	396.0	500.3	106.3	406.0	512.3
Veterinary Medical Examining Board, Arizona. State	0.0	6.0	6.0	0.0	6.0	6.0
Water Resources, Department of	94.5	1.5	96.0	94.0	6.0	100.0
Weights and Measures, Department of	20.9	17.5	38.4	20.9	17.5	38.4
TOTAL APPROPRIATED FUNDS	34,891.4	15,796.3	50,687.7	34,965.9	15,849.9	50,815.8

- 1/ Full-Time Equivalent (FTE) Positions shown for individual agencies include only those positions funded by appropriated funds. The detail for changes in FTE Positions that occurred between FY 2015 and FY 2016 can be found in the individual agency pages.
- 2/ Laws 2013, Chapter 12 appropriated 4.5 General Fund FTE Positions in the Department of Emergency and Military Affairs, 4.5 General Fund FTE Positions in the Radiation Regulatory Agency, and 1.88 General Fund FTE Positions in the Department of Agriculture for FY 2014 and FY 2015. Laws 2016, Chapter 132 appropriated 5.5 General Fund FTE Positions in the Department of Emergency and Military Affairs, 5.5 General Fund FTE Positions in the Radiation Regulatory Agency, and 1.88 General Fund FTE Positions in the Department of Agriculture for FY 2016 and FY 2017.
- 3/ Includes 1,174.7 FTE Positions in FY 2015 and 1,177.7 FTE Positions in FY 2016 in the Other Fund FTE Positions columns funded from the Federal Medicaid Expenditure Authority.
- 4/ Laws 2015, Chapter 19 eliminates the State Board of Appraisal. A total of 9 Other Fund FTE Positions are transferred to the State Department of Financial Institutions, effective July 3, 2015.
- 5/ The budget transfers 12 Other Fund FTE Positions from the Attorney General's Child Safety and Family Services line item to the Department of Child Safety's Attorney General Legal Services line item in FY 2016.
- 6/ Includes 871.2 FTE Positions in FY 2015 and FY 2016 in the Other Fund FTE Positions column funded with Expenditure Authority.
- 7/ Includes 1,830.9 FTE Positions in FY 2015 and 1,863.3 FTE Positions in FY 2016 in the Other Fund FTE Positions columns funded by the Long Term Care System Fund and Federal Funds for Child Support Enforcement.
- 8/ The FY 2015 DES amount has been adjusted for 207 existing FTE Positions that were previously covered by vacant Department of Child Safety positions.
- 9/ The 11 FTE Positions in the State Board of Education were included in the State Department of Education budget prior to FY 2016.
- 10/ Includes 1 General Fund FTE Position in the Department of Emergency and Military Affairs for the administration of the Military Installation Fund per A.R.S. § 26-263.
- 11/ Laws 2015, Chapter 19 eliminates the Arizona Department of Racing. A total of 40.5 Other Fund FTE Positions are transferred to the Department of Gaming, effective July 3, 2015.
- 12/ All University FTE Positions are attributed to the General Fund, although the Universities fund these positions from Other Appropriated Funds as well.

BUDGET UNITS

Arizona State Board of Accountancy

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	626,800	738,800	738,800
Employee Related Expenditures	287,700	335,000	331,500
Professional and Outside Services	379,000	547,400	547,400
Travel - In State	2,600	5,400	5,400
Travel - Out of State	8,900	10,600	10,600
Other Operating Expenditures	192,300	291,800	297,600
Equipment	25,500	7,800	7,800
AGENCY TOTAL	1,522,800	1,936,800	1,939,100^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Accountancy Fund	1,522,800	1,936,800	1,939,100
SUBTOTAL - Other Appropriated Funds	1,522,800	1,936,800	1,939,100
SUBTOTAL - Appropriated Funds	1,522,800	1,936,800	1,939,100
TOTAL - ALL SOURCES	1,522,800	1,936,800	1,939,100

AGENCY DESCRIPTION — The board licenses, investigates, and conducts examinations of certified public accountants and public accountants. The board is also responsible for registering and investigating accounting firms owned by certified public accountants.

Operating Budget

The budget includes \$1,939,100 and 13 FTE Positions from the Board of Accountancy Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,300 from the Board of Accountancy Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Acupuncture Board of Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	86,400	88,600	88,600
Employee Related Expenditures	17,800	20,500	20,500
Professional and Outside Services	11,400	13,000	16,000
Travel - In State	1,100	1,500	1,500
Other Operating Expenditures	26,000	29,800	31,200
Equipment	1,900	1,300	1,300
AGENCY TOTAL	144,600	154,700	159,100^{1/}

FUND SOURCES

Other Appropriated Funds

Acupuncture Board of Examiners Fund	144,600	154,700	159,100
SUBTOTAL - Other Appropriated Funds	144,600	154,700	159,100
SUBTOTAL - Appropriated Funds	144,600	154,700	159,100
TOTAL - ALL SOURCES	144,600	154,700	159,100

AGENCY DESCRIPTION — The Acupuncture Board of Examiners licenses and regulates the practice of acupuncture by individuals who are not licensed to practice acupuncture by another professional board. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$159,100 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

One-Time Rulemaking

The budget includes a one-time increase of \$3,000 from the Acupuncture Board of Examiners Fund in FY 2016 for rule writing.

Statewide Adjustments

The budget includes an increase of \$1,400 from the Acupuncture Board of Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Administration

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	508.1	504.1	532.1 ^{1/}
Personal Services	27,356,600	30,881,400	30,881,400
Employee Related Expenditures	10,611,000	12,135,800	11,965,700
Professional and Outside Services	6,959,000	8,752,800	8,752,800
Travel - In State	206,500	193,400	193,400
Travel - Out of State	12,100	25,800	25,800
Other Operating Expenditures	27,381,300	34,299,400	33,779,400
Equipment	3,260,100	3,130,700	5,137,800
OPERATING SUBTOTAL	75,786,600	89,419,300	90,736,400
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	7,554,800	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	0	0	7,567,800
County Attorney Immigration Enforcement	973,700	1,213,200	0
Named Claimants	193,600	184,600	0
Information Technology Services			
Public Safety Communications	261,400	0	0 ^{2/}
Statewide Information Security and Privacy Office	784,300	873,500	872,200
Risk Management			
Federal Transfer Payment	10,742,000	18,764,900 ^{3/}	0
Risk Management Administrative Expenses	4,885,200	8,747,200	8,747,200
Risk Management Losses and Premiums	36,214,300	44,362,200	44,362,200
Workers' Compensation Losses and Premiums	26,857,100	31,159,200	31,159,200
Support Services			
Government Transformation Office	0	0	1,000,000
State Surplus Property Sales Proceeds	1,734,900	1,820,000	1,260,000 ^{4/}
Other			
Southwest Defense Contracts	0	25,000	25,000 ^{5/}
AGENCY TOTAL	165,987,900	204,844,700	194,005,600 ^{6/}
FUND SOURCES			
General Fund	11,095,800	11,377,600	10,377,300
Other Appropriated Funds			
Air Quality Fund	732,400	927,100	927,300 ^{1/}
Arizona Financial Information System Collections Fund	0	0	7,567,800
Automation Operations Fund	17,456,400	22,020,700	23,964,100 ^{3/}
Capital Outlay Stabilization Fund	16,372,200	18,080,400	18,082,800
Corrections Fund	413,900	574,100	571,200
Federal Surplus Materials Revolving Fund	54,200	464,100	464,600
Information Technology Fund	2,770,500	3,238,100	2,942,100
Motor Vehicle Pool Revolving Fund	8,890,100	10,156,100	10,148,800 ^{3/}
Personnel Division Fund	12,502,500	12,914,000	12,885,100
Risk Management Revolving Fund	85,242,100	102,457,500	92,022,900
Special Employee Health Insurance Trust Fund	4,149,400	13,570,200	5,262,300
State Surplus Materials Revolving Fund	2,775,900	2,959,800	2,397,900 ^{4/}
State Web Portal Fund	1,725,700	4,250,000	4,543,000
Telecommunications Fund	1,806,800	1,855,000	1,848,400
SUBTOTAL - Other Appropriated Funds	154,892,100	193,467,100	183,628,300
SUBTOTAL - Appropriated Funds	165,987,900	204,844,700	194,005,600

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
Other Non-Appropriated Funds	955,627,700	995,538,300	1,031,554,200
Federal Funds	3,629,000	5,619,700	2,784,900
TOTAL - ALL SOURCES	1,125,244,600	1,206,002,700	1,228,344,700

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) provides centralized general support services to state agencies, including accounting, financial, purchasing, building and grounds maintenance, personnel, information technology, motor pool, travel reduction, and risk management services.

Operating Budget

The budget includes \$90,736,400 and 501.1 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$8,726,600
Air Quality Fund	927,300
Automation Operations Fund	23,964,100
Capital Outlay Stabilization Fund (COSF)	10,432,900
Corrections Fund	571,200
Federal Surplus Materials Revolving Fund	464,600
Information Technology Fund	2,069,900
Motor Vehicle Pool Revolving Fund	10,148,800
Personnel Division Fund	12,885,100
Risk Management Revolving Fund	7,754,300
Special Employee Health Insurance Trust Fund	5,262,300
State Surplus Materials Revolving Fund	1,137,900
State Web Portal Fund	4,543,000
Telecommunications Fund	1,848,400

These amounts fund the following adjustments:

GAO Cost Shift

The budget includes a decrease of \$(566,000) from the General Fund in FY 2016 for costs shifted to the Arizona Financial Information System (AFIS) line item. General Fund costs associated with the operation of the state financial information system are now allocated to the agencies. *(Please see the General Accounting Office section in Other Issues for more information.)*

Increase Appropriation Authority for Data Center Mainframe

The budget includes an increase of \$2,007,100 from the Automation Operations Fund in FY 2016 for increased operating costs associated with the mainframe at the State Data Center.

Shift 3 FTE Positions from Information Technology Fund to State Web Portal Fund

The budget includes a decrease of \$(292,800) from the Information Technology Fund and a corresponding increase of \$292,800 from the State Web Portal Fund in

^{1/} Includes 31 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} On or before October 1, 2015, the department shall submit a report for review by the Joint Legislative Budget Committee of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The Joint Legislative Budget Committee may require the department to submit more frequent reports as necessary for further review. (General Appropriation Act footnote)

^{3/} It is the intent of the Legislature that the Department of Administration not enter into any agreements to pay for any federal reimbursements related to excess balances in the Special Employee Health Insurance Trust Fund established by A.R.S. § 38-654, or interest payments made for the Human Resource Information Solution Certificate of Participation, unless the proposed agreements are reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{4/} All State Surplus Materials Revolving Fund revenues received by the Department of Administration in excess of the \$2,397,900 in FY 2016 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund receipts in excess of \$2,397,900 in FY 2016, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{5/} The amount appropriated for Southwest Defense Contracts shall be used for distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwest United States. (General Appropriation Act footnote)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{7/} The amounts appropriated for the State Employee Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons. (General Appropriation Act footnote)

^{8/} The appropriation for the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenue and transfers during FY 2016. These monies are appropriated to the Department of Administration for the purposes established in A.R.S. § 41-711. The appropriation is adjusted as necessary to reflect receipts credited to the Automation Operations Fund for automation operation center projects. Before the expenditure of any Automation Operations Fund revenues in excess of \$23,964,100 in FY 2016, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{9/} It is the intent of the Legislature that the department not replace vehicles until an average of 120,000 miles or more. (General Appropriation Act footnote)

FY 2016. The shift decreases federal disallowed costs. (Please see the Federal Financial Participation section in Other Issues for more information.)

Statewide Adjustments

The budget includes a decrease of \$(124,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(36,500)
Air Quality Fund	200
Automation Operations Fund	(63,700)
Capital Outlay Stabilization Fund (COSF)	2,400
Corrections Fund	(2,900)
Federal Surplus Materials Revolving Fund	500
Information Technology Fund	(1,900)
Motor Vehicle Pool Revolving Fund	(7,300)
Personnel Division Fund	(28,900)
Risk Management Revolving Fund	27,500
Special Employee Health Insurance Trust Fund	(5,100)
State Surplus Materials Revolving Fund	(1,900)
State Web Portal Fund	200
Telecommunications Fund	(6,600)

(Please see the Agency Detail and Allocations section.)

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2016 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2015.

This line item funds utility charges, including electric, water, gas, and garbage disposal for state-owned buildings.

Financial Services

Arizona Financial Information System

The budget includes \$7,567,800 and 28 FTE Positions in FY 2016 from the Arizona Financial Information Systems Collections Fund for the Arizona Financial Information System (AFIS). These amounts fund the following adjustments:

New Accounting System Fund

The budget includes an increase of \$7,567,800 and 28 FTE Positions from the AFIS Collections Fund in FY 2016 for costs associated with operating AFIS. The new AFIS system “goes live” at the beginning of FY 2016. (Please see the Department of Administration-Automation Projects Fund section for more details regarding this information technology project.)

In addition to funding AFIS staff, the AFIS line item includes \$990,000 for professional and outside services, \$1,200,000 for software licensing, and \$544,000 for third-party hosted mainframe charges.

The FY 2016 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 11), establishes the AFIS Collections Fund administered by ADOA. The bill allows ADOA to collect a per transaction usage fee from agencies to recover the costs associated with AFIS and requires Joint Legislative Budget Committee (JLBC) review prior to ADOA implementing or changing the transaction fee. The FY 2016 General Appropriation Act appropriates funding to agencies to pay their portion of the charge. (Please see the AFIS discussion in the Other Issues section, the General Provisions section, and the Agency Detail and Allocations section for more information.)

This line item funds the operation of AFIS including staffing and support, software licensing and maintenance, hosted production and disaster recovery.

County Attorney Immigration Enforcement

The budget includes no funding from the General Fund in FY 2016 for County Attorney Immigration Enforcement. This amount funds the following adjustments:

Eliminate Employer Sanctions Funding

The budget includes a decrease of \$(1,213,200) from the General Fund in FY 2016 to eliminate County Attorney Immigration Enforcement. This line item was for distribution to county attorneys and county sheriffs for the purpose of enforcement of Title 23, Chapter 2, Article 2, Arizona Revised Statutes, which prohibits an employer from knowingly employing unauthorized immigrants.

A FY 2015 General Appropriation Act footnote specified that, of the \$1,213,200 appropriated to this line item:

- \$200,000 was distributed to the county attorney of a county with a population of 2,000,000 or more persons.
- \$500,000 was distributed to the county sheriff of a county with a population of 2,000,000 or more persons.

- Subject to prior approval by the JLBC, the remaining monies were distributed to county attorneys and county sheriffs of counties with populations of less than 2,000,000 persons.
- In addition, the footnote required that each county submit an annual report to ADOA by October 1, 2015 on the actual use of the monies in the previous year and the projected use of the monies in the current year. ADOA was required to report to JLBC and OSPB on the use of these monies by November 1, 2015.

At its April 2014 meeting, the JLBC approved a proposal by ADOA to distribute FY 2014 funds to non-Maricopa counties proportionally based on population. ADOA additionally proposed that, if a county officer had previously returned their FY 2013 funding, had reported no use for their FY 2014 funding, or had failed to report any intended use of their FY 2014 funding, ADOA would not distribute their proportionate share of funds. The Committee approved ADOA's proposal resulting in a planned distribution of \$300,500 of the \$513,200 designated for all non-Maricopa counties for a total distribution of \$1.0 million. Some county officers ultimately returned their distribution resulting in the FY 2014 actual expenditure of \$973,700.

At its December 2014 meeting, the JLBC approved a proposal by ADOA to distribute \$231,400 of the \$513,200 designated for all non-Maricopa counties for FY 2015. ADOA proposed to distribute funds to 9 county officers who requested funds regardless of whether FY 2014 funding was returned or unused. The JLBC additionally requested more information on the Pima County Sheriff's request for \$97,700 for further review. In January 2015, the Maricopa Sheriff informed ADOA that, pursuant to a federal court judge order to cease enforcement, the sheriff would return its \$500,000 FY 2015 statutory allocation.

Laws 2012, Chapter 346 states that monies distributed to the Apache County Attorney's Office shall indefinitely be used to represent the interests of the people of Arizona and Apache County for legal action against the United States Forest Service for the destruction of endangered species habitat in Arizona caused by the lack of forest thinning and forage fuel removal activities.

Named Claimants

The budget includes no funding from the General Fund in FY 2016 for Named Claimants. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(184,600) from the General Fund in FY 2016 for the elimination of funding of prior year unpaid claims. The FY 2016 amount has yet to be determined.

The state must annually settle legitimate unpaid claims against received goods and services, as submitted by the various state agencies. Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2015, Chapter 34 appropriates \$184,594.94 from the General Fund in FY 2015 for prior year unpaid claims.

The General Fund is used to pay the Named Claimants bills, but is reimbursed if the claim would have otherwise been paid by another fund source. Of the \$184,594.94, a total of \$73,867.06 will be deposited into the General Fund as revenue from the following funds:

- \$26,608.26 from the Automation Operations Fund
- \$6,095.00 from the Emergency Medical Services Operating Fund
- \$487.00 from the Motor Vehicle Pool Revolving Fund
- \$30,814.89 from the Risk Management Fund
- \$257.00 from the State Surplus Materials Revolving Fund
- \$330.70 from the Telecommunication Fund for the Deaf
- \$9,274.21 from the State Highway Fund

Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year.

Information Technology Services

Public Safety Communications

The budget includes no funding from the General Fund in FY 2016 for Public Safety Communications. This amount is unchanged from FY 2015.

The Public Safety Communications Program works to design and implement a standard-based system that provides interoperable communications between statewide public safety agencies. Its work was overseen by the Public Safety Communication Advisory Commission (PSCC). PSCC was established in 2004, with a sunset date of July 2014. The

Executive did not request an extension of the commission's oversight authority.

In August 2013, ADOA received a \$2,900,000 federal grant, which was to be administered by PSCC. The State and Local Implementation Grant Program (SLIGP) was distributed as part of the National Public Safety Broadband Network (NPSBN) initiative, a national effort to construct a nationwide, standards-based, high-speed data network by reserving a part of the electromagnetic spectrum for public safety. ADOA will continue to administer SLIGP funds through the Arizona Strategic Enterprise Technology (ASET) Office.

A FY 2016 General Appropriation Act footnote requires ADOA to submit a report by October 1, 2015 to JLBC for review of the expenditures to date and progress of implementation for any SLIGP funds. Additionally, the footnote allows JLBC to require ADOA to submit more frequent reports as necessary for further review. Through September 2014, ADOA reported spending \$379,600 of the \$2.9 million grant. *(Please see footnote 2 for more information.)*

Statewide Information Security and Privacy Office

The budget includes \$872,200 and 3 FTE Positions from the Information Technology Fund in FY 2016 for the Statewide Information Security and Privacy Office. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) in FY 2016 from the Information Technology Fund for statewide adjustments.

As part of ASET, the office performs strategic planning, policy development, and risk assessment to protect the state's information resources. *(Please see the ADOA Automation Projects Fund section for additional discussion on ASET administrative resources.)*

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2016 for one-time payments to the federal government. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(18,764,900) in FY 2016 to eliminate FY 2015 payments to the federal government for disallowed costs and other federal

charges; any FY 2016 payment is not yet finalized. The FY 2016 amount consists of:

Risk Management Revolving Fund	(10,462,100)
Special Employee Health Insurance Trust Fund	(8,302,800)

The FY 2015 payments were authorized by the FY 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 112), which included an FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Revolving Fund. This amount consists of:

- \$4,336,000 related to FY 2014 fund transfers from 9 different funds.
- \$207,400 for disallowed costs related to statewide IT charges in FY 2014.
- \$5,918,700 for excess retained earnings in 4 different funds in FY 2014.

In addition, Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from the Special Employee Health Insurance Trust Fund (HITF) to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2014.

Laws 2015, Chapter 8 also specifies that it is the intent of the Legislature that ADOA shall not enter into any agreements to pay for any federal reimbursements related to excess retained earnings in HITF or interest payments made for the Human Resource Information Solution (HRIS) Certificate of Participation (COP), unless the proposed agreements are reviewed by the JLBC. *(Please see footnote 3 for more information.)*

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government, which restricts the use of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds. *(Please see the Federal Financial Participation section in Other Issues for more information.)*

Risk Management Administrative Expenses

The budget includes \$8,747,200 from the Risk Management Revolving Fund in FY 2016 for Risk Management Administrative Expenses. This amount is unchanged from FY 2015.

This line item funds financial and actuarial analyses, relevant investigations, and related travel. This line item also funds legal representation from outside the Office of the Attorney General.

Risk Management Losses and Premiums

The budget includes \$44,362,200 from the Risk Management Revolving Fund in FY 2016 for Risk Management Losses and Premiums. This amount is unchanged from FY 2015.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Workers' Compensation Losses and Premiums

The budget includes \$31,159,200 from the Risk Management Revolving Fund in FY 2016 for Workers' Compensation Losses and Premiums. This amount is unchanged from FY 2015.

This line item accounts for the state's liability in workplace injuries. The funding represents payments for workers' compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Support Services

Government Transformation Office

The budget includes \$1,000,000 from the General Fund in FY 2016 for the Government Transformation Office (GTO). This amount funds the following adjustments:

Additional GTO Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2016 for the Government Transformation Office.

Prior to the FY 2016 budget, ADOA had a 17-person staff in the GTO funded by an Interagency Service Agreement with the Governor's Office. The office assists state agencies in designing and implementing process improvements. The office publishes an annual report on its accomplishments. The use of these monies to supplement or supplant the existing funding has yet to be determined.

State Surplus Property Sales Proceeds

The budget includes \$1,260,000 from the State Surplus Materials Revolving Fund in FY 2016 for State Surplus Property Sales Proceeds. This amount funds the following adjustments:

Property Sales Proceeds Decrease

The budget includes a decrease of \$(560,000) from the State Surplus Materials Revolving Fund in FY 2016 for a one-time FY 2015 adjustment.

An FY 2015 General Appropriation Act footnote appropriated State Surplus Materials Revolving Fund revenues received by the Department of Administration in excess of the \$2,399,800 in FY 2015 to the department. This amount consists for \$1,139,800 from the operating budget and \$1,260,000 from this line item.

Before the expenditure of State Surplus Materials Revolving Fund receipts in excess of \$2,399,800 in FY 2015, the Department of Administration was required to report the intended use of monies to the JLBC. In March 2015, ADOA reported that an additional \$560,000 from the State Surplus Materials Revolving Fund was required to reimburse agencies for the sale of surplus materials in FY 2015. *(Please see footnote 4 for more information.)*

The FY 2016 budget removed the \$(560,000) adjustment since ADOA has not yet notified JLBC of needing additional resources for the budget year.

This line item separates surplus sales proceeds returned to agencies from the division's operating budget. The surplus property yard returns 90% of sales proceeds to the agency from which the property originated. The yard retains 10% of the proceeds to fund its operations.

Other

Southwest Defense Contracts

The budget includes \$25,000 from the General Fund in FY 2016 for Southwest Defense Contracts. This amount is unchanged from FY 2015.

This line item is for the distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwestern United States. *(Please see footnote 5 for more information.)*

Additional Legislation

Electronic Transaction Report

The FY 2016 Government BRB (Laws 2015, Chapter 12) as permanent law, eliminates the annual electronic transaction reporting requirement pursuant to A.R.S. § 35-142.

Statute required agencies that accept credit cards as payment for services to report to the Governor, ADOA, and the JLBC annually by October 1 on the number of transactions, the number of electronic transactions, the total dollar amount of transactions processed, the total dollar amount on any discount fee, the total dollar amount of any processing fee, and the total dollar amount of any convenience fee charged, deducted or paid for the transaction. Further, if the percentage of ,electronic transactions comprised more than 30% of the total amount of transactions processed, then the agency also submitted a cost-benefit report, including costs of convenience fees, the amount of revenue generated and any realized cost savings. Given that electronic transactions are now more generally cost-effective than non-electronic transactions, this reporting requirement became outdated and was deleted.

Other Issues

This section includes information on the following topics:

- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayments
- General Accounting Office

Automation Projects

The budget includes \$11,352,000 transferred from the General Fund and Other Funds to the Automation Projects Fund in FY 2016 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The budget includes \$2,383,000 from the Automation Projects Fund in FY 2016 for the final year of a 4-year project to replace the state’s financial and accounting system.

ASET Initiatives

The budget includes \$9,475,000 from the Automation Projects Fund in FY 2016 to fund personnel and information technology projects at the Arizona Strategic Enterprise Technology (ASET) office in ADOA.

(Please see the Department of Administration - Automation Projects Fund section for details regarding these information technology projects.)

Health Insurance Trust Fund

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2014, HITF had a balance of \$325,600,000. Recent budgets have included a number of measures to reduce the HITF balance. Information on HITF receipts, expenses and fund balances are displayed in *Table 1*.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 139) required a \$53,900,000 transfer from the HITF balance to the General Fund.

The FY 2016 General Appropriation Act requires a \$100,000,000 transfer from the HITF balance to the General Fund in FY 2017.

In addition to one-time fund transfers, an ongoing method to reduce the HITF balance is to adjust the employer/employee contribution strategy. Because of the recent trend of HITF receipts exceeding annual costs, the FY 2016 budget included \$(16,200,000) of General Fund savings related to reducing state agency health insurance contribution rates.

The revised contribution rates would become effective January 1, 2016. As such, the FY 2016 budget only included partial-year savings related to HITF changes. When effective for an entire year, the HITF rate reduction is expect to generate \$(32,400,000) of General Fund savings in FY 2017.

	Estimated FY 2015	Estimated FY 2016
Beginning Balance	\$325.6	\$321.6
Receipts	\$839.7	\$814.9
Expenses	\$781.5	\$823.6
FFP Repayment ^{1/}	8.3	6.1
Transfer	<u>53.9</u>	<u>0.0</u>
Net Expenses	\$843.7	\$829.7
HITF Ending Balance	\$321.6	\$306.8

^{1/} FY 2016 amount represents an estimated payment not yet authorized by the Legislature for the transfer of monies made in FY 2015.

Some of the HITF revenues are generated from Federal Funds. As a result, when HITF monies are transferred to

the General Fund, the federal government requires that they receive a refund as well, known as a federal financial participation (FFP) repayment. Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from the Special Employee Health Insurance Trust Fund to repay the federal government for debts incurred due to HITF transfers to the General Fund in FY 2014. While not yet authorized by the Legislature, the FY 2016 FFP repayment for FY 2015 HITF transfers is estimated to be \$6,089,100. This repayment may alternatively be financed from the Risk Management Revolving Fund.

Despite the FY 2016 and previous balance reduction measures, HITF is expected to have a fund balance of \$306.8 million at the end of FY 2016. *(Please see the Health Insurance section in the General Provisions section for information on current state employee health insurance rates.)*

Risk Management Revolving Fund

ADOA's Risk Management Division annually levies a charge on all state agencies to provide funding to pay the state's property and liability losses and workers' compensation losses, and to purchase insurance coverage for losses not covered under our self-insured limits. The revenue generated from the charges to agencies is deposited in the

Table 2
Risk Management Revolving Fund
(\$ in thousands)

	<u>Actual FY 2014</u>	<u>Estimated FY 2015</u>	<u>Estimated FY 2016</u>
Beginning Balance	65,378.5	75,691.8	66,263.8
Revenues	<u>106,910.2</u>	<u>103,706.2</u>	<u>103,706.2</u>
Total Funds Available	172,288.7	179,398.0	169,970.0
Expenditures			
ADOA	74,500.1	91,995.4	92,022.9
Federal Repayment	<u>10,742.0</u>	<u>10,462.1</u>	-
ADOA Subtotal	85,242.1	102,457.5	92,022.9
Other Agencies	9,770.0	10,676.7	10,655.0
Legislative Transfers	661.8	-	-
Admin Adjustment	<u>923.0</u>	-	-
Total Expenditures	96,596.9	113,134.2	102,677.9
Ending Balance	75,691.8	66,263.8	67,292.1
Spending Adjustment ^{1/}	-	(15,000.0)	(15,000.0)
Adjusted Expenditures		98,134.2	87,677.9
Revised Balance	75,691.8	81,263.8	97,292.1

^{1/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance.

Risk Management Revolving Fund. Property and liability losses, along with workers' compensation losses, comprise the majority of Risk Management Revolving Fund expenditures.

In recent years, Risk Management expenditures have been significantly lower than fund revenue. Even with transfers of Risk Management monies to other agencies and transfers to the General Fund to help balance the budget, the fund has consistently had an ending balance over \$50 million.

Table 2 depicts actual balance, revenue, and expenditure information for FY 2014 as well as the estimated amounts for FY 2015 and FY 2016. Due to the unpredictable nature of the Risk Management program, ADOA tends to estimate future expenditures above historical spending levels. Table 2 also includes adjusted expenditure estimates for FY 2015 and FY 2016, which are closer to historical spending levels. Under these adjusted estimates, the balance would be \$81.3 million in FY 2015 and \$82.4 million in FY 2016.

As a result of the large balance in the Risk Management Revolving Fund, monies from the fund have been used to support other agencies in recent years. The use of the funding has typically been in circumstances where the lack of funding would result in potential liability to the state. Risk Management funds have been used to pay for Department of Public Safety (DPS) disaster recovery planning, DPS-Capitol Police salaries, and Arizona Navigable Streams Adjudication Commission litigation costs. The latter no longer receives a Risk Management appropriation.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government in FY 2014 and FY 2015. *(Please see the Federal Transfer Payment Section above, and the Federal Financial Participation Repayment Section below for more information.)*

Federal Financial Participation Repayment

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government which restricts some uses of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds.

Fund Transfers

As part of its budget balancing, the state transferred monies from several ADOA funds to the General Fund in the past. The federal government contributed to several of those funds. For example, the state's Risk

Management Revolving Fund is funded from charges to state agencies. These agencies may use Federal Funds to pay their charge. If part of the fund balance is transferred to the General Fund, the federal government bills the state to have a proportionate share of the transfer paid back to the federal government.

Disallowed Costs

The federal government does not allow the use of Federal Funds to pay state agency charges in certain circumstances. For example, the state's oversight of Information Technology (IT) projects is funded by an assessment charged to each agency as a percentage of payroll expenses. The federal government disallows the use of Federal Funds to be spent on this type of oversight, because the costs to administer the program are charged proportionately to all agencies, and are not based on a fee-for-service model. As a result, the federal government bills the state a proportionate share if state agencies use Federal Funds to pay for these disallowed costs.

Excess Retained Earnings

Certain enterprise funds carry a balance beyond the annual needs of the fund in order to provide some stability of cash flow. The federal government, however, charges the state for their proportionate share of excess fund balances above any amount that would fund more than 1/6th of the fiscal years' expenditures, or 60 days of working capital. In the past, the state has successfully negotiated not to be charged for excess fund balances in HITF.

FY 2014

In FY 2014, the federal government charged the state \$10,742,000 for fund transfers and disallowed spending of federal monies in FY 2013. This amount consists of:

- \$6,387,000 for FY 2013 fund transfers from 3 separate funds.
- \$3,923,000 for FY 2013 excess retained earnings in 5 different funds.
- \$285,000 for FY 2013 disallowed costs relating to the Information Technology Fund.
- \$50,000 for FY 2013 disallowed costs relating to Attorney General legal services.
- \$97,000 for interest on FY 2013 fund transfers.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) included an FY 2014 supplemental appropriation of \$10,742,000 from the Risk Management Revolving Fund to repay the federal government.

FY 2015

The FY 2016 General Appropriation Act included an FY 2015 supplemental appropriation of \$10,462,100 from

the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$4,336,000 related to FY 2014 fund transfers from 9 different funds.
- \$207,400 for disallowed costs related to statewide IT charges in FY 2014.
- \$5,918,700 for excess retained earnings in 4 different funds in FY 2014.

In addition, Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from HITF to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2014. This amount does not include excess retained earnings or fund transfers from HITF in FY 2015 and beyond. *(Please see the Federal Transfer Payment line item above for more information.)*

Arizona Financial Information System

The General Accounting Office (GAO) is responsible for managing the statewide accounting system, AFIS, which includes functional and technical support, software licensing and maintenance, hosted production, and disaster recovery.

ADOA's FY 2015 AFIS operating budget totaled \$3.8 million including \$2.0 million from the General Fund and \$1.7 million from the non-appropriated AFIS II Fund (see *Table 3*). In FY 2015, the budget funded 25 FTE Positions responsible for managing AFIS including 22 FTE Positions responsible for functional support including help desk support, training, and software application management, and statewide reporting. The remaining 3 FTE Positions were ASET staff responsible for application management.

The FY 2016 budget includes \$1.5 million from the General Fund and \$7.6 million for a new AFIS line item funded from the new AFIS Collections Fund. The AFIS II Fund is no longer active. Along with the 25 existing FTE Positions in the operating budget, this line item funds operating costs of AFIS, including an additional 28 new FTE Positions. Of the new FTE Positions, 15 FTE Positions are for GAO functional support and 13 FTE Positions are for ASET technical support. Additional duties include support for increased usage of the system, overseeing the contracted IT services, and further in-house development of AFIS. In addition to funding staff, the AFIS line item includes \$990,000 for professional and outside services, \$1,200,000 for software licensing, and \$544,000 for third-party hosted mainframe charges.

Table 3		
AFIS Resources		
	<u>FY 2015</u>	<u>FY 2016</u>
<i>Fund Source</i>		
General Fund	\$2,039,700	\$1,463,700
AFIS II	1,725,100	NA
AFIS Collections Fund	NA	7,567,800
Total Revenues	\$3,764,800	\$9,031,500
<i>FTE Positions</i>		
<i>Operating Budget</i>		
AFIS Functional Support (GAO)	22.0	22.0
AFIS Technical Support (ASET)	3.0	3.0
Total Operating Budget FTE	25.0	25.0
<i>Positions</i>		
<i>AFIS Line Item</i>		
AFIS II	0.0	NA
AFIS Functional Support (GAO)	NA	15.0
AFIS Technical Support (ASET)	NA	13.0
Total AFIS Line Item FTE	0.0	28.0
<i>Positions</i>		
Total FTE Positions	25.0	53.0
NA = Not Applicable		

Arizona Department of Administration - Automation Projects Fund

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
GENERAL FUND TRANSFERS ^{1/}			
AFIS Replacement	18,400,000	18,400,000	2,383,000
General Fund Transfer (ADE)	5,400,000	10,400,000	5,400,000
General Fund Transfer (DOR)	1,700,000	1,700,000	0
General Fund Transfer (DCS)	0	5,000,000	0
TOTAL - ALL PROJECTS	25,500,000	35,500,000	7,783,000
FUND SOURCES			
General Fund	25,500,000	35,500,000	7,783,000
SUBTOTAL - Appropriated Funds	25,500,000	35,500,000	7,783,000
TOTAL - ALL SOURCES	25,500,000	35,500,000	7,783,000
INDIVIDUAL PROJECTS - Automation Projects Fund ^{2/}			
Department of Administration			
<i>Full Time Equivalent Positions</i>	20.0	75.0	75.0
AFIS Replacement	17,879,500	26,533,000	2,383,000
ASET Initiatives			
State Data Center	1,847,400	2,900,000	2,625,000
Security, Privacy, and Risk	1,525,800	3,125,000	3,125,000
Enterprise Architecture	741,800	500,000	500,000
Project Management	1,176,500	2,151,700	2,150,000
E-Government	2,718,200	325,000	1,075,000
Web Portal Transition Costs	1,229,100	0	0
ASET Initiatives Subtotal	9,238,800	9,001,700	9,475,000
Department of Administration Subtotal	27,118,300	35,534,700	11,858,000
Department of Corrections			
AIMS Replacement	0	8,000,000 ^{3/}	0
Department of Economic Security			
Information Technology Security	0	0	936,400
Department of Environmental Quality			
E-Licensing	4,483,500	6,800,000	5,000,000
Department of Education			
Education Learning and Accountability System	7,000,000	12,000,000	7,000,000 ^{4/5/6/}
Department of Child Safety			
CHILDS Replacement	0	5,000,000	0
Department of Revenue			
DOR Automation Projects	1,324,800	0	0
Tax Analysis Improvements	0	1,700,000	0
Tobacco Tax System	0	1,000,000	0
Department of Revenue Subtotal	1,324,800	2,700,000	0
TOTAL - ALL PROJECTS ^{7/8/}	39,926,600	70,034,700	24,794,400^{9/}

^{1/} General Fund monies are transferred into the Automation Projects Fund (APF) to finance certain projects. See Table 2 for Non-General Fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the APF section.

^{2/} Represents expenditures from the APF.

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	34,331,300	70,034,700	24,794,400
SUBTOTAL - Other Appropriated Funds	34,331,300	70,034,700	24,794,400
SUBTOTAL - Appropriated Funds	34,331,300	70,034,700	24,794,400
Other Non-Appropriated Funds	5,595,300	0	0
TOTAL - ALL SOURCES	39,926,600	70,034,700	24,794,400

AGENCY DESCRIPTION — Laws 2012, Chapter 298 established the Automation Projects Fund (APF), administered by the Arizona Department of Administration (ADOA). Monies in this appropriated fund are designated to implement, upgrade, or maintain automation and information technology projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to JLBC for review.

Background

The FY 2013 Government Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 298) established the APF, administered by ADOA and consisting of monies appropriated by the Legislature. The FY 2014 Budget Procedures BRB (Laws 2013, 1st Special Session, Chapter 6) subjected the APF to legislative appropriation. The fund is exempt from lapsing. Monies in the fund are to be used to implement, upgrade or maintain automation and information technology projects for any state agency.

Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for review.

A FY 2016 General Appropriation Act (Laws 2015, Chapter 8) footnote requires ADOA to submit quarterly reports, within 30 days of the end of the calendar quarter, to the JLBC on the progress of all automation projects funded through the APF, including the projects' expenditures to date, deliverables, timeline for completion, and current status. A separate General Appropriation Act footnote specifies that funds for agency projects financed through

- 3/ For the funding for the State Department of Corrections replacement of the Adult Inmate Management System project, any remaining balances on June 30, 2015 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2014 for the replacement of the Adult Inmate Management System at the State Department of Corrections are appropriated to the Department of Administration in FY 2016 for the same purposes specified in FY 2014. The Department of Administration shall report any FY 2016 expenditure of remaining balances from FY 2014 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ In addition to the \$7,000,000, any remaining balances as of June 30, 2015 from fees collected from universities and community college districts in the Education Learning and Accountability Fund established by A.R.S. § 15-249.02, are appropriated for implementing, upgrading and maintaining the Student Longitudinal Data System and the Education Learning and Accountability System established pursuant A.R.S. § 15-249. (General Appropriation Act footnote)
- 5/ It is the intent of the Legislature that the appropriations made by this subsection be used first and foremost to complete a significant portion of the replacement of the Student Accountability Information System established by A.R.S § 15-1041. The Department of Education shall provide quantifiable deliverables of the Legislature's intended progress to the Information Technology Authorization Committee established by A.R.S § 41-3521, and to the Joint Legislative Budget Committee before seeking review of the \$7,000,000 FY 2016 expenditure from the Automation Projects Fund, as required by A.R.S § 41-714. (General Appropriation Act footnote)
- 6/ The funding for the Department of Education's automation project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Education shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$7,000,000 FY 2016 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2016 expenditures, the Department of Education shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ In addition to the initial review of expenditures from the Automation Projects Fund by the Joint Legislative Budget Committee, pursuant to A.R.S. § 41-714, monies appropriated for projects at each state agency from the Automation Projects Fund established by A.R.S. § 41-714, may not be used for projects at any other state agency without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days after the last day of each calendar quarter, a quarterly report on the implementation of projects described in this section, including the projects' expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)
- 9/ Any remaining balances on June 30, 2015 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 are appropriated to the Department of Administration in FY 2016 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2016 expenditure of remaining balances from FY 2015 in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

the APF may not be used for any other agency without prior review by the JLBC.

Pursuant to A.R.S. § 41-3504, any large-scale information technology (IT) projects in the APF with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from the Information Technology Authorization Committee (ITAC). The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project.

Department of Administration

AFIS Replacement

The budget includes \$2,383,000 and 60 FTE Positions from the APF in FY 2016 for the final year of a 4-year project to replace the state’s financial and accounting system, the Arizona Financial Information System (AFIS). The project name is Business Re-Engineering Arizona (BREAZ). These amounts fund the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(16,017,000) in the General Fund transfer. In total, the Automation Projects Fund appropriation is reduced by \$(24,150,000) to align expenditures with the final year of a 4-year project to replace AFIS, the state’s financial and accounting system. The new AFIS system is scheduled to “go live” on July 1, 2015. *(Please see the FY 2015 Appropriations Report for history of this funding.)*

The 4-year project budget included 6 months of operating costs for the new AFIS system including ADOA staffing, software licensing and maintenance, and disaster recovery hosting. In the 2015 Legislative Session, the Legislature enacted a plan to annualize the cost of operation for the new AFIS system. These monies were added as a line item in ADOA’s regular budget.

As a result, the FY 2016 General Appropriation Act amends Laws 2012, Chapter 294 and Laws 2013, 1st Special Session, Chapter 1 to reduce the FY 2016 General Fund BREAZ project appropriation to the APF from \$9,202,000 to \$2,383,000, or by \$(6,819,000). This adjustment removed the funding for the 6 months of operating costs since this expense will now be paid out of the ADOA operating budget. The remaining \$2,383,000 funds the final payment to the project vendor. *(Please see the General Accounting Office discussion in the Other Issues section of the regular ADOA budget for more information.)*

The 4-year project was estimated to cost \$73,000,000. The main project components are:

Vendor Contract	\$47,700,000
ADOA and Other Staffing	16,000,000
Third Party Oversight	5,200,000
Contingency Costs	<u>4,100,000</u>
Total	\$73,000,000

ADOA has awarded a \$47,700,000 contract to Consulting for Government and Industry (CGI) to construct the new AFIS system over 4 years. This amount includes \$32,700,000 for the vendor, \$12,600,000 for software licensing and maintenance, \$1,300,000 for hardware, and \$1,100,000 for other costs, including disaster recovery hosting. The vendor is devoting as many as 81 FTE Positions to this project, with some located on-site.

ADOA staff costs for the project are estimated to total \$16,000,000 through FY 2016. The most significant portion of state staffing costs was \$11,700,000 allocated to hiring 40-43 FTE Positions during the design, build, and test phases of the project. FTE Positions include staff devoted to developing financial reports for the various AFIS functions and business modules, in addition to technical developers and analysts who will focus on programming and data security. Of the state’s project costs, \$6,002,000 of the budget has been shifted to the ADOA’s AFIS line item for annual operating costs. This total includes 28 FTE Positions for ongoing technical support and development.

Given the complexity of large-scale IT projects, ADOA has contracted with a third-party consultant to assist in the oversight of the replacement of AFIS, including providing estimates for remaining expenditures, and guidance on the scope of the new system. Initially \$3,000,000 was allocated to the consultant for the planning stages of the project. An additional \$2,200,000 was allocated to fund the consultant through FY 2016, for a total cost of \$5,200,000 for project oversight.

Due to possible unforeseen costs, the expenditure plan sets aside \$4,100,000 for contingency purposes.

ASET Initiatives

The budget includes \$9,475,000 and 15 FTE Positions from the APF in FY 2016 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The 15 FTE Positions will assist in managing all projects funded from the APF. These amounts fund the following adjustments:

ASET Initiatives

The budget includes an increase of \$473,300 from the APF in FY 2016 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2016 \$9,475,000 appropriation will be financed by a transfer of \$5,700,000 from the Automation Operations Fund and \$3,775,000 from the State Web Portal Fund to the APF.

The \$9,475,000 APF appropriation will fund projects continuing from FY 2015, pay for Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide, as well as fund new projects for FY 2016. This \$9,475,000 consists of the following:

- \$2,625,000 to improve the State Data Center, including upgrading aging infrastructure, implementing back-up power supply systems and disaster recovery solutions, and assisting agencies with cloud migration projects.
- \$3,125,000 to improve the security, privacy and risk of the state's IT systems, including implementing firewalls and encrypting private and sensitive information.
- \$500,000 to improve enterprise architecture, including developing a statewide IT governance model and statewide IT professional development.
- \$2,150,000 for project management in the ASET office in ADOA. This includes Personal Services and Employee Related Expenditures to manage all projects funded through the APF, and to provide assistance to other state agencies for their IT projects.
- \$1,075,000 to enhance E-government, by training state agencies to utilize the new state web portal, which was developed in FY 2014 and developing an online directory of codes rules and ordinances.

Department of Corrections

AIMS Replacement

The budget includes no funding from the APF in FY 2016 for the replacement of the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC) as new monies will not be required until FY 2017. This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(8,000,000) from the APF in FY 2016 to align expenditures for the AIMS project within the ADC.

A total of \$16,000,000 (\$8,000,000 in FY 2014 and \$8,000,000 in FY 2015) has already been appropriated for replacement of the AIMS system. The AIMS system will

assist in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system.

A contract has been awarded to a vendor to oversee the modification of a commercial "off the shelf" system to fit the needs of ADC. Of the total project cost of \$24,000,000, \$16,119,000 is allotted to pay the vendor. The remainder of the project costs include:

- \$3,200,000 for training costs (overtime that will be needed) as staff learn how to use the program and for dedicated staff for the implementation phase.
- \$3,131,000 for cost contingencies.
- \$700,000 for equipment.
- \$450,000 for the costs associated with the system interfacing with other state agencies, law enforcement entities, and the courts.
- \$400,000 for the cost of third-party consultant review for the AIMS project.

The department estimates an ongoing maintenance cost of \$1,600,000 annually. With the projected schedule, the department anticipates the transition stage of setting up the new system occurring in March 2017.

In addition, the budget continues to appropriate any remaining FY 2015 AIMS project balances for use in FY 2016. The budget provides the authority for the monies appropriated in FY 2014 to be used in FY 2016. The Department of Administration shall report any fiscal year FY 2016 expenditure of remaining balances from FY 2014 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee.

A FY 2015 General Appropriation Act footnote stipulates that AIMS funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADC shall provide ITAC and JLBC with a recent report from this contracted third party when seeking review of AIMS funding, as required by A.R.S. § 41-3504. ADC retains an outside consultant to provide ongoing analysis of the project; the latest quarterly report described a strong commitment by the department to the project and provided recommendations to strengthen the development process.

Department Economic Security

IT Security

The budget includes \$936,400 from APF in FY 2016 for IT security projects at the Department of Economic Security (DES). This amount funds the follow adjustments:

IT Security

The budget includes an increase of \$936,400 from the APF in FY 2016 for IT security projects at DES. This project will bring DES into compliance with state and federal security information technology standards.

The \$936,400 APF appropriation is financed by a transfer from the DES Special Administration Fund.

Department of Environmental Quality

E-Licensing

The budget includes \$5,000,000 from the APF in FY 2016 to continue to develop an e-licensing web portal at the Department of Environmental Quality (DEQ). This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(1,800,000) from the APF in FY 2016 to align expenditures with the third year of a project to provide e-licensing functionality on DEQ's web portal.

The FY 2016 \$5,000,000 appropriation will be financed by a transfer from the Vehicle Emissions Inspection (VEI) Fund to the APF.

The e-licensing system will allow customers to conduct permitting, billing, payment, and review data submissions online for many of the permitting and compliances processes. The FY 2015 expenditures are being used to automate 22 business processes within DEQ. The FY 2016 appropriation is to be used to automate an additional 16 processes.

At its October 2013 meeting, the JLBC favorably reviewed the initial \$5,000,000 FY 2014 expenditure plan, with provisions that FY 2015 funding was contingent upon contracting with an independent third party to provide oversight of the project. At its June 2014 meeting, the JLBC favorably reviewed the \$6,800,000 expenditure plan in FY 2015 for Phase 2 of the project.

DEQ has contracted with a third-party vendor. ADOA and DEQ provided ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2015 funding, as required by A.R.S. § 41-714.

In the initial report, the vendor concurred with DEQ's approach and "can certainly see a credible path to success." At the same time as the third-party review, DEQ adjusted the scope of the project to address external feedback for more functionality. Instead of developing fillable forms for 80 business processes, the portal is providing deeper functionality and assistance to users for 22 business processes in Phase 2.

The vendor provided recommendations for process improvements and suggestions for increasing user engagement with the new software. The vendor has been retained for continued oversight.

In the April 2015 report, the vendor reiterated its prior positive evaluation of DEQ's approach and software development methodology. Phase 1 and Phase 2 deliverables are behind schedule due to unforeseen circumstances and changes to the scope of the project.

Department of Education

Education Learning and Accountability System

The budget includes \$7,000,000 from the APF in FY 2016 for further development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). ELAS will allow ADE to collect, compile, maintain, and report student level data for students enrolled in public schools. *(See the Department of Education, Education Learning and Accountability System section for more information.)*

This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(5,000,000) from the General Fund and a corresponding decrease of \$(5,000,000) from the APF to eliminate a one-time increase in program funding as specified in the Legislature's 3-year spending plan that is associated with the enacted FY 2015 budget. The remaining appropriation is intended primarily to continue replacement of the Student Accountability Information System (SAIS) component of ELAS.

The FY 2016 \$7,000,000 appropriation will be financed from the following fund sources:

- \$5,400,000 appropriation from the General Fund.

- \$1,600,000 transfer from the ELAS Fund.
- In addition, the budget (Laws 2015, Chapter 8, Section 126) continues to appropriate any remaining FY 2015 ELAS Fund balances for use in FY 2016.

Prior to FY 2014, ADE used its own funds to administer the project, which included a combination of state General Fund monies (\$5,000,000 per year in FY 2012 and FY 2013), mandatory fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona universities and community colleges (approximately \$1.5 million per year in FY 2012 and FY 2013), and federal monies (approximately \$10 million in FY 2012 and FY 2013 combined).

In FY 2014, \$7,000,000 was appropriated to implement a portion of the total project. This amount funded development and expansion of a longitudinal data system, implementation of data visualization dashboards that display student achievement data, reduced redundancies for districts' reporting requirements, and implemented various security and technical measures.

In FY 2015, \$12,000,000 was appropriated to primarily replace most of SAIS, further develop more streamlined data reporting, storage, and transfer systems, and roll out data dashboards to additional public schools.

In FY 2016, ADE plans to use the \$7,000,000 ELAS appropriation primarily to continue work on SAIS replacement, add more schools to the state's student information system (SIS) to leverage bulk purchasing power, and fund other project management functions.

Section 126 of the FY 2016 General Appropriation Act specifies that it is the Legislature's intent that FY 2016 funding be used first and foremost to complete a significant portion of the SAIS replacement. The section further requires ADE to provide quantifiable deliverables of the Legislature's intent to ITAC and the JLBC when seeking review of their FY 2016 expenditures, as required by A.R.S. § 41-714.

Section 126 also makes FY 2016 funding contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADE are to provide ITAC and JLBC with a recent report from this contracted third-party before seeking review of FY 2016 funding, as required by A.R.S. § 41-714. ADE is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Since FY 2014, ADE has contracted with a third-party vendor to provide additional oversight for the project, in accordance with an ongoing General Appropriation Act

footnote. In its December 2014 performance review, the vendor noted that ADE's information technology team has "matured" into a group that is nationally recognized as a leader in student data systems. While acknowledging that progress continues on several components of ELAS, the vendor concludes that given the overall magnitude of this project, there is still much to be completed in the technical, instructional, and administrative areas.

Department of Child Safety

CHILDS Replacement

The budget includes no funding from the APF in FY 2016 to replace the Children's Information Library and Data Source (CHILDS) operated by the newly-established Department of Child Safety (DCS) as new monies will not be required until FY 2017. This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(5,000,000) from the General Fund and a corresponding decrease of \$(5,000,000) from the APF in FY 2016 to align expenditures for the CHILDS project within DCS.

Since DCS will not be in a position to utilize additional resources beyond the initial \$5,000,000 until after FY 2016, no additional resources for CHILDS replacement were appropriated in FY 2016. The JLBC Staff estimates that the CHILDS replacement will require \$5,000,000 from the General Fund in FY 2017 and FY 2018 above its FY 2016 appropriation.

The budget continues to appropriate any remaining FY 2015 DCS project balances for use in FY 2016.

CHILDS is the management information system used to document the status, demographics, location and outcomes for every child in the care of DCS. The system assists with various business processes including hotline intake, initial assessments and investigations, case management, adoptions, eligibility determinations, staff management, provider management and payment processing.

The total cost for the project was originally estimated to be between \$40,000,000 and \$80,000,000, depending on the technology approach used during replacement. DCS believes that the project will qualify for a 50% federal match rate.

DCS plans to replace CHILDS in 2 Phases. In March 2015, DCS received ASET approval and a favorable Joint

Legislative Budget Committee review of its plan to spend \$313,000 of the \$5,000,000 appropriation for the Phase 1 Planning Project. The \$313,000 will draw down an equal amount of Federal Funds

During the Phase 1 Planning Project, DCS will contract with a consultant to prepare the CHILDS replacement request for proposal (RFP). The consultant is to have experience with Statewide Automated Child Welfare Information Systems, processing requirements, advanced technology products, and information security requirements. The consulting firm is to produce (1) a definition of user requirements (functional and non-functional) to a level of detail sufficient to complete all competitive bidding for Phase 2 of the project; (2) an alternative analysis, cost benefit analysis, feasibility study, and a final report; and (3) an implementation budget and cost allocation formula. DCS anticipates that the Phase 1 consultant will issue its final report in September 2015.

During Phase 2, DCS will publish the RFP and select a vendor to implement the chosen CHILDS replacement solution in accordance with certain standards. DCS plans to have the Phase 2 RFP ready for release in early 2016. It is anticipated that after the RFP is awarded, Phase 2 of CHILDS replacement will span multiple fiscal years.

A FY 2015 General Appropriation Act footnote stipulates that CHILDS replacement funding is contingent upon DCS contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DCS are to provide ITAC and the Joint Legislative Budget Committee with a list of performance measures to be tracked by the new CHILDS system and a recent report from the third-party consultant when seeking review of the CHILDS replacement funding.

Although DCS has hired the third-party consultant using monies from non-APF sources, the department indicates that it is too early in the process to provide the third-party report or the list of performance measures to the Committee. The departments plan to provide the required information during the Phase 1 Planning project.

Department of Revenue

DOR Automation Projects

The budget includes no funding from the APF in FY 2016 at the Department of Revenue (DOR). This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the APF in FY 2016 to eliminate one-time funding for the tobacco tax processing project. The \$1,000,000 FY 2015 APF appropriation was financed by a transfer from the Traditional Medicaid Services line item in AHCCCS to the APF. In FY 2015, DOR developed an automated tobacco tax processing and revenue accounting system to reach compliance with the Tobacco Master Settlement Agreement.

Remove One-Time Funding

The budget includes a decrease of \$(1,700,000) from the APF in FY 2016 to eliminate one-time funding for tax analysis improvements. In FY 2015, DOR made programming changes to the Taxpayer Accounting System to capture and track data from the second page of the individual income tax form, as well as to increase the timeliness and accuracy of reporting income tax credits.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the General Fund deposits into the APF costs are projected to decrease by \$(2,783,000) in FY 2017 below FY 2016 and remain unchanged in FY 2018. These estimates are based on:

AFIS Replacement

The long-term estimates assume funding for AFIS replacement will decrease by \$(2,383,000) in FY 2017 to zero funding, as the project is completed. There would be no funding in FY 2018.

Educational Learning and Accountability System

The long-term estimates assume funding for ELAS will decrease by \$(5,400,000) in FY 2017 to zero funding. The estimates assume there would be no funding for the project in FY 2018.

CHILDS Replacement

The long-term estimates assume funding for CHILDS Replacement will increase by \$5,000,000 in FY 2017, as DCS begins Phase 2 of the project. The estimates assume funding would remain at the \$5,000,000 level in FY 2018.

APF Revenues and Transfers

Since the APF's inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 2* summarizes APF revenues from FY 2014 through FY 2016.

Table 2

Automation Projects Fund
(\$ in thousands)

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Beginning Balance	11,035.4	40,697.4 ^{1/}	0.0
Revenues			
General Fund Appropriation	18,400.0	18,400.0	2,383.0
General Fund Transfer (ADE)	5,400.0	10,400.0	5,400.0
General Fund Transfer (DOR)	1,700.0	1,700.0	
General Fund Transfer (DCS)		5,000.0	
Automation Charges	17,013.6		
ADE Education Learning and Accountability Fund	1,600.0	1,600.0	1,600.0
ADOA Automation Operations Fund	8,130.0	9,057.3	5,700.0
ADOA State Web Portal Fund	4,000.0		3,775.0
ADOA Information Technology Fund	345.0		
ADC Inmate Store Proceeds Fund	5,500.0		
ADC State Revolving Fund	2,500.0		
ADC Prison Construction and Operation Fund		5,500.0	
ADC Corrections Fund		2,500.0	
AHCCCS Traditional Medicaid Services		1,000.0	
DES Special Administration Fund			936.4
DEQ Emissions Inspection Fund	5,000.0	6,800.0	5,000.0
Total Funds Available	80,624.0	102,654.7	24,794.4
Total Expenditure (Current FY Appropriation)	34,331.3	70,034.7	24,794.4
Total Expenditure (Previous FY Appropriation) ^{2/}	5,595.3	32,620.0	0.0
Total Expenditures	39,926.6	102,654.7	24,794.4
Ending Balance ^{3/}	40,697.4	0.0	0.0

^{1/} \$8,075,700 of the beginning balance was intended to pay for the FY 2015 costs of AFIS replacement. For the purposes of the expenditures section of this chart, this amount is part of the current year appropriation. The remaining \$32,620,000 is reflected in the Total Expenditure - Previous FY Appropriation line.

^{2/} Assumes all \$32,620,000 in FY 2015 will be expended and will not carry forward into FY 2016.

^{3/} FY 2014 ending balance matches ADOA FY 2016 Budget Year Request Sources and Uses line item.

Arizona Department of Administration - Department of Child Safety

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	0.0	0.0	0.0
Lump Sum Appropriation	0	19,500,000	0
AGENCY TOTAL	0	19,500,000^{1/}	0
FUND SOURCES			
General Fund	0	19,500,000	0
SUBTOTAL - Appropriated Funds	0	19,500,000	0
TOTAL - ALL SOURCES	0	19,500,000	0

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) was appropriated one-time funding to facilitate the creation of the new Department of Child Safety (DCS).

Operating Budget

The budget includes no funding in FY 2016 for the creation of the Department of Child Safety. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(19,500,000) from the General Fund in FY 2016 for the elimination of one-time funding. This adjustment is consistent with the Legislature's 3-year spending plan. These monies were appropriated to ADOA for one-time costs associated with the establishment of DCS as well as the relocation of the data center operated by the Department of Economic Security (DES).

The FY 2016 General Appropriation Act also reduced the original FY 2015 appropriation from \$25.0 million to \$19.5 million and made the appropriation non-lapsing until June 30, 2016.

In September 2014, the Joint Legislative Budget Committee (JLBC) favorably reviewed 6 months of funding for DCS administrative expenses totaling \$6,502,700, as shown in *Table 1*. These administrative expenses included 40 new administrative staff; 1,700 laptops for caseworkers; and technology services, such as a website, email software, and consulting services. The Committee's actions on administrative expenses included provisions stating that a favorable review did not reflect endorsement of a particular staffing level and that DCS report on the number of filled administrative

positions and the year-to-date transition expenditures 30 days after the end of each calendar quarter. The FY 2016 budget did not contain funding to continue the 40 new administrative staff.

After the DES data center relocation project received the relevant approvals from the Information Technology Authorization Committee (ITAC), JLBC also favorably reviewed \$500,000 for the planning phase, \$2,500,000 for the implementation phase and \$4,000,000 for the application migration phase of the DES data center relocation project totaling \$7,000,000.

In March 2015, JLBC favorably reviewed DCS' proposal to spend \$1,593,400 from the transition appropriation on moving expenses to consolidate its central office staff into 1 privately-leased building at 3003 North Central Avenue in Phoenix.

The Executive's plan during the May 2014 Special Session on Child Welfare was for DCS to spend about \$6.7 million from the transition appropriation to remodel the 1717 West Jefferson Street building for its central office staff. But because of the extensive interior remodeling that would have been required, DCS decided to lease private space at the previously mentioned 3003 North Central Avenue building. The 1717 West Jefferson Street building will be turned over to ADOA to use as flexible space. DCS' net new cost to lease the 3003 North Central Avenue space is \$1.1 million annually, which is accounted for in DCS' operating budget.

^{1/} The sum of \$19,500,000 is appropriated in FY 2015 from the State General Fund to the Department of Administration for costs associated with the establishment of the Department of Child Safety and the relocation of the data center operated by the Department of Economic Security. Before any expenditure of this amount, the Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee. The appropriation made in subsection A of this section is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations until June 30, 2016. (Laws 2014, Chapter 18 footnote as modified by Laws 2015, Chapter 8) Laws 2014, Chapter 18 originally appropriated \$20,000,000 from the General Fund in FY 2015. Laws 2014, 2nd Special Session, Chapter 2 increased this amount to \$25,000,000. Laws 2015, Chapter 8 reduced this amount to \$19,500,000.

As shown in *Table 1*, \$4.4 million from the transition appropriation remains unallocated as of April 2015.

Table 1	
Transition Appropriation by Purpose	
<u>Administrative Expenses</u>	<u>Amount</u>
40 Administrative and Technology Staff	\$ 2,557,200
Field Equipment (1,700 laptops)	2,524,200
Technology Services Licensing	1,121,300
Website and IT Consulting	<u>300,000</u>
Subtotal - Administrative Expenses	\$ 6,502,700
<u>Other Transition Expenses</u>	
DES Data Center - Planning & Implementation	\$ 3,000,000
DES Data Center - Application Migration	4,000,000
DCS Relocation	1,593,400
Unallocated as of April 2015	<u>4,403,900</u>
Subtotal - Other	<u>\$12,997,300</u>
Total	\$19,500,000

Office of Administrative Hearings

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	12.0	12.0	12.0
Personal Services	563,000	563,000	563,000
Employee Related Expenditures	216,100	216,200	214,900
Other Operating Expenditures	95,400	95,600	96,100
AGENCY TOTAL	874,500	874,800	874,000^{1/}
FUND SOURCES			
General Fund	862,200	862,500	861,700
<u>Other Appropriated Funds</u>			
Healthcare Group Fund	12,300	12,300	12,300
SUBTOTAL - Other Appropriated Funds	12,300	12,300	12,300
SUBTOTAL - Appropriated Funds	874,500	874,800	874,000
Other Non-Appropriated Funds	1,063,400	873,400	873,400
TOTAL - ALL SOURCES	1,937,900	1,748,200	1,747,400

AGENCY DESCRIPTION — The Office of Administrative Hearings is an independent office whose services and personnel are to be used by all state agencies to conduct administrative hearings, unless exempted by law. All agencies supported by other appropriated or non-appropriated funding sources are to contract for administrative hearing services from the office. The Director shall assign Administrative Law Judges (ALJ) from the office to an agency, on either a temporary or permanent basis, to preside over contested cases in accordance with the special expertise of the ALJ in the subject matter of the agency.

Operating Budget

The budget includes \$874,000 and 12 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$861,700
Healthcare Group Fund	12,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(800) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

The Healthcare Group Fund was eliminated in January 2015. As a result, there will be no monies available from this fund.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Commission of African-American Affairs

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	3.0	3.0
Professional and Outside Services	0	125,000	125,000
AGENCY TOTAL	0	125,000	125,000^{1/}
FUND SOURCES			
General Fund	0	125,000	125,000
SUBTOTAL - Appropriated Funds	0	125,000	125,000
TOTAL - ALL SOURCES	0	125,000	125,000

AGENCY DESCRIPTION — The Arizona Commission of African-American Affairs advises state and federal agencies on policies, legislation and rules that affect the African-American community and enables the state to be responsive to the needs of the African-American community. The commission is composed of 9 public members and 8 ex-officio members.

Operating Budget

The budget includes \$125,000 and 3 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts are unchanged from FY 2015.

The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12), transfers the administration of the Arizona Commission of African-American Affairs Fund from the State Treasurer to the commission.

Other Issues

History

Laws 2010, Chapter 271 statutorily established the Arizona Commission of African-American Affairs under A.R.S. § 41-531.

Chapter 271 also established the non-appropriated Arizona Commission of African-American Affairs Fund. The fund is authorized to receive gifts, grants, and donations from any public or private source. In FY 2014, the fund had a \$0 fund balance, received no new revenues and had \$0 expenditures.

The FY 2015 budget appropriated \$125,000 directly to the commission as a newly-created budget unit. These funds will be used for start-up costs and to provide the commission with ongoing staffing resources.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Agriculture

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	162.9	162.9	162.9 ^{1/}
Personal Services	3,968,100	4,153,900	4,153,900
Employee Related Expenditures	1,849,500	1,979,100	1,929,500
Professional and Outside Services	227,700	117,000	117,000
Travel - In State	543,300	572,600	572,600
Travel - Out of State	17,100	12,100	12,100
Other Operating Expenditures	1,230,200	1,042,900	1,056,900
Equipment	41,600	7,000	7,000
OPERATING SUBTOTAL	7,877,500	7,884,600	7,849,000
SPECIAL LINE ITEMS			
Agricultural Consulting and Training	128,500	128,500	128,500
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Nuclear Emergency Management Fund	198,400	198,400	198,400 ^{2/3/}
Red Imported Fire Ant	23,200	23,200	23,200
AGENCY TOTAL	8,315,900	8,323,000	8,287,400^{4/}
FUND SOURCES			
General Fund	8,315,900	8,323,000	8,287,400
SUBTOTAL - Appropriated Funds	8,315,900	8,323,000	8,287,400
Other Non-Appropriated Funds	10,038,500	11,608,700	11,603,900
Federal Funds	5,119,300	4,539,100	4,539,100
TOTAL - ALL SOURCES	23,473,700	24,470,800	24,430,400

AGENCY DESCRIPTION — The Arizona Department of Agriculture administers and enforces agriculture-related statutes. The department regulates certain phases of food production (such as milking, butchering, and harvesting) to guard public health and to ensure product quality. The department administers programs to protect livestock and crops from pests and diseases and to protect farm workers who handle agricultural chemicals. It also tests certain non-food agricultural products to ensure product quality and content, as well as providing administrative support to several agricultural product promotion groups. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures are transferred to the Arizona Department of Agriculture. The new duties include the inspection, testing and licensing of commercial weighing and measuring devices.

Operating Budget

The budget includes \$7,849,000 and 161 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(35,600) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} Includes 1.88 FTE Positions appropriated by Laws 2015, Chapter 132.

^{2/} Includes \$198,434 and 1.88 FTE Positions in both FY 2016 and FY 2017 appropriated by Laws 2015, Chapter 132 for the Nuclear Emergency Management Fund.

^{3/} Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations; however any unexpended monies shall be used to reduce the assessment and appropriation in future years.

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Agricultural Consulting and Training

The budget includes \$128,500 from the General Fund in FY 2016 for the Agricultural Consulting and Training line item. This amount is unchanged from FY 2015.

This line item funds on-site visits to establishments for consultation, interpreting, and applying alternative methods of complying with statutes, rules, regulations, and standards relating to compliance.

Agricultural Employment Relations Board

The budget includes \$23,300 from the General Fund in FY 2016 for the Agricultural Employment Relations Board line item. This amount is unchanged from FY 2015.

This line item funds accounting and budgeting support for the Agricultural Employment Relations Board. The board receives and investigates complaints and conducts farm labor union elections.

Animal Damage Control

The budget includes \$65,000 from the General Fund in FY 2016 for the Animal Damage Control line item. This amount is unchanged from FY 2015.

This line item funds agreements with the U.S. Department of Agriculture to control, dispatch, or relocate predatory animals and noxious rodents, which are injurious to livestock, poultry, agriculture, other industries, or the public health.

Nuclear Emergency Management Fund

The budget includes \$198,434 and 1.9 FTE Positions from the General Fund in FY 2016 and FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts are unchanged from FY 2015.

The monies in this line item are appropriated by Laws 2015, Chapter 132. As a result, these monies do not appear in the General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Arizona Department of Agriculture receive monies from this bill. *(Please see the Department of Emergency and Military Affairs and the Radiation Regulatory Agency narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating

Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Department representatives assist in the planning for off-site responses to an emergency at the Palo Verde Nuclear Generating Station and participate in the annual response exercises, mainly the Ingestion Pathway Zone exercises. They are responsible for controlling embargoes of food, water, and milk in the event that there is an emergency that would contaminate those items produced in the areas around the plant.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Red Imported Fire Ant

The budget includes \$23,200 from the General Fund in FY 2016 for the Red Imported Fire Ant line item. This amount is unchanged from FY 2015.

This line item funds ongoing pest exclusion efforts aimed at preventing the introduction of the red imported fire ant. The state has successfully suppressed isolated infestations of red imported fire ants and continues to be federally certified as free from this pest.

Additional Legislation

Division of Weights and Measures

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department of Agriculture as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the new Division within the Arizona Department of Agriculture, with the exception of responsibilities relating to taxis, limousines and livery vehicles, which are transferred to the Arizona Department of Transportation (ADOT).

Pursuant to A.R.S. § 35-146 and 35-147, all fees currently collected by the Department of the Weights and Measures will continue to be deposited into the General

Fund by the successor agencies. All personnel under the state personnel system who are employed by the Department of Weights and Measures are transferred to comparable positions and pay classifications in the Weights and Measures Services Division and ADOT on July 1, 2016.

The bill also requires the Arizona Department of Administration (ADOA) to facilitate the transfer of equipment, records, data and appropriated monies of the Department of Weights and Measures that remain unexpended and unencumbered to the Arizona Department of Agriculture and ADOT by July 1, 2016. The Director of ADOA will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. *(Please see the Department of Weights and Measures and the Arizona Department of Transportation for more information.)*

Fee Use Authority

The FY 2016 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) permits the Director, upon recommendation from the Agricultural Advisory Council, to continue to allow special fee authority in FY 2016. Chapter 10 also includes legislative intent that the fees not generate more than \$218,000 to the General Fund, \$113,000 to the Pesticide Trust Fund, and \$26,000 to the Dangerous Plants, Pests, and Diseases Trust Fund, which was also included in last year's bill.

Livestock Compensation Fund

Laws 2015, Chapter 172 establishes the Livestock Loss Board and the Livestock Compensation Fund. The board will administer the fund, which consists of federal monies and legislative appropriations used to compensate livestock operators, landowners and lessees for wolf depredation on livestock. Monies in the fund are continuously appropriated and non-lapsing.

Arizona Health Care Cost Containment System

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,217.3	2,208.3	2,214.3 ^{3/}
Personal Services	37,151,400	37,469,500	37,469,500
Employee Related Expenditures	16,424,700	16,709,600	16,342,100
Professional and Outside Services	3,785,000	5,130,900	5,212,100
Travel - In State	70,300	60,000	60,000
Travel - Out of State	24,000	33,400	33,400
Other Operating Expenditures	25,487,500	18,309,800	18,488,000
Equipment	728,600	80,300	80,300
OPERATING SUBTOTAL	83,671,500	77,793,500	77,685,400
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	88,533,300	54,874,500	54,874,500 ^{2/}
Proposition 204 - AHCCCS Administration	8,080,500	6,863,900	6,832,800 ^{3/}
Proposition 204 - DES Eligibility	24,106,800	38,358,700	38,358,700 ^{3/}
Medical Services			
Traditional Medicaid Services	3,236,881,500	3,752,510,200	3,729,548,600 ^{4/5/}
Proposition 204 Services	1,306,266,400	2,388,974,200	2,417,700,600 ^{3/}
Adult Expansion	45,032,600	164,011,900	197,183,800
Children's Rehabilitative Services	156,409,000	225,988,500	234,866,700
KidsCare II	46,110,700	0	0
KidsCare Services	9,471,500	6,716,500	6,295,200
ALTCS Services	1,241,873,200	1,332,371,100	1,386,588,900 ^{6/7/8/}
Payment to Hospitals			
Disproportionate Share Payments	13,487,100	13,487,100	5,087,100 ^{9/}
DSH Payments - Voluntary Match	25,806,900	16,387,900	18,784,700 ^{10/11/}
Rural Hospitals	13,008,100	22,650,000	22,650,000
Graduate Medical Education	159,376,500	190,159,200	157,312,000 ^{11/12/}
Safety Net Care Pool	487,953,300	137,000,000	137,000,000 ^{11/13/}
AGENCY TOTAL	6,946,068,900	8,428,147,200 ^{14/}	8,490,769,000 ^{15/20/}
FUND SOURCES			
General Fund	1,173,476,700	1,225,882,700	1,205,162,300
Other Appropriated Funds			
Budget Neutrality Compliance Fund	3,303,900	3,384,400	3,482,900
Children's Health Insurance Program Fund	46,468,700	6,649,800	7,674,400
Healthcare Group Fund	850,000	0	0
Prescription Drug Rebate Fund - State	94,941,200	79,035,000	83,778,800
TPTF Emergency Health Services Account	18,535,500	18,202,400	17,331,400
TTHCF Medically Needy Account	32,864,700	34,178,800	31,180,000
SUBTOTAL - Other Appropriated Funds	196,964,000	141,450,400	143,447,500
SUBTOTAL - Appropriated Funds	1,370,440,700	1,367,333,100	1,348,609,800
Expenditure Authority Funds			
County Funds	293,921,500	295,396,100	299,114,300
Federal Medicaid Authority	4,695,580,900	6,015,549,300	6,146,124,800
Hospital Assessment Fund	0	264,389,300	215,558,800
Nursing Facility Provider Assessment Fund	16,528,300	21,657,300	23,366,900
Political Subdivision Funds	233,303,300	112,943,100	98,945,600
Prescription Drug Rebate Fund - Federal	196,563,800	212,459,300	222,458,100
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	100,764,700	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	38,965,700	38,225,000	36,396,000

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SUBTOTAL - Expenditure Authority Funds	5,575,628,200	7,060,814,100	7,142,159,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	6,946,068,900	8,428,147,200	8,490,769,000
Other Non-Appropriated Funds	114,250,100	29,574,800	29,571,100
Federal Funds	63,547,800	97,818,900	90,270,000
TOTAL - ALL SOURCES	7,123,866,800	8,555,540,900	8,610,610,100

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute and long-term care services.

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2016.
- 2/ The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility and Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 4/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2016 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2016 to the Department of Revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriation Act footnote)
- 6/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for persons with developmental disabilities do not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 7/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2016 nonfederal portion of the costs of providing long-term care services is \$249,234,600. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 8/ Any supplemental payments received in excess of \$74,906,000 for nursing facilities that serve Medicaid patients in FY 2016, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source. If the nursing facility provider assessment is not extended past September 30, 2015, the AHCCCS Administration shall revert \$56,384,400 of expenditure authority for FY 2016, including \$38,859,200 of Federal Medicaid Authority and \$17,525,200 of Nursing Facility Provider Assessment funding. (General Appropriation Act footnote)
- 9/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2016 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 10/ Any monies received for DSH from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, that are received in FY 2016 by the AHCCCS Administration in excess of \$18,784,700 are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 11/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2016 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary March and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 12/ Any monies for Graduate Medical Education received in FY 2016, including any federal matching monies, by the AHCCCS Administration in excess of \$157,312,000 are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 13/ Any monies received in excess of \$137,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 14/ The AHCCCS Administration may transfer up to \$10,000,000 from state General Fund appropriations received in FY 2015 to the Department of Health Services for expenditures associated with Title XIX Behavioral Health Services. Before making any transfer pursuant to subsection A of this section, the AHCCCS Administration shall submit the proposed transfer for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 15/ The non-appropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2016 General Fund spending decreases by \$(20,720,400) or (1.7)% from FY 2015. The \$(20,720,400) includes:

- \$23,753,600 in formula base adjustments.
- \$(12,405,000) in mandatory Affordable Care Act changes, primarily due to an enhanced federal match rate for the child expansion and the phase-down of primary care provider rate increases.
- \$(28,100,000) for a (5)% provider rate reduction and an ambulance rate reduction.
- \$(3,933,400) in policy changes.
- \$(35,600) in statewide adjustments.

AHCCCS' FY 2016 Hospital Assessment spending decreases by \$(48,830,500) or (18.5)% from FY 2015. This decrease is primarily due to an increase to the enhanced federal match rate for childless adult members with income from 0-100% of the federal poverty level (FPL) and a (5)% provider rate reduction.

In FY 2015, the budget also includes a \$(48,520,500) decrease from the General Fund and \$59,791,600 increase from the Hospital Assessment Fund to reflect revisions to caseload projections. These amounts are continued into FY 2016. (See *Other Issues section for more information.*)

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$33,917,700 in FY 2017 above FY 2016 and by \$46,004,400 in FY 2018 above FY 2017. (See *Other Issues section for more information.*)

The FY 2017 and FY 2018 estimates do not yet reflect the July 1, 2016 transfer of behavioral health functions from the Department of Health Services (DHS) to AHCCCS, as authorized by Laws 2015, Chapter 19 and Laws 2015, Chapter 195.

Below is an overview of the FY 2016 formula adjustments, a status update on the mandatory policy changes and caseload impacts since the implementation of the 2010 federal health care legislation, known as the Affordable Care Act (ACA) that began on January 1, 2014, and policy changes. *Table 1* summarizes these changes.

Table 1

AHCCCS General Fund Budget Spending Changes
(\$ in millions)

Formula Adjustments	
FY 2016 Caseload Growth	\$ 23
FY 2016 3% Capitation Rate Increase	30
FY 2016 Federal Match Rate Increase	(27)
Prescription Drug Rebate Fund Increase	(5)
Tobacco Tax Decline	3
<i>Subtotal</i>	\$ 24
Mandatory ACA Changes	
Child Expansion	\$ (10)
Provider Rate Increase Phase Down	(6)
Health Insurer Fee	3
Currently Eligible But Not Enrolled ^{1/}	--
<i>Subtotal</i> ^{2/}	\$ (12)
Optional Medicaid Expansion	
Childless Adults and Adult Expansion ^{3/}	N/A
Policy Changes	
(5)% Provider Rate Reduction	\$ (26)
Ambulance Rate Reduction	(2)
Reduction of Private DSH Payments	(3)
Office of Inspector General Net Fraud Reduction	(1)
1.5% Capitation Rate Limit - FY 2017 and FY 2018 ^{4/}	0
Cost Sharing Provisions - FY 2017 and FY 2018 ^{4/}	0
<i>Subtotal</i>	\$ (32)
Total Spending Change ^{2/}	\$ (21)

^{1/} Amounts are included in the formula adjustment above. (See *Mandatory Affordable Care Act Changes section for more information.*)

^{2/} Numbers do not add due to rounding.

^{3/} The budget includes a \$(48.8) million reduction in hospital assessment funding in FY 2016 as a result of increase to the federal match rates and provider rate reductions. The assessment covers the General Fund portion of these populations and the remaining Proposition 204 populations.

^{4/} First year of impact is FY 2017. (See *Policy Changes section for more information.*)

^{16/} Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{17/} The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or more for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{18/} On or before January 6, 2016, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received on or before that date since July 1, 2015. On June 30, 2016, the Administration shall report the same information for all of FY 2016. (General Appropriation Act footnote)

^{19/} The AHCCCS Administration shall report 30 days after the end of each calendar quarter to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the implementation of its required automation interaction with the health insurance exchange and eligibility modifications. (General Appropriation Act footnote)

^{20/} General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, a prescription drug rebate increase and a decline in tobacco tax collections. The sum of these adjustments increases the AHCCCS budget by \$23,753,600 in FY 2016.

FY 2016 Caseload Growth

Formula adjustments include 0.2% caseload growth for Traditional Acute Care and Proposition 204 populations, 2% caseload growth for the Arizona Long Term Care System (ALTCs) population, 3% caseload growth in Children’s Rehabilitative Services (CRS), and a (10)% decline in the KidsCare population in FY 2016. Formula adjustments do not include caseload growth for newly-eligible populations expanded under the ACA (see next sections for additional information). The FY 2016 formula adjustments incorporate an anticipated 4.2% caseload growth within the Traditional population in FY 2015. The 4.2% growth is primarily caused due to currently eligible but not enrolled individuals (see *Currently Eligible But Not Enrolled* section for additional information).

FY 2016 caseload changes are expected to result in a General Fund increase of \$23,121,700 in FY 2016. Caseloads, including expansions and the childless adult restoration, are shown in *Table 2*.

Table 2

JLBC Forecasted Member Months ^{1/}

<u>Population ^{2/}</u>	<u>June 2014</u>	<u>June 2015</u>	<u>June 2016</u>	<u>'15-'16% Change</u>
Traditional Acute Care	939,643	979,073	980,630	0.2%
Prop 204 Childless Adults	215,742	285,743	286,198	0.2
Other Proposition 204	158,109	169,672	169,942	0.2
Adult Expansion ^{3/}	19,789	41,369	41,435	0.2
KidsCare	2,008	1,606	1,446	(10.0)
ALTCs - Elderly & Physically Disabled ^{4/}	28,524	29,380	29,967	2.0
Emergency Services	78,799	95,558	98,424	3.0
Total Member Months ^{5/}	1,442,614	1,602,401	1,608,042	0.4%

^{1/} The figures represent June 1 estimates.

^{2/} The Children’s Rehabilitative Services program is included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCs populations.

^{3/} Parents and Childless Adults 100%-133% FPL.

^{4/} The ALTCs program funded in AHCCCS.

^{5/} In addition, approximately 29,600 people will receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program.

FY 2016 3% Capitation Rate Increase

In comparison to caseload growth rates which vary significantly by population, capitation rate adjustments are assumed to be 3% above FY 2016 across most programs.

The 3% capitation increase is budgeted to cost an additional \$29,853,200 from the General Fund in FY 2016. The 3% capitation rate adjustment was developed after analyzing recent capitation reviews, utilization, and trends in medical inflation.

FY 2016 Federal Match Rate Increase

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2016, the FMAP rates will adjust as follows:

- Traditional Medicaid will increase to 68.81% (0.66% increase).
- Proposition 204 Childless Adult rate will increase to 89.05% (3.57% increase).
- KidsCare and Child Expansion rates will increase to 94.48% (see *Mandatory Affordable Care Act Changes* section for additional information).
- Adult Expansion rate will remain at 100%.

The formula adjustments include a decrease of \$(27,477,000) in General Fund spending to reflect savings from the regular federal rate increase.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$4,743,100 from the state portion of the Prescription Drug Rebate Fund and a corresponding \$(4,743,100) decrease from the General Fund in FY 2016 based on AHCCCS estimates. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since spring 2011.

Tobacco Tax Decline

The budget includes a decrease of \$(2,998,800) from tobacco tax revenues and a corresponding \$2,998,800 increase from the General Fund in FY 2016 from declining tobacco sales. These declines result in a (8.8)% decrease within the Tobacco Tax and Health Care Fund (TTHCF) Medically Needy Account in FY 2016.

FY 2015 Adjustments

The budget includes a \$(48,520,500) ex-appropriation from the General Fund in FY 2015 associated with lower-than-expected Medicaid caseload growth within the Traditional line item population. In addition, the budget includes \$268,809,500 in an Expenditure Authority supplemental associated with higher-than-expected Medicaid caseload growth for the Proposition 204 Childless Adult population, partly offset by a decrease to DSH Voluntary Payments. (See *Other Issues and Disproportionate Share Payment Overview* sections for more information.)

Mandatory Affordable Care Act Changes

The 2010 Federal health care legislation, known as the Affordable Care Act (ACA), had a number of impacts on the AHCCCS and DHS Medicaid budgets that began on January 1, 2014. Mandatory changes resulting from the ACA are described below. The sum of these adjustments decrease the AHCCCS budget by \$(12,405,000) in FY 2016. A summary of the AHCCCS portion of the mandatory costs appears in *Table 1*.

Child Expansion

Beginning on January 1, 2014, ACA required the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) (\$32,300 for a family of 4). In addition, ACA allowed children with incomes 133% to 200% FPL to become eligible for a subsidy to purchase health insurance through the new federal health insurance exchange. Infants continue to be covered up to 140% FPL.

Prior to the ACA, AHCCCS provided coverage for children with incomes up to 200% FPL through 2 programs: KidsCare, also known as Arizona's Children's Health Insurance Program (CHIP), and KidsCare II. Both programs received an approximate 3:1 federal match rate for its recipients.

On January 1, 2014, 26,300 KidsCare recipients with incomes up to 133% FPL were transferred to the Traditional population. The transferred KidsCare and child expansion populations receive a 77.71% federal match rate in FY 2015.

Due to these programmatic changes, the KidsCare II program officially ended on January 31, 2014. Pre-January 2014 KidsCare I recipients with income from 133% to 200% FPL continue to receive coverage in KidsCare. As of April 1, 2015, the KidsCare program had approximately 1,600 remaining members.

The FY 2016 budget assumes a total of 36,200 enrollees in the child expansion program by June 2016. As of April 1, 2015, enrollment was about 37,500 members.

Beginning on October 1, 2015, federal legislation increases the state's KidsCare and child expansion match rate to 100%. The budget includes a decrease of \$(9,555,500) in FY 2016 from the General Fund for the phased-in enrollment, annualization of these costs, and an FMAP increase.

Provider Rate Increase Phase Down

ACA requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government pays 100% of the cost above what they reimbursed PCPs on July 1, 2009. Since AHCCCS has lowered reimbursement rates for PCPs since then, the state receives the regular 2:1 match rate for the difference between the rate in effect on December 31, 2014 and the July 1, 2009 rate. This particular enhanced rate primarily affected the mandatory expansion populations.

The FY 2015 budget assumed a General Fund PCP payment of \$12,319,700 in FY 2014 and \$8,339,000 in FY 2015. However, due to a delay in payment processing and review within the Federal Centers for Medicare and Medicaid Services (CMS), AHCCCS made payments of \$4,102,700 in FY 2014, and anticipates to pay \$7,021,600 in FY 2015 and \$2,373,900 in FY 2016.

The budget includes a decrease of \$(5,965,100) from the General Fund in FY 2016 for the PCP rate increase to account for the change from the FY 2015 appropriation to the expected FY 2016 payments.

Health Insurer Fee

ACA placed an \$8 billion annual fee on the health insurance industry nationwide in 2014. The fee eventually grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. The budget includes an increase of \$3,115,600 (from \$19,500,400 to \$22,616,000) from the General Fund in FY 2016 for the allocation of these costs.

Currently Eligible But Not Enrolled

After January 1, 2014, individuals are required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals also have access to health insurance through newly-created health insurance exchanges, and individuals under 400% FPL are eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled are not subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. As a result, the budget is forecasting a caseload growth of 4.2% in the Traditional population line item in FY 2015. The budget assumes the currently eligible but not enrolled population grows at the same 0.2% growth assumed for the Traditional population in FY 2016.

Childless Adult Restoration, Adult Expansion, and the Hospital Assessment

The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) made a number of changes to Medicaid coverage, including the restoration of coverage for the childless adult population, the expansion of Medicaid coverage for adults to 133% FPL, and the implementation of a hospital assessment. These items are described in more detail below, along with an update on each program's enrollment since the restoration of Proposition 204 childless adults and the adult expansion beginning on January 1, 2014. *Table 3* summarizes the budgeted costs of these changes in FY 2015 and FY 2016.

Childless Adult Restoration, 0-100% FPL

The childless adult population had an enrollment freeze starting in July 2011. As a condition of expanding Medicaid, coverage for the childless adult population was restored in January 2014. The childless adult population receives a higher match rate than the standard 2:1 match. The increased match started at 83.62% in FY 2014, increased to 85.48% in FY 2015, and increases to 89.05% in FY 2016.

The original FY 2015 budget assumed that 240,600 childless adults who were not previously eligible would enroll in the program by June 2015, with a total of 247,800 enrolled by June 2016. As of April 1, 2015, there were approximately 280,700 childless adult enrollees in the Proposition 204 program.

The FY 2016 budget assumes a June 2015 enrollment of 285,700 and a June 2016 enrollment of 286,200. Though the population is assumed to grow only slightly, the FY 2016 budget includes a \$(46,496,100) decrease in hospital assessment state match for costs of this population. Of this amount, \$(10,362,200) is due to the (5)% provider rate reduction and \$(36,133,900) is due to the increased federal match rate and other formula adjustments. The hospital assessment is described below.

Adult Expansion, 100%-133% FPL

ACA allowed states to expand Medicaid coverage for adults up to 133% FPL on and after January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in calendar years 2014 to 2016. The federal share will gradually decline to 90% by 2020. The hospital assessment covers the state portion for this population

(see *Hospital Assessment section for additional information*).

While the FY 2014 Health and Welfare BRB expands eligibility for this population, the expansion is discontinued if any of the following occur: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations (see *Hospital Assessment section*), or 3) the Federal ACA is repealed.

The original FY 2015 budget assumed that 58,900 Adult Expansion enrollees who were not previously eligible would enroll in the program by June 2015, with a total of 60,700 enrolled by June 2016. As of April 1, 2015, there were approximately 50,900 Adult Expansion enrollees.

The FY 2016 budget assumes a June 2015 enrollment of 41,400 and a June 2016 enrollment of 41,500. Since newly-eligible adults are fully funded by the federal government through December 31, 2016 there is no change to the General Fund in FY 2016. The state portion is covered through the hospital assessment in calendar year 2017 and beyond.

Table 4 displays population growth since the ACA start date of January 1, 2014. By the end of FY 2016, enrollment is projected to grow by 376,000.

Hospital Assessment

The FY 2014 Health and Welfare BRB required AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion and the entire Proposition 204 population on and after January 1, 2014. The assessment will be based on hospital discharges as reported on each hospital's Medicare Cost Report. The amounts differ based on types of providers.

In FY 2014, AHCCCS collected \$75,193,200 from the assessment, and was budgeted to collect \$204,597,700 in FY 2015. Due to the higher-than-expected caseload, the FY 2015 supplemental increases the assessment to \$264,389,300. The FY 2016 hospital assessment is projected to be \$215,558,800 and would cover the cost of Proposition 204 services in FY 2016.

Table 3

**Costs of Optional Medicaid Expansion
and the Proposition 204 Parents**
(\$ in millions)

		FY 2015 Revised			FY 2016 Appropriation		
		GF	HA ^{1/}	FF	GF	HA ^{1/}	FF
Adult Expansion 100-133% FPL ^{2/}	AHCCCS	\$ 0	\$ 0	\$ 159	\$ 0	\$ 0	\$ 197
	DHS	<u>0</u>	<u>0</u>	<u>74</u>	<u>0</u>	<u>0</u>	<u>42</u>
	Total	\$ 0	\$ 0	\$ 233	\$ 0	\$ 0	\$ 239
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	AHCCCS	\$ 0	\$ 217	\$1,439	\$ 0	\$ 171	\$1,540
	DHS	<u>44</u>	<u>0</u>	<u>244</u>	<u>35</u>	<u>0</u>	<u>285</u>
	Total	\$ 44	\$ 217	\$1,683	\$ 35	\$ 171	\$1,825
Proposition 204 – Parents 22-100% FPL ^{3/4/}	AHCCCS	\$ 0	\$ 47	\$ 101	\$ 0	\$ 45	\$ 99
	DHS	<u>71</u>	<u>0</u>	<u>172</u>	<u>66</u>	<u>0</u>	<u>147</u>
	Total	\$ 71	\$ 47	\$ 273	\$ 66	\$ 45	\$ 246
Total Expenditures ^{5/}	Total	\$ 115	\$ 264	\$2,189	\$ 101	\$ 216	\$2,310

"GF" = General Fund ; "HA" = Hospital Assessment ; "FF" = Federal Funds

- ^{1/} Includes AHCCCS expenditures from the Hospital Assessment Fund for the Proposition 204 and Adult Expansion line items, beginning January 1, 2014. The Hospital Assessment Fund does not pay for behavioral health costs of these line items in the DHS budget.
- ^{2/} The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 90.68% of the childless adults up to 100% FPL in 2016. These percentages converge to 90% by 2020.
- ^{3/} In addition to parents from 22-100% FPL, this population includes some children from 22-100% FPL and aged, blind, and disabled individuals from 75-100% FPL.
- ^{4/} In addition to the General Fund, AHCCCS state costs for the Proposition 204 line item are funded with tobacco tax and tobacco litigation settlement money. Figures in this table do not display this funding and any associated federal matching funds.
- ^{5/} Amounts may not add due to rounding.

Table 4

**Total Medicaid Population Increase
Since January 1, 2014 ^{1/}**

	June 2014	June 2015	June 2016
Childless Adult Restoration	148,000	218,000	218,400
Adult Expansion 100%-133% FPL	19,800	41,400	41,500
Child Expansion 100%-133% FPL	29,900	36,100	36,200
Other Enrollees ^{2/}	<u>12,900</u>	<u>74,900</u>	<u>79,900</u>
Total	210,600	370,400	376,000

- ^{1/} June 2014 figures are actual amounts while June 2015 and June 2016 are budgeted projections.
- ^{2/} Currently eligible but not enrolled individuals are included in Other Enrollees.

Policy Changes

The budget includes a net savings of \$(32,033,400) in General Fund appropriations in FY 2016 from 4 policy changes. These 4 policy changes include: a (5)% provider rate reduction, an ambulance provider rate reduction, AHCCCS Office of Inspector General (OIG) net fraud reduction savings and a reduction in DSH payments made to private hospitals using a General Fund match (see the *DSH Payments Overview section for information on DSH payment reductions*). The budget's 3-year spending plan

also includes adjustments for capitation rate limits and cost sharing provisions in FY 2017 and FY 2018.

FY 2016 (5)% Provider Rate Reduction

Section 16 of the FY 2016 Health BRB (Laws 2015, Chapter 14) authorizes AHCCCS to reduce provider rates by a cumulative total of up to (5.0)%. This rate reduction would not apply to nursing facilities, developmental disability providers, or home and community based services. AHCCCS is permitted to use discretion in making these reductions. Any reduction would need to be federally approved and the state must prove that the reductions would not affect access to health care. If the capitation rate increase in FY 2016 is less than 3.0%, then AHCCCS may use those savings to reduce the provider rate reductions. The budget includes a \$(25,700,000) million General Fund reduction in FY 2016 for implementation of the provider rate decrease.

Ambulance Rate Reduction

The FY 2014 Health and Welfare BRB increased ambulance reimbursement rates as a percent of Department of Health Services (DHS) established rates from 68.59% to 74.74% as of October 1, 2014 and from 74.74% to 80% as of October 1, 2015. Section 3 of the FY 2016 Health BRB decreases ambulance reimbursement rates as scheduled to go into effect October 1, 2015, to 68.59%. The budget includes a

decrease of \$(2,400,000) from the General Fund in FY 2016, which represents the savings from reducing the reimbursement rate from 74.74% to 68.59%. Relative to the previously scheduled October 1, 2015 rate of 80%, the reduction to 68.59% represents a \$(6,033,300) decrease from the General Fund in FY 2016.

Office of Inspector General Net Fraud Reduction Savings

The budget includes 6 FTE Positions and a net \$(1,322,700) General Fund decrease in FY 2016 for AHCCCS OIG staffing. This General Fund net savings represents \$(1,542,600) from additional cost recoveries by staffing and \$219,900 in additional staffing costs. The AHCCCS OIG is responsible for conducting criminal investigations and investigative audits for all AHCCCS programs.

1.5% Capitation Rate Limit – FY 2017 and FY 2018

Section 26 of the FY 2016 Health BRB limits capitation rate increases to 1.5% in FY 2017 and FY 2018. The FY 2016 JLBC Baseline’s 3-year spending projection assumed that the rates would increase by 3% in both years. Relative to the FY 2016 JLBC Baseline, these limits are estimated to reduce General Fund costs by \$(12.8) million in FY 2017 and \$(29.7) million in FY 2018. This change does not impact the FY 2016 budget amounts.

Cost Sharing Provisions – FY 2017 and FY 2018

Section 19 of the FY 2016 Health BRB requires the state to request the federal government for authority to impose several cost-sharing provisions on Medicaid enrollees, beginning January 1, 2016. The provisions of section 19 are similar to mandatory and optional cost-sharing authority granted to Indiana that became effective February 1, 2015. Pending federal approval, the state would:

- Collect a premium equal to 2% of income from adult Medicaid enrollees with incomes up to 133% of FPL. This provision is estimated to result in non-General Fund savings of \$(5.3) million and \$(7.3) million in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016. The federal government granted Indiana authority to require a 2% premium for adult enrollees with income from 100% to 133% FPL. Adults with incomes from 0% to 100% FPL though, have the option of paying the premium in order to enroll in a health plan with enhanced benefits. The assumed savings of this provision only includes estimated premiums collected from adults with income from 100% to 133% FPL. AHCCCS state costs of this population are funded by the hospital assessment. (See DHS section for discussion of General Fund savings.)
- Collect co-pays of up to \$25 for non-emergency use of an emergency department by adult enrollees up to 133% of FPL. Adults below 100% of FPL, however,

would be charged a co-payment of \$8 for a first incident and \$25 thereafter. This provision is estimated to result in General Fund savings of \$(0.3) million and non-General Fund savings of \$(1.3) million in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016.

- No longer fund costs of nonemergency medical transportation services for adults with incomes between 100% to 133% FPL, from October 1, 2015 to September 30, 2016. Due to data limitations, the impact of this provision was not estimated. The federal government funds all costs of this population through December 31, 2016.

The 3-year budget plan associated with the enacted FY 2016 budget includes General Fund savings of \$(0.3) million in both FY 2017 and FY 2018 and non-General Fund savings of \$(6.6) million and \$(8.6) million in AHCCCS for these cost-sharing provisions in FY 2017 and FY 2018, respectively. The 3-year budget plan additionally includes General Fund savings of \$(1.1) million and \$(1.5) million for these provisions in the DHS budget in FY 2017 and FY 2018, respectively (see the DHS section for more information).

Operating Budget

The budget includes \$77,685,400 and 901.2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$25,756,700
Children’s Health Insurance Program (CHIP) Fund	1,717,200
Prescription Drug Rebate Fund (PDRF) - State	198,000
Federal Medicaid Authority (FMA)	50,013,500

These amounts fund the following adjustments:

Increased PDRF Rebate

The budget includes an increase of \$81,200 from the PDRF-State in FY 2016 due to an increase in prescription drug reimbursements pursuant to a contract adjustment.

Office of Inspector General Staffing

The budget includes 6 FTE Positions in FY 2016 for AHCCCS Office of Inspector General (OIG) staffing. Of this amount, 3 FTE Positions are allocated to the General Fund and 3 FTE Positions are allocated to FMA. While the budget allocates the staffing costs to the Traditional Services line, the FY 2017 Baseline will shift this funding to the Operating Budget. (See Traditional Services section for the net fraud reduction savings.)

Statewide Adjustments

The budget includes a decrease of \$(189,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(22,400)
CHIP Fund	33,200
PDRF - State	700
Federal Medicaid Authority	(200,800)

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$54,874,500 and 885 FTE Positions in FY 2016 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,491,200
Federal Medicaid Authority	29,383,300

These amounts are unchanged from FY 2015.

Through an Intergovernmental Agreement, DES performs eligibility determination for AHCCCS programs.

Proposition 204 - AHCCCS Administration

The budget includes \$6,832,800 and 128 FTE Positions in FY 2016 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,307,700
Federal Medicaid Authority	4,525,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(31,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(13,200)
Federal Medicaid Authority	(17,900)

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' administration costs of the Proposition 204 program.

Proposition 204 - DES Eligibility

The budget includes \$38,358,700 and 300.1 FTE Positions in FY 2016 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,239,300
Budget Neutrality Compliance Fund (BNCF)	3,482,900
Federal Medicaid Authority	17,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget includes a decrease of \$(98,500) from the General Fund and a corresponding increase of \$98,500 from BNCF in FY 2016 to reflect a statutory-required increase of county contributions in FY 2016 (A.R.S. § 11-2920). (See Table 6 for contributions by county.)

Background – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

This line item contains funding for eligibility costs in DES for the Proposition 204 program.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children's Rehabilitative Services program. Overall formula adjustments are below. A description of program components can be found in the Other Issues section.

Traditional Medicaid Services

The budget includes \$3,729,548,600 in FY 2016 for Traditional Medicaid Services. This amount consists of:

General Fund	890,833,000
County Funds	49,879,700
PDRF - State	78,105,000
TTHCF Medically Needy Account	31,180,000
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,471,472,300
PDRF - Federal	207,883,900

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$(18,721,500) in FY 2016 for formula adjustments and policy changes. This amounts consists of:

General Fund	(17,250,400)
County Funds	(320,200)
PDRF - State	4,348,600
TTHCF Medically Needy Account	(2,998,800)

Federal Medicaid Authority	(11,823,400)
PDRF - Federal	9,322,700

The adjustments include:

- 0.2% enrollment growth.
- An increase in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- (5)% provider rate reduction.
- Ambulance rate decrease from 74.74% to 68.59% of DHS rates.
- \$(320,200) decrease in Maricopa County Acute Care contribution (county funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$4,348,600 increase to the state portion of the PDRF and a corresponding General Fund decrease.
- \$9,322,700 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- \$(2,998,800) decrease from the TTHCF Medically Needy Account due to declining tobacco tax revenues and a corresponding General Fund increase.

Increased Cost Recoveries

Based on historical experience, the budget includes a decrease of \$(4,240,100) for cost recoveries identified by AHCCCS OIG staff in FY 2016. This amount consists of:

General Fund	(1,322,700)
Federal Medicaid Authority	(2,917,400)

In addition to a total of \$(4,945,000) in recovery savings, these amounts incorporate \$219,900 in General Fund and \$485,000 in Federal Medicaid Authority increases to fund 6 additional FTE Positions in the Operating Budget in FY 2016. The FY 2017 Baseline will shift staffing costs to the Operating Budget while retaining reductions of \$(1,542,600) in General Fund money and \$(3,402,400) in Federal Medicaid Authority for cost recoveries in the Traditional Services line.

Background – Traditional Medicaid Services funds the following populations (*see Chart 1*):

- Children less than 1, up to 140% FPL.
- Children aged 1-18, up to 133% FPL.
- Pregnant women, up to 150% FPL.
- Aged, blind, and disabled adults, up to 75% FPL.
- Parents, up to 22% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program up to 250% FPL.
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL ("Ticket to Work").

Proposition 204 Services

The budget includes \$2,417,700,600 in FY 2016 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	215,558,800
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	36,396,000
TPTF Emergency Health Services Account	17,331,400
Federal Medicaid Authority	2,048,414,400

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$28,726,400 in FY 2016 for formula adjustments and policy changes. This amount consists of:

Hospital Assessment Fund	(48,830,500)
TPTF Proposition 204 Protection Account	(1,829,000)
TPTF Emergency Health Services Account	(871,000)
Federal Medicaid Authority	80,256,900

The adjustments include:

- 0.2% enrollment growth.
- A change in the federal match rate for the non-childless adult population from 68.15% to 68.81%. A change in the federal match rate for childless adults from 85.48% to 89.05%.
- 3% capitation rate increase.
- (5)% provider rate reduction.
- \$(1,829,000) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco tax revenues and a \$1,829,000 corresponding Hospital Assessment Fund increase.
- \$(871,000) decrease from the Emergency Health Services Account due to declining tobacco tax revenues and a \$871,000 corresponding Hospital Assessment Fund increase.

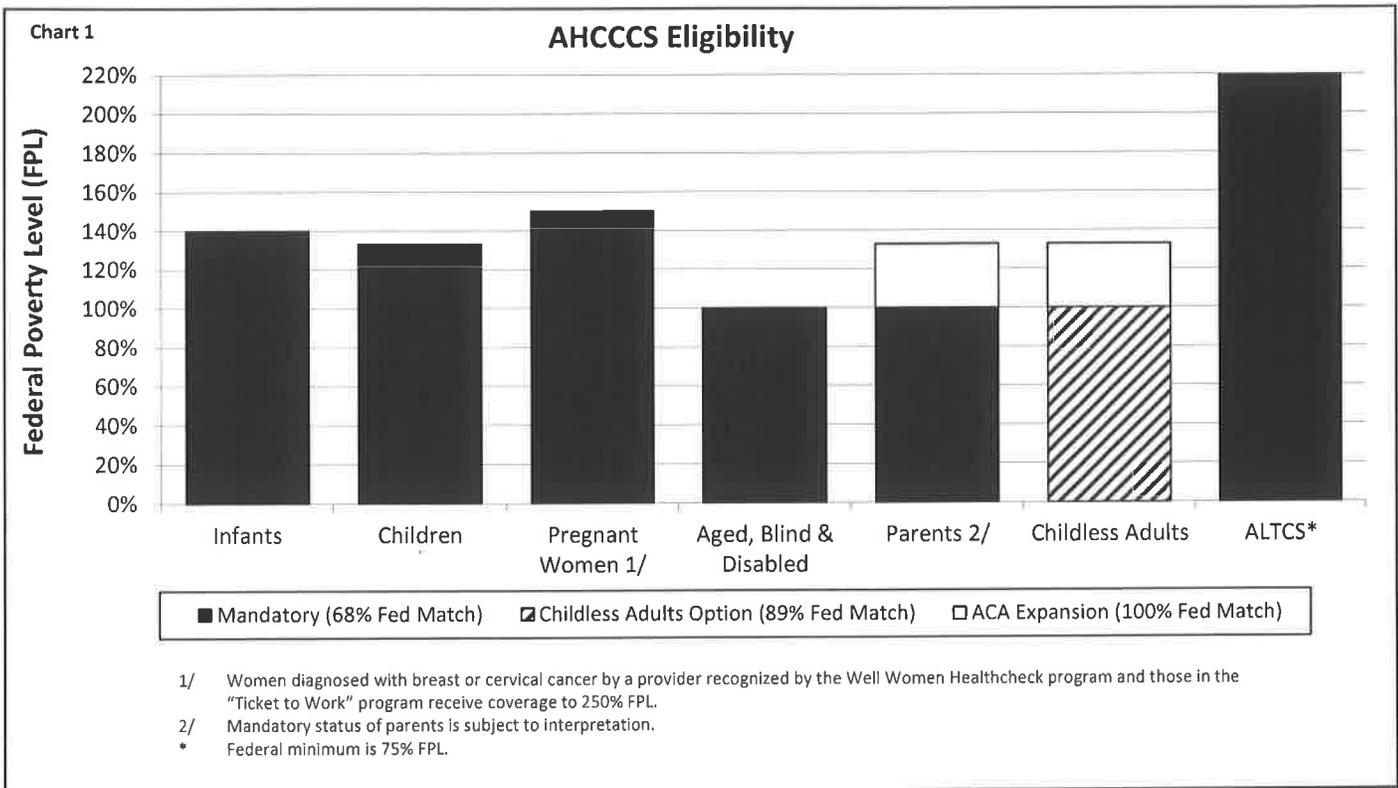
Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (*see Chart 1*).

Adult Expansion

The budget includes \$197,183,800 from Federal Medicaid Authority in FY 2016 for the Adult Expansion. This amount funds the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$33,171,900 from Federal Medicaid Authority for formula adjustments and



policy changes. The adjustments include 0.2% enrollment growth, a 3% capitation rate increase and health insurer fees.

Background – Beginning on January 1, 2014, the Adult Expansion line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. The federal government will pay 100% of the cost of this population in calendar years (CY) 2014 to 2016. The federal share will gradually decline to 90% by CY 2020.

Coverage of this population is discontinued if any of the following occur: 1) the federal matching rate for adults in this category or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations; or 3) the Federal ACA is repealed.

Children's Rehabilitative Services

The budget includes \$234,866,700 in FY 2016 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	73,001,000
Federal Medicaid Authority	161,865,700

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$8,878,200 in FY 2016 for formula adjustments and policy changes. This amount consists of:

General Fund	1,021,400
Federal Medicaid Authority	7,856,800

The adjustments include 3% enrollment growth, an increase to the federal match rate, a 3% capitation rate increase, a (5)% provider rate reduction and health insurer fees. This would result in approximately 28,000 members per month being served in June 2016.

The CRS program offers health care to children with handicapping or potentially handicapping conditions.

KidsCare Services

The budget includes \$6,295,200 in FY 2016 for KidsCare Services. This amount consists of:

General Fund	338,000
CHIP Fund	5,957,200

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes a decrease of \$(421,300) in FY 2016 for formula adjustments and policy changes. This amount consists of:

General Fund	(1,412,700)
CHIP Fund	991,400

The adjustments include a (10)% enrollment decline, an increase to the federal match rate, and a 3% capitation rate increase.

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL, but above the levels required for the regular AHCCCS program.

Beginning on October 1, 2015, KidsCare will receive a 100% federal match rate through September 30, 2019. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program. The KidsCare program has had an enrollment freeze since January 1, 2010. The KidsCare program will receive a 3:1 federal match rate for the first quarter of the state FY 2016 (July 1, 2015 through September 30, 2015) and a 100% federal match rate beginning on October 1, 2015 thereafter, for a weighted blended FY 2016 rate of 94.48%. (See *Mandatory Affordable Care Act Changes section for additional information about this program.*)

ALTC Services

The budget includes \$1,386,588,900 in FY 2016 for ALTC expenditures. This amount consists of:

General Fund	162,880,800
County Contributions	249,234,600
PDRF - State	5,475,800
Federal Medicaid Authority	931,056,600
PDRF - Federal	14,574,200
Nursing Facility Provider Assessment Fund	23,366,900

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$54,217,800 in FY 2016 for formula adjustments and policy changes. This amount consists of:

- 2% enrollment growth.
- An increase in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.

- (5)% provider rate reduction.
- \$313,300 increase to the state portion of the PDRF and corresponding decreases of \$(141,300) in County Contributions and \$(172,000) from the General Fund.
- \$676,100 increase to the federal portion of the PDRF and a corresponding decrease of \$(676,100) in Federal Medicaid Authority.
- \$1,709,600 increase to the Nursing Facility Provider Assessment Fund and an increase of \$5,198,600 in Federal Medicaid Authority for supplemental payments to nursing facilities. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. (See below.)

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,100 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,827 per person. In addition to state funding, AHCCCS charges assessments on nursing facilities to receive matching Federal Funds that are used to make supplemental payments to facilities for covered expenditures.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2014, AHCCCS estimates that client contributions paid for 6.5% of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. The assessment equals \$10.50 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and \$1.40 per day of care for facilities with more than 43,500 Medicaid bed days.

Payments to Hospitals

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding is adjusted annually for changes in prices and the federal match rate. The FY 2016 budget includes \$161,962,900 of eligible DSH funding, of

Table 5

Disproportionate Share Hospital Program

	FY 2015		FY 2016	
	January Baseline ^{1/}	March Budget	January Baseline ^{1/}	March Budget
Eligible Funding^{2/}				
MIHS - CPE	\$ 89,877,700	\$ 105,945,500	\$ 89,877,700	\$ 113,818,500
ASH - CPE	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	9,284,800	9,284,800	9,284,800	884,800
DSH Voluntary Match ^{3/}	<u>32,455,700</u>	<u>16,387,900</u>	<u>34,359,700</u>	<u>18,784,700</u>
Total Funding	\$ 160,093,100	\$ 160,093,100	\$161,997,100	\$161,962,900
Net Distribution - Disproportionate Share Payments				
<u>General Fund</u>				
Retain FF of CPE (via MIHS)	\$ 57,328,000	\$ 68,328,000	\$ 57,741,400	\$ 74,241,400
Retain FF of CPE (via ASH)	<u>19,493,900</u>	<u>19,493,900</u>	<u>19,624,900</u>	<u>19,624,900</u>
Subtotal - General Fund	\$ 76,821,900	\$ 87,821,900	\$ 77,366,300	\$ 93,866,300
<u>Other Entities</u>				
State MIHS	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300
Private Hospitals with GF Match	<u>9,284,800</u>	<u>9,284,800</u>	<u>9,284,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 13,487,100	\$ 13,487,100	\$ 13,487,100	\$ 5,087,100
Total DSH Distributions	\$ 90,309,000	\$ 101,309,000	\$ 90,853,400	\$ 98,953,400
Net Distribution - DSH Voluntary Match				
Match	\$ 32,455,700	\$ 16,387,900	\$ 34,359,700	\$ 18,784,700
Total Distributions	\$ 122,764,700	\$ 117,696,900	\$ 125,213,100	\$ 117,738,100

^{1/} Also represents the original FY 2015 General Appropriation Act (Laws 2014, Chapter 18) and FY 2015 Health and Welfare BRB (Laws 2014, Chapter 11) from April 2014. January Baseline refers to JLBC Staff estimates of funding formula requirements released in January 2015.

^{2/} Amounts include state and federal match funding.

^{3/} A FY 2016 General Appropriation Act (Laws 2015, Chapter 8) footnote appropriates any additional payments in excess of \$18,784,700 for DSH Voluntary Payments. The JLBC Staff estimates that actual total payments will equal \$18,818,900 in FY 2016 as a result of a technical adjustment.

which \$117,738,100 is distributed according to the allocations described below and listed in Table 5. The remaining \$44,224,800 of eligible funding represents existing expenditures used as part of the state match.

Retain Federal Match of Certified Public Expenditures

Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs serve as the state match for the drawdown of Federal Funds. The publically operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH). Of the Federal Funds drawn down through CPEs, the FY 2016 budget retains \$93,866,300 as General Fund revenue rather than distributing the funds to MIHS and ASH. Of the \$93,866,300, \$74,241,400 is associated with MIHS and \$19,624,900 with ASH. Since these monies are retained as General Fund revenue, they do not appear in the FY 2016 General Appropriation Act.

State MIHS Distribution

While the state retains \$74,241,400 of the MIHS federal match as General Fund revenue, another \$4,202,300 of the federal draw down is distributed to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share

Payments line. (The state match is part of the CPE and does not appear in the FY 2016 General Appropriation Act.)

Private Hospital Distribution with General Fund Match

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The FY 2016 budget includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including \$275,000 from the General Fund and \$609,800 in federal expenditure authority.

DSH Voluntary Match Distribution

Since FY 2010, the state has allowed local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. The FY 2015 Health and Welfare BRB made this provision permanent. The FY 2016 budget includes an \$18,784,700 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$5,793,500 of local voluntary payments and \$12,991,200 in federal expenditure authority.

DSH Payment Adjustments

The FY 2016 budget includes 3 primary adjustments to DSH Payments, which are detailed below and incorporated into the amounts listed for the March Budget in *Table 5*.

Increase MIHS Eligible Funding and State Retention

In the original FY 2015 General Appropriation Act, MIHS eligible funding had been limited to \$89,877,700. Sections 6 and 28 of the FY 2016 Health BRB increased the eligible funding for MIHS by \$16,067,800 in FY 2015 (from \$89,877,700 to \$105,945,500). This higher MIHS cap allows the state to retain more of the federal match as General Fund revenue. Of the eligible funding, the state will retain \$68,328,000 in Federal Funds in FY 2015 for deposit to the General Fund. The budget continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,493,900 in FY 2015.

Section 10 of the FY 2016 Health BRB further increases the eligible funding for MIHS by \$7,873,000, to \$113,818,500 in FY 2016. Of the eligible funding, the state will retain \$74,241,400 in Federal Funds in FY 2016 for deposit to the General Fund. The budget continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,624,900 in FY 2015.

Relative to the original FY 2015 appropriation, the \$16,067,800 increase in the MIHS cap will allow the state to retain an additional \$11,000,000 in federal match as FY 2015 General Fund revenue. Relative to the FY 2016 JLBC Baseline, the MIHS cap is increasing from \$89,877,700 to \$113,818,500. Of this \$23,940,800 increase, the state will retain an additional \$16,500,000 in federal match as FY 2016 General Fund revenue. The remaining \$7,440,800 reflects CPE match.

Increasing the eligible funding to MIHS reduces funding remaining for voluntary DSH payments and results in a \$(16,067,800) ex-appropriation to the DSH Payments - Voluntary Match line in FY 2015 (from \$32,455,700 to \$16,387,900). Relative to the original FY 2015 General Appropriation Act, increasing MIHS' federal match by \$11,000,000 while reducing voluntary DSH payments by \$(16,067,800) reduces total distributions in FY 2015 by \$(5,067,800), from \$122,764,700 to \$117,696,900.

Relative to the FY 2016 JLBC Baseline, increasing eligible funding for MIHS from \$89,877,700 to \$113,818,500 reduces eligible funding for voluntary match DSH payments by a corresponding \$(23,940,800) in FY 2016. Some of this reduction, however, is offset by other adjustments. Relative to the Baseline, the net reduction in total distributions in FY 2016 is \$(7,475,000), from \$125,213,100 to \$117,738,100.

Lower General Fund Match for Private Hospitals

Section 10 of the FY 2016 Health BRB reduces total payments to private Disproportionate Share Hospitals by \$(8,400,000), from \$9,284,800 in FY 2015 to \$884,800 in FY 2016. The General Fund share of this savings is \$(2,610,700) in FY 2016. The FY 2016 budget assumes that each qualifying private hospital will be able to receive a minimum General Fund payment of \$5,000 and federal match payment of \$11,087 in FY 2016. The federal government requires that each private hospital participating in DSH receive payments totaling at least \$5,000 from state and federal sources. While eligibility changes annually, there are currently 47 qualifying hospitals.

This General Fund match reduction has the effect of increasing the remaining funding available for voluntary match payments by a corresponding \$8,400,000 under the DSH Payments - Voluntary Match line item in FY 2016. Combined with the \$(23,940,800) decrease above, eligible funding for DSH Voluntary Match payments has a net decrease of \$(15,575,000) relative to the FY 2016 JLBC Baseline (from \$34,359,700 to \$18,784,700).

Increase in Uncompensated Care Payments

The federal government annually adjusts the total amount of uncompensated care payments that Arizona hospitals are permitted to receive through DSH. The budget includes an increase of \$1,869,800 in FY 2016 for this adjustment to increase total eligible funding for DSH payments from \$160,093,100 in FY 2015 to \$161,962,900 in FY 2016. The \$1,869,800 will be available for the voluntary payments program.

A FY 2016 General Appropriation Act footnote appropriates any additional eligible funding for DSH Voluntary Match in FY 2016. As a result of a technical adjustment, the JLBC Staff estimates that actual total eligible funding for DSH will equal \$161,997,100 in FY 2016, or \$34,200 greater than the actual appropriation.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2016 for DSH Payments. This amount consists of:

General Fund	275,000
Federal Medicaid Authority	4,812,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(42,700) from the General Fund and a corresponding increase of \$42,700 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Lower General Fund Match Payments to Hospitals

The budget includes a decrease of \$(8,400,000) in FY 2016 to reduce DSH payments from the General Fund and matching Federal funds to qualifying private hospitals (see *Disproportionate Share Payments Overview section and Table 5 for more information*). This amount consists of:

General Fund	(2,610,700)
Federal Medicaid Authority	(5,789,300)

Of the \$5,087,100 of total funds appropriated by the FY 2016 budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$275,000 from the General Fund and \$609,800 in federal expenditure authority. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes \$18,784,700 in FY 2016 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	5,793,500
Federal Medicaid Authority	12,991,200

These amounts fund the following adjustments:

Allocation Shift for Retained MIHS Funding

The budget includes a decrease of \$(7,873,000) in FY 2016 due to MIHS retaining more DSH funding. This amount consists of:

Political Subdivision Funds	(2,373,000)
Federal Medicaid Authority	(5,500,000)

Relative to the revised FY 2015 appropriation, the FY 2016 Health BRB increases the eligible DSH funding for MIHS by \$7,873,000 in FY 2016 (from \$105,945,500 to \$113,818,500). This adjustment decreases remaining eligible DSH funding for hospitals under the DSH Payments – Voluntary Match line by \$(7,873,000) in FY 2016. The FY 2016 budget continues the \$(16,067,800) funding decrease to this program in FY 2015. (See *Disproportionate Share Hospital Overview and Table 5 for more information*.)

Allocation Shift for Reducing General Fund Payments

The budget includes an increase of \$8,400,000 in FY 2016 due to a decrease in DSH payments made to private hospitals using a General Fund state match (see *Disproportionate Share Payments Overview section and Table 5 for more information*). This amount consists of:

Political Subdivision Funds	2,610,700
Federal Medicaid Authority	5,789,300

Increase in Total Uncompensated Care Payments

The budget includes an increase of \$1,869,800 in FY 2016 from a federal increase in the total amount of uncompensated care payments Arizona hospitals are permitted to receive. This amount consists of:

Political Subdivision Funds	260,000
Federal Medicaid Authority	1,609,800

Although the *FY 2016 Appropriations Report* displays an appropriation of \$18,784,700 for FY 2016, a FY 2016 General Appropriation Act footnote appropriates any additional payments in excess of that amount. The JLBC Staff estimates that actual total payments will equal \$18,818,900 in FY 2016. This higher amount would increase the total eligible DSH funding listed in *Table 5* to \$161,997,100 in FY 2016.

Sections 6 and 10 of the FY 2016 Health BRB require AHCCCS to give priority to eligible rural hospitals when allocating voluntary match DSH payments in FY 2015 and FY 2016. These sections of the Health BRB also permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if the public hospital's CPE and matching Federal Funds exceeds \$105,945,500 in FY 2015 and \$113,818,500 in FY 2016.

Rural Hospitals

The budget includes \$22,650,000 in FY 2016 for Rural Hospitals (which includes Critical Access Hospitals (CAH)). This amount consists of:

General Fund	7,039,600
Federal Medicaid Authority	15,610,400

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(131,300) from the General Fund and a corresponding increase of \$131,300 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Subject to federal approval, section 4 of the FY 2016 Health BRB permits political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding for CAHs. Section 18 of the Health BRB requires AHCCCS to report any voluntary payments paid to CAHs in FY 2016. The budget does not include a specific appropriation for voluntary payments.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals.

The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2014, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from CAH.

Graduate Medical Education

The budget includes \$157,312,000 in FY 2016 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	50,099,900
Federal Medicaid Authority	107,212,100

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(32,847,200) in FY 2016 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(13,200,900)
Federal Medicaid Authority	(19,646,300)

Although the FY 2015 General Appropriation Act displays a \$165,918,500 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$190,159,100 in total GME payments in FY 2015. The FY 2015 amounts have been adjusted accordingly. The FY 2016 decrease is associated with a revised GME spending plan to reflect a payment reduction to 1 hospital.

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In FY 2014, 10 hospitals received a total of \$159,376,500 for Graduate Medical Education.

Safety Net Care Pool

The budget includes \$137,000,000 in FY 2016 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	43,052,200
Federal Medicaid Authority	93,947,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(1,421,400) from the Political Subdivision Funds and a corresponding increase of \$1,421,400 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Although the FY 2015 General Appropriation Act displays a \$68,500,000 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$137,000,000 in total SNCP payments in FY 2015 and FY 2016 considering that the federal government has approved the continuation of the program for Phoenix Children's Hospital (PCH) through December 31, 2015. FY 2015 and FY 2016 SNCP payments have been delayed due to an unanticipated review and processing payments within CMS. Because of these delays, the first 6 months of calendar year 2015 will not be paid until FY 2016. The FY 2015 amounts have been adjusted accordingly.

Background – The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government.

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed PCH to continue to participate in the SNCP program through December 31, 2017. The federal government has approved the hospital to continue participating in the program through December 31, 2015.

Additional Legislation

FY 2016 Health BRB

In addition to the previously mentioned items, the FY 2016 Health BRB includes the following provisions:

Changes to Rates and Services

Section 15 continues to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is unnecessary or insufficient, then it is retained

as profit (or loss) and there is not limit. Previously, risk contingency was set at 2%.

Counties

Section 14 continues to exclude Proposition 204 administration costs from county expenditure limitations.

Erroneous Payments

Section 20 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Subject to legislative appropriation, credits may be used to pay for the AHCCCS program in the year they are received.

Available Funding

Section 25 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Reports

Section 22 continues to require AHCCCS to submit a report by December 1, 2015 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

Section 23 continues to require AHCCCS and DHS to submit a joint report by January 1, 2016 on hospital costs and charges.

Other Legislation

Seriously Mentally Ill Housing Trust Fund

Laws 2015, Chapter 195 transfers the administration of the non-appropriated Seriously Mentally Ill Housing Trust Fund from DHS to AHCCCS in FY 2017 (*please see Additional Legislation in the DHS section for more information on this fund*).

Orthotics

Laws 2015, Chapter 264 requires AHCCCS to provide orthotics, which are devices to support or supplement weakened or abnormal joints or limbs, if all the following conditions apply:

- The orthotic is medically necessary as the preferred treatment option;
- The orthotic is less expensive than all other alternatives; and
- The orthotic is ordered by a physician or primary care practitioner.

AHCCCS; Contractors; Prescription Monitoring

Laws 2015, Chapter 30 requires an AHCCCS contractor to intervene if a member has 10 or more prescriptions for controlled substances within a 3-month period. Contractors must also monitor prescriptions for controlled substances that are filled by members and intervene with both the

prescriber and the member when excessive amounts of these substances are used. The contractor must direct these cases to the AHCCCS Director for review.

AHCCCS; Emergency Services; Case Management

Laws 2015, Chapter 31 requires an AHCCCS contractor to educate a member regarding the proper use of emergency services if the member inappropriately uses emergency services at least 4 times in a 6-month period. The contractor should also report these interventions to AHCCCS.

AHCCCS; Annual Waiver Submittals

Laws 2015, Chapter 7 directs AHCCCS to apply for federal permission to:

- Institute a work requirement for all able-bodied adults receiving Medicaid services and monthly reporting on a member's family income to re-determine eligibility;
- Restrict benefits for able-bodied adults to a lifetime limit of 5 years with certain exceptions; and
- Develop cost-sharing requirements that deter nonemergency usage of ambulance services and emergency departments.

Other Issues

This section includes information on the following topics:

- FY 2015 Adjustments
- Long-Term Budget Impacts
- Hospital Assessment Fund
- Behavioral Health Transfer
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2015 Adjustments

General Fund

The budget includes an ex-appropriation of \$(48,520,500) from the General Fund in FY 2015, which is primarily the result of lower than expected enrollment growth in the Traditional population. The original FY 2015 budget assumed that publicity surrounding the federal health care individual mandate and additional availability of health insurance would induce currently eligible but not enrolled membership greater than previously budgeted.

The budget permits AHCCCS to transfer up to \$10,000,000 of FY 2015 General Fund appropriation to DHS if AHCCCS has sufficient available funding and DHS experiences a shortfall in

FY 2015. Prior to implementation, AHCCCS shall submit the proposed transfer for review by the Joint Legislative Budget Committee.

Expenditure Authority

The budget includes a \$268,809,500 supplemental of Expenditure Authority funding in FY 2015. Of this amount, \$59,791,600 is from the Hospital Assessment Fund, \$214,085,700 is from Federal Medicaid Authority and \$(5,067,800) is from the Political Subdivision Fund. (See *Hospital Assessment Fund* section below for more information.)

Long-Term Budget Impacts

The budget's 3-year spending plan assumes that AHCCCS' statutory caseload and policy changes will require a net additional \$33.9 million in FY 2017 above FY 2016 and a net additional \$46.0 million in FY 2018 above FY 2017.

These estimates are based on:

- Enrollment growth of 2.0% and 0.1% in FY 2017 and FY 2018, respectively.
- Capped capitation rate growth of 1.5% in each year.
- An increase in the federal match rate (from 68.81% in FY 2016 to 69.92% in FY 2017 and FY 2018).
- \$(8.5) million in annualization savings in FY 2017 from the October 1, 2015 (5)% provider rate reduction.
- Savings of \$(300,000) in FY 2017 from federal approval of cost-sharing provisions.
- \$(172,700) in annualization savings in FY 2017 from statewide adjustments that begin in FY 2016.

Hospital Assessment Fund

The budget includes a supplemental \$59,791,600 increase to the Hospital Assessment Fund in FY 2015. The amount is the result of greater than expected enrollment of the Proposition 204 childless adult population following the restoration of coverage beginning on January 1, 2014. The original FY 2015 budget estimated that by June 2015 approximately 240,600 childless adults would be enrolled in the program. The revised budget estimates that enrollment of the population will instead reach 285,700 by June 2015.

The FY 2016 hospital assessment is projected to be \$215.6 million and would cover the cost of all Proposition 204 services in FY 2016. This \$(48.8) million decrease from the FY 2015 appropriation is primarily the result of a higher federal match rate for Proposition 204 childless adults (from 85.48% in FY 2015 to 89.05% in FY 2016) and a (5)%

provider rate reduction to be implemented on October 1, 2015.

Behavioral Health Transfer

The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) and Laws 2015, Chapter 195 transfer responsibility for behavioral health services from DHS to AHCCCS effective July 1, 2016. ASH will remain under the jurisdiction of DHS. Chapter 195 requires AHCCCS and DHS to jointly submit a report by November 15, 2015 to JLBC for review that details the transfer of resources between the 2 departments. The Chapter 19 legislation is an outgrowth of prior integration efforts between AHCCCS and DHS (see the *DHS* section for more information).

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*. FY 2016 payments listed in the table are specified in sections 7, 12 and 13 of the FY 2016 Health BRB.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2014 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2016, this provision provides 3 counties with a total of \$5,932,100 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2016, this provision provides 3 counties with a total of \$15,262,800 in relief.
5. If any county could still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2016 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$39.46 in FY 2016). In FY 2016 this provision provides 8 counties with a total of \$10,451,700 in relief.

In FY 2016, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,646,600 in relief to 11 counties.

Section 11 of the FY 2016 Health BRB continues to require AHCCCS to transfer any excess monies back to the counties on December 31, 2016 if the counties' portion of the state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, KidsCare, CRS, and ALTCS services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2016, the average capitation rate is expected to be approximately \$343 per member per month (or \$4,116 annually). Of that amount, an average of \$86 is from state match and \$257 from Federal Medicaid Authority.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling

in a capitated plan; and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

Prior to April 1, 2015, Federally Qualified Health Centers received the majority of their reimbursement on a Fee-For-Service basis. After this date, costs for these centers will be actuarially estimated within capitation payments made to HMO's.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The budget requires AHCCCS to continue to transfer \$1,636,000 from the Traditional Medicaid Services line item in FY 2016 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

County	FY 2015				FY 2016			
	BNCF	Acute	DUC	ALTCS	BNCF	Acute	DUC	ALTCS
Apache	\$ 111,500	\$ 268,800	\$ 87,300	\$ 616,900	\$ 114,800	\$ 268,800	\$ 87,300	\$ 618,900
Cochise	208,100	2,214,800	162,700	5,138,300	214,100	2,214,800	162,700	5,165,500
Coconino	205,300	742,900	160,500	1,851,400	211,200	742,900	160,500	1,858,500
Gila	84,300	1,413,200	65,900	2,107,400	86,700	1,413,200	65,900	2,117,900
Graham	59,900	536,200	46,800	1,442,600	61,700	536,200	46,800	1,336,700
Greenlee	15,400	190,700	12,000	76,200	15,800	190,700	12,000	79,700
La Paz	31,900	212,100	24,900	712,200	32,800	212,100	24,900	696,300
Maricopa	0	19,523,400	0	150,220,100	0	19,203,200	0	153,303,200
Mohave	239,600	1,237,700	187,400	7,972,700	246,600	1,237,700	187,400	8,033,700
Navajo	157,000	310,800	122,800	2,552,500	161,600	310,800	122,800	2,562,200
Pima	1,427,200	14,951,800	1,115,900	38,919,400	1,468,800	14,951,800	1,115,900	39,303,600
Pinal	279,200	2,715,600	218,300	15,294,300	287,400	2,715,600	218,300	15,539,700
Santa Cruz	66,000	482,800	51,600	1,914,800	67,900	482,800	51,600	1,942,200
Yavapai	263,800	1,427,800	206,200	8,314,700	271,500	1,427,800	206,200	8,416,600
Yuma	235,200	1,325,100	183,900	8,062,700	242,000	1,325,100	183,900	8,259,900
Subtotal	\$3,384,400	\$47,553,700	\$2,646,200	\$245,196,200	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600
Total				\$298,780,500				\$302,597,200

- \$1,200,000 to the Attorney General for costs associated with tobacco settlement litigation.
- \$436,000 to the Department of Revenue to fund 6 positions that will perform luxury tax enforcement and audit duties.

This adjustment does not include the \$819,500 appropriation (\$84,900 General Fund and \$734,600 Consumer Protection-Consumer Fraud Revolving Fund) to the Attorney General for costs associated with tobacco settlement litigation. *(See the Attorney General - Department of Law section for more information.)*

Background – In 1998, the major tobacco companies and 46 states reached a settlement in which the signatory tobacco companies would make an annual payment to compensate the states for Medicaid costs associated with tobacco use. Currently, Arizona receives an annual payment of states promised to diligently enforce the provisions and collection of tobacco tax laws within their respective states. In CY 2013, an arbitration panel approved an amended settlement between participating manufacturers and 19 states, including Arizona, to resolve issues relating to the tobacco tax enforcement.

CY 2015 is the first year tobacco tax collections will come under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the budget will allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter will automate the current manual data entry process, allow delinquent returns and account information to be tracked, and log data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. *(See the Department of Revenue section in this report for more information.)*

Tobacco Tax Allocations

Table 7 is a summary of the tobacco tax allocations.

Table 7

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,754,200	\$ 5,214,800	\$ 5,214,800
Transfer In - Tobacco Tax and Health Care Fund	43,375,300	45,072,600	43,588,200
Transfer In - Tobacco Products Tax Fund	25,095,700	24,573,200	23,613,900
Interest & Refunds	2,100	0	0
Total Funds Available	\$ 73,227,300	\$ 74,860,600	\$ 72,416,900
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 32,864,700	\$ 34,178,800	\$ 31,180,000
Administrative Adjustments	0	0	0
Total AHCCCS Allocations	\$ 32,864,700	\$ 34,178,800	\$ 31,180,000
<i>DHS</i>			
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000	\$ 34,767,000
Folic Acid	379,800	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	1,000	300,000	300,000
Total DHS Allocations	<u>35,147,800</u>	<u>35,467,000</u>	<u>35,467,000</u>
Balance Forward	\$ 5,214,800	\$ 5,214,800	\$ 5,769,900
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,200	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>41,946,100</u>	<u>38,225,000</u>	<u>36,396,000</u>
Total Funds Available	\$ 41,952,300	\$ 38,225,000	\$ 36,396,000
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 38,965,700	38,225,000	36,396,000
Administrative Adjustments	<u>2,986,600</u>	<u>0</u>	<u>0</u>
Balance Forward	\$ 0	\$ 0	\$ 0
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,900	\$ 2,900	\$ 2,900
Transfer In - Tobacco Products Tax Fund	<u>18,862,300</u>	<u>18,202,400</u>	<u>17,331,400</u>
Total Funds Available	\$ 18,865,200	\$ 18,205,300	\$ 17,334,300
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,535,500	\$ 18,202,400	\$ 17,331,400
Administrative Adjustments	<u>326,800</u>	<u>0</u>	<u>0</u>
Balance Forward ^{1/}	\$ 2,900	\$ 2,900	\$ 2,900
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 8,223,600	\$ 9,772,600	\$ 6,593,400
Transfer In - Tobacco Tax and Health Care Fund	16,268,700	14,479,800	14,210,600
Transfer In - Tobacco Products Tax Fund	<u>1,859,200</u>	<u>1,766,000</u>	<u>1,733,100</u>
Total Funds Available	\$ 26,351,500	\$ 26,018,400	\$ 22,537,100
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,458,500	\$ 17,250,000	\$ 17,250,000
Leading Causes of Death - Prevention and Detection	<u>2,120,400</u>	<u>2,175,000</u>	<u>2,175,000</u>
Balance Forward	\$ 9,772,600	\$ 6,593,400	\$ 3,112,100
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,352,800	\$ 2,570,600	\$ 2,180,300
Transfer In - Tobacco Tax and Health Care Fund	3,289,700	3,147,800	3,089,300
Transfer In - Tobacco Products Tax Fund	<u>4,648,000</u>	<u>4,414,900</u>	<u>4,332,900</u>
Total Funds Available	\$ 10,290,500	\$ 10,133,300	\$ 9,602,500
<u>Allocations</u>			
Biomedical Research Support ^{2/}	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research	1,000,000	1,000,000	1,000,000
Biomedical Research Commission	<u>4,719,900</u>	<u>4,953,000</u>	<u>4,953,000</u>
Balance Forward	\$ 2,570,600	\$ 2,180,300	\$ 1,649,500

^{1/} Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.

^{2/} Laws 2014, Chapter 18 appropriates \$2,000,000 from the Health Research Account to DHS annually from FY 2015 to FY 2019 to distribute to a nonprofit medical research institute headquartered in Arizona. DHS distributes this to the Translational Genomics Research Institute (TGen).

State Board of Appraisal

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	0.0
Personal Services	340,500	427,500	0
Employee Related Expenditures	141,700	170,900	0
Professional and Outside Services	152,300	113,100	0
Travel - In State	4,400	1,800	0
Travel - Out of State	12,100	15,000	0
Other Operating Expenditures	126,100	133,500	0
AGENCY TOTAL	777,100	861,800	0

FUND SOURCES

Other Appropriated Funds

Board of Appraisal Fund	777,100	861,800	0
SUBTOTAL - Other Appropriated Funds	777,100	861,800	0
SUBTOTAL - Appropriated Funds	777,100	861,800	0
TOTAL - ALL SOURCES	777,100	861,800	0

AGENCY DESCRIPTION — Beginning in FY 2016, the State Board of Appraisal will be merged into the Department of Financial Institutions. The department will license, certify, and regulate real estate appraisers. It will also register property tax agents and perform any other duties of the State Board of Appraisal.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) merges the State Board of Appraisal into the Department of Financial Institutions, effective July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the State Board of Appraisal, Chapter 19 states that all appropriated monies of the State Board of Appraisal are transferred to the Department of Financial Institutions. Chapter 19, however, does not specify the format of the appropriation. As a result, the *FY 2016 Appropriations Report* reflects the funding for the State Board of Appraisal in the Department of Financial Institutions, displayed as its own line item.

Operating Budget

The budget includes no funding from the Board of Appraisal Fund in FY 2016 for the operating budget. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(40,000) from the Board of Appraisal Fund in FY 2016 to eliminate one-time funding for completion of a software upgrade.

Statewide Adjustments

The budget includes a decrease of \$(400) from the Board of Appraisal Fund in FY 2016 for statewide adjustments. (Please see the *Agency Detail and Allocations* section.)

Merge the State Board of Appraisal into the Department of Financial Institutions

The budget includes a decrease of \$(821,400) and (9) FTE Positions from the Board of Appraisal Fund in FY 2016 to merge the State Board of Appraisal into the Department of Financial Institutions.

The FY 2016 Agency Consolidation BRB eliminates the State Board of Appraisal and gives the authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions, effective July 3, 2015. All personnel under the state personnel system who are employed by the board are transferred to comparable positions and pay classifications in the Department of Financial Institutions on the effective date.

Arizona Commission on the Arts

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	1,000,000	1,000,000	0
AGENCY TOTAL	1,000,000	1,000,000	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	1,000,000	1,000,000	0
SUBTOTAL - Other Appropriated Funds	1,000,000	1,000,000	0
SUBTOTAL - Appropriated Funds	1,000,000	1,000,000	0
Other Non-Appropriated Funds	3,225,400	2,752,400 ^{1/}	2,752,400
Federal Funds	778,600	791,300	791,300
TOTAL - ALL SOURCES	5,004,000	4,543,700	3,543,700

AGENCY DESCRIPTION — The agency promotes arts in the state by offering matching grants to communities and arts organizations, developing programs in-house to showcase artists in all disciplines, and serving as a resource for local artists.

Arts Trust Fund Deposit

The budget includes no funding from the Budget Stabilization Fund in FY 2016 for deposit into the non-appropriated Arts Trust Fund. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the Budget Stabilization Fund in FY 2016 to eliminate one-time funding for deposit to the Arts Trust Fund.

Monies in the Arts Trust Fund are used to award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are statutorily used to provide grants to organizations representing handicapped persons or racial or ethnic minorities and organizations representing rural areas.

^{1/} Monies appropriated from the Budget Stabilization Fund for deposit into the Arts Trust Fund pursuant to Laws 2014, Chapter 9 are not displayed to avoid double counting of appropriations.

Board of Athletic Training

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	61,300	61,300	61,300
Employee Related Expenditures	37,400	37,400	37,400
Travel - In State	1,300	1,300	1,300
Other Operating Expenditures	18,200	18,200	18,900
AGENCY TOTAL	118,200	118,200	118,900^{1/}

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	118,200	118,200	118,900
SUBTOTAL - Other Appropriated Funds	118,200	118,200	118,900
SUBTOTAL - Appropriated Funds	118,200	118,200	118,900
TOTAL - ALL SOURCES	118,200	118,200	118,900

AGENCY DESCRIPTION — The board examines and licenses athletic trainers, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The budget includes \$118,900 and 1.5 FTE Positions from the Athletic Training Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$700 from the Athletic Training Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Attorney General - Department of Law

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	547.9	570.9	565.9 ^{3/}
Personal Services	28,676,800	32,149,100	30,794,500
Employee Related Expenditures	10,668,900	12,440,000	11,665,800
Professional and Outside Services	434,800	439,300	439,300
Travel - In State	97,900	145,800	145,800
Travel - Out of State	80,900	227,200	182,900
Other Operating Expenditures	5,631,400	5,761,100	5,823,000
Equipment	704,900	388,700	350,600
OPERATING SUBTOTAL	46,295,600	51,551,200	49,401,900
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	488,100	800,100	799,400
Child Safety and Family Services	0	1,000,000	0
Federalism Unit	0	0	1,000,000
Military Airport Planning	85,800	90,000	90,000 ^{2/}
National Mortgage Settlement Distribution	7,610,600	0	0
Risk Management ISA	8,805,900	9,443,000	9,426,900
Southern Arizona Drug Enforcement Unit	0	0	1,200,000
State Grand Jury	177,300	181,100	180,600
Tobacco Enforcement	0	0	819,500
Victims' Rights	3,971,700	3,758,600	3,759,400
AGENCY TOTAL	67,435,000	66,824,000	66,677,700 ^{3/}
FUND SOURCES			
General Fund	22,296,300	23,465,100	23,623,700
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	25,900	244,300	244,800
Attorney General Legal Services Cost Allocation Fund	2,086,800	2,087,600	2,086,800
Collection Enforcement Revolving Fund	5,379,700	6,888,200	6,869,700
Consumer Protection - Consumer Fraud Revolving Fund	3,981,100	5,306,800	5,094,000
Court-Ordered Trust Fund	7,610,600	0	0
Interagency Service Agreements Fund	12,788,900	14,830,300	14,773,000 ^{4/}
Risk Management Revolving Fund	8,805,900	9,443,000	9,426,900
State Aid to Indigent Defense Fund	488,100	800,100	799,400
Victims' Rights Fund	3,971,700	3,758,600	3,759,400
SUBTOTAL - Other Appropriated Funds	45,138,700	43,358,900	43,054,000
SUBTOTAL - Appropriated Funds	67,435,000	66,824,000	66,677,700
Other Non-Appropriated Funds	37,932,100	42,996,800	42,996,800
Federal Funds	4,935,800	5,564,400	7,252,000
TOTAL - ALL SOURCES	110,302,900	115,385,200	116,926,500

^{1/} Includes 15.6 GF and 112 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} A.R.S. § 26-263 annually appropriates \$85,000 from the General Fund for Military Airport Planning. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act. A total of \$5,000 for statewide allocations in this line item is appropriated in the General Appropriation Act.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{4/} In addition to the \$14,773,000 appropriated from the Interagency Service Agreements Fund in FY 2016, an additional \$800,000 and 11 FTE Positions are appropriated from the Interagency Service Agreements Fund in FY 2016 for new or expanded interagency service agreements. The Attorney General shall report to the Joint Legislative Budget Committee whenever an interagency service agreement is established that will require expenditures from the additional amount. The report shall include the name of the agency or entity with which the agreement is made, the dollar amount of the contract by fiscal year and the number of associated FTE Positions. (General Appropriation Act footnote, as adjusted for statewide allocations)

AGENCY DESCRIPTION — The Attorney General is an elected constitutional officer. The office provides legal counsel to state agencies, represents the state in juvenile dependency matters, enforces civil rights, environmental, consumer protection and anti-trust laws, and investigates and prosecutes criminal cases, handles criminal appeals, and assists county attorneys.

Operating Budget

The budget includes \$49,401,900 and 438.3 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$22,068,200
Antitrust Enforcement Revolving Fund	244,800
Attorney General Legal Services Cost Allocation Fund	2,086,800
Collection Enforcement Revolving Fund (CERF)	6,869,700
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	3,359,400
Interagency Service Agreements (ISA) Fund	14,773,000

These amounts fund the following adjustments:

Capital Postconviction Prosecution Shift

The budget includes a decrease of (6) FTE Positions from the General Fund in FY 2016 to align FTE authority with the Capital Postconviction Prosecution line item. A corresponding increase of 6 FTE Positions can be found in the Capital Postconviction Prosecution line item. *(Please see Capital Postconviction Prosecution for more information.)*

Southern Arizona Drug Enforcement Unit Shift

The budget includes a decrease of \$(1,200,000) and (13) FTE Positions from the CPCF Revolving Fund in FY 2016 to shift costs associated with the Southern Arizona Drug Enforcement Unit from the Attorney General's operating budget to a new line item and fund source.

A corresponding General Fund increase of \$1,200,000 and 13 FTE Positions can be found in the Southern Arizona Drug Enforcement line item. *(Please see Southern Arizona Drug Enforcement below for more information.)*

Tobacco Enforcement Shift

The budget includes a decrease of \$(819,500) in FY 2016 to shift costs associated with tobacco settlement litigation from the Attorney General's operating budget to a new line item. This amount consists of:

General Fund	(84,900)
CPCF Revolving Fund	(734,600)

A corresponding increase of \$819,500 can be found in the Tobacco Enforcement line item. *(Please see Tobacco Enforcement below for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(129,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(40,900)
Antitrust Enforcement Revolving Fund	500
Attorney General Legal Services Cost Allocation Fund	(800)
CERF	(18,500)
CPCF Revolving Fund	(12,800)
ISA Fund	(57,300)

(Please see the Agency Detail and Allocations section.)

Capital Postconviction Prosecution

The budget includes \$799,400 and 6 FTE Positions from the State Aid to Indigent Defense Fund in FY 2016 for Capital Postconviction Prosecution. These amounts fund the following adjustments:

Shift FTE Positions

The budget includes an increase of 6 FTE Positions from the State Aid to Indigent Defense Fund in FY 2016 to align FTE authority with the Capital Postconviction Prosecution line item. A corresponding decrease of (6) FTE Positions from the General Fund can be found in the operating budget.

Statewide Adjustments

The budget includes a decrease of \$(700) from the State Aid to Indigent Defense Fund in FY 2016 for statewide adjustments.

This line item funds costs associated with prosecuting capital cases after the initial conviction. The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) continues to permit the Attorney General to use the State Aid to Indigent Defense Fund for this purpose in FY 2016.

This line item was initially designated as one-time funding in the FY 2014 General Appropriation Act pending further legislative review of the appropriate location for capital postconviction duties. In a report presented at the Joint Legislative Budget Committee's (JLBC) December 17, 2013

meeting, the Attorney General stated that the appropriate location for capital postconviction is the Attorney General and not Maricopa County for 2 reasons:

1. The Attorney General is the only agency with expertise in federal law, which is litigated during capital postconviction proceedings; and
2. Keeping capital postconviction relief responsibilities with the Attorney General will prevent further delay and save the state additional costs associated with prolonged proceedings.

The Committee gave neither a favorable nor an unfavorable review. The FY 2015 budget, however, included an appropriation of \$800,100 for the Attorney General to continue and expand capital postconviction prosecutions.

Child Safety and Family Services

The budget includes no funding in FY 2016 for Child Safety and Family Services. This amount funds the following adjustments:

Child Safety Realignment

The budget includes a decrease of \$(1,000,000) and (12) FTE Positions from the General Fund in FY 2016 to shift funding from the Attorney General's Child Safety and Family Services line item to the Department of Child Safety (DCS) Attorney General Legal Services line item, consolidating all DCS Attorney General resources into a single line item. A corresponding increase of \$1,000,000 and 12 FTE Positions can be found in the Attorney General Legal Services line item in DCS. There is no net change in child welfare resources. *(See Attorney General Legal Services in the DCS section for more information.)*

Federalism Unit

The budget includes \$1,000,000 and 7 FTE Positions from the CPCF Revolving Fund in FY 2016 for a new Federalism Unit line item. These amounts fund the following adjustments:

Establish Federalism Unit

The budget includes an increase of \$1,000,000 and 7 FTE Positions from the CPCF Revolving Fund in FY 2016 for a new Federalism Unit line item.

This line item provides funding for the Attorney General to defend the state in cases related to federal issues. Some of these legal expenses had previously been borne by the Governor's Office.

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2016 for Military Airport Planning. These amounts are unchanged from FY 2015.

A.R.S. § 26-263 appropriates \$85,000 annually from the General Fund to the Attorney General's Office. Therefore, \$85,000 of this funding does not appear in the General Appropriation Act. The legislation sought to preserve the state's military bases by appropriating monies to several state agencies and charging them with certain responsibilities. Monies in this line item pay for the department's duties under the original 2004 legislation, including review and determination of compliance with land use plans.

National Mortgage Settlement Distribution

The budget includes no funding in FY 2016 for National Mortgage Settlement Distribution. This amount is unchanged from FY 2015.

This line item provides assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices and for other purposes consistent with the National Mortgage Settlement.

Laws 2013, Chapter 118 appropriated approximately \$47.0 million of the National Mortgage Settlement Proceeds to the Attorney General in FY 2013 as a non-lapsing appropriation. To avoid double counting, the FY 2015 and FY 2016 amounts are not displayed in the agency table above. *(Please see National Mortgage Settlement Distribution and Fund Transfer sections in Other Issues for more information.)*

Risk Management ISA

The budget includes \$9,426,900 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2016 for the Risk Management ISA. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(16,100) from the Risk Management Revolving Fund in FY 2016 for statewide adjustments.

This line item provides funding for the Attorney General's contract with the Risk Management Division of the Arizona Department of Administration. Attorneys from the Attorney General's Office defend the state in most risk management cases regarding agency liability.

Southern Arizona Drug Enforcement Unit

The budget includes \$1,200,000 and 13 FTE Positions from the General Fund in FY 2016 for a new Southern Arizona Drug Enforcement Unit line item. These amounts fund the following adjustments:

Southern Arizona Drug Enforcement Unit Shift

The budget includes an increase of \$1,200,000 and 13 FTE Positions from the General Fund in FY 2016 to shift funding for the Southern Arizona Drug Enforcement Unit from the Attorney General's operating budget to a new line item. The budget also changes the fund source for this unit from the CPCF Revolving Fund to the General Fund.

This line item provides funding for the Criminal Division's investigations and prosecutions of fraud, corruption, criminal enterprise, drug trafficking, and money laundering cases in Southern Arizona.

Prior to the creation of this line item in the FY 2016 budget, the Unit was funded in the Attorney General's operating budget. The Unit received General Fund support through FY 2009; federal monies paid for the program between FY 2010 and FY 2012. The FY 2013 budget provided \$1,200,000 from the General Fund to backfill expired federal monies. The original FY 2014 budget did not fund the Unit; however, the FY 2015 budget included a \$600,000 FY 2014 supplemental appropriation for the Unit and a \$1,200,000 appropriation from the CPCF Revolving Fund for FY 2015.

State Grand Jury

The budget includes \$180,600 and 1.6 FTE Positions from the General Fund in FY 2016 for the State Grand Jury. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(500) from the General Fund in FY 2016 for statewide adjustments.

This line item funds expenses incurred by the Attorney General to investigate and try matters that are under the jurisdiction of the State Grand Jury.

Tobacco Enforcement

The budget includes \$819,500 in FY 2016 for a new Tobacco Enforcement line item. This amount consists of:

General Fund	84,900
CPCF Revolving Fund	734,600

These amounts fund the following adjustments:

Tobacco Enforcement Shift

The budget shifts \$819,500 in FY 2016 from the operating budget to a new Tobacco Enforcement line item. These amounts consist of:

General Fund	84,900
CPCF Revolving Fund	734,600

A corresponding decrease of \$(819,500) can be found in the operating budget.

This line item funds the Attorney General's enforcement of the Master Settlement Agreement (MSA). The MSA is a settlement reached by major tobacco companies and 46 states in 1998 that requires these companies to compensate states annually for Medicaid costs associated with tobacco use. In exchange for annual payments from the tobacco companies, states agree to diligently enforce tobacco tax laws.

The FY 2015 budget included \$600,000 from the CPCF Revolving Fund in the operating budget for the Attorney General enforcement of the MSA. The Attorney General's Office estimates that \$84,900 and \$134,600 from its FY 2015 General Fund and CPCF Revolving Fund operating appropriations, respectively, will also be used for MSA enforcement. To improve transparency, the budget shifts these resources to a new line item. In addition, the budget requires AHCCCS to transfer \$1,200,000 to the Attorney General for MSA enforcement. As a result, a total of \$2,019,500 is available to the Attorney General for MSA enforcement in FY 2016.

Victims' Rights

The budget includes \$3,759,400 and 6 FTE Positions from the Victims' Rights Fund in FY 2016 for Victims' Rights. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$800 from the Victims' Rights Fund in FY 2016 for statewide adjustments.

This line item provides monies to state and local agencies that are required to notify victims during various steps in the criminal justice process. The program includes 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders.

Additional Legislation

Internet Crimes Against Children

Laws 2015, Chapter 245 establishes a new Internet Crimes Against Children Enforcement (ICAC) Fund that is subject to legislative appropriation and administered by the Attorney General. Chapter 245 allocates \$900,000 from the proceeds of lottery games that are sold from a vending machine in age-restricted areas; however, no monies were appropriated from this fund in FY 2015 or FY 2016.

Chapter 245 also allocates \$100,000 to the Victims' Rights Enforcement Fund from the same proceeds. This fund is continuously appropriated and administered by the Department of Public Safety.

If the lottery games do not produce sufficient funds for the \$900,000 and \$100,000 allocations, as was the case in FY 2015, then unclaimed lottery prize monies will be used to backfill the difference.

Chapter 245 requires the Attorney General to enter into one or more intergovernmental agreements to continue operation of the Arizona Internet Crimes Against Children Task Force (ICAC), led by the Phoenix Police Department. ICAC is a joint federal/local law enforcement task force that investigates child pornography. ICAC plans to use the funds to hire more investigators.

The FY 2016 General Appropriation Act also appropriates \$350,000 from the General Fund to the Department of Child Safety for the same program. *(Please see the Internet Crimes Against Children line item in the DCS narrative for more information.)*

Other Issues

This section includes information on the following topics:

- Fund Transfers
- Attorney General Legal Services Cost Allocation Fund
- Consumer Restitution and Remediation Revolving Fund
- National Mortgage Settlement Fund Distribution
- Standard & Poor's Settlement Fund Distribution

Fund Transfers

The budget includes the following FY 2015 transfer from this agency's funds to the General Fund:

National Mortgage Settlement	\$15,000,000
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The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount	5,400,000
Standard and Poor's Settlement	16,000,000

(Please see Standard & Poor's Settlement Fund Distribution section in Other Issues for more information on the Standard and Poor's Settlement.)

Attorney General Legal Services Cost Allocation Fund

A.R.S. § 41-191.09 requires agencies to pay annually a flat fee to the Attorney General for general legal counsel. The FY 2015 General Appropriation Act set the level of charges at \$1.8 million and specified the charge per agency as required by A.R.S. § 41-191.09. The FY 2016 General Appropriation Act continues language maintaining these charges as required by A.R.S. § 41-191.09. See *Table 1* for a list of agencies and their corresponding Attorney General Legal Services charge. *(Please see the FY 2015 Appropriations Report for a more detailed history on the charge.)*

Consumer Restitution and Remediation Revolving Fund

The Attorney General deposits proceeds from consumer protection-related legal settlements into the following funds: 1) the CPCF Revolving Fund; 2) the Consumer Restitution and Remediation Revolving Fund, or 3) the Antitrust Enforcement (AE) Revolving Fund.

The CPCF derives its revenue from any investigative or court costs, attorney fees or civil penalties recovered by the Attorney General as a result of enforcement of either state or federal statutes pertaining to consumer fraud. The AE Revolving Fund consists of monies recovered by the state as a result of antitrust, restraint of trade, or price-fixing activity enforcement.

In 2013, the Legislature created a new Consumer Restitution and Remediation Revolving Fund (Laws 2013, Chapter 143) that the Attorney General would use for monies collected from lawsuits that are reserved for remediation or restitution. In addition, the statute directs any monies resulting from compromises or settlements by or against the state, excluding restitution, reimbursement, or CPCF monies, into the General Fund.

The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation.

The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable persons. Monies in this subaccount up to \$3.5 million are continuously appropriated. Any money collected over that amount is subject to legislative appropriation. The Attorney General must submit an expenditure plan to the JLBC for review before expending any monies in this subaccount.

In addition to reviewing the Attorney General's expenditure plans, the JLBC also reviews quarterly reports on the allocation of legal settlement proceeds. Chapter 143 requires the Attorney General to report quarterly on the receipts and disbursements from the Consumer Restitution and Remediation Revolving Fund by subaccount (A.R.S. § 44-1531.02) and on the CPCF Revolving Fund (A.R.S. § 44-1531.01). A.R.S. § 41-192 also requires a quarterly report on deposits made pursuant to other specified settlements. These reporting requirements provide legislative oversight on how settlement monies are collected and distributed. The budget eliminates the requirement for JLBC to review these reports, but the Attorney General must still submit them to the JLBC on a quarterly basis.

National Mortgage Settlement Fund Distribution

In 2012, Arizona, along with 49 other states and attorneys general, reached a state-federal settlement with the nation's 5 largest residential mortgage loan servicers. The National Mortgage Settlement is a result of state and federal investigations that the 5 loan servicers did not act legally in signing foreclosure documents, thus acting fraudulently in servicing and foreclosure business practices. The total settlement was \$25 billion, of which Arizona's share was an estimated \$1.3 billion.

The settlement requires Arizona to use the funds received from the settlement "for purposes intended to avoid preventable foreclosures, to ameliorate the effects of the foreclosure crisis, to enhance law enforcement efforts to prevent and prosecute financial fraud or unfair or deceptive acts or practices, and to compensate the state for costs resulting from the alleged unlawful conduct of the Defendants."

Of the \$1.3 billion, the Attorney General received approximately \$97.0 million in a direct payment from the National Mortgage Settlement. The FY 2013 General Appropriation Act required the Attorney General to direct \$50.0 million of these monies to the General Fund. After a legal challenge, the Arizona Supreme Court upheld the transfer and those monies were deposited in FY 2014. *(Please see*

the FY 2015 Appropriations Report for more information on the transfer.)

Laws 2013, Chapter 118 appropriated the remainder, approximately \$47.0 million, of the settlement to the Attorney General for distribution pursuant to applicable court orders. In FY 2013 and FY 2014, the Attorney General expended \$0.6 million and \$7.6 million, respectively, to provide assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices and for other purposes consistent with the settlement. The Attorney General estimated in December 2014 that it would spend approximately \$20.0 million of the non-lapsing appropriation for similar purposes in FY 2015, leaving approximately \$18.8 million to be spent in FY 2016. The FY 2016 General Appropriation Act, however, requires the Attorney General to direct \$15.0 million of the legal settlement to the General Fund by the end of FY 2015, leaving approximately \$3.8 million in remaining monies for the Attorney General to spend.

Prior to the transfer, the Attorney General expected to spend a total of \$47.0 million from the legal settlement, plus \$10.0 million from a separate settlement with Bank of America not subject to this appropriation. *(Please see the original spending plan below.)* At this time, the Attorney General has not provided an updated spending plan that reflects the FY 2015 transfer.

In its original expenditure plan of the National Mortgage Settlement monies, the Attorney General expected to spend:

- \$20.0 million for the Arizona Mortgage Relief Fund, a flexible mortgage loan program that is designed to provide loans to allow borrowers to remain in their homes;
- \$10.0 million for consumer restitution for eligible consumers who previously filed complaints with the Attorney General's Office against certain foreclosure rescue companies or against Bank of America in connection with their mortgage servicing practices;
- \$5.0 million for enforcement and monitoring;
- \$5.0 million for housing counseling;
- \$4.0 million for legal services;
- \$2.5 million for Veterans' housing opportunities;
- \$2.5 million for relocation assistance;
- \$2.2 million for adjustments in the housing market and enhancement of the most successful programs;
- \$2.0 million for outreach, marketing, and education;
- \$1.7 million for homeowner advocacy programs at Arizona State University and the University of Arizona;
- \$1.5 million for supportive services; and
- \$600,000 for job training.

Arizona's remaining share of the National Mortgage Settlement has already been used to provide consumer relief to Arizona borrowers, including principal reduction, a refinancing program, and payments to foreclosed borrowers. The monitor of the National Mortgage Settlement verified in a March 2014 report that banks satisfied their consumer relief obligations under the settlement.

In August 2013, the Attorney General also announced that checks, totaling \$1,480 per loan foreclosed while being serviced by the 5 servicers between January 1, 2008 and December 31, 2011, had been mailed to those who lost their homes to foreclosure as a result of the servicers' alleged misconduct. These foreclosed borrower payment amounts were funded directly by participating servicers and were administered nationally by a third party administrator. Approximately 65,000 Arizonans received payments totaling \$96.5 million.

Standard & Poor's Settlement Fund Distribution

In 2015, Arizona, along with 18 other states, the District of Columbia, and the federal government, sued Standard and Poor's Financial Services, LLC (S&P) for misrepresenting to investors its financial ratings of structured finance securities, such as subprime mortgage-backed bonds. Arizona received \$21.5 million as part of the settlement. The FY 2016 General Appropriation Act requires the Attorney General to direct \$16.0 million of the legal settlement to the General Fund by the end of FY 2016. The Attorney General states that the remaining monies will be used to fund programs for children, families, seniors, and public safety.

Table 1

FY 2016 Attorney General Legal Services Charges

<u>Agency</u>	<u>Legal Services Charge</u>
Arizona Department of Administration	\$127,700
Office of Administrative Hearings	3,000
Commission on the Arts	3,100
Automobile Theft Authority	1,400
Citizens Clean Elections Commission	2,700
State Department of Corrections	2,000
Arizona Criminal Justice Commission	8,700
Arizona Schools for the Deaf and the Blind	100,200
Commission for the Deaf and the Hard of Hearing	4,100
Early Childhood Development and Health Board	47,100
Department of Education	132,000
Department of Emergency and Military Affairs	30,000
Department of Environmental Quality	135,600
Exposition and State Fair Board	20,900
Department of Financial Institutions	1,900
Department of Fire, Building, and Life Safety	2,500
State Forester	12,100
Department of Gaming	35,000
Arizona Geological Survey	6,800
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	18,100
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses & Control	11,400
Arizona State Lottery Commission	24,800
Arizona State Parks Board	45,800
State Personnel Board	600
Arizona Pioneers' Home	12,100
Commission on Postsecondary Education	1,800
Department of Public Safety	677,400
Arizona Department of Racing	2,300
Radiation Regulation Authority	3,800
Arizona State Retirement System	69,100
Department of Revenue	4,900
Secretary of State	1,800
State Treasurer	9,200
Department of Veterans' Services	52,700
Department of Weights and Measures	<u>4,200</u>
Total Legal Services Charges	\$1,809,500

Automobile Theft Authority

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	260,300	299,600	299,600
Employee Related Expenditures	100,600	137,300	134,800
Professional and Outside Services	10,000	12,600	12,600
Travel - In State	2,600	9,000	9,000
Travel - Out of State	1,900	7,500	7,500
Other Operating Expenditures	107,600	154,100	156,300
Equipment	47,300	20,000	20,000
OPERATING SUBTOTAL	530,300	640,100	639,800
SPECIAL LINE ITEMS			
Automobile Theft Authority Grants	4,567,400	4,607,700	4,607,700 ^{1/2/}
Reimbursable Programs	15,000	50,000	50,000 ^{3/}
AGENCY TOTAL	5,112,700	5,297,800	5,297,500^{4/}

FUND SOURCES

Other Appropriated Funds

Automobile Theft Authority Fund	5,112,700	5,297,800	5,297,500
SUBTOTAL - Other Appropriated Funds	5,112,700	5,297,800	5,297,500
SUBTOTAL - Appropriated Funds	5,112,700	5,297,800	5,297,500

Other Non-Appropriated Funds	25,000	0	0
TOTAL - ALL SOURCES	5,137,700	5,297,800	5,297,500

AGENCY DESCRIPTION — The Automobile Theft Authority (ATA) is responsible for analyzing the methods of combating the problem of vehicle theft and promoting successful methods of reducing the number of vehicle thefts in Arizona. The ATA is primarily funded from motor vehicle insurance premium fees.

Operating Budget

The budget includes \$639,800 and 6 FTE Positions from the ATA Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(300) from the ATA Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Automobile Theft Authority Grants

The budget includes \$4,607,700 from the ATA Fund in FY 2016 for ATA Grants. This amount is unchanged from FY 2015.

This line item funds grants awarded to law enforcement agencies for an auto theft task force, attorneys dedicated to auto theft prosecution, and other law enforcement activities that reduce auto theft. In FY 2015, ATA expects to award approximately \$3,943,000 to the Department of Public Safety for the Arizona Vehicle Theft Task Force, which helps to investigate and pursue automobile related crimes. An additional \$526,300 is expected to be

- 1/ The Automobile Theft Authority shall pay 75% of the Personal Services and Employee-Related Expenses for city, town and county sworn officers who participate in the Arizona Vehicle Theft Task Force. (General Appropriation Act footnote)
- 2/ Automobile Theft Authority grants shall be awarded with consideration given to areas with greater automobile theft problems and be used to combat economic automobile theft operations. (General Appropriation Act footnote)
- 3/ The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee for review before expending any monies for the Reimbursable Programs line item. The agency shall also show sufficient monies collected to cover the expenses indicated in the report. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

awarded to county attorneys to prosecute automobile theft-related crimes. Remaining monies would be used for equipment and to provide training. (Please see the *Other Issues* section for more information.)

Reimbursable Programs

The budget includes \$50,000 from the ATA Fund in FY 2016 for Reimbursable Programs. This amount is unchanged from FY 2015.

This line item funds programs such as training seminars, Arizona Vehicle Theft Task Force expenses and "bait car" projects. This line item is funded from donations and grants from the private sector. Since the inception of this program, only \$20,000 for the reimbursement of salary and operational costs of the Arizona Vehicle Theft Task Force has been expended from this line item.

Other Issues

The ATA is appropriated \$4,607,700 from the ATA Fund annually for grants to state and local law enforcement entities. The largest annual recipient of ATA grant monies is the Arizona Vehicle Theft Task Force, which is a multi-agency group overseen by DPS that works specifically on combating auto-theft related crimes. ATA also issues Vertical Prosecution Grants to county attorneys that are solely dedicated to auto-theft cases, Law Enforcement Grants to local law enforcement agencies for equipment and supplies, Professional Training Grants to pay travel and registration costs associated with going to conferences, and Public Awareness Grants for public education and vehicle identification number etching. *Table 1* displays the allocations of grants for FY 2014 and FY 2015 by recipient and category.

Recipient	FY 2014	FY 2015
Arizona Vehicle Theft Task Force (DPS)	\$ 3,933,000	\$ 3,943,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 250,700	\$ 255,000
Pima County Attorney	84,700	83,000
Pinal County Attorney	213,000	152,500
Santa Cruz County Attorney	48,300	35,800
Subtotal	\$ 596,700	\$ 526,300
Law Enforcement Grants		
Gilbert Police Department	\$ 600	\$ 0
Maricopa County Sheriff	2,300	11,400
Maricopa Police Department	23,900	0
Phoenix Police Department	0	11,400
Quartzsite Police Department	0	21,300
Subtotal	\$ 26,800	\$ 44,100
Professional Training Grants		
Arizona Department of Transportation	\$ 0	\$ 1,000
La Paz County Attorney	0	900
Maricopa County Attorney	2,500	1,600
Maricopa County Sheriff	0	1,100
Phoenix Police Department	1,700	0
Pima County Attorney	0	2,800
Pinal County Sheriff	3,200	0
Tucson Police Department	1,800	0
Yuma Police Department	0	1,200
Subtotal	\$ 9,200	\$ 8,600
Public Awareness Grants		
Sierra Vista Police Department	\$ 1,700	\$ 0
Subtotal	\$ 1,700	\$ 0
TOTAL	\$4,567,400	\$4,522,000

Board of Barbers

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	178,300	195,800	195,800
Employee Related Expenditures	71,300	71,300	71,300
Professional and Outside Services	1,200	5,000	5,000
Travel - In State	15,900	22,000	22,000
Travel - Out of State	3,400	4,000	4,000
Other Operating Expenditures	32,600	35,800	37,300
Equipment	12,800	0	0
AGENCY TOTAL	315,500	333,900	335,400^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Barbers Fund	315,500	333,900	335,400
SUBTOTAL - Other Appropriated Funds	315,500	333,900	335,400
SUBTOTAL - Appropriated Funds	315,500	333,900	335,400
TOTAL - ALL SOURCES	315,500	333,900	335,400

AGENCY DESCRIPTION — The board licenses barbers, inspects barbering establishments, and investigates violations of sanitation requirements and barbering procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$335,400 and 4 FTE Positions from the Board of Barbers Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,500 from the Board of Barbers Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Board of Behavioral Health Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	675,700	866,400	866,400
Employee Related Expenditures	264,300	336,700	333,700
Professional and Outside Services	245,600	322,400	322,400
Travel - In State	4,500	5,000	5,000
Travel - Out of State	4,900	10,000	10,000
Other Operating Expenditures	226,700	208,100	213,000
Equipment	25,200	10,000	10,000
AGENCY TOTAL	1,446,900	1,758,600	1,760,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Behavioral Health Examiners Fund	1,446,900	1,758,600	1,760,500
SUBTOTAL - Other Appropriated Funds	1,446,900	1,758,600	1,760,500
SUBTOTAL - Appropriated Funds	1,446,900	1,758,600	1,760,500
TOTAL - ALL SOURCES	1,446,900	1,758,600	1,760,500

AGENCY DESCRIPTION — The board certifies and regulates behavioral health professionals in the fields of social work, counseling, marriage and family therapy, and substance abuse counseling. The board also licenses and regulates professionals engaged in the practice of psychotherapy.

Operating Budget

The budget includes \$1,760,500 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,900 from the Board of Behavioral Health Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board for Charter Schools

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	11.0	14.0
Personal Services	429,300	549,000	763,500
Employee Related Expenditures	178,800	203,700	194,600
Professional and Outside Services	32,000	65,400	65,400
Travel - In State	3,600	8,000	8,000
Travel - Out of State	0	3,600	3,600
Other Operating Expenditures	143,200	158,500	159,300
Equipment	0	6,500	6,500
AGENCY TOTAL	786,900	994,700	1,200,900^{1/}
FUND SOURCES			
General Fund	786,900	994,700	1,200,900
SUBTOTAL - Appropriated Funds	786,900	994,700	1,200,900
Other Non-Appropriated Funds	105,300	101,900	101,900
TOTAL - ALL SOURCES	892,200	1,096,600	1,302,800

AGENCY DESCRIPTION — The board reviews and approves charter school applications, including renewal applications, and monitors the schools that it sponsors for compliance with provisions of their individual charters. It consists of the Superintendent of Public Instruction, 6 members of the general public, 2 members of the business community, a charter school teacher, a charter school operator, and 3 members of the Legislature who serve as advisory members. Currently the board oversees 526 charter schools.

Operating Budget

The budget includes \$1,200,900 and 14 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(4,500) from the General Fund in FY 2016 to eliminate one-time funding for office equipment.

Charter Renewal Funding

The budget includes an increase of \$219,000 and 3 FTE Positions from the General Fund in FY 2016 to improve the board's capacity to handle increasing caseloads and to monitor and assess charter school performance.

Over the last 10 years, the number of charter contracts that the board oversees has increased by 40% and the number of students in charter schools has doubled to 145,000. Staff workloads have also increased as more charters have matured and require renewal review.

The new staff will also allow for more data collection and analysis to provide legal standing in revocation decisions. Of the funds, \$28,800 will be used for one-time contracted services for the conversion of paper documents to electronic files and office equipment for new FTE Positions.

Statewide Adjustments

The budget includes a decrease of \$(8,300) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocation section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Child Safety

	FY 2014 ^{1/} ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,859.0	3,045.1	3,057.1 ^{2/}
Personal Services	99,829,900	120,650,700	120,650,700
Employee Related Expenditures	45,305,000	52,335,200	52,336,400
Professional and Outside Services	6,919,800	7,868,200	7,868,200
Travel - In State	3,017,600	3,401,600	3,401,600
Travel - Out of State	1,600	30,000	30,000
Other Operating Expenditures	19,612,600	24,410,700	19,310,300
Equipment	7,220,800	8,047,300	6,580,100
OPERATING SUBTOTAL	181,907,300	216,743,700^{3/}	209,177,300^{3/-1/}
SPECIAL LINE ITEMS			
Additional Operating Resources			
Attorney General Legal Services	18,684,800	18,563,300	19,615,600
General Counsel	0	157,300	156,100
Inspections Bureau	554,600	2,748,400	2,486,500
Internet Crimes Against Children	0	350,000	350,000 ^{8/}
Office of Child Welfare Investigations	3,041,100	10,500,400 ^{3/}	10,706,600 ^{3/}
Overtime	10,941,900	12,865,000 ^{3/}	8,400,000 ^{3/9/10/}
Records Retention Staff	0	597,400	595,600
Retention Pay	0	1,707,000	1,707,000
Training Resources	3,961,200	5,150,000	5,150,000
Out-of-Home Placements			
Adoption Services	160,851,900	188,483,300	206,301,000
Emergency and Residential Placement	74,618,700	86,166,300	78,106,300 ^{11/15/}
Foster Care Placement	47,898,800	57,832,000	60,981,300 ^{9/10/11/}
Grandparent Stipends	340,000	1,000,000	1,000,000 ^{12/}
Independent Living Maintenance	2,945,500	3,469,300	3,469,300
Permanent Guardianship Subsidy	10,832,300	11,215,300	12,215,300
Support Services			
DCS Child Care Subsidy	33,228,100	39,753,600	39,753,600
In-Home Preventive Support Services	28,518,800	32,605,200	35,214,400 ^{9/10/13/}
Intensive Family Services	5,000,000	8,500,000	8,500,000 ^{14/}
Out-of-Home Support Services	127,618,400	149,566,800	143,629,900 ^{9/10/11/} ^{13/15/}
AGENCY TOTAL	710,943,400	847,974,300	847,515,800
FUND SOURCES			
General Fund	261,048,400	361,005,400	356,448,200
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	1,459,100	1,459,100	1,459,300
Children and Family Services Training Program Fund	71,600	207,700	207,900
Federal CCDF Block Grant	28,272,200	27,000,000	27,000,000
Federal TANF Block Grant	133,419,100	132,000,400	132,000,400
Long-Term Care System Fund (Non-Federal Matched)	40,988,300	0	0
SUBTOTAL - Other Appropriated Funds	204,210,300	160,667,200	160,667,600
SUBTOTAL - Appropriated Funds	465,258,700	521,672,600	517,115,800
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	245,684,700	326,301,700	330,400,000
SUBTOTAL - Expenditure Authority Funds	245,684,700	326,301,700	330,400,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	710,943,400	847,974,300	847,515,800

	FY 2014 ^{1/} ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
Other Non-Appropriated Funds	400	1,703,500	1,703,500
TOTAL - ALL SOURCES	710,943,800	849,677,800	849,219,300

AGENCY DESCRIPTION — The department investigates reports of child abuse and neglect, promotes the safety of a child in a stable family or other out-of-home placement in response to allegations of abuse or neglect, works with law enforcement regarding reports that include criminal conduct allegations, and coordinates services to achieve and maintain permanency on behalf of children in the child welfare system. The state's child welfare function was previously located in the Department of Economic Security (DES) in the Division of Children, Youth and Families. In 2014, the Legislature established the Department of Child Safety (DCS) as a new stand-alone child welfare agency.

- ^{1/} Monies in FY 2014 were originally appropriated to DES. The Legislature appropriated 260.2 new FTE Positions to DCS in FY 2015.
- ^{2/} Includes 345 GF, 1.3 OF, and 52.9 EA FTE Positions funded from Special Line Items in FY 2016.
- ^{3/} The appropriation for the Office of Child Welfare Investigations is solely for the costs of employees directly hired by the Office of Child Welfare Investigations. At least 30 days before any transfer into or out of the Office of Child Welfare Investigations line item, the department shall report the proposed transfer to the Director of the Joint Legislative Budget Committee (JLBC). (General Appropriation Act footnote) The FY 2015 budget included this same footnote. In April 2015, DCS notified JLBC of its intent to transfer \$5,000,000 of savings from unfilled Office of Child Welfare Investigations positions to the operating budget and the Overtime line item. The current display does not reflect these transfers.
- ^{4/} The Department of Child Safety shall provide training to any new child safety FTE Positions before assigning to any of these employees any client caseload duties. (General Appropriation Act footnote)
- ^{5/} It is the intent of the Legislature that the Department of Child Safety use its funding to achieve a 100% investigation rate. (General Appropriation Act footnote)
- ^{6/} On or before August 1, 2015, the Department of Child Safety shall issue a Request for Information to interested vendors on using private entities to address the backlog. The department shall report the results of its Request for Information to the Joint Legislative Budget Committee on or before October 1, 2015. For the purposes of this section, "backlog" means non-active cases for which documentation has not been entered in the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days. (Laws 2015, Chapter 257)
- ^{7/} The Department of Child Safety shall forward a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall include a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- ^{8/} On or before September 30, 2015, the department shall submit an expenditure plan for the Internet Crimes Against Children appropriation for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{9/} For the purposes of this section, "backlog" or "backlog cases" means nonactive cases for which documentation has not been entered in the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days. (General Appropriation Act footnote)
- ^{10/} The FY 2016 amounts appropriated to the Department of Child Safety include increases of the following amounts in the following line items to address backlog cases:
1. Overtime: \$0 from the state General Fund.
 2. In-Home Preventive Support Services: \$2,782,100 in FY 2016 and \$0 in FY 2017 from the State General Fund.
 3. Out-of-Home Support Services: \$5,082,200 in FY 2016 and \$0 in FY 2017 from the state General Fund.
 4. Foster Care Placement: \$4,543,900 in FY 2016 and \$0 in FY 2017 from the state General Fund.
- The appropriations to address backlog cases are based on the Executive Branch's May 2014 estimates. (General Appropriation Act footnote)
- ^{11/} Of the amounts appropriated for Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement, the Department of Child Safety may transfer up to 10% of the total amount of Federal Temporary Assistance for Needy Families Block Grant monies appropriated to the Department of Economic Security and the Department of Child Safety to the Social Services Block Grant for use in the following line items in the Department of Child Safety: Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement. Before transferring Federal Temporary Assistance for Needy Families Block Grant monies to the Social Services Block Grant, the Department of Child Safety shall report the proposed amount of the transfer to the Director of the Joint Legislative Budget Committee. This report may be in the form of an expenditure plan that is submitted at the beginning of the fiscal year and updated, if necessary, throughout the fiscal year. (General Appropriation Act footnote)
- ^{12/} The amount appropriated for Grandparent Stipends shall be used for a monthly stipend for a grandparent or any level of great-grandparent if a dependent child is placed in that person's care pursuant to department guidelines. (General Appropriation Act footnote)
- ^{13/} It is the intent of the Legislature that the funding in the In-Home Preventive Support Services line item be used for families whose children are at risk of out-of-home placement due to abuse, neglect or dependency, while the funding in the Out-of-Home Support Services line item is for children in out-of-home placements. (General Appropriation Act footnote)
- ^{14/} Before the expenditure of monies from the Intensive Family Services line item in FY 2016, the Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee. The expenditure plan shall include an estimate of any comparable funding in the In-Home Preventive Support Services line item. (General Appropriation Act footnote)
- ^{15/} On or before December 31, 2015, the Department of Child Safety shall report to the Joint Legislative Budget Committee on its progress in implementing the Auditor General's recommendations for transportation services and emergency and residential placement. (General Appropriation Act footnote)

Summary

DCS' FY 2016 General Fund spending decreases by \$(4,557,200), or (1.3)% from FY 2015. The \$(4,557,200) includes:

- \$8,000,000 for permanency caseload growth, including \$7,000,000 for Adoption Services and \$1,000,000 for the Permanent Guardianship Subsidy.
- \$4,000,000 for preventive services.
- \$1,000,000 to shift DCS-related funding from the Attorney General's budget to DCS.
- \$270,800 to provide full-year funding for the Office of Child Welfare Investigations (OCWI) staff added in FY 2015.
- \$(1,477,500) to remove one-time equipment funding for staff added in FY 2015.
- \$(2,000,000) to reduce emergency placements by shifting caseload to the Foster Care program.
- \$(3,000,000) to remove one-time funding used to pay off a portion of the deferral.
- \$(10,666,100) to remove one-time FY 2015 funding related to the backlog of 60-day non-active cases.
- \$(684,400) for statewide adjustments.

As part of the budget's 3-year spending plan, DCS General Fund costs are projected to decrease by \$(9,092,600) below FY 2016 and remain flat in FY 2018 compared to FY 2017. (See *Other Issues* section for more information.)

Overall Funding

The Arizona Department of Administration (ADOA) was originally appropriated \$25,000,000 from the General Fund in FY 2015 for one-time costs associated with the establishment of DCS. The FY 2016 General Appropriation Act subsequently reduced this amount to \$19,500,000, but also made the monies available through the end of FY 2016.

Consistent with the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan, the budget does not continue this one-time funding in FY 2016. (Please see *ADOA - DCS* section for further details.)

ADOA was also appropriated \$5,000,000 from the General Fund in FY 2015 through the Automation Projects Fund for the Children's Information Library and Data Source (CHILDS) replacement project. The FY 2016 budget does not include additional funding because the \$5,000,000 is sufficient until FY 2017. (Please see *ADOA - Automation Projects Fund* section for details regarding this information technology project.)

Most budget changes were based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan, except for CHILDS replacement, permanency caseload growth, foster care savings and the funding shift from the Attorney General, which is technical in nature.

Beginning in FY 2014, the Legislature appropriated child welfare resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available for child welfare but does not appropriate any specific non-appropriated fund. *Table 7* in the *Other Issues* section shows total fund spending since FY 2008.

Backlog

On June 2, 2014, DCS reported 13,024 backlog cases. Backlog means non-active cases for which documentation has not been entered in the child welfare automated system (CHILDS) for at least 60 days and for which services have not been authorized for at least 60 days. A total of \$23,074,300 was appropriated from the General Fund in FY 2015 to address the backlog. The \$23,074,300 from the General Fund was matched with \$5,904,300 in Federal Funds for a total backlog appropriation of \$28,978,600. At the time of the May 2014 Special Session, the Executive estimated that the cost of the backlog population would decline to \$12,408,200 in FY 2016 and \$0 in FY 2017. The budget incorporates these estimates.

Relative to the 13,024 June 2 backlog cases, DCS had initially either activated the cases or closed them. In terms of the current activity, the department reported 15,473 backlog cases as of March 2015, including about 3,500 of June 2 cases that had fallen back into inactivity. DCS has suggested its intention to spend about half of the \$28,978,600 in backlog funding on post-June 2 cases, since the 13,024 June 2 backlog cases are less expensive than initially thought.

Operating Budget

The budget includes \$209,177,300 and 2,657.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$87,808,700
Children and Family Services Training Program Fund	207,900
Federal TANF Block Grant	46,928,000
Child Safety Expenditure Authority	74,232,700

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,467,200) in FY 2016 to eliminate one-time equipment funding for caseworkers and support staff added in FY 2015, as outlined in the Executive’s May 2014 Special Session proposal and the Legislature’s 3-year spending plan. This amount consists of:

General Fund	(1,229,500)
Child Safety Expenditure Authority	(237,700)

Funding Realignment

The budget includes a decrease of \$(5,101,700) from Expenditure Authority in FY 2016 to transfer these resources to where they are actually being used in the Foster Care and Adoption Services line items.

Statewide Adjustments

The budget includes a decrease of \$(997,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(511,800)
Children and Family Services Training Program Fund	200
Child Safety Expenditure Authority	(485,900)

(Please see the Agency Detail and Allocations section.)

Additional Operating Resources

Attorney General Legal Services

The budget includes \$19,615,600 and 234.2 FTE Positions in FY 2016 for Attorney General Legal Services. These amounts consist of:

General Fund	13,696,900
Federal TANF Block Grant	99,400
Child Safety Expenditure Authority	5,819,300

These amounts fund the following adjustments:

Attorney General Realignment

The budget includes an increase of \$1,194,700 and 12 FTE Positions in FY 2016 to shift funding from the Attorney General’s Child Safety and Family Services line item to the DCS Attorney General Legal Services line item, consolidating all DCS Attorney General resources into a single line item. There is no net change in child welfare resources. These amounts consist of:

General Fund	1,000,000
Child Safety Expenditure Authority	194,700

Statewide Adjustments

The budget includes a decrease of \$(142,400) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(101,600)
Child Safety Expenditure Authority	(40,800)

Monies in this line item fund Attorney General Legal Services for DCS.

General Counsel

The budget includes \$156,100 and 1 FTE Position from the General Fund in FY 2016 for General Counsel. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item fund DCS General Counsel. The DCS General Counsel will provide legal advice to the Director, and the Attorney General will continue to represent DCS in administrative or judicial proceedings.

Inspections Bureau

The budget includes \$2,486,500 and 31 FTE Positions in FY 2016 for the Inspections Bureau. These amounts consist of:

General Fund	1,335,900
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	600,900

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(248,000) from the General Fund in FY 2016 to eliminate one-time equipment funding for staff added in FY 2015, as outlined in the Executive’s May 2014 Special Session proposal and the Legislature’s 3-year spending plan.

Statewide Adjustments

The budget includes a decrease of \$(13,900) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(10,200)
Child Safety Expenditure Authority	(3,700)

These monies fund the Inspections Bureau, which monitors DCS policies and procedures to ensure they are being followed by all staff in accordance with federal and state law. The Inspections Bureau also reviews vendor

invoices to ensure accuracy and compliance with DCS contracts.

The Office of Special Investigations (OSI) was part of the Inspections Bureau. DCS disbanded OSI as of February 2015. Since the majority of the filled Inspections Bureau positions were OSI staff, the status of this funding is to be determined.

Internet Crimes Against Children

The budget includes \$350,000 from the General Fund in FY 2016 for Internet Crimes Against Children. This amount is unchanged from FY 2015.

This line item was initially funded in FY 2015. The Arizona Internet Crimes against Children Task Force (AZICAC), led by the Phoenix Police Department's Internet Crimes Against Children Unit, received the funds. AZICAC is a joint federal/local law enforcement task force that investigates child pornography. AZICAC plans to use the funds for a statewide mobile command vehicle, equipment and training, and compensation for 1 investigator.

Laws 2015, Chapter 245 established the Internet Crimes Against Children Fund, consisting of a \$900,000 allocation from state lottery proceeds to the Attorney General, who will distribute the monies to AZICAC. *(Please see the Attorney General and the Arizona State Lottery Commission narratives for more information.)*

Office of Child Welfare Investigations

The budget includes \$10,706,600 and 127 FTE Positions in FY 2016 for OCWI. These amounts consist of:

General Fund	9,562,700
Child Safety Expenditure Authority	1,143,900

These amounts fund the following adjustments:

Annualize FY 2015 Staff Increase

The budget includes an increase of \$270,800 from the General Fund in FY 2016 to annualize the cost of staff added in FY 2015, as outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan.

Statewide Adjustments

The budget includes a decrease of \$(64,600) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(58,000)
Child Safety Expenditure Authority	(6,600)

Monies in this line item fund OCWI, which investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As required by a FY 2015 General Appropriation Act footnote, DCS notified JLBC of its intent in April 2015 to transfer \$5,000,000 of savings from unfilled positions to the operating budget and the Overtime line item in FY 2015. The \$5,000,000 in vacancy savings is possible because DCS had only filled 65 of the 127 authorized OCWI positions as of March 2015. The current display does not reflect these transfers in the FY 2015 estimates nor the FY 2016 appropriations.

Overtime

The budget includes \$8,400,000 in FY 2016 for Overtime. This amount consists of:

General Fund	2,610,700
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,929,800

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(4,465,000) from the General Fund in FY 2016 to eliminate one-time funding for action determination and investigation of the backlog, as outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. *(Please see the Other Issues section for further discussion of the 3-year spending plan.)*

Monies in this line item fund overtime for DCS.

Records Retention Staff

The budget includes \$595,600 and 5 FTE Positions in FY 2016 for Records Retention Staff. These amounts consist of:

General Fund	498,400
Child Safety Expenditure Authority	97,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(1,600)
Child Safety Expenditure Authority	(200)

Monies in this line item fund staff that process information requests about children in the state child welfare system.

Retention Pay

The budget includes \$1,707,000 from the General Fund in FY 2016 for Retention Pay. This amount is unchanged from FY 2015.

This funding provides retention pay of \$1,000 for 18 months of employment and \$3,000 for 36 months of employment, effective July 1, 2014. Retention pay is a one-time lump sum payment upon meeting the longevity requirements.

Training Resources

The budget includes \$5,150,000 in FY 2016 for Training Resources. This amount consists of:

General Fund	150,000
Child Safety Expenditure Authority	5,000,000

These amounts are unchanged from FY 2015.

DCS has agreements with Arizona State University (ASU) and Northern Arizona University (NAU) to educate potential caseworkers. As part of that agreement, the federal government provides Title IV-E funding for the universities' social work programs while the universities provide the state match. The federal match rate is 75%. The majority of the funding in this line is for social work programs at ASU and NAU while the remainder is for student scholarships.

Students receive scholarships that cover their tuition, books, and university fees. Scholarship degrees include a Bachelors of Social Work (BSW) or a Masters of Social Work (MSW). The post-graduation DCS work requirement for scholarship students is equal to the length of the academic scholarship. For example, a scholarship student in the 2-year MSW program would be required to work at DCS for 2 years; a senior year-only BSW scholarship student would be obligated to work for 1 year at DCS, although BSW students can receive scholarships starting in their junior year.

The 2-year MSW scholarship value is about \$36,000 (\$11,000 stipend and \$25,000 tuition/fees). The MSW scholarship student's \$11,000 stipend represents a monthly payment of \$600 during the 18 months of the program. Students who withdraw from the scholarship, do not fulfill their contractual obligation, or do not meet the employment requirement of DCS at the time of hiring are required to repay DCS the scholarship amount.

The Legislature appropriated \$150,000 from the General Fund in FY 2015 to streamline and shorten the classroom training of caseworkers.

DCS also operates a training academy. The training academy is funded out of the operating budget.

Out-of-Home Placements

Adoption Services

The budget includes \$206,301,000 in FY 2016 for Adoption Services. This amount consists of:

General Fund	69,965,800
Federal TANF Block Grant	20,645,700
Child Safety Expenditure Authority	115,689,500

These amounts fund the following adjustments:

Funding Realignment

The budget includes an increase of \$3,491,100 from Expenditure Authority in FY 2016 to show these resources where they are actually being used in Adoption Services, rather than the operating budget.

Caseload Growth

The budget includes an increase of \$14,326,600 in FY 2016 for 1,584 new placements, or 7% growth. This amount consists of:

General Fund	7,000,000
Child Safety Expenditure Authority	7,326,600

Caseload – In December 2014, the most recent month for which data is available, 21,035 clients received adoption subsidies. The appropriation funds 22,803 total placements at an average monthly cost of \$754 in FY 2016.

Background – The program subsidizes the adoption of children who otherwise would entail high financial risks to prospective parents because of physical, mental, or emotional disorders or who would be otherwise difficult to place in adoption because of age, sibling relationship, or racial or ethnic background. The funding provides for maintenance subsidies, special services subsidies, expenditures related to the legal process of adopting a child, and adoption home recruitment costs.

Emergency and Residential Placement

The budget includes \$78,106,300 in FY 2016 for Emergency and Residential Placement. This amount consists of:

General Fund	33,028,000
Federal TANF Block Grant	16,423,000
Child Safety Expenditure Authority	28,655,300

These amounts fund the following adjustments:

Foster Care Savings - Caseload Shift

The budget includes a decrease of \$(8,060,000) in FY 2016 for shifting 210 children from congregate care to foster care. This amount consists of:

General Fund	(5,100,000)
Child Safety Expenditure Authority	(2,960,000)

The \$(2,000,000) foster care savings policy issue consists of 3 General Fund components: 1) savings of \$(5,100,000) for shifting 210 teenagers from more expensive congregate care to foster care; 2) a cost of \$2,700,000 for an increased payment for teenagers in foster care and 210 new foster care placements; and 3) a cost of \$400,000 to provide vendor oversight of the 210 teenagers moved from congregate care to foster care.

Caseload – In December 2014, 457 children received emergency placement services while 1,862 children received residential (non-foster care) placement services. Including \$1,703,500 from the non-appropriated Client Trust Fund, \$79,809,800 is available for Emergency and Residential Placement in FY 2016. DCS plans to spend \$15,143,300 on emergency placements and \$64,666,500 on residential placements. At an average monthly cost of \$2,683 per emergency placement and \$3,273 per residential placement, funding in this line is sufficient for an average monthly caseload of 470 emergency placements and 1,647 residential placements in FY 2016.

Background – The Emergency and Residential Placement line provides funding for 1) short-term placement until a more permanent placement can be arranged and 2) behavioral or other therapeutic residential treatment.

The budget also includes \$1,800,000 in deferred FY 2015 General Fund payments appropriated in FY 2016 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$33,028,000 consists of \$1,800,000 from Chapter 2 and \$31,228,000 from Laws 2015, Chapter 8.

Foster Care Placement

The budget includes \$60,981,300 in FY 2016 for Foster Care Placement. This amount consists of:

General Fund	28,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	25,820,700

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(3,201,300) in FY 2016 to remove the FY 2015 backlog funding, leaving \$4,543,900 from the General Fund to service the backlog in FY 2016. This change is consistent with the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. This amount consists of:

General Fund	(2,272,000)
Child Safety Expenditure Authority	(929,300)

Based upon a projected removal rate of 9% in the 2nd Special Session, the Executive's 3-year spending plan estimated foster care placements for backlog cases at a cost of \$4,543,900 from the General Fund in FY 2016 and \$0 in FY 2017 because the children will have exited the system. The estimated monthly cost per backlog placement is \$805. *(Please see the Other Issues section for further discussion of the 3-year spending plan.)*

Foster Care Savings - Caseload Growth

The budget includes an increase of \$4,740,000 in FY 2016 for shifting 210 children from congregate care to foster care and increasing the monthly subsidy for 12 to 18-year-olds from \$653 to \$816. This amount consists of:

General Fund	2,700,000
Child Safety Expenditure Authority	2,040,000

Of the \$4,740,000 increase, \$2,675,800 is for the teenage subsidy increase while \$2,064,200 is for the cost to place 210 additional teenagers in foster care.

Funding Realignment

The budget includes an increase of \$1,610,600 from Expenditure Authority in FY 2016 to show these resources where they are actually being used in Foster Care, rather than the operating budget.

Caseload – In December 2014, 6,466 children received foster care placement services. Prior to the increased payment for teenagers in foster care, the average monthly cost per foster care placement was \$708, which

would have been sufficient to fund an average monthly caseload of 7,181 children in FY 2016.

Background – The Foster Care Placement line item provides funding for the placement of children in the child welfare system into foster homes. This line item only includes the cost of the maintenance payments, not additional support services.

The budget also includes \$1,900,000 in deferred FY 2015 General Fund payments appropriated in FY 2016 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$28,187,500 consists of \$1,900,000 from Chapter 2 and \$26,287,500 from Laws 2015, Chapter 8.

Grandparent Stipends

The budget includes \$1,000,000 from the General Fund in FY 2016 for Grandparent Stipends. This amount is unchanged from FY 2015.

Caseload – In FY 2014, an average of 935 clients received a \$75 monthly stipend. At \$75 monthly, the appropriation would fund 1,111 clients in FY 2016.

Background – The program provides a monthly stipend per child to an unlicensed foster grandparent or great-grandparent who has an income that does not exceed 200% of the Federal Poverty Level, does not receive TANF Cash Benefits, and does not receive a permanent guardianship subsidy.

Independent Living Maintenance

The budget includes \$3,469,300 in FY 2016 for Independent Living Maintenance. This amount consists of:

General Fund	2,719,300
Child Safety Expenditure Authority	750,000

These amounts are unchanged from FY 2015.

Caseload – In December 2014, 467 former foster youth between the ages of 18 and 21 participated in the Independent Living Maintenance program. Based on an average monthly cost of \$801 per independent living stipend, the funding in this line is sufficient for an average monthly caseload of 361 clients in FY 2016.

Background – These youth are living on their own and are either enrolled in a postsecondary program or employed. Besides the stipends funded in this line item, the

independent living program also provides training and support services to children who will likely reach the age of 18 while in out-of-home care. The Out-of-Home Support Services line item funds these support services. The services provided include life skills training, educational support and assistance, an education training voucher, employment assistance, counseling, allowances and financial incentives for reaching certain milestones, voluntary foster care, after care services, health care, post-secondary education and training, and other services. In 2014, the program spent \$5,200,000 on non-stipend independent living services.

Permanent Guardianship Subsidy

The budget includes \$12,215,300 in FY 2016 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	10,472,300
Federal TANF Block Grant	1,743,000

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$1,000,000 from the General Fund in FY 2016 for 218 new placements, or 9% growth.

Caseload – In December 2014, 2,483 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2015 is \$381. Based on an average monthly cost of \$381 per permanent guardianship subsidy, funding in this line is sufficient for an average monthly caseload of 2,669 children in FY 2016.

Background – The Guardianship Subsidy program supports permanent placements for children who cannot return home and for whom adoption is not an option. The guardianship subsidy is intended to be only a partial reimbursement for expenses involved in the care of the child. The funding only provides for maintenance subsidies, which are provided to assist with the expenses involved in addressing the special needs of the child.

Support Services

DCS Child Care Subsidy

The budget includes \$39,753,600 in FY 2016 for the DCS Child Care Subsidy. This amount consists of:

General Fund	5,000,000
Federal CCDF Block Grant	27,000,000
Child Safety Expenditure Authority	7,753,600

These amounts are unchanged from FY 2015.

Caseload – In February 2015, 9,100 children received DCS child care; the average monthly subsidy for FY 2015 is \$400. Based on this monthly rate, the funding in this line item is sufficient for an average monthly caseload of 8,282 children in FY 2016.

Background – Monies in this line item fund child care for children in the DCS system. DES continues to administer the state's child care program, so this funding is passed through to DES. Children who qualify for the DCS child care subsidy are not subject to a time limit, copay, or waiting list. DCS child care is provided for children in licensed foster care, unlicensed foster care and their own homes who are receiving preventive services. *(Please see the Child Care Subsidy line item in the DES narrative for other state child care funding.)*

In-Home Preventive Support Services

The budget includes \$35,214,400 and 1 FTE Position in FY 2016 for In-Home Preventive Support Services. These amounts consist of:

General Fund	15,794,000
Federal TANF Block Grant	5,911,200
Child Abuse Prevention Fund	1,459,300
Child Safety Expenditure Authority	12,049,900

These amounts fund the following adjustments:

Additional Preventive Services

The budget includes an increase of \$4,000,000 from the General Fund in FY 2016 to provide additional preventive services, as outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. This same plan would allocate another \$4,000,000 (for a total of \$8,000,000) to preventive services in FY 2017.

Remove One-Time Funding

The budget includes a decrease of \$(1,391,000) from the General Fund in FY 2016 to remove the FY 2015 backlog funding of \$4,173,100, leaving \$2,782,100 from the General Fund to service the backlog in FY 2016. This change was outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan.

Based upon a projected 9% of the cases in the backlog requiring in-home services, the Executive believed the cost would be \$2,782,100 from the General Fund in FY 2016 and \$0 in FY 2017 because the children will have exited the system. The estimated total funds cost per case is \$4,600. *(Please see the Other Issues section for further information about backlog funding.)*

Statewide Adjustments

The budget includes an increase of \$200 from the Child Abuse Prevention Fund in FY 2016 for statewide adjustments.

Caseload – For January 2015, the department reported 7,961 in-home cases.

Table 1

In-Home and Out-of-Home Support Services^{1/} Estimated FY 2016 Expenditures by Subcategory

Services	Amount
Parent Aide	\$ 39,762,700
CMDP	38,092,000
Foster Home Recruitment	28,492,100
Transportation	22,557,000
In-Home ^{2/}	13,165,200
Allowances ^{3/}	10,452,700
Substance Abuse Treatment	7,784,400
Behavioral Health Services	6,793,300
Lab Services	6,014,700
Independent Living	5,545,400
Other	<u>9,083,400</u>
Total^{4/}	\$187,742,900

^{1/} Includes the Intensive Family Services line item.

^{2/} In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources.

^{3/} Includes a clothing allowance, personal allowance, and special allowance. Some examples of special allowances are emergency clothing, special needs, books/education, graduation, and diapers.

^{4/} The appropriated resources in the support services line items total \$187,344,300. DCS is planning to make monies available from other areas of its budget so that \$187,742,900 can be used for support services.

Background – Monies in this line item fund support services for families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency. These support services include parent aide, in-home services, counseling and psychology, lab services, substance abuse treatment, and other miscellaneous services.

Table 1 shows DCS' estimated FY 2016 expenditures for the In-Home Preventive Support Services line item, the Intensive Family Services line item, and the Out-of-Home Support Services line item by subcategory. The current

CHILDS system has limitations that prevent a clear distinction between expenditures for children receiving In-Home Preventive Support Services and children receiving Out-of-Home Support Services.

Intensive Family Services

The budget includes \$8,500,000 from the General Fund in FY 2016 for Intensive Family Services. This amount is unchanged from FY 2015.

In FY 2014, the Legislature restored funding for Intensive Family Services. The program provides contracted intensive, time-limited services to families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency. In FY 2014, this program served 1,501 families at an average cost per case of \$3,330. Based on that average case cost, funding is sufficient to provide Intensive Family Services to 2,552 families in both FY 2015 and FY 2016.

During the 2013 Legislative Session, some proponents of the new funding thought that DES would contract with a specific vendor that would coordinate a package of services to high risk families to keep the children in the home. To distinguish these funds from existing DES services, the monies were placed in a new budget line item. Other proponents may have viewed the funding as a supplement to existing funding.

In June 2014, the Joint Legislative Budget Committee favorably reviewed DCS' FY 2015 Intensive Family Services expenditure plan with the condition that DCS update the Committee on the Request for Information (RFI) and Request for Proposals (RFP) process regarding the redesign of its service delivery mechanism. As of May 2015, the department was still in the process of redesigning the service array for Intensive Family Services to comply with Title IV-E waiver requirements, pushing back the RFP to later in 2015. DCS plans to spend the FY 2015 funding in the same manner as in FY 2014 by supplementing in-home services. *(Please see the Other Issues section for further details on the IV-E waiver.)*

Out-of-Home Support Services

The budget includes \$143,629,900 in FY 2016 for Out-of-Home Support Services. This amount consists of:

General Fund	63,904,900
Federal TANF Block Grant	28,867,800
Child Safety Expenditure Authority	50,857,200

These amounts fund the following adjustments:

Remove One-Time Deferral Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2016 to remove one-time funding that reduced the DCS deferral from \$14,000,000 to \$11,000,000.

Remove One-Time Backlog Funding

The budget includes a decrease of \$(3,576,900) in FY 2016 to remove the FY 2015 backlog funding, leaving \$5,082,200 from the General Fund to service the backlog in FY 2016, as outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. This amount consists of:

General Fund	(2,538,100)
Child Safety Expenditure Authority	(1,038,800)

Based upon a projected 9% of the cases in the backlog requiring out-of-home support services, the Executive's 3-year spending plan projected a cost of \$5,082,200 from the General Fund in FY 2016 and \$0 in FY 2017 because the children will have exited the system. The estimated monthly cost is \$900. *(Please see the Other Issues section for further discussion of the 3-year spending plan.)*

Foster Care Savings - Vendor Oversight

The budget includes an increase of \$640,000 in FY 2016 for the foster home recruitment vendor to provide foster home supervision of the 210 children shifted from congregate care to foster care. This amount consists of:

General Fund	400,000
Child Safety Expenditure Authority	240,000

Caseload – For December 2014, the department reported 17,102 out-of-home children were receiving support services.

Background – The Out-of-Home Support Services line item provides support services for out-of-home clients, in the categories displayed in *Table 1*. This line item does not include the cost of residential placement.

This line item and the In-Home Preventive Support Services line item fund Arizona Families F.I.R.S.T. Individuals must meet 1 of the following 2 requirements to qualify for the program:

- Any parent, guardian or custodian of a child who is named in a child maltreatment report as a victim of abuse or neglect and whose substance abuse is a significant barrier to maintaining, preserving or reunifying the family.

- A person whose substance abuse is a significant barrier to obtaining or maintaining employment if the person is receiving TANF Cash Benefits.

The budget for Arizona Families F.I.R.S.T. is outlined in *Table 2*. This funding is part of the Substance Abuse Treatment and Lab Services categories in *Table 1*. In FY 2014, 6,509 child safety clients were referred to the Arizona Families F.I.R.S.T. program for substance abuse treatment services, and it is anticipated that 6,600 and 6,900 child safety clients will be referred to the program in FY 2015 and FY 2016, respectively.

September 30, 2015, the effectiveness of a differential response system by March 31, 2016, and DCS permanency practices by September 30, 2016. (*Please see the Other Issues section for a summary of the Auditor General's most recent DCS audit.*)

Child Safety Omnibus

Laws 2015, Chapter 257 transfers the Child Restraint Fund from DES to DCS. Revenues to the fund are derived from fines or penalties from parents, guardians, or legal custodians who fail to sufficiently restrain children under the age of 8 in motor vehicles.

Other Issues

This section includes information on the following topics:

- Long Term Budget Impacts
- Auditor General Recommendation
- Title IV-E Waiver
- CMDP Reform
- Independent Consultant
- Child Safety Funding
- Payment Deferral
- TANF Block Grant

	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
<i>Appropriated</i>				
General Fund	\$ 46,600	\$ 6,200	\$ 30,000	\$ 30,000
TANF	9,449,800	9,050,300	9,786,000	10,218,200
<i>Non-Appropriated</i>				
DCS Expedited Substance Abuse Treatment Fund	247,000	-	-	-
Joint Substance Abuse Trtmt Fund	-	610,800	-	-
Total	\$9,743,400	\$9,667,300	\$9,816,000	\$10,248,200

The Out-of-Home Support Services line item also provides full coverage of the medical and dental expenses of foster children. The General Fund monies in this Comprehensive Medical and Dental program (CMDP) provide medical services to children who are not eligible for coverage through the Arizona Health Care Cost Containment System (AHCCCS). The Department of Health Services (DHS) provides behavioral health services for foster children.

The budget also includes \$7,300,000 in deferred FY 2015 General Fund payments appropriated in FY 2016 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$63,904,900 consists of \$7,300,000 from Chapter 2 and \$56,604,900 from Laws 2015, Chapter 8.

Additional Legislation

Joint Report on Child Welfare

The FY 2016 Human Services Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 18) continues to require the Early Childhood Development and Health Board and DCS to report with DCS on their collaborative efforts to address child welfare issues of common concern.

Auditor General Report

The FY 2016 Human Services BRB requires the Auditor General to evaluate DCS child removal processes by

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, DCS General Fund costs are projected to decrease by \$(9,092,600) below FY 2016 and remain flat in FY 2018 compared to FY 2017. This reduction includes \$(12,408,200) to remove one-time backlog funding, \$(684,400) to annualize the health insurance statewide adjustment and \$4,000,000 for preventive services. *Table 3* shows the General Fund budget changes by line item. These estimates are based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan.

Line Items	FY 2015	FY 2016	FY 2017
Overtime	\$ 7,075,700	\$ 2,610,700	\$ 2,610,700
Foster Care	27,759,500	28,187,500	23,643,600
Out-of-Home Support Services	69,043,000	63,904,900	58,822,700
In-Home Preventive Support Services	13,185,000	15,794,000	17,011,900
Other Line Items	<u>243,942,200</u>	<u>245,951,100</u>	<u>245,266,700</u>
Total General Fund	\$361,005,400	\$356,448,200	\$347,355,600
Change from Prior Year			
Subtotal - Backlog	-	(10,666,100)	(12,408,200)
Subtotal - Other	-	2,108,900	(684,400)
Subtotal - Preventive	-	<u>4,000,000</u>	<u>4,000,000</u>
Total Change	-	\$ (4,557,200)	\$ (9,092,600)

Auditor General Recommendation

Pursuant to the FY 2015 Health and Welfare BRB (Laws 2014, Chapter 11), the Auditor General has produced a report evaluating Arizona relative to national child welfare data. Specifically, the legislation asked the Auditor General to (a) compare Arizona's reporting rate and substantiation rate for child maltreatment to other states, and (b) report on any redundancies among child safety caseworkers, child safety law enforcement (OCWI) and local law enforcement when investigating criminal child abuse.

Child Welfare Data

The Auditor General reports that Arizona's number of child maltreatment reports per capita was lower than the national average from federal fiscal years (FFY) 2008 to 2012, but it slightly exceeded the national average in FFY 2013. The Auditor General believes legislative changes expanding the definition of child maltreatment in 2009 and administrative changes to the hotline that screened-in domestic violence referrals for investigation in 2010 are possible explanations for the increased reports.

Arizona's rate of substantiated child maltreatment grew from 3.2 to 9.2 substantiated cases per 1,000 between FFY 2008 and FFY 2013, reports the Auditor General. This compares to a national average that ranged from 10.9 to 11.6 substantiated cases of child maltreatment during the same time period. Substantiated reports are cases where DCS determines that at least one of the allegations in the report of child abuse or neglect is true.

The Auditor General points to legislative changes in 2009 that expanded the definitions of child maltreatment and automatically substantiated child maltreatment for children in state custody as the likely sources for the growth in the substantiation rate. The Auditor General notes, however, that Arizona was not the only state to have its substantiation rate change significantly in the past 5 years. Substantiation rates vary among states because of different definitions of child maltreatment, burden of proof, and caseworker perception of risk, according to the Auditor General.

OCWI

The Legislature established OCWI in 2012. Initially, OCWI had 34 staff, but the Legislature increased the level of staff to 127 FTE Positions in FY 2015. OCWI investigates criminal conduct allegations of child maltreatment in conjunction with local law enforcement.

The Auditor General found that there were some initial redundancies among OCWI, caseworkers, and local law enforcement, but those redundancies have since been

resolved. The Auditor General also indicated that Arizona and Texas are the only states with an organization like OCWI.

The report recommends that DCS should (1) continue its efforts to co-locate OCWI staff, caseworkers, and other staff; (2) work with the Maricopa and Pima County Attorneys to update investigation protocols; and (3) enhance its training related to criminal conduct investigations.

Title IV-E Waiver

The U.S. Department of Health and Human Services (HHS) has granted DCS' request for a Title IV-E waiver focused on reducing the number of children in congregate care. "IV-E" refers to the section of federal law authorizing federal government payment of foster care and related expenses. DCS plans to start operating under the waiver in 2015. Title IV-E funding has been the state's primary source of Federal Funding for out-of-home children in the child welfare system. HHS has not approved the department's plan for reducing the number of children entering congregate care, but the department tentatively plans to (1) establish a risk and needs assessment tool focused on uniform caseworker decision making, (2) provide evidenced-informed in-home services, and (3) emphasize caseworker training.

The IV-E waiver effectively establishes a maximum federal funding level. The ceiling is adjusted upward each year for projected caseload growth. Based on the federal medical assistance percentage (FMAP), the state's federal match rate may also be adjusted. *Table 4* shows the level of IV-E funding the waiver allocates to the state each federal fiscal year. In the first year of the waiver in FFY 2015, the cap grows to \$164.6 million. By FFY 2019, the cap is \$226.6 million. The waiver does not cap IV-E funding for administration, independent living, CHILDS, training, and pre-placement activities. Since these areas are not capped, their IV-E funding is not included in *Table 4*.

Table 4

Arizona Title IV-E Capped Allocation

FFY	Amount
2015	\$164,642,200
2016	\$179,348,300
2017	\$192,705,400
2018	\$209,119,800
2019	\$226,592,400

Under the waiver, any IV-E funding DCS does not spend on traditional IV-E purposes, such as congregate care

maintenance payments, can now be spent on in-home services, which are not normally eligible for IV-E funding.

To ensure that its in-home service mechanism meets the federal IV-E waiver standards, the department has pushed back the Intensive Family Services RFP from December 2014 to July 2015.

CMDP Reform

Laws 2013, Chapter 220 requires AHCCCS, DCS and DHS to determine and report on the most effective method for delivering medical, dental and behavioral health services to children who qualify for CMDP, considering the possibility of an administratively integrated system. The report is due by October 1, 2015.

As discussed in the Out-of-Home Support Services line item, CMDP provides full coverage of the medical and dental expenses of foster children under the jurisdiction of DCS. The department estimates a CMDP caseload of about 19,000 children in FY 2016, with a total funds cost of approximately \$46.6 million. Of the children in CMDP, 96% are eligible for Medicaid coverage, while the Medicaid-ineligible children are covered solely with General Fund monies.

DHS administers CMDP behavioral health coverage through its Regional Behavioral Health Authorities, who subcontract with providers. DCS, however, administers acute care CMDP by directly contracting with providers. The cost for DCS to administer acute care CMDP is about \$5.0 million annually. The state's General Fund match for acute care CMDP Medicaid is appropriated to AHCCCS, and AHCCCS reimburses DCS for costs associated with Medicaid-eligible CMDP children. In its FY 2016 budget submittal, AHCCCS proposed that the CMDP appropriation be shifted to DCS so that the program cost is aligned with the agency responsible for the program, but the FY 2016 budget retains the funding in AHCCCS.

Independent Consultant

Laws 2014, 2nd Special Session, Chapter 1 requires the Auditor General to retain an independent consultant with expertise in child welfare system planning and operations to examine the current child safety system and consider best practices to improve the delivery of services in Arizona and provide consultation on the effective establishment of DCS with a focus on certain challenges.

The Auditor General has chosen Chapin Hall at the University of Chicago as the independent consultant. Chapin Hall is a research and policy center that focuses on

improving the well-being of children and youth, families, and their communities. Chapin Hall will report its findings on July 1, 2015.

Child Safety Funding

Table 5 shows the growth in state funding for child safety year over year since FY 2013. Table 6 indicates the specific job titles of the 718 new child safety FTE Positions added since FY 2013, while Table 7 displays total child safety expenditures since FY 2008.

Payment Deferral

The budget continues the \$11.0 million payment deferral from FY 2016 to FY 2017. DCS plans to defer a total of \$11.0 million in payments from the line items specified below:

Out-of-Home Support Services	7,300,000
Foster Care Placement	1,900,000
Emergency and Residential Placement	1,800,000

The \$11.0 million in FY 2016 to pay the amount deferred from FY 2015 to FY 2016 was appropriated in Laws 2014, 2nd Special Session, Chapter 2, so this adjustment does not appear in the General Appropriation Act; however, the amount is included in the General Fund amount for DCS in this section. As a result, the FY 2016 General Fund amount of \$356.4 million consists of \$11.0 million from the deferral appropriation and \$345.4 million from the General Appropriation Act.

TANF Block Grant

The federal TANF Block Grant can be deposited into the federal Social Services Block Grant (SSBG); once deposited, the monies are spent on DCS programs. The federal government caps the amount of TANF Block Grant monies that can be transferred to the SSBG at 10%. A footnote in the General Appropriation Act allows DCS to make this transfer of TANF monies in the Out-of-Home Support Services, Emergency and Residential Placement, and Foster Care Placement line items to the SSBG. This amount is estimated at \$20,014,100 in FY 2016. The transfer to SSBG provides additional funding flexibility to DCS.

TANF is a major funding source for DCS. A comprehensive view of the federal TANF Block Grant is found in the narrative for DES in the *Other Issues* section.

Table 5

Increase in State Child Safety Funding ^{1/}
(\$ In Millions)

<u>Staffing</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2015 SS</u>	<u>FY 2016</u>	<u>Total</u> <u>(FY 16 Above FY 12)</u>
Child Safety Staff (caseworkers & others)	\$ 4.8	\$ 12.9 ^{2/}	\$ 15.3	\$ 6.2	\$ (1.2) ^{3/}	\$ 38.0
Child Safety Staff Pay Raise/Retention Stipend	1.0	-	-	1.7	-	2.7
OCWI Staff	2.3	-	1.8	5.3	0.2	9.6
Records Retention Staff	-	-	0.5	-	-	0.5
Child Safety Legal Staff	-	1.5	1.0	-	-	2.5
Internal Legal Counsel	-	-	-	0.2	-	0.2
Inspections Bureau	-	-	-	2.2	(0.2) ^{3/}	2.0
<u>Residential Placements</u>						
Congregate Care	-	13.0	-	-	(5.1) ^{4/}	7.9
Congregate Care Backfill	-	-	^{5/}	6.5	-	6.5
Foster Care	-	4.8	-	-	2.7 ^{4/}	7.5
Grandparent Stipends	-	1.0	-	-	-	1.0
Permanent Guardianship	2.4	-	-	-	1.0	3.4
Adoption Services	17.0	2.9	6.0	-	7.0	32.9
<u>Services</u>						
Intensive Family Services	-	5.0	3.5	-	-	8.5
Children Support Services	-	4.0	5.6	-	4.4 ^{4/}	14.0
Child Safety Child Care	-	9.0	-	-	-	9.0
<u>Backlog</u>						
Backlog - Action Determination	-	-	-	0.2	(0.2)	-
Backlog - Investigation	-	-	-	4.2	(4.2)	-
Backlog - Out-of-Home Care Placement	-	-	-	6.8	(2.3)	4.5
Backlog - Out-of-Home Care Services	-	-	-	7.6	(2.5)	5.1
Backlog - In-Home Care Services	-	-	-	4.2	(1.4)	2.8
<u>Other</u>						
Training Resources	-	-	-	0.2	-	0.2
Internet Crimes Against Children	-	-	-	0.4	-	0.4
Partial Deferral Payoff	-	-	-	3.0	(3.0)	-
Federal Funds Backfill	18.5	-	-	-	-	18.5
Contingency	-	10.5	-	-	-	10.5
Statewide Adjustments	-	-	-	-	(0.7)	(0.7)
<u>Other Agency Funding</u>						
New Agency One-Time Funding (ADOA) ^{6/}	-	-	20.0	5.0	(25.0)	-
CHILDS Replacement (ADOA)	-	-	5.0	-	(5.0)	-
Auditor General	-	-	-	0.3	(0.3)	-
Total ^{7/}	\$ 46.1	\$ 64.7	\$ 58.6	\$ 53.8	^{8/} \$ (35.8)	\$ 187.4

^{1/} Each year shows the increase over the prior fiscal year. The FY 2015 and FY 2016 amounts are General Fund, while the FY 2014 and FY 2013 amounts include General Fund and Long Term Care System Fund.

^{2/} The \$5.7 million supplemental (2nd Regular Session) is not shown so as not to double count the funding.

^{3/} Represents elimination of one-time equipment funding.

^{4/} Foster care savings policy of \$(2.0) million consists of \$(5.1) million in congregate care, \$2.7 million in foster care, and \$0.4 million in support services.

^{5/} The \$5.1 million supplemental (2nd Special Session) is not shown so as not to double count the funding.

^{6/} Total appropriation of \$25.0 million subsequently reduced to \$19.5 million.

^{7/} Numbers do not add due to rounding.

^{8/} Excludes \$0.8 million for the Legislative Council Ombudsman.

Table 6

**New Child Safety FTE Positions
(All Funds)**

	<u>FY 2013</u>	<u>Part 1 FY 2014 1/</u>	<u>Part 2 FY 2014 2/</u>	<u>FY 2015</u>	<u>FY 2015 SS 3/</u>	<u>Total Change 4/</u>
Caseworkers/Hotline Staff	50	93	126	32	54	355
OCWI Staff	28 5/	-	-	20	73	121
Assistant Program Managers	4	2	4	-	2	12
Unit Supervisors	-	16	20	6	10	52
Case Aides	-	23	30	9	15	77
Records Retention Staff	-	-	-	5	-	5
AG Legal Staff via DCS	-	22	-	-	-	22
AG Legal Staff (Direct) 6/	-	-	-	12	-	12
In-House Counsel	-	-	-	-	1	1
Inspections Bureau	-	-	-	-	21	21
Support Staff/Other	-	16	12	3	9	40
Subtotal - New	82	172	192	87	185	718
Transferred Staff	-	-	-	-	99 7/	99
Subtotal - New and Transferred	82	172	192	87	284	817
Total Child Safety Staff	N/A	N/A	N/A	N/A	N/A	3,057

1/ Represents original FY 2014 budget.

2/ Represents FY 2014 supplemental in 2nd Regular Session.

3/ Reflects 2nd Special Session.

4/ Total change in FTE Positions since FY 2012.

5/ The agency indicates that 34 OCWI staff were hired.

6/ Shifted to DCS in FY 2016.

7/ Represents administrative staff transferred from DES, including 10 Inspections Bureau Staff.

Table 7

**Child Safety Total Fund Expenditures
(\$ in Millions)**

<u>Year</u>	<u>Expenditures</u>	<u>Reports of Child Maltreatment</u>
FY 2008	\$509.9	34,989
FY 2009	\$487.6	33,186
FY 2010	\$448.9	33,839
FY 2011	\$478.8	34,904
FY 2012	\$561.2	40,517
FY 2013	\$625.8	44,119
FY 2014	\$710.9	45,368
FY 2015 Estimate 1/	\$850.9	24,605 2/
FY 2016 Appropriation 3/	\$849.2	-

1/ Excludes \$25.0 million for start-up funding appropriated to ADOA, \$5.0 million for CHILDS replacement, \$0.8 million for the Ombudsman and \$0.3 million for the Auditor General. Includes \$1.2 million for Attorney General expenses appropriated to the Attorney General.

2/ Represents data through December 2014, which is 16% higher than at this same time last year.

3/ Excludes \$0.8 million for the Ombudsman.

State Board of Chiropractic Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	182,600	202,500	202,500
Employee Related Expenditures	71,100	70,500	69,900
Professional and Outside Services	3,900	28,100	28,100
Travel - In State	0	1,800	1,800
Travel - Out of State	6,000	8,300	8,300
Other Operating Expenditures	88,800	115,400	116,800
Equipment	10,300	24,000	24,000
AGENCY TOTAL	362,700	450,600	451,400^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Chiropractic Examiners Fund	362,700	450,600	451,400
SUBTOTAL - Other Appropriated Funds	362,700	450,600	451,400
SUBTOTAL - Appropriated Funds	362,700	450,600	451,400
TOTAL - ALL SOURCES	362,700	450,600	451,400

AGENCY DESCRIPTION — The board licenses, investigates, and regulates chiropractors who practice a system of therapy in which disease is considered the result of neural malfunction. Manipulation of the spinal column and other structures is the preferred method of treatment.

Operating Budget

The budget includes \$451,400 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$800 from the Board of Chiropractic Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Citizens Clean Elections Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	6,616,400	10,041,600	10,041,600
TOTAL - ALL SOURCES	6,616,400	10,041,600	10,041,600

AGENCY DESCRIPTION — As authorized by a 1998 ballot initiative, the Citizens Clean Elections Commission (CCEC) provides full public funding to qualified candidates who agree to abide by the commission's guidelines. To qualify for funding, participating candidates must adhere to spending and contribution limits, and gather \$5 qualifying contributions from district constituents who are registered voters. Participating candidates also agree to attend required debates. The commission is not subject to legislative appropriation.

Other Issues

Clean Elections Fund Transfer to the General Fund

Pursuant to a 1998 ballot proposition (A.R.S. § 16-954B), the CCEC is instructed to return excess monies to the General Fund if it determines that anticipated revenues exceed anticipated expenses. The CCEC determines this on an annual basis by projecting revenues and expenses over the next 4 years and designating monies above the amount needed to meet current and future expenses as "excess monies" to be transferred to the General Fund. The most recent transfer was in FY 2012, when \$10 million was transferred to the General Fund. For a complete list of Citizens Clean Elections Fund transfers to the General Fund, please see *Table 1*.

Table 1
Clean Elections Fund Transfers to General Fund

<u>Fiscal Year</u>	<u>Transfer</u>
FY 2003	\$ 1,774,600
FY 2004	3,828,000
FY 2005	973,900
FY 2006	2,500,000
FY 2008	18,876,200
FY 2009	7,000,000
FY 2010	10,000,000
FY 2011	20,000,000
FY 2012	<u>10,000,000</u>
Total	\$74,952,700

	<u>FY 2014 Actual</u>	<u>FY 2015 Estimate</u>
Funds Available		
Balance Forward	\$21,404,500	\$23,610,300
Revenue:		
Court Assessments	\$8,592,500	\$8,500,000
Qualifying Contributions	149,200	87,000
\$5 Check Off Box	79,100	0
Donations/Tax Credits	0	0
Other	<u>1,400</u>	<u>5,000</u>
Total Revenue	\$8,822,200	\$8,592,000
Total Funds Available	\$30,226,700	\$32,202,300
Expenditures:		
Personal Services	\$366,100	\$475,000
Employee Related Expenditures	118,100	150,000
Professional & Outside Services	2,374,400	3,509,000
Travel - In State	4,300	5,000
Travel - Out of State	0	5,000
Candidate Funding	2,494,200	2,850,000
Other Operating Expenses	1,151,600	2,987,600
Capital Equipment	0	0
Non-Capital Equipment	<u>107,700</u>	<u>60,000</u>
Total Funds Expended	\$6,616,400	\$ 10,041,600
Transfer to General Fund	\$ 0	\$ 0
Year-End Fund Balance	\$23,610,300	\$22,160,700

Arizona Commerce Authority

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	21,500,000	21,500,000	16,500,000
Mexico City Trade Office	0	300,000	300,000
AGENCY TOTAL	31,500,000	31,800,000	26,800,000
FUND SOURCES			
General Fund	31,500,000	31,800,000	26,800,000
SUBTOTAL - Appropriated Funds	31,500,000	31,800,000	26,800,000
Other Non-Appropriated Funds	9,130,500	22,474,400	17,629,400
Federal Funds	1,910,300	5,235,600	1,820,800
TOTAL - ALL SOURCES	42,540,800	59,510,000	46,250,200

AGENCY DESCRIPTION — The Arizona Commerce Authority (ACA) promotes economic, community, and workforce development. The Authority's duties include: support statewide for business expansion and attraction; workforce development and job training; online assistance for new business start-ups; tax credit administration.

Operating Budget

The budget includes \$10,000,000 from the General Fund in FY 2016 for the operating budget. This amount is unchanged from FY 2015.

Of the \$10,000,000 FY 2014 operations allocation, ACA expended \$10,000,000 in FY 2014. Additionally, ACA expended \$335,900 from the Arizona Commerce Authority Fund balance for a total operating budget expenditure of \$10,335,900 in FY 2014.

Arizona Competes Fund Deposit

The budget includes \$16,500,000 from the General Fund in FY 2016 for deposit into the Arizona Competes Fund. This amount funds the following adjustments:

Deposit Reduction

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2016 for a reduction in the Arizona Competes Fund deposit.

Prior to FY 2016, the Arizona Competes Fund received an annual appropriation of \$21,500,000 in income tax withholding from the General Fund. Additionally, the fund also receives a non-appropriated deposit of

\$3,500,000 in lottery revenues for a total annual deposit of \$25,000,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduces the General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In each year thereafter, the deposit is reduced by \$(10,000,000) to \$11,500,000. Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona.

Of the \$100,000,000 deposited into the Arizona Competes Fund from FY 2012 through FY 2015, ACA has expended \$14,835,500 through January 20, 2015. (Please see Other Issues section for list of award recipients.)

Mexico City Trade Office

The budget includes \$300,000 from the General Fund in FY 2016 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2015.

ACA currently partners with the Greater Phoenix Economic Council and the Arizona-Mexico Commission to administer trade offices in China and Hermosillo, Mexico, respectively. ACA's share of this cost was \$45,000 in FY 2014. Monies for the ongoing operation of these trade offices are expended from the operating budget.

^{1/} Pursuant to A.R.S. § 43-409, \$26,500,000 of state General Fund withholding tax revenue is allocated in FY 2016 to the Arizona Commerce Authority, of which \$10,000,000 is credited to the Arizona Commerce Authority Fund established by A.R.S. § 41-1506, and \$16,500,000 is credited to the Arizona Competes Fund established by A.R.S. § 41-1545.01. (General Appropriation Act footnote)

Additional Legislation

International Operations Centers

Laws 2015, Chapter 6 requires ACA to certify International Operations Centers for the purposes of receiving utility relief. The bill exempts electricity and natural gas sales to International Operations Centers from state Transaction Privilege Tax and may exempt municipal taxes, as well as expanding the renewable energy tax credit to power generated primarily for International Operations Centers. The bill defines International Operations Centers as a facility that achieves a minimum annual investment of \$100 million for 10 years, has a minimum total investment of at least \$1.25 billion before the tenth anniversary of certification, and consumes renewable energy that is self-produced.

Repeal of Job Training Tax

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) repeals the Job Training Tax effective December 31, 2015. The tax is equal to 1/10 of 1% of the first \$7,000 in taxable wages paid by an employer in each calendar year. These monies serve as the sole source of revenue for the Job Training Program, which is scheduled to sunset on January 1, 2017 pursuant to Laws 2011, 2nd Special Session, Chapter 1.

The Job Training Program provides grants to new and expanding businesses in Arizona to help fund job training programs. The training programs are primarily conducted in-house by the recipient; some recipients, however, use training programs administered by Community Colleges. The grants require that training for new employees be 25% funded by the recipient while the cost of training existing employees be split evenly between the recipient and ACA. Additionally, statute requires that 25% of Job Training monies be spent on grants to small businesses with less than 100 employees and that 25% be expended for job training in rural areas. In FY 2014, \$6,220,300 was expended from the Job Training Fund for this program.

Other Issues

ACA Responsibilities

A.R.S. § 41-1502 established ACA in place of the Department of Commerce. ACA's main purpose is to attract and retain business in Arizona and is governed by a board of directors. In addition to attracting businesses, ACA is responsible for the following functions:

- Arizona 21st Century Fund Administration and Fund
- Arizona Fast Grant Program
- Arizona Innovation Accelerator Fund
- Arizona Step Grant Program

- Capital Investment Incentives (Angel Investment) Program
- Commercial Solar Energy Tax Credit Applications
- Computer Data Center Tax Exemptions
- Defense Contractor Restructuring Assistance Program
- Ecological Restoration Workforce Training Tax Credit
- Energy Reduction Grant
- Environmental Technology Assistance Program
- Governor's Council on Workforce Policy Member
- Healthy Forest Enterprise Incentives Program
- International Operations Center Incentives
- Job Training Program and Fund (*see Additional Legislation*)
- Military Reuse Zone Tax Credit
- Private Activity Bonds
- Qualified Energy Conservation Bonds
- Qualified Facility Tax Credit
- Quality Jobs Tax Credit
- Renewable Energy Tax Incentive Program Applications
- Research and Development Refundable Tax Credit
- Small Business Investment Tax Credit
- Solar Tax Credit

Prior to FY 2016, ACA received \$31.5 million in income tax withholding from the General Fund. Of that amount, \$10.0 million was deposited into the Arizona Commerce Authority Fund for ACA operational expenses and \$21.5 million was deposited into the Arizona Competes Fund. Beginning in FY 2016, the Arizona Competes Fund deposit is reduced to \$16.5 million with a further reduction to \$11.5 million being implemented in FY 2017 and beyond. In accordance with statute, the General Appropriation Act allocates these monies to ACA. Both funds are non-appropriated.

Additionally, ACA receives an annual deposit of \$3.5 million in lottery revenues to the Arizona Competes Fund. Combining General Fund and lottery revenues, ACA will have \$20.0 million in resources in FY 2016 to provide grants to help attract, expand, or retain businesses in Arizona.

Arizona Competes Fund Expenditures

A.R.S. § 41-1545.01 established the Arizona Competes Fund with an annual deposit of \$21.5 million in income tax withholding monies from the General Fund and an additional appropriation of \$3.5 million in lottery tax revenues. From FY 2012 – FY 2015, the Arizona Competes Fund received \$100.0 million in total revenues and made \$27.5 million in commitments. Of these commitments, \$14.8 million has been expended through January 20, 2015 with recipients displayed in *Table 1*. Currently, 3 types of grants are awarded from the fund: 1) Competes

Fund grants awarded to businesses that are expanding in or relocating to Arizona; 2) Arizona Innovation Challenge grants for early-stage start-up companies; and 3) Rural Economic Development grants that are awarded to local governments to improve infrastructure and attract businesses.

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Arizona Competes Fund	\$75,000,000
Arizona Job Training Fund	25,000,000

<u>Recipients</u>	<u>Total</u>
Competes Fund Grants for Expansion/Relocation	
Acceler8 Technologies Corporation	\$1,000,000
Clear Energy Systems, Inc.	1,000,000
General Motors, LLC	13,000
GoDaddy, Inc.	500,000
Hot Chalk	12,500
Maverick Healthcare Services, Inc.	875,000
Silicon Valley Bank Financial Services	2,410,000
Ulthera, Inc.	548,400
United Healthcare Services, Inc.	2,000
Zoc Doc	15,000
Total Competes Fund Grants	\$6,375,900
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Amber Alert GPS	125,000
appsFreedom, Inc.	245,000
Athena Wireless Communications, Inc.	250,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
Clear Demand, Inc.	225,000
Contatta, Inc.	220,000
Deliver IT, Inc.	225,000
EndoVantage	125,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Kutta Radios, Inc.	249,500
LawLytics	125,000
MaxQ Technology LLC	250,000
Naseo, Inc.	225,000
Photon Medical Communications LLC	250,000
Picomic	125,000
Post.Bid.Ship., Inc.	232,000
Recoleta Partners LLC	225,000
ReplyBuy, Inc.	250,000
Serious Integrated, Inc.	250,000
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	225,000
Triton Microtechnologies	225,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	175,000
Yolia Health, Inc.	218,000
Total Arizona Innovation Challenge Grants	\$6,491,900
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Flagstaff	195,000
Greater Yuma Economic Development Corporation	432,500
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Verde Valley Wine Consortium, Inc.	255,300
Yuma	296,300
Total	\$1,967,700
Total Arizona Competes Fund Grants	\$14,835,500

Arizona Community Colleges

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,710,100	5,343,400	5,206,000
Coconino	1,840,400	1,775,800	1,771,200
Gila	370,700	346,300	368,100
Graham	2,345,700	2,261,300	2,175,600
Maricopa	7,913,300	7,409,500	0
Mohave	1,659,400	1,543,300	1,524,000
Navajo	1,646,600	1,618,200	1,582,100
Pima	7,136,600	6,493,500	0
Pinal	2,135,000	2,023,900	1,903,500
Santa Cruz	58,700	47,900	57,300
Yavapai	893,900	887,000	890,300
Yuma/La Paz	2,754,400	2,726,600	2,702,500
<i>Subtotal - Operating State Aid</i>	34,464,800	32,476,700	18,180,600
STEM and Workforce Programs State Aid			
Cochise	450,400	1,236,700	1,150,000
Coconino	147,500	426,900	423,200
Gila	50,000	142,800	160,900
Graham	218,100	640,500	569,500
Maricopa	0	1,400,000	0
Mohave	211,700	593,700	577,700
Navajo	122,600	375,400	345,500
Pima	0	600,000	0
Pinal	257,700	1,009,300	96,500
Santa Cruz	16,700	45,400	53,100
Yavapai	248,600	802,900	805,700
Yuma/La Paz	276,700	882,500	867,300
<i>Subtotal - STEM and Workforce Programs State Aid</i>	2,000,000	8,156,100	5,049,400
Equalization Aid			
Cochise	4,712,400	3,870,500	4,332,800
Graham	16,075,100	15,025,500	14,538,800
Navajo	5,514,200	5,283,300	5,849,400
<i>Subtotal - Equalization Aid</i>	26,301,700	24,179,300	24,721,000
Rural County Allocation	3,268,400	3,195,500	3,195,500 ^{1/}
Rural County Reimbursement Subsidy	848,800	1,273,800	1,273,800 ^{2/}
Tribal Community Colleges	2,625,000	2,625,000	2,625,000 ^{3/}
AGENCY TOTAL	69,508,700	71,906,400	55,045,300^{4/}
FUND SOURCES			
General Fund	69,508,700	71,906,400	55,045,300
SUBTOTAL - Appropriated Funds	69,508,700	71,906,400	55,045,300
Other Non-Appropriated Funds	17,062,300	17,696,600	17,696,600
TOTAL - ALL SOURCES	86,571,000	89,603,000	72,741,900

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 2 provisional districts. Arizona’s community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associate’s degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

Operating State Aid

The budget includes \$18,180,600 from the General Fund in FY 2016 for Operating State Aid. This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(1,519,800) from the General Fund in FY 2016 to fund the statutory formula for Operating State Aid.

Apart from the Maricopa and Pima reductions described below, the budget funds statutory formula costs for a (5,832), or (4.4%), decrease in Full Time Student Equivalent (FTSE) students in community colleges statewide (see Table 1). The (5,832) net FTSE decrease consists of a (6,156) FTSE decrease in non-dual enrollment students and a 324 FTSE increase in dual enrollment students. A.R.S. § 15-1466.01 requires dual enrollment students be funded at 50% for state aid purposes. Dual enrollment refers to high school students who are enrolled in community college courses for both high school and community college credit.

Formula Changes

The budget includes a decrease of \$(12,776,300) from the General Fund in FY 2016 to fund adjustments to the formula for Operating State Aid.

As permanent law, the FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16) eliminates Operating State Aid for Maricopa and Pima. If fully funded, the FY 2016 formula would cost an additional \$12,776,300 (Maricopa, \$6,681,400 and Pima, \$6,094,900).

Background – With the exception of Maricopa and Pima, the Operating State Aid Special Line Items provide each community college district with funds for continuing

- 1/ A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost of students attending community colleges who are from counties that are not part of an established community college district, and then the state will withhold these counties’ sales tax revenues to offset that cost. In FY 2016 the JLBC Staff calculates that amount to be \$3,195,500. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 2/ Of the \$1,273,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County receives \$699,300 and Greenlee County \$574,500. (General Appropriation Act footnote)
- 3/ A.R.S. § 42-5031.01 directs the State Treasurer to annually transmit to the tribal colleges 10% of Transaction Privilege Tax (TPT) revenues collected from sources located on the reservation, or \$1,750,000, whichever is less, as well as 5% of TPT revenues collected on the reservation, or \$875,000, whichever is less, to a technical college on the same reservation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 4/ General Appropriation Act funds are appropriated as District-by-District Special Line Items.

operating and maintenance expenses pursuant to A.R.S. § 15-1466. The Operating State Aid formula adjusts state aid in an amount that reflects changes in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the change in the most recent year’s actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. (For FY 2016, the last actual FTSE data was from FY 2014.)

District	FY 2013 FTSE	FY 2014 FTSE	Percentage Change
Cochise	7,766	7,221	(7.0)%
Coconino	2,099	2,092	(0.3)%
Gila	703	785	11.7 %
Graham	3,107	2,765	(11.0)%
Maricopa	81,218	78,454	(3.4)%
Mohave	2,987	2,919	(2.3)%
Navajo	1,962	1,825	(7.0)%
Pima	19,514	17,963	(7.9)%
Pinal	4,822	4,354	(9.7)%
Santa Cruz	218	254	16.5 %
Yavapai	3,984	4,002	0.5%
Yuma/La Paz	5,537	5,451	(1.6)%
Total	133,917	128,085	(4.4)%

STEM and Workforce Programs State Aid

The budget includes \$5,049,400 from the General Fund in FY 2016 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(1,106,700) from the General Fund in FY 2016 to fund STEM and Workforce Programs State Aid.

As session law, the FY 2016 Higher Education BRB suspends the program's funding formula in A.R.S. § 15-1464 for FY 2016 and instead funds the amounts specified in the General Appropriation Act, which totals to \$5,049,400. Enrollment changes reduce formula aid by \$(293,700) and the budget also forgoes \$(813,000) for Pinal in FY 2016 and limits their aid to \$96,500.

Formula Changes

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2016 to fund adjustments to the formula for STEM and Workforce Programs State Aid.

In FY 2015, the budget included \$6,156,100 to fully fund the STEM formula for rural districts, and \$2,000,000 to partially fund STEM for Maricopa and Pima (\$1,400,000 and \$600,000 respectively).

As permanent law, the FY 2016 Higher Education BRB eliminates STEM and Workforce Programs State Aid for Maricopa and Pima. The BRB also suspends the formula in A.R.S. § 15-1464 for FY 2016, since Pinal is limited to \$96,500. All other districts receive their full formula funding. If fully funded the FY 2016 formula would cost an additional \$15,876,400 (Maricopa, \$12,207,100, Pima, \$2,856,300 and Pinal, \$813,000).

Background – The STEM and Workforce Programs Special Line Items provide the community college districts with funds for partnerships, faculty, technology equipment, student services, facilities, and property needs pursuant to A.R.S. § 15-1464.

The STEM and Workforce Programs State Aid formula provides per capita funding to districts other than Maricopa and Pima based on the district's size and the most recent year's actual audited FTSE. The statutory formula provides \$210 per FTSE for districts with 5,000 or less FTSE or \$160 per FTSE for districts with greater than 5,000 FTSE.

The FY 2016 Higher Education BRB, however, also suspends the formula in A.R.S. § 15-1464 for FY 2016, since Pinal is limited to \$96,500. All other districts receive their full formula funding.

Equalization Aid

The budget includes \$24,721,000 from the General Fund in FY 2016 for Equalization Aid. This amount funds the following adjustments:

Property Value Changes

The budget includes an increase of \$541,700 from the General Fund in FY 2016 to reflect increased formula costs for funding Equalization Aid due to assessed valuation

changes. Detail of specific district changes is shown in *Table 2*.

District	FY 2015	Year-over-Year Change	FY 2016
Cochise	\$3,870,500	\$462,300	\$4,332,800
Graham	15,025,500	(486,700)	14,538,800
Navajo	<u>5,283,300</u>	<u>566,100</u>	<u>5,849,400</u>
Total	\$24,179,300	\$541,700	\$24,721,000

Background – The Equalization Special Line Items provide additional state aid to community college districts with property tax bases that are less than the minimum assessed value specified in A.R.S. § 15-1402. Under the Equalization Aid formula, the minimum assessed valuation is revised by the average change in actual assessed valuation for the most recent year for all rural districts with populations of less than 500,000 persons. For the FY 2016 Equalization Aid formula calculation, the minimum assessed valuation decreased (1.3)% to \$1.27 billion. (See *Table 3* for the calculation of the growth rate.)

Equalization Aid is paid based on the difference between the minimum assessed valuation and the most recent actual assessed valuation for the district. Equalization Aid is calculated at the lesser of \$1.37 per \$100 of the district's assessed valuation or the district's levy rate.

As noted in *Table 3*, the average rural district assessed value declined by (1.3)%, in TY 2014. In comparison, Cochise declined by (5.0)% and Navajo declined by (6.5)%. By declining more than the average district, Cochise and Navajo qualify for more aid. Graham property values increased by 9.6%. Since Graham came closer to the minimum assessed value (which declined 1.3%) they qualify for less aid.

District	TY 2013 Primary AV	TY 2014 Primary AV	TY 2013-2014 % Growth
Cochise*	\$1,006,475,400	\$955,719,000	(5.0)%
Graham*	192,240,700	210,752,700	9.6%
Navajo*	903,351,900	845,016,700	(6.5)%
Coconino	1,519,086,300	1,518,999,200	0.0%
Mohave	1,771,371,900	1,727,682,200	(2.5)%
Pinal	1,988,882,400	2,004,274,800	0.8%
Yavapai	2,232,629,600	2,217,272,800	(0.7)%
Yuma/LaPaz	<u>1,328,950,800</u>	<u>1,318,636,200</u>	<u>(0.8)%</u>
Total	\$10,942,989,000	\$10,798,353,600	(1.3)%
Minimum AV	\$1,288,994,100	\$1,271,979,400	(1.3)%

* These districts qualify to receive Equalization Aid under the state funding formula.

In any one year a district's equalization assistance will depend on 1) whether the district falls below the minimum threshold (\$1.27 billion in FY 2016) and 2) whether the district's change in assessed value was less than the rural districts' average and 3) the applicable tax rate.

Rural County Allocation

The budget includes \$3,195,500 from the General Fund in FY 2016 for Rural County Allocation. This amount is unchanged from FY 2015.

Background - The Rural County Allocation Special Line Item facilitates payment to community college districts for students enrolled from counties that are not a part of an established community college district. If a county is not part of a community college district, it is responsible for the cost of their students attending community college in another county. A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost for these counties and then the state will withhold these counties' sales tax revenues to offset that cost; therefore there is no net General Fund impact. The FY 2014 expenditure of \$3,268,400 was offset by corresponding reductions in the counties' sales tax apportionment. The payments made on behalf of the counties are not included in county expenditure limits established in the Arizona Constitution. The county payments are partially offset by a state subsidy. (See next line item.)

Each year, the amount is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required by A.R.S. § 1469D to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. In May 2014, the JLBC Staff reported the amount to be \$3,195,500 for FY 2015.

Monies for the Rural County Allocation are authorized by A.R.S. § 15-1469.01, and therefore do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The budget includes \$1,273,800 from the General Fund in FY 2016 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2015.

This funding partially offsets the cost to counties that are not part of an established community college district. The funding is appropriated to Apache and Greenlee Counties. The FY 2016 budget allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The budget includes \$2,625,000 from the General Fund in FY 2016 for Tribal Community Colleges. This amount is unchanged from FY 2015.

Background – A.R.S. § 42-5031.01 allows any qualifying tribal community college to receive \$1,750,000, or 10% of the Transaction Privilege Tax (TPT) revenues collected from all sources located on the reservation, whichever is less. These monies provide tribal community colleges with funding for maintenance, renewal, and capital expenses. A.R.S. § 42-5031.01 also allows any additional technical college located on the same reservation to receive \$875,000, or 5% of the TPT revenues collected from sources located on the reservation, whichever is less. Actual amounts for FY 2016 will depend on FY 2016 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

This funding is limited to tribes that enter into a compact with the Executive. The FY 2016 Higher Education BRB extends the deadline for tribes to enter into a compact from September 1, 2012 to September 1, 2017. Diné College and Navajo Technical College on the Navajo Nation are the only schools that currently qualify to receive TPT revenues. The only other existing tribal community college in Arizona is Tohono O'odham Community College. If Tohono O'odham enters into a compact with the Executive before September 1, 2017 it would receive roughly \$168,600, which is 10% of the total FY 2014 TPT collections from the reservation.

The budget assumes that \$1,750,000 will be distributed to Diné College and \$875,000 will be distributed to Navajo Technical College in FY 2016. These amounts represent 10% and 5%, up to \$1,750,000 and \$875,000, respectively, of the estimated TPT revenues to be collected in the Navajo reservation in FY 2016.

Additional Legislation

Community College Special Plate Fund

Laws 2015, Chapter 295 requires a community college district with more than 50,000 students to establish a Community College District Collegiate Special Plate Fund consisting of fees collected from the sale of community college specialty license plates issued by the Department of Transportation (ADOT). Of the \$25 fee for the specialty plate, \$8 goes to the State Highway Fund and \$17 goes to the Community College District Collegiate Special Plate Fund. All monies in the fund are for academic scholarships. Maricopa is currently the only district with more than 50,000 students.

Table 4

Total Estimated Community College Revenues – FY 2015

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other ^{1/}	FY 2015 Total ^{2/}	FY 2014 Total ^{3/}	% Change from FY 2014
Cochise	\$10,450,600	\$7,097,000	\$19,430,100	\$15,301,000	\$7,329,700	\$59,608,400	\$49,828,700	19.6%
Coconino	2,202,700	7,383,000	9,189,700	8,093,700	958,600	27,827,700	25,378,000	9.7%
Gila ^{4/}	489,100	0	3,992,100	33,600	475,000	4,989,800	5,116,100	(2.5)%
Graham	17,927,300	6,867,300	5,652,200	11,359,500	9,223,900	51,030,200	42,472,700	20.1%
Maricopa	8,809,500	304,947,600	512,759,200	317,670,800	50,142,400	1,194,329,500	987,719,500	20.9%
Mohave	2,137,000	9,175,400	21,105,000	10,182,000	445,400	43,044,800	43,790,000	(1.7)%
Navajo	7,276,900	4,500,000	14,035,800	6,400,000	2,640,000	34,852,700	33,643,600	3.6%
Pima	7,093,500	54,068,000	100,327,000	65,787,000	5,053,500	232,329,000	208,645,800	11.4%
Pinal	3,033,200	12,478,000	42,413,000	24,615,700	4,711,100	87,251,000	80,431,900	8.5%
Santa Cruz ^{4/}	93,300	0	1,437,100	20,000	10,400	1,560,800	1,818,500	(14.2)%
Yavapai	1,689,900	11,867,000	46,313,200	15,674,000	4,372,500	79,916,600	76,138,700	5.0%
Yuma/La Paz	<u>3,609,100</u>	<u>13,662,400</u>	<u>31,501,200</u>	<u>20,000,000</u>	<u>5,019,000</u>	<u>73,791,700</u>	<u>78,697,600</u>	<u>(6.2)%</u>
Total	\$64,812,100	\$432,045,700	\$808,155,600	\$495,137,300	\$90,381,500	\$1,890,532,200	\$1,633,681,100	15.7%

^{1/} Includes auxiliary programs, interest income, workforce development funds, and transfers.

^{2/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are estimated to be \$2,495,555,000 for FY 2015.

^{3/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,735,166,200 for FY 2014.

^{4/} Gila Provisional Community College contracts with Graham County's Eastern Arizona College in order to provide degree programs. Therefore, Gila's tuition and fee revenues are collected by Graham according to their contract agreement. Santa Cruz Provisional Community College contracts with Cochise County's Community College in order to provide degree programs. Therefore, Santa Cruz's tuition and fee revenues are collected by Cochise according to their contract agreement.

Community College Tuition Financing Districts

Laws 2015, Chapter 306 renames provisional community college districts established after December 31, 2014, to *community college tuition financing districts*, specifies the county board of supervisors will serve as the governing board to any community college tuition financing district, and establishes the study committee on community college finance and expenditure limits.

An area that wishes to form a community college but does not meet the minimum assessed valuation or population requirements in A.R.S § 15-1402 may form a provisional community college district. A provisional community college district is required to contract with an existing community college district to provide instruction and services to students. Gila and Santa Cruz currently are the only established provisional districts.

The study committee is directed to examine community college district constitutional expenditure limits, review the impact of expenditure limits on community college districts, establish methods to move closer to actual full time FTSE calculations for funding, study any other relevant topic or issue that may be pertinent to community college finances, and recommend proposed statutory changes.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, Community Colleges General Fund costs were projected to increase by

\$535,200 in FY 2017 above FY 2016 and \$869,400 in FY 2018 above FY 2017. These estimates did not adjust for the elimination of Maricopa and Pima district operating aid and the reduction in Pinal STEM assistance. After adjusting for these changes, Community Colleges General Fund costs are expected to increase by \$770,000 in FY 2017 and \$985,200 in FY 2018.

These latter estimates are based on:

- Flat enrollment growth
- Assessed valuation growth of 1.02% in FY 2017 and FY 2018

Community College Revenue Sources

In addition to state General Fund monies, Arizona's community colleges receive revenues from a number of other sources, including student tuition and fees, local property taxes, grants, and other monies generated by the colleges. Of the total, the community colleges receive 3.4% of their revenues from state aid.

For FY 2015, base operating revenues from all sources are estimated to be \$1,890,532,200, which would be an increase of 15.7% from FY 2014. (See Table 4 for a summary of FY 2015 total revenue estimates.)

Property taxes are the single largest revenue source for the community colleges, accounting for 42.7% of their revenues. There are 2 types of property taxes: primary and secondary. For the community colleges, primary property taxes are levied for operating purposes and

secondary property taxes are levied to pay for capital outlay expenses. Each community college district determines its primary and secondary property tax rates. (See Table 5 for a summary of FY 2015 property tax rates.) In November 2012, Arizona voters approved Proposition 117, which will require primary and secondary taxes to be levied on the same tax base. Previously, taxes were levied on 2 valuations: full cash value and limited property value. Proposition 117 requires all property taxes to be levied on the limited property value.

Table 5
Community College Tax Rates – FY 2015

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2014
Cochise	\$2.03	\$0.00	\$2.03	9.7%
Coconino	0.48	0.13	0.61	5.2%
Gila	0.96	0.00	0.96	10.3%
Graham	2.67	0.00	2.67	(2.6)%
Maricopa	1.28	0.24	1.52	(0.7)%
Mohave	1.22	0.00	1.22	6.1%
Navajo	1.66	0.00	1.66	12.2%
Pima	1.33	0.00	1.33	3.1%
Pinal	1.91	0.35	2.26	0.4%
Santa Cruz	0.45	0.00	0.45	7.1%
Yavapai	1.86	0.22	2.08	2.0%
Yuma/La Paz	2.00	0.38	2.38	7.2%

Proposition 117 also caps annual property value increases on any single parcel of real property to 5% starting in FY 2016. The existing 2% “levy limit” remains in place. Under A.R.S. § 42-17051, community colleges are allowed to collect 2% more in property tax revenues annually, not including revenue from new construction. Any increase over 2% requires voter approval, unless the district has foregone increases in prior years and consolidates those increases into a single year.

Long term property value growth has been approximately 5%. From that perspective, Proposition 117 would tend to reduce the year-to-year volatility in property tax values rather than reduce the dollar amount of long term revenues. However, the property tax base might grow more slowly under Proposition 117 because the property tax values would not be able to increase by more than 5% to offset the years that experience growth that is less than 5%.

To the extent that the property value grows more slowly because of Proposition 117, the community colleges could still generate the same level of revenue by increasing their tax rates.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 22.9% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2015 weighted average tuition (weighted for each district’s proportion of

the statewide FTSE count) is \$2,430 if a full-time student attends for 30 hours a year. The FY 2015 amount represents an increase of 4.0% from FY 2014. (See Table 6 for FY 2015 resident tuition and fee rates.)

Table 6
Community College Resident Tuition and Fees – FY 2015

District	Cost Per Credit Hour	Annual Cost ^{1/}	% Change from FY 2014
Cochise	\$75	\$2,250	2.7%
Coconino	89	2,670	2.3%
Gila	67	2,000	1.2%
Graham	67	2,000	4.2%
Maricopa	84	2,520	3.7%
Mohave	87	2,610	2.4%
Navajo	66	1,980	(0.5)%
Pima	77	2,300	7.0%
Pinal	80	2,400	3.9%
Santa Cruz	75	2,250	2.7%
Yavapai	72	2,160	2.9%
Yuma/La Paz	76	2,280	2.7%
Weighted Average	\$81	\$2,430	4.0%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

Community colleges also receive grants and “other” revenue from a variety of sources. Combined, they account for approximately 31.0% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science Foundation, and Health and Human Services. Revenue listed in the “other” category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Total Community College Expenditures

Table 7 shows total budgeted FY 2015 community college expenditures. In FY 2015, total budgeted expenditures are \$2,502,170,600. As mentioned previously, base operating revenues for FY 2015 are \$1,890,532,200 however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,495,555,000. Of the total \$2,486,262,600 in expenditures, \$1,555,465,600, or 62%, of these expenditures are from the community colleges’ general and restricted funds. This includes about \$557,926,200, or 22%, for instruction and \$274,499,000, or 11%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are \$367,803,300, or 15% of the total. Plant Fund expenditures, which generally include capital costs, are \$393,991,800, or 16% of the total. The remaining \$184,909,900 is for debt service.

Table 7**Community Colleges - FY 2015 Budgeted Expenditures**

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$557,926,200	22%
Public Service	9,913,200	0%
Academic Support	136,299,100	5%
Student Services	188,031,400	8%
Administrative Support	274,499,000	11%
Operation & Maintenance	115,875,900	5%
Scholarships/Grants	159,845,700	6%
Contingency	<u>113,075,100</u>	<u>5%</u>
Subtotal	\$1,555,465,600	62%
Auxiliary Enterprises Fund	\$ 367,803,300	15%
Plant Fund	393,991,800	16%
Debt Service	<u>184,909,900</u>	<u>7%</u>
Total	\$ 2,502,170,600	100%

Constable Ethics Standards and Training Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	301,400	391,400	391,400
TOTAL - ALL SOURCES	<u>301,400</u>	<u>391,400</u>	<u>391,400</u>

AGENCY DESCRIPTION — The board establishes and enforces the code of conduct for constables throughout the state. The board also administers funding for constable training and equipment. The Arizona Association of Counties currently manages the board’s administrative responsibilities. The board receives fees from every writ collected on behalf of a Justice of the Peace.

Registrar of Contractors

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	105.6	105.6	105.6
Personal Services	3,851,700	5,666,900	5,666,900
Employee Related Expenditures	1,641,800	2,358,100	2,329,100
Professional and Outside Services	960,800	405,300	405,300
Travel - In State	191,300	505,100	505,100
Travel - Out of State	0	11,800	11,800
Other Operating Expenditures	926,200	2,131,600	2,151,400
Equipment	122,600	100,300	100,300
OPERATING SUBTOTAL	7,694,400	11,179,100	11,169,900
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	221,200	1,017,600	1,017,600 ^{1/}
Residential Contractors' Recovery Fund Deposit	2,700,000	0	0
AGENCY TOTAL	10,615,600	12,196,700	12,187,500^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Registrar of Contractors Fund	10,615,600	12,196,700	12,187,500
SUBTOTAL - Other Appropriated Funds	10,615,600	12,196,700	12,187,500
SUBTOTAL - Appropriated Funds	10,615,600	12,196,700	12,187,500
Other Non-Appropriated Funds	3,202,500	4,666,800	4,666,800
TOTAL - ALL SOURCES	13,818,100	16,863,500	16,854,300

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

The budget includes \$11,169,900 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(9,200) from the Registrar of Contractors Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Office of Administrative Hearings Costs

The budget includes \$1,017,600 from the Registrar of Contractors Fund in FY 2016 for Office of Administrative

Hearings (OAH) Costs. This amount is unchanged from FY 2015.

Monies in this line item are transferred from the Registrar of Contractors to OAH for services provided by OAH.

^{1/} Any transfer to or from the amount appropriated for the Office of Administrative Hearings Costs line item requires review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Corporation Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9 ^{1/}
Personal Services	15,332,600	16,807,500	16,807,500
Employee Related Expenditures	6,058,700	6,175,800	6,052,500
Professional and Outside Services	603,400	233,500	178,500
Travel - In State	153,500	164,400	164,400
Travel - Out of State	100,800	95,000	95,000
Other Operating Expenditures	2,824,300	2,487,300	2,606,900
Equipment	449,400	295,000	295,000
OPERATING SUBTOTAL	25,522,700	26,258,500	26,199,800
SPECIAL LINE ITEMS			
Corporation Filings, Same Day Service	0	400,400	398,500 ^{2/}
Named Claimants	0	600	0
Securities Division Database Upgrade	0	750,000 ^{3/}	0
Utilities Audits, Studies, Investigations & Hearings	0	380,000	380,000 ^{4/}
AGENCY TOTAL	25,522,700	27,789,500	26,978,300^{5/}
FUND SOURCES			
General Fund	511,000	610,500	614,200
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	50,000	50,100	50,100
Investment Management Regulatory and Enforcement Fund	714,200	715,700	712,600
Public Access Fund	5,987,800	6,622,200	6,541,400
Securities Regulatory and Enforcement Fund	4,661,000	5,569,200	4,898,700
Utility Regulation Revolving Fund	13,598,700	14,221,800	14,161,300
SUBTOTAL - Other Appropriated Funds	25,011,700	27,179,000	26,364,100
SUBTOTAL - Appropriated Funds	25,522,700	27,789,500	26,978,300
Other Non-Appropriated Funds	1,200	0	0
Federal Funds	430,900	700,000	700,000
TOTAL - ALL SOURCES	25,954,800	28,489,500	27,678,300

AGENCY DESCRIPTION — The Arizona Corporation Commission (ACC) was established by Article 15 of the Arizona Constitution and consists of 5 statewide elected Commissioners, each serving 4-year terms. The commission has 3 primary responsibilities. The Corporations Division provides public access to corporate annual reports, articles of incorporation, and corporate status change documents. The Securities Division regulates securities dealers and investment advisers. The Utilities Division monitors approximately 500 public service corporations operating in Arizona and establishes public utility rates. Other functions of the commission include inspecting gas pipelines and railroad track.

1/ Includes 2 OF FTE Positions funded from Special Line Items in FY 2016.

2/ The \$398,500 appropriated from the Public Access Fund for the Corporation Filings, Same Day Service line item reverts to the Public Access Fund at the end of FY 2016 if the commission has not established a same day service pursuant to section A.R.S. § 10-122. (General Appropriation Act footnote, as adjusted for statewide allocations)

3/ The General Appropriation Act specifies that the \$750,000 appropriation from the Securities Regulatory and Enforcement Fund for a new Securities Division Database Upgrade is exempt from lapsing until June 30, 2016.

4/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act Footnote)

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

Operating Budget

The budget includes \$26,199,800 and 298.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$614,200
Arizona Arts Trust Fund	50,100
Investment Management Regulatory and Enforcement Fund	712,600
Public Access Fund	6,142,900
Securities Regulatory and Enforcement Fund	4,898,700
Utility Regulation Revolving Fund	13,781,300

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(55,000) from the Public Access Fund in FY 2016 for the elimination of one-time funding for microfilming. The FY 2015 budget provided funding to hire a vendor to address a 4-year backlog of documents that are required by law to be microfilmed.

Ongoing Database Funding

The budget includes an increase of \$100,000 from the Securities Regulatory and Enforcement Fund in FY 2016 for ongoing maintenance related to new securities database software. These monies reflect a transfer of \$100,000 from the Securities Division Database Upgrade line item. The FY 2015 budget included \$750,000 in that line item to replace 2 Securities Division software systems that track enforcement matters and handle receipting, securities registration, and licensing functions.

Statewide Adjustments

The budget includes a decrease of \$(103,700) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	4,300
Investment Management Regulatory and Enforcement Fund	(3,100)
Public Access Fund	(23,900)
Securities Regulatory and Enforcement Fund	(20,500)
Utility Regulation Revolving Fund	(60,500)

(Please see the Agency Detail and Allocations section.)

Corporation Filings, Same Day Service

The budget includes \$398,500 and 2 FTE Positions from the Public Access Fund in FY 2016 for Corporation Filings,

Same Day Service. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,900) from the Public Access Fund in FY 2016 for statewide adjustments.

A footnote in the General Appropriation Act specifies that same day and next day services shall not be offered unless the commission has established a same day service pursuant to A.R.S. § 10-122. The fee for same day and next day services must be determined by a supermajority vote of the Commissioners. To date, such a fee has not been set and same day and next day services have not been implemented.

In previous years, in order to offer same day and next day services, the Corporation Commission was also required to process all expedited services within a minimum of 5 business days and all other documents and services within 30 business days. The FY 2014 Government Budget Reconciliation Bill (Laws 2013, 1st Special Session, Chapter 2) permanently eliminated this requirement.

Named Claimants

The budget includes no funding in FY 2016 for the Named Claimants line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(600) from the General Fund in FY 2016 for the elimination of one-time funding of prior year unpaid claims.

The state must annually settle legitimate unpaid claims against received goods and services, as submitted by the various state agencies. Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year. Laws 2014, Chapter 39 appropriated \$630 in FY 2015 for prior year unpaid claims against the Corporation Commission.

Securities Division Database Upgrade

The budget includes no funding from the Securities Regulatory and Enforcement Fund in FY 2016 for the Securities Division Database Upgrade line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(750,000) from the Securities Regulatory and Enforcement Fund in FY 2016 for the elimination of one-time funding to replace software systems.

Monies in this line item were used to replace 2 Securities Division software systems that track enforcement matters and handle receipting, securities registration, and licensing functions. The agency expects ongoing maintenance to cost \$100,000 yearly. That funding has been transferred to the operating budget for FY 2016.

Utilities Audits, Studies, Investigations & Hearings

The budget includes \$380,000 from the Utility Regulation Revolving Fund in FY 2016 for Utilities Audits, Studies, Investigations & Hearings. This amount is unchanged from FY 2015.

Monies in this line item allow the commission to hire outside consultants to provide professional expertise and advice to the Utilities Program staff.

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Utility Regulation Revolving Fund	\$2,000,000
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State Department of Corrections

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	9,384.0	9,534.0	9,534.0
Correctional Officer Personal Services	303,777,200	322,453,300	323,322,600
Health Care Personal Services	2,532,400	2,791,300	2,791,300
All Other Personal Services	62,452,800	64,492,900	64,818,300
Personal Services Subtotal	368,762,400	389,737,500	390,932,200
Employee Related Expenditures	187,151,400	200,886,600	209,047,100
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	28,810,400	15,501,300	15,549,300
Health Care All Other Operating Expenditures			
Professional and Outside Services	3,069,700	2,763,300	2,763,300
Travel - In State	18,000	25,000	25,000
Travel - Out of State	10,100	15,000	15,000
Other Operating Expenditures	722,700	781,600	791,100
Equipment	101,100	15,000	15,000
Health Care Operating Subtotal	3,921,600	3,599,900	3,609,400
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	7,580,800	5,370,400	5,717,100
Travel - In State	213,200	224,300	226,400
Travel - Out of State	82,500	119,100	119,100
Food	40,729,800	41,642,800	42,799,500
Other Operating Expenditures	109,935,400	110,290,900	110,803,100
Equipment	7,710,000	4,788,500	3,522,000
Non-Health Care Operating Subtotal	166,251,700	162,436,000	163,187,200
OPERATING SUBTOTAL	754,897,500	772,161,300	782,325,200
SPECIAL LINE ITEMS			
Leap Year	0	0	929,100
Private Prison Per Diem	131,368,100	144,321,300	151,518,600
Inmate Health Care Contracted Services	126,170,100	125,274,900	142,003,900 ^{1/}
AGENCY TOTAL	1,012,435,700	1,041,757,500	1,076,776,800 ^{2/3/4/5/}
FUND SOURCES			
General Fund	969,874,500	996,845,600	1,029,900,600
Other Appropriated Funds			
Alcohol Abuse Treatment Fund	295,300	554,400	555,300
Corrections Fund	25,688,000	27,517,600	27,517,800
Penitentiary Land Fund	892,300	979,200	979,200 ^{6/}
Prison Construction and Operations Fund	12,372,100	13,684,400	13,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	359,900	360,000	1,861,200 ^{7/}
State Education Fund for Correctional Education	491,500	516,300	673,400 ^{8/}
Transition Program Fund	2,462,100	1,300,000	1,603,300
SUBTOTAL - Other Appropriated Funds	42,561,200	44,911,900	46,876,200
SUBTOTAL - Appropriated Funds	1,012,435,700	1,041,757,500	1,076,776,800
Other Non-Appropriated Funds	48,437,600	50,890,200	50,890,200
Federal Funds	8,742,500	9,079,100	9,049,300
TOTAL - ALL SOURCES	1,069,615,800	1,101,726,800	1,136,716,300

AGENCY DESCRIPTION — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

Summary

The budget increases ADC spending by \$33,055,000 in FY 2016. The changes include:

- A baseline adjustment of \$7,541,200 to annualize the cost of 1,000 new beds opened in mid-FY 2015.
- \$11,572,000 for inmate health care expenses.
- \$3,657,000 for marginal health care population growth costs.
- \$1,643,000 for marginal non-health care population growth costs.
- \$13,535,700 for higher employer retirement expenses.
- \$(5,523,000) of savings for statewide adjustments, primarily a reduction in employee health care costs.
- \$629,100 for other expenses.

As part of the budget's 3-year spending plan, ADC's General Fund costs are projected to increase by \$20,658,600 in FY 2017 above FY 2016, and remain flat in 2018.

Operating Budget

The budget includes \$782,325,200 and 9,534 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$772,445,200
Alcohol Abuse Treatment Fund	555,300
Corrections Fund	3,000,800
Prison Construction and Operations Fund	3,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	361,200
State Education Fund for Correctional Education	673,400
Transition Program Fund	1,603,300

These amounts fund the following adjustments:

Annualize Maximum-Security Beds

The budget includes an increase of \$343,900 from the General Fund in FY 2016 to fund the annualization costs for the 500 new maximum-security prison beds that opened in December 2014. The FY 2013 Capital Outlay Bill (Laws 2012, Chapter 295) appropriated \$50,000,000 from the General Fund to construct 500 new male maximum-security beds at Lewis Rast.

- 1/ Before implementing any changes in per diem rates for inmate health care contracted services, the State Department of Corrections shall submit its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 2/ Before placing any inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds in facilities that are located in this state and that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 3/ The State Department of Corrections shall forward a monthly report comparing department expenditures for the month and year-to-date as compared to prior year expenditures to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and include an estimate of potential shortfalls, potential surpluses that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 4/ The State Department of Corrections shall provide a report on bed capacity to the Joint Legislative Budget Committee for its review on or before August 1, 2015. The report shall reflect the bed capacity for each security classification by gender at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30 of the previous fiscal year, June 30 of the current fiscal year and June 30 of the subsequent fiscal year, as well as the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds. If the department develops a plan subsequent to its August 1 report to close state-operated prison rated beds or cancel or not renew contracts for privately operated prison beds, the State Department of Corrections shall submit a bed plan detailing the proposed bed closures for review by the Joint Legislative Budget Committee before implementing these changes. (General Appropriation Act footnote)
- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 6/ One hundred percent of land earnings and interest from the Penitentiary Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 7/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 8/ Before the expenditure of any State Education Fund for Correctional Education receipts in excess of \$673,400, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

Corrections Officer Retirement Plan Fund Adjustment

The budget includes an increase of \$13,542,500 in FY 2016 for an increase to the employer contribution rate for the Corrections Officer Retirement Plan (CORP) Fund. As a result of the court decision in *Fields v. Elected Officials' Retirement Plan*, the employer contribution rate was adjusted upward.

This amount consists of:

General Fund	13,535,700
State Education Fund for Correctional Education	6,800

In the Legislature's 3-year spending plan, this cost for CORP is expected to increase by another \$1.9 million in FY 2017 for the annualization of costs related to the adjustment. (Please see *Other Issues and the Consolidated Retirement Report* section for details.)

FY 2016 Population Growth

The budget includes an increase of \$1,643,000 from the General Fund in FY 2016 to fund the non-health care marginal costs of population growth in FY 2016. Non-health care marginal costs include food and clothing. The increase funds non-health care marginal costs at \$1,721 a year for 953 additional inmates. (Please see the *Inmate Growth* in the *Other Issues* section for details.)

Fund Adjustment

The budget includes an increase of \$153,800 from the State Educational Fund for Correctional Education in FY 2016 to align the appropriation with funds currently received from the Department of Education for correctional education. In FY 2014, the department received \$670,100.

Operating Budget Shift for the Transition Program

The budget includes an increase of \$300,000 from the Transition Program Fund and a decrease of \$(300,000) from the General Fund in FY 2016 for savings to the General Fund from a presumed increase of 300 new participants in the Transition Program. (Please see the *Transition Program* in the *Other Issues* section for details.)

Statewide Adjustments

The budget includes a decrease of \$(5,519,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(5,523,000)
Alcohol Abuse Treatment Fund	900
Corrections Fund	200
Prison Construction and Operations Fund	1,600
State Charitable, Penal and Reformatory Institutions Land Fund	1,200
State Education Fund for Correctional Education	(3,500)
Transition Program Fund	3,300

(Please see the *Agency Detail and Allocations* Section.)

Leap Year

The budget includes an increase of \$929,100 from the General Fund in FY 2016 to fund leap year expenses. This amount funds the following adjustments:

One-Time Leap Year Costs

The budget includes a one-time increase of \$929,100 from the General Fund in FY 2016 to fund operating costs for the extra day.

Monies in this line will be used to pay operating expenses and costs for contracted services for the extra day in FY 2016 due to the leap year.

Private Prison Per Diem

The budget includes \$151,518,600 in FY 2016 for Private Prison Per Diem. This amount consists of:

General Fund	126,022,400
Corrections Fund	24,517,000
Penitentiary Land Fund	979,200

These amounts fund the following adjustments:

Annualize Medium-Security Beds

The budget includes an increase of \$7,197,300 from the General Fund in FY 2016 to annualize the cost of 500 medium-security beds that opened in January 2015.

The FY 2013 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 302) required the department to award a contract for up to 500 male, medium-security private beds to open on January 1, 2014 and up to 500 more male medium-security beds to open on January 1, 2015. These contracts were to be awarded by September 1, 2012 from the 2,000-bed Request for Proposals (RFP) issued by the department in February 2012. On August 31, 2012, the department awarded the contract to Corrections Corporation of America (CCA) at a per diem rate of \$65.43 per bed. CCA is housing these prisoners at their existing Red Rock Correctional Center in Eloy. The FY 2015 Criminal Justice BRB (Laws 2014, Chapter 12) continued to require legislative authorization for the awarding of a contract for the remaining 1,000 beds.

The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) repeals both the FY 2013 Criminal Justice BRB and the FY 2015 Criminal Justice BRB provisions granting the department authority to award a contract for the remaining 1,000 beds.

The FY 2016 Criminal Justice BRB authorizes the department to issue requests for proposals and to award a contract or contracts for up to 2,000 male medium-security beds at new or existing contracted bed facilities. The department shall award a contract or contracts to open up to 1,000 beds on July 1, 2016. The remaining 1,000 beds can be awarded with specific legislative authorization. The annual cost for the initial set of 1,000 beds will be \$24.2 million, beginning in FY 2017.

Background – Monies in this line item are paid to private prison contractors for housing and providing medical care to Arizona inmates in 7,538 beds under contract and operational by June 30, 2015. Private prison beds are considered permanent beds. ADC will usually own the facilities after a specified amount of time (typically 20 years) because the per diem rate includes a portion of the facilities’ purchasing cost. Administrative expenses related to private prison contracts are included in the department’s operating budget.

Inmate Health Care Contracted Services

The budget includes \$142,003,900 in FY 2016 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	130,503,900
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

These amounts fund the following adjustments:

FY 2016 Health Care Population Increase

The budget includes an increase of \$3,657,000 from the General Fund in FY 2016 to fund the health care costs for an increased prison population in state-run facilities in FY 2016. The increase funds health care costs for 953 additional inmates. *(For additional information on population growth, please see the Other Issues section.)*

Health Care Contract Changes

The budget includes an increase of \$5,000,000 from the General Fund in FY 2016 to pay for a \$0.47 increase to the per diem and an increased population in state facilities.

The budget presumes that the department will recover \$3,227,000 in savings annually by seeking Medicaid reimbursement for the costs of outside health care, so that the department has \$8,227,000 to use for the contract changes and to pay for past growth. *(For additional information on the Medicaid reimbursement, please see the Additional Legislation section.)*

The FY 2016 budget allocated this \$8.2 million to raise the funded per diem from \$10.10 to \$10.57 and for previously unfunded population growth:

- \$4,106,600 for a June 2014 amendment that increased the per diem by \$0.32. The amendment increased mental health staffing for the maximum custody population and vendor staffing to monitor inmate intake of specific prescription medications.
- \$1,143,400 to pay for a \$0.09 for a March 2015 amendment provision to increase the health care contract for additional staff at the remodeled and expanded inpatient care health unit at Tucson Rincon.
- \$706,000 to pay for a \$0.06 increase for a March 2015 amendment provision to increase the health care contract for additional health care staffing for the maximum beds at Lewis Rast.
- Remaining monies of \$2,321,000 for backfilling unfunded population growth in prior years.

Health Care Litigation

The budget includes an increase of \$8,072,000 in FY 2016 for a \$0.63 increase to the per diem to change the scope of the health care contract to meet the stipulation agreement for the *Parsons v. Ryan* lawsuit. This amount consists of:

General Fund	6,572,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

In the Legislature’s 3-year spending plan, the General Fund replaces the use of the Land Fund monies in FY 2017. *(Please see Other Issues for details.)*

The adjustment funds increased vendor staffing to meet the stipulation agreement in recent health care litigation. *Parsons v. Ryan* was filed against ADC in the U.S. District Court on March 6, 2012 seeking relief against alleged inadequate inmate health care and an inadequate mental health environment within maximum custody units. In February 2015, a federal judge approved a settlement agreement made public in October 2014. For the prisoners in the state-run public facilities, ADC agreed to meet defined health care performance measures and monitoring, to improve mental health treatment and programming, and to increase the time spent by maximum custody inmates outside of cells.

The agreement required the department to request that the Arizona Legislature approve a budget to increase staffing of medical and mental health positions and to request funds, if necessary, for the department to implement changes to the maximum custody environment. The agreement also stipulated that the department would cover the legal expenses of the

plaintiff. The increase to the health care contract paid for the vendor to increase staffing by 91.1 FTE Positions as of March 2015 to meet the scope changes necessary for compliance with the stipulation agreement.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$11.20. The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department’s operating budget and additional monies from Medicaid reimbursement of hospital stays outside prison facilities augment funding in this line item.

In total, the vendor and ADC amended the contract 2 times in the past year, raising the per diem from the original \$10.10 to \$11.20 with the following adjustments:

- \$0.32 for increased vendor staffing for mental health and pill distribution effective June 2014.
- \$0.09 for additional vendor staffing at inpatient care unit effective March 2015.
- \$0.06 for additional vendor staffing at new maximum custody unit effective March 2015.
- \$0.63 for additional staffing to meet scope changes for health care litigation agreement in March 2015.

A FY 2016 General Appropriation Act footnote requires JLBC review of any future per diem rate increases. The contract can be amended for changes to scope, and the vendor may request adjustments for inflation.

Additional Legislation

Budget Structure

The FY 2016 Criminal Justice BRB continues to require the department to report FY 2015 actual expenditures, FY 2016 estimated expenditures, and FY 2017 requested expenditure amounts for each line as delineated in the prior year when the department submits its FY 2017 budget request pursuant to A.R.S § 35 113.

Legislative Authority for Medicaid Reimbursement

The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona Health Care Cost Containment System (AHCCCS); ADC pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The savings to the department is the federal portion.

The FY 2016 Criminal Justice BRB changed statute to allow the department in the current fiscal year to take a credit

against payments for the total expenditures paid for the hospital for the current fiscal year or previous fiscal years by the department via AHCCCS, and requires the department to notify JLBC and OSPB on or before July 1 of each year the amount of credits against payments for the previous fiscal year.

Inmate Wages

Laws 2015, Chapter 133 raises the hourly wage cap for inmate labor performed for the department or a government entity pursuant to an intergovernmental agreement from \$0.50 to \$1.50. The bill does not change the wage structure for inmates working on Arizona Correctional Industries contracts. The legislation gives entities with intergovernmental agreements the ability to raise the wages at their discretion. ADC does not anticipate raising the wages at this time for labor performed by inmates for the department. The department currently pays \$9.3 million for the services. If ADC implemented a proportionately higher graduated scale with the \$1.50 cap as the high amount of the range, the additional “high-end” cost would be \$18.6 million.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Fund Transfers
- Arizona Inmate Management System
- Transition Program
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - FY 2014 Bed Surplus/Shortfall

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, ADC General Fund costs are projected to increase by \$20,658,600 in FY 2017 above FY 2016 and remain flat in FY 2018. *(Please see Other Issues section for more information.)*

The additional FY 2017 costs include:

- \$24.2 million to open 1,000 new private beds in July 2016.
- \$1.9 million to annualize employer retirement contribution.
- \$1.5 million to annualize health care litigation costs.
- \$(6.0) million to annualize statewide adjustments.
- \$(929,100) to eliminate one-time leap year funding.

Fund Transfers

The budget includes the following FY 2016 transfers from the agency funds to the General Fund:

Inmate Store Proceeds Fund	\$2,500,000
Special Services Fund	2,000,000
Department of Corrections Building Renewal Fund	1,500,000
Corrections Fund	1,250,000
State DOC Revolving Fund	1,072,000
Arizona Correctional Industries Revolving Fund	500,000
Alcohol Abuse Treatment Fund	250,000

Arizona Inmate Management System

The budget does not include any FY 2016 transfers from department funds for the replacement of the Adult Inmate Management System. The FY 2014 and FY 2015 appropriations transferred \$16.0 million from department funds to the APF for the creation of a new inmate management system and are expected to be sufficient through FY 2016. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Transition Program

The Transition Program allows inmates who meet eligibility criteria established in statute and by the department the opportunity to be released from prison 90 days prior to the release date established by their conviction. The program is funded by the Transition Program Fund, which receives proceeds from inmate wages and liquor tax monies that are to be used for substance abuse treatment of inmates released under parole or community supervision. Those proceeds are transferred to the Transition Fund based on statutory formulas. The amount transferred from the liquor tax is determined by a statutory formula that transfers a set amount of savings per the actual bed days served by the participants. The budget decreased the General Fund expenditures by \$(300,000) to account for the savings to the General Fund from increased participation. The budget also increased the Transition Program Fund by \$300,000 for increased payments from the liquor tax to the Transition Program Fund pursuant to the statutory formula; the increase will pay for vendor expenses.

Bed Capacity Issues

Inmate Growth Rate

During FY 2014, the inmate population increased by 1,087 from 40,686 to 41,773. This continues the moderate

growth seen in FY 2013. The JLBC Staff projects a population of 42,525 at the end of FY 2015, an increase of 752 prisoners.

The FY 2016 budget provided \$5,000,000 for 953 additional prisoners in FY 2016. This amount includes an annual per inmate cost of \$1,721 for marginal non-health care expenses and \$3,836 for marginal health care expenses. With a marginal annual cost per inmate of \$5,557 for inmate health care, food and clothes, these monies fund a growth rate of 79 a month.

A breakdown of the projected annual population growth rate by custody and gender for FY 2016 can be seen in Table 1.

Table 1

FY 2016 Inmate Growth

<u>Custody</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Minimum	217	85	302
Medium	550	24	574
Close	17	6	23
Maximum	<u>50</u>	<u>4</u>	<u>54</u>
Total	834	119	953

Bed Capacity

In measuring ADC's ability to house its inmate population, there are 2 methods of defining bed capacity:

- "Rated" beds are permanent and were originally designed for housing prisoners. This amount was 37,181 in public and private prisons on June 30, 2014, an increase of 500 from the 36,681 on June 30, 2013. ADC added 500 medium rated beds with the opening of the private Red Rock facility in FY 2014, and added 1,000 rated beds in FY 2015 with the second set of 500 medium private beds at Red Rock and the 500 new maximum beds at the ASPC-Lewis Rast Unit. ADC projects a total of 38,181 rated beds on June 30, 2015 as shown on Table 3.
- Operating Capacity represents "rated" beds plus temporary beds. The latter may be located in areas not originally intended for housing prisoners or double-bunked beds in areas intended for single bed cells. During FY 2014, the department increased its total operating capacity by 605 beds, from 41,810 to 42,415. As of June 30, 2014, public and private prisons have a total of 5,234 temporary beds, an increase from 5,129 as of June 30, 2013. ADC projects 5,478 temporary beds in use at the end of FY 2015 as shown on Table 3. This includes plans to reactivate 324 temporary beds at Cheyenne to meet growth needs and reassign 80 rated maximum beds

as special use beds given the opening of the new 500 rated maximum beds. From June 2011 to June 2014, the range of temporary beds available was 5,129 to 5,842.

In addition, special use beds are employed for investigative detention, disciplinary isolation, maximum behavior control, mental health observation, or medical inpatient care. Due to their short-term usage, these beds are not counted as part of ADC’s operational capacity. The number of special use beds in public and private prisons was 1,609 as of June 30, 2014, 56 beds more than on June 30, 2013.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A FY 2016 General Appropriation Act footnote continues to require the department to provide a report to the JLBC for its review regarding bed counts and reasons for changes in the number or classification of beds; this footnote also clarifies when the department needs to provide closure plans to the JLBC for its review after submitting the bed plan above.

FY 2014 Bed Surplus/Shortfall

During FY 2014, the inmate population increased by 1,087 inmates. At the end of FY 2014, the department had a total rated bed shortfall of (4,592). After adjusting for the 5,234 temporary beds in the overall ADC system, the rated bed shortfall became a 642 bed surplus as shown in *Table 3*.

Presuming an annual growth of 752 inmates in FY 2015, the projected rated bed shortfall in FY 2015 is (4,344). The total bed surplus/shortfall estimates for FY 2015 and beyond will depend on whether ADC maintains the 5,478 temporary bed level described above. At the 5,478 bed level, the rated bed shortfall becomes a 1,134 total bed surplus in FY 2015. The opening of 1,000 new private medium beds and the opening of 500 maximum custody state beds offset inmate growth in FY 2014 and FY 2015. By June 30, 2016, the rated bed shortfall is projected at (5,297). The operating capacity is a bed surplus of 181, assuming 5,478 temporary beds.

The projections also assume other changes ADC anticipates making. These include the reactivation of 324 male medium custody temporary beds at Yuma Cheyenne in FY 2015, reallocation adjustments between maximum custody and close custody to meet the needs of the new programming plan for maximum custody inmates, the adjustment of 80 maximum custody beds to their original special use status in FY 2015, and adjustments by the department between the minimum and medium custody

levels. The agency projects that they will re-designate 376 medium custody beds to minimum custody beds in FY 2017, and activate 1,000 private male medium custody beds on July 1, 2017.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum). While there is an overall projected operational capacity of 181 beds in June 2016, that estimate reflects a male shortfall of (89) and a female surplus of 270. Within the (89) male shortfall, there are differences by classification. For example, there is a projected male medium custody bed gap of (435), but a male maximum custody surplus of 490 as shown in *Table 2*. For FY 2017, the table assumes a growth rate of 953 with the same growth rate assumptions by gender and custody level as FY 2016. This growth is offset by the approved addition of 1,000 male medium security beds. As with the overall growth rate assumptions, the projections by gender and custody level may need further revision.

<u>Custody</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Minimum	300	128	(89)	70
Medium	(275)	115	(435)	(361)
Close	(73)	(38)	(55)	(72)
Maximum	<u>207</u>	<u>540</u>	<u>490</u>	<u>440</u>
Total	159	745	(89)	77

Table 3

Fiscal Year-End Operating Capacity

State	FY 2014 Actual			FY 2015 Estimate			FY 2016 Estimate		
	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity
Douglas	1,925	417	2,342	1,925	417	2,342	1,925	417	2,342
Eyman ^{1/}	4,024	1,319	5,343	4,024	1,239	5,263	4,024	1,239	5,263
Florence	3,440	697	4,137	3,440	697	4,137	3,440	697	4,137
Perryville	4,202	72	4,274	4,202	72	4,274	4,202	72	4,274
Phoenix	552	162	714	552	162	714	552	162	714
Lewis ^{2/}	4,604	752	5,356	5,104	752	5,856	5,104	752	5,856
Safford	1,453	316	1,769	1,453	316	1,769	1,453	316	1,769
Tucson	4,605	565	5,170	4,605	565	5,170	4,605	565	5,170
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma ^{3/}	4,350	80	4,430	4,350	404	4,754	4,350	404	4,754
Subtotal	30,781	4,596	35,377	31,281	4,840	36,121	31,281	4,840	36,121
Private (Per Diem)									
Kingman (\$62.16)	3,400	108	3,508	3,400	108	3,508	3,400	108	3,508
Phoenix West (\$49.28)	400	100	500	400	100	500	400	100	500
Marana (\$49.03) ^{4/}	500	-	500	500	-	500	500	-	500
Florence West (\$44.95 - 55.79)	600	150	750	600	150	750	600	150	750
Florence II (\$67.22)	1,000	280	1,280	1,000	280	1,280	1,000	280	1,280
Eloy (\$65.43) ^{5/}	500	-	500	1,000	-	1,000	1,000	-	1,000
Subtotal	6,400	638	7,038	6,900	638	7,538	6,900	638	7,538
Total - All Beds ^{6/}	37,181	5,234	42,415	38,181	5,478	43,659	38,181	5,478	43,659
State Prison Population	34,807		34,807	35,059		35,059	36,012		36,012
Female	3,811		3,811	3,905		3,905	4,024		4,024
Male	30,996		30,996	31,154		31,154	31,988		31,988
Private Prison Population									
Male	6,966		6,966	7,466		7,466	7,466		7,466
Total Population ^{7/}	41,773		41,773	42,525		42,525	43,478		43,478
Bed Surplus/(Shortfall)	(4,592)		642	(4,344)		1,134	(5,297)		181
Male	(5,003)		159	(4,661)		745	(5,495)		(89)
Female	411		483	317		389	198		270
Bed Surplus / (Shortfall) (% of Beds)	(11)%		2%	(10)%		3%	(13)%		0%

^{1/} During FY 2013, ADC redesignated 80 rated Eyman beds as temporary beds. During FY 2015, ADC plans to designate the beds as special use beds with the opening of the new 500 maximum-security beds resulting in a net loss of (80) temporary maximum-security beds.

^{2/} ADC opened 500 maximum-security beds at Lewis Rast in FY 2015.

^{3/} The department plans to reactivate 324 temporary male medium-security beds at Yuma Cheyenne in June 2015.

^{4/} The per diem changed with the new contract in October 2013.

^{5/} 500 medium-security private beds opened in January 2014, and another 500 beds opened in January 2015.

^{6/} Excludes special use beds totaling 1,609 in FY 2014, 1,719 in FY 2015, and 1,719 in FY 2016.

^{7/} For FY 2014, the table and JLBC projections use the June 30th, 2014 total population by custody and gender from the June 30, 2014 Daily Count Sheet.

Board of Cosmetology

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	24.5	24.5	24.5
Personal Services	743,800	754,500	768,000
Employee Related Expenditures	354,500	330,800	334,800
Professional and Outside Services	193,000	266,300	266,300
Travel - In State	3,400	40,500	40,500
Travel - Out of State	0	10,000	10,000
Other Operating Expenditures	401,200	355,300	360,500
Equipment	5,400	27,600	27,600
AGENCY TOTAL	1,701,300	1,785,000	1,807,700^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Cosmetology Fund	1,701,300	1,785,000	1,807,700
SUBTOTAL - Other Appropriated Funds	1,701,300	1,785,000	1,807,700
SUBTOTAL - Appropriated Funds	1,701,300	1,785,000	1,807,700
TOTAL - ALL SOURCES	1,701,300	1,785,000	1,807,700

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$1,807,700 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Full-time Investigator

The budget includes an increase of \$21,900 from the Board of Cosmetology Fund in FY 2016 to fund a currently half-time investigator position as a full-time position. This will allow the board to inspect every active salon.

Statewide Adjustments

The budget includes an increase of \$800 from the Board of Cosmetology Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

County Funding

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
FUND SOURCES			
General Fund	7,150,500	7,650,500	6,000,500
SUBTOTAL - Appropriated Funds	7,150,000	7,650,500	6,000,500
TOTAL - ALL SOURCES	7,150,500	7,650,500	6,000,500

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services.

Assistance to Counties

The budget includes \$6,000,500 from the General Fund in FY 2016 for assistance to counties. This amount funds the following adjustments:

Eliminate County Funding for Mohave/Yavapai/Pinal

The budget includes a decrease of \$(1,650,000) from the General Fund in FY 2016 for the elimination of assistance to Mohave, Yavapai, and Pinal Counties.

These monies are appropriated to ADOA and are allocated equally among all counties with a population of less than 200,000 according to the 2010 Decennial Census (*see Table 1*). This includes all counties except Mohave, Yavapai, Pinal, Pima, and Maricopa. Each county would receive \$550,050. An additional \$500,000 is allocated to Graham County on an on-going basis. These appropriations are in a separate section of the General Appropriation Act apart from the main ADOA appropriation.

County	2010 Decennial Census Population
Maricopa	3,817,117
Pima	980,263
Pinal	375,770
Yavapai	211,033
Mohave	200,186
Yuma	195,751
Coconino	134,421
Cochise	131,346
Navajo	107,449
Apache	71,518
Gila	53,597
Santa Cruz	47,420
Graham	37,220
La Paz	20,489
Greenlee	8,437
Total	6,392,017

Additional Legislation

County Flexibility

The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10) continues to allow counties with a population of less than 200,000 according to the 2010 Decennial Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2016.

Laws 2015, Chapter 323 subsequently amended the FY 2016 Revenue BRB to allow counties with a population of greater than 200,000 but less than 900,000, according to the 2010 Decennial Census, to use up to \$1,000,000 of any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2016.

Counties using the authority under Chapter 10 or Chapter 323 are required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2015.

Government Property Lease Excise Tax

The FY 2016 Revenue BRB modifies Laws 2010, Chapter 321, which requires the JLBC to issue a report on the fiscal impact of government property lease excise tax (GPLET) rates. The modifications:

- Require the Department of Revenue (DOR) and the counties to provide the JLBC Staff with information necessary to complete the report by October 1, 2015;
- Eliminate a report section pertaining to the determination of the property tax levy per square foot, which cannot be completed; and
- Permit the JLBC Staff to use a representative sample of properties to produce the report.

The FY 2016 Revenue BRB amends A.R.S. § 42-6204 to include the JLBC Staff to the list of recipients of GPLET

payment information produced by counties and currently reported to DOR.

Additional County Cost Sharing

The FY 2016 Revenue BRB, as amended by Laws 2015, Chapter 323, requires DOR to assess a fee on participating counties, cities, regional transportation authorities, and councils of governments (Maricopa Association of Governments and Pima Association of Governments) to recover a portion of DOR's operating costs incurred to collect, process, and distribute local and state shared tax revenues. Fees are allocated proportionately based on the share of tax distributions from DOR. The distribution of fees amongst the entities in a category (for example, Maricopa County as a share of all county fees) is based on population.

In addition, the FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) requires the Department of Juvenile Corrections (DJC) to assess a Committed Youth Confinement Cost Sharing Fee to each county, which is deposited into the DJC Local Cost Sharing Fund. The FY 2016 Criminal Justice BRB contains an intent statement that each county pay their proportional share of \$12,000,000 according to their population in the 2010 decennial census.

(Please see the Department of Revenue and Department of Juvenile Corrections sections for details regarding these county cost sharing requirements.)

Arizona Criminal Justice Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	354,600	443,600	443,600
Employee Related Expenditures	130,600	159,400	155,400
Professional and Outside Services	101,100	172,300	172,300
Travel - In State	4,600	7,700	7,700
Travel - Out of State	5,200	6,400	6,400
Other Operating Expenditures	62,900	99,600	102,500
Equipment	22,900	0	0
OPERATING SUBTOTAL	681,900	889,000	887,900
SPECIAL LINE ITEMS			
State Aid to County Attorneys	973,600	973,600	973,600
Victim Compensation and Assistance	3,540,300	4,092,500	4,094,700
AGENCY TOTAL	5,195,800	5,955,100	5,956,200^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Criminal Justice Enhancement Fund	504,500	650,100	648,800
Drug and Gang Prevention Resource Center Fund	177,400	238,900	239,100
State Aid to County Attorneys Fund	973,600	973,600	973,600 ^{2/}
Victim Compensation and Assistance Fund	3,540,300	4,092,500	4,094,700 ^{3/}
SUBTOTAL - Other Appropriated Funds	5,195,800	5,955,100	5,956,200
SUBTOTAL - Appropriated Funds	5,195,800	5,955,100	5,956,200
Other Non-Appropriated Funds	6,033,700	6,342,600	6,120,900
Federal Funds	9,302,200	10,271,000	5,617,400
TOTAL - ALL SOURCES	20,531,700	22,568,700	17,694,500

AGENCY DESCRIPTION — The commission was created to enhance the effectiveness and coordination of the criminal justice system in Arizona. The commission may identify needed revisions in the system and make reports. It receives 1.57% of Criminal Justice Enhancement Fund (CJEF) monies.

Operating Budget

The budget includes \$887,900 and 9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
CJEF	\$648,800
Drug and Gang Prevention Resource Center Fund	239,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,100) in FY 2016 for statewide adjustments. This amount consists of:

CJEF	(1,300)
Drug and Gang Prevention Resource Center Fund	200

(Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{2/} All State Aid to County Attorneys Fund receipts received by the Arizona Criminal Justice Commission in excess of \$973,600 in FY 2016 are appropriated to the State Aid to County Attorneys Program. Before the expenditure of any State Aid to County Attorneys Fund receipts in excess of \$973,600, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{3/} All Victim Compensation and Assistance receipts received by the Arizona Criminal Justice Commission in excess of \$4,094,700 in FY 2016 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance receipts in excess of \$4,094,700 in FY 2016, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act, as adjusted for statewide allocations)

State Aid to County Attorneys

The budget includes \$973,600 from the State Aid to County Attorneys Fund in FY 2016 for State Aid to County Attorneys. This amount is unchanged from FY 2015.

This line item provides funding for the various offices of county attorneys throughout Arizona to improve the processing of criminal cases. The line item receives funds from a 15.44% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals. The Arizona Criminal Justice Commission (ACJC) is required to distribute the monies to each county based on a composite index formula using Superior Court felony filings and county population.

Victim Compensation and Assistance

The budget includes \$4,094,700 from the Victim Compensation and Assistance Fund in FY 2016 for Victim Compensation and Assistance. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,200 from the Victim Compensation and Assistance Fund in FY 2016 for statewide adjustments.

This line item provides funding for 2 crime victim grant programs: the Victim Compensation Program and the Victim Assistance Program. Victim compensation monies are distributed to county compensation boards that award cash compensation to crime victims for specified expenses resulting from their victimization. Revenues for victim compensation grant monies come from 3 sources: 4.6% CJEF distribution, inmate work fees, and unclaimed victim restitution. Victim assistance monies are granted to local government and not-for-profit agencies on a competitive basis and are used for operating expenses related to their victim assistance programs. Revenues for victim assistance grants come from community supervision fees and interstate compact fees.

Other Issues

Indigent Defense

The budget includes \$800,100 from the State Aid to Indigent Defense Fund in the Attorney General budget to fund capital postconviction prosecutions for the state and \$700,000 from the State Aid to Indigent Defense Fund in

the Department of Public Safety (DPS) budget for operational costs associated with the Arizona Counter Terrorism Information Center. These amounts are unchanged from FY 2015 except for statewide adjustments.

The State Aid to Indigent Defense Fund receives funding from a 14.66% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals.

Prior to FY 2012, ACJC was required to distribute the Indigent Defense monies to each county based on a composite index formula using Superior Court felony filings and county population. Since that time, the fund has been used for other purposes. The projected FY 2015 year-end fund balance, including the appropriations to the Attorney General and DPS, is \$693,500. In FY 2015, projected annual revenues are \$919,100. The projected FY 2016 year-end balance, including the appropriations to the Attorney General and DPS, is \$119,400.

Arizona State Schools for the Deaf and the Blind

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
PROGRAM BUDGET			
Administration/Statewide	4,811,600	4,905,200	4,152,100
Phoenix Day School for the Deaf	10,302,200	10,739,900	10,694,700
Preschool/Outreach Programs	4,218,500	4,256,600	4,233,600
Regional Cooperatives	855,100	832,800	821,900
Tucson Campus	13,498,000	14,353,600	13,255,500
AGENCY TOTAL	33,685,400	35,088,100	33,157,800
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	18,126,700	18,889,800	18,889,800
Employee Related Expenditures	8,630,500	8,644,700	8,392,500
Professional and Outside Services	1,967,600	1,561,300	1,561,300
Travel - In State	26,700	43,500	43,500
Travel - Out of State	20,600	30,500	30,500
Food	83,200	65,200	65,200
Other Operating Expenditures	3,628,700	3,703,900	3,721,600
Equipment	463,500	715,400	715,400
OPERATING SUBTOTAL	32,947,500	33,654,300	33,419,800
SPECIAL LINE ITEMS			
Replace Network Core Infrastructure	0	695,800	0
School Bus Replacement	737,900	738,000	738,000
Voucher Fund Adjustment	0	0	(1,000,000)
AGENCY TOTAL	33,685,400	35,088,100	33,157,800 ^{1/}
FUND SOURCES			
General Fund	21,418,500	22,497,900	21,596,400
Other Appropriated Funds			
Schools for the Deaf and the Blind Fund	12,266,900	12,590,200	11,561,400 ^{2/}
SUBTOTAL - Other Appropriated Funds	12,266,900	12,590,200	11,561,400
SUBTOTAL - Appropriated Funds	33,685,400	35,088,100	33,157,800
Other Non-Appropriated Funds			
Other Non-Appropriated Funds	18,101,500	17,929,300	17,929,300
Federal Funds	1,692,700	1,952,000	1,952,000
TOTAL - ALL SOURCES	53,479,600	54,969,400	53,039,100

AGENCY DESCRIPTION — The Arizona State Schools for the Deaf and the Blind (ASDB) provides comprehensive educational programs for students with sensory impairments from birth to age 22. ASDB has 2 main campuses, a day school in Phoenix and a residential campus in Tucson, satellite preschools in the Tucson and Phoenix Metropolitan areas, and 5 regional offices from which cooperative programs with school districts are operated. ASDB also serves infants and toddlers throughout the state. ASDB serves approximately 2,115 children: 430 students in the K-12 programs (157 in Tucson and 273 in Phoenix), 86 children in preschools, 403 infant/toddlers in regional areas, and 1,196 children through the 5 existing regional cooperatives.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

^{2/} Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,561,400 in FY 2016, the Arizona State Schools for the Deaf and the Blind shall report to the Joint Legislative Budget Committee the intended use of the monies. (General Appropriation Act footnote, as adjusted for statewide allocations)

Operating Budget

The budget includes \$33,419,800 and 541.2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	20,858,400
Schools for the Deaf and the Blind Fund	12,561,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(234,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(205,700)
Schools for the Deaf and the Blind Fund	(28,800)

(Please see the Agency Detail and Allocations section.)

Assistive Technology Devices

The budget includes no change in funding from the General Fund in FY 2016 for assistive technology devices. The budget includes a total of \$253,100 from the General Fund in FY 2016 for this equipment, which may include: electronic dictionaries for visually impaired students, mobile classroom computer labs for visually disabled students, interactive whiteboards for hearing impaired students, and computer and software upgrades for computers used by visually impaired students.

Foundation for Blind Children

The budget maintains funding in FY 2016 for the preschool program at the Foundation for Blind Children at the previously appropriated level of \$1,054,100.

Replace Network Core Infrastructure

The budget includes no funding from the General Fund in FY 2016 for the Replace Network Core Infrastructure Special Line Item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(695,800) from the General Fund in FY 2016 for the elimination of one-time funding for the replacement of network core infrastructure.

Monies in this line item were used to complete core network system replacement at the Tucson and Phoenix campuses.

School Bus Replacement

The budget includes \$738,000 from the General Fund in FY 2016 for School Bus Replacement. This amount is unchanged from FY 2015.

Monies in this line item are used for the purchase of new school buses. According to the School Facilities Board rules for ASDB, a gasoline powered bus should be replaced after 10 years or 150,000 miles.

Voucher Fund Adjustment

The budget includes \$(1,000,000) from the ASDB Fund in FY 2016 for a Voucher Fund Adjustment. This amount funds the following adjustments:

Realign ASDB Expenditures with Revenue

The budget includes a decrease of \$(1,000,000) from the ASDB Fund in FY 2016 in order to align the fund's appropriation with expected revenues. Fund revenues are expected to decrease due to a decline in student enrollment. ASDB's FY 2015 appropriation was based on an estimated average annual enrollment of 583 students. Based on recent monthly data, the FY 2015 enrollment has been revised down to 516 students. ASDB is projected to receive approximately \$11,590,200 in special education voucher funding in FY 2015, which would be \$(1,000,000) below the FY 2015 appropriation. The budget assumes enrollment and voucher funding will remain at the revised FY 2015 level in FY 2016.

These estimates are based on enrollment trends shown in *Table 1*. *(Please see Other Issues for additional enrollment information.)*

Background – Special education voucher monies in the ASDB Fund represent ASDB's reimbursement from the Arizona Department of Education (ADE) for educational costs based on its enrollment. As with school districts, ASDB's ADE funding is determined by statutory formula. The amounts are reflected within a special line item to give ASDB flexibility in allocating funding changes among its 4 programs.

Other Issues

Enrollment Projections

Table 1 shows average annual enrollment totals for ASDB's Tucson, Phoenix, and Preschool campuses. FY 2015 numbers are estimates based on enrollment through March 2015. Monthly enrollment data shows a substantial decrease in FY 2014 in ASDB's preschool population. This may be due in part to A.R.S. § 15-771, passed in FY 2013,

which allows charter schools to provide education programs for preschool children with disabilities. The budget assumes that FY 2016 enrollment levels will be unchanged from FY 2015.

Table 1				
ASDB Average Annual Enrollment				
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Tucson	190	193	177	157
Phoenix	283	277	283	273
Preschool	<u>168</u>	<u>150</u>	<u>113</u>	<u>86</u>
Total	641	620	573	516^{1/}

^{1/} Enrollment projection as of March 2015

Commission for the Deaf and the Hard of Hearing

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	15.0	15.0	15.0
Personal Services	784,700	942,300	942,300
Employee Related Expenditures	301,100	354,000	349,500
Professional and Outside Services	604,600	628,600	628,600
Travel - In State	10,500	17,500	17,500
Travel - Out of State	12,600	10,800	10,800
Other Operating Expenditures	1,584,600	1,885,900	1,415,500
Equipment	164,900	437,600	948,600
AGENCY TOTAL	3,463,000	4,276,700	4,312,800^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Telecommunication Fund for the Deaf	3,463,000	4,276,700	4,312,800
SUBTOTAL - Other Appropriated Funds	3,463,000	4,276,700	4,312,800
SUBTOTAL - Appropriated Funds	3,463,000	4,276,700	4,312,800
TOTAL - ALL SOURCES	3,463,000	4,276,700	4,312,800

AGENCY DESCRIPTION — The agency acts as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public. The agency also administers a statewide telephone access program, the Telecommunication Devices for the Deaf (TDD) Relay Program. The agency licenses interpreters for the deaf and the hard of hearing. The agency is supported by the Telecommunication Fund for the Deaf, which derives monies from the Telecommunication Services Excise Tax.

Operating Budget

The budget includes \$4,312,800 and 15 FTE Positions from the Telecommunication Fund for the Deaf in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(220,000) from the Telecommunication Fund for the Deaf in FY 2016 for the elimination of one-time development expenses associated with the enhancement of the agency's online customer servicing and internal business process management system in FY 2015.

The budget also extends the commission's spending authority from the Telecommunication Fund for the Deaf for its agency business system modernization project, originally authorized in the FY 2015 budget, through the end of FY 2016.

Arizona Relay Service Contract

The budget includes an increase of \$255,500 from the Telecommunication Fund for the Deaf in FY 2016 for

increased costs associated with the commission's new contract for relay services. This increase reflects annualization of a \$255,000 FY 2015 supplemental for a total of \$511,000 above the original FY 2015 appropriation. The commission's new contract was effective January 1, 2015. The commission's previous contract expired and the vendor did not renew which resulted in a new vendor and a rate increase of approximately 20%.

Statewide Adjustments

The budget includes an increase of \$600 from the Telecommunication Fund for the Deaf in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

FY 2015 Supplemental

Laws 2015, Chapter 8 includes a FY 2015 supplemental appropriation of \$255,500 from the Telecommunication Fund for the Deaf for the commission's new relay services contract. (Please see Arizona Relay Service Contract.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Dental Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	478,600	547,300	547,300
Employee Related Expenditures	217,500	154,000	151,800
Professional and Outside Services	176,200	299,200	299,200
Travel - In State	2,200	3,200	3,200
Travel - Out of State	4,100	5,500	5,500
Other Operating Expenditures	208,800	182,200	184,800
Equipment	27,400	23,700	23,700
AGENCY TOTAL	1,114,800	1,215,100	1,215,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Dental Board Fund	1,114,800	1,215,100	1,215,500
SUBTOTAL - Other Appropriated Funds	1,114,800	1,215,100	1,215,500
SUBTOTAL - Appropriated Funds	1,114,800	1,215,100	1,215,500
TOTAL - ALL SOURCES	1,114,800	1,215,100	1,215,500

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

The budget includes \$1,215,500 and 11 FTE Positions from the Dental Board Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$400 from the Dental Board Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Early Childhood Development and Health Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	156,792,700	167,347,200	143,163,100
Federal Funds	2,387,500	140,000	140,000
TOTAL - ALL SOURCES	159,180,200	167,487,200	143,303,100

AGENCY DESCRIPTION — As authorized by a 2006 ballot initiative, the Arizona Early Childhood Development and Health Board (ECDHB) is funded from an 80 cents per pack cigarette tax, plus taxes on other tobacco products. The board funds early childhood development programs and services for children prior to kindergarten and their families.

Background

Early Childhood Development and Health Fund

Revenues from the tax are deposited into the Early Childhood Development and Health (ECDH) Fund and go into 2 accounts: 90% of funds are allocated to the Program Account and 10% of funds to the Administrative Costs Account.

Of the annual Program Account budget set by the board each year, 10% (or 9% of the statewide total) may be spent on statewide programs with the remaining funds allocated to the Regional Councils (81% of the statewide total). Of the amount made available to regions, 60.8% is allocated to the various regions based on the population aged 5 and under and the population under 5 living below the poverty line. The board uses its discretion to allocate the other 20.2% to regions.

Monies in the fund are to be used for 1 or more of the following 6 purposes: 1) Improve the quality of ECDH programs; 2) Increase access to quality ECDH programs; 3) Increase access to preventive health care and health screenings for children through age 5; 4) Offer parent and family support and education concerning early childhood development and literacy; 5) Provide professional development and training for ECDH providers; and 6) Increase coordination of ECDH programs and public information about the importance of ECDH. The ECDH Fund is not subject to legislative appropriation.

As shown in *Table 1*, the estimated FY 2015 expenditures leave the fund with a projected balance of \$359,406,800 at the end of FY 2015. The board intends to use the balance in future years to offset ongoing revenue losses that may occur if tobacco use (and the corresponding tax collections) continues to decline.

Table 1

	ECDH Fund (\$ in Millions)			
	FY 2013 <u>Actual</u>	FY 2014 <u>Actual</u>	FY 2015 <u>Estimate</u>	FY 2016 <u>Estimate</u>
Revenues				
Beginning Balance	\$434.4	\$421.6	\$396.8	\$359.4
Ongoing Revenues	<u>133.6</u>	<u>132.0</u>	<u>129.9</u>	<u>128.8</u>
Total Revenues	568.0	553.6	526.7	488.2
Expenditures				
Administrative Program ^{1/}	13.1	13.5	14.9	15.1
	<u>133.3</u>	<u>143.3</u>	<u>152.4</u>	<u>128.1</u>
Total Expenditures	146.4	156.8	167.3	143.2
Ending Balance	\$421.6	\$396.8	\$359.4	\$345.0

^{1/} Includes \$18.5 million from administrative account carry-forward balances that will be spent on programmatic efforts in FY 2016.

Additional Legislation

The FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18) continues to require ECDHB to report by February 1, 2016 with the Department of Child Safety on their collaborative efforts to address child welfare issues of common concern.

Department of Economic Security

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,924.6	3,882.6	4,147.7 ^{1J}
Personal Services	67,636,300	81,834,400	69,109,900
Employee Related Expenditures	34,053,500	38,430,600	32,338,500
Professional and Outside Services	23,968,000	24,310,200	19,017,800
Travel - In State	1,129,800	1,133,300	883,200
Travel - Out of State	70,200	62,900	62,900
Other Operating Expenditures	50,747,300	53,033,300	29,041,400
Equipment	3,349,200	3,879,700	3,498,400
OPERATING SUBTOTAL	180,954,300	202,684,400^{2J}	153,952,100^{3J/4J}
SPECIAL LINE ITEMS			
Agencywide			
Contingency Funding	10,500,000	0	0
Administration			
Attorney General Legal Services	9,096,700	11,141,400 ^{2J}	11,067,600
Aging and Adult Services			
Adult Services	7,924,100	7,924,100	7,924,100
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless	2,522,600	2,522,600	2,522,600
Domestic Violence Prevention	12,123,700	12,123,700	12,123,700 ^{5/6J}
Homeless Capital Grant	0	500,000	0
Rural Long Term Care Assisted Living	0	0	0
Benefits and Medical Eligibility			
TANF Cash Benefits	40,499,400	44,999,400	44,999,400
Coordinated Hunger	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	5,347,900	6,740,200 ^{2J}	6,740,200
Developmental Disabilities^{7J/8J/9J}			
DDD Operating Lump Sum	0	0	47,835,800 ^{10J}
Case Management - Medicaid	47,329,200	47,761,700 ^{2J}	50,968,300 ^{10J}
Home and Community Based Services - Medicaid	691,114,300	848,520,300 ^{2J}	900,717,100
Institutional Services - Medicaid	20,545,400	19,545,600 ^{2J}	20,737,300
Medical Services - Medicaid	126,960,500	142,653,300 ^{2J}	151,677,700
Arizona Training Program at Coolidge - Medicaid	15,977,800	15,912,300 ^{2J}	15,822,100
Medicare Clawback Payments	3,072,000	2,902,400	2,928,700
Case Management - State Only	3,926,600	3,928,600	3,912,700 ^{10J}
Home and Community Based Services - State Only	19,343,200	21,296,700	21,443,200 ^{11J}
State-Funded Long Term Care Services	28,328,100	26,554,800	26,554,000
Autism Parenting Skills - Rural Areas	0	0	0
Employment and Rehabilitation Services			
JOBS	11,035,600	11,005,600	13,005,600
Child Care Subsidy	72,722,200	98,396,600	98,396,600 ^{12J}
Rehabilitation Services	2,799,100	4,799,100	4,799,100
Independent Living Rehabilitation Services	1,239,400	1,289,400	1,289,400
Workforce Investment Act Services	39,130,400	53,654,600	51,654,600 ^{13J}
AGENCY TOTAL	1,362,651,400	1,597,015,700	1,661,230,800^{14J-16J}
FUND SOURCES			
General Fund	418,202,500	482,542,300	496,181,900 ^{17J/18J}
Other Appropriated Funds			
Child Support Enforcement Administration Fund	9,032,200	16,802,200	16,719,600 ^{4J}

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
Domestic Violence Shelter Fund	2,220,000	2,220,000	2,220,000 ^{5/6/}
Federal CCDF Block Grant	81,065,900	107,773,600	107,773,600
Federal TANF Block Grant	86,705,000	86,727,700	86,727,700 ^{18/}
Long Term Care System Fund (Non-Federal Matched)	56,424,300	31,225,400	31,251,300
Public Assistance Collections Fund	103,600	427,200	424,600
Special Administration Fund	2,829,900	2,830,600	2,939,700
Spinal and Head Injuries Trust Fund	1,865,500	1,874,900	1,874,800
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	41,535,800	56,060,800	56,050,500 ^{13/}
SUBTOTAL - Other Appropriated Funds	281,782,200	306,942,400	306,981,800
SUBTOTAL - Appropriated Funds	699,984,700	789,484,700	803,163,700
Expenditure Authority Funds			
Child Support Enforcement Administration Fund (EA)	34,555,900	40,409,800	40,230,200
Long Term Care System Fund (Federal Match)	628,110,800	767,121,200	817,836,900 ^{19/}
SUBTOTAL - Expenditure Authority Funds	662,666,700	807,531,000	858,067,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,362,651,400	1,597,015,700	1,661,230,800
Other Non-Appropriated Funds	597,849,400	349,869,700	307,996,200
Federal Funds	517,234,700	494,413,200	494,413,200
TOTAL - ALL SOURCES	2,477,735,500	2,441,298,600	2,463,640,200

- 1/ Includes 625.4 GF, 247.2 OF, and 1,403.7 EA FTE Positions funded from Special Line Items in FY 2016.
- 2/ In April 2015, DES transferred \$1,048,000 from the Attorney General Legal Services line item in FY 2015 to the operating budget (\$200,000) and the County Participation line item (\$848,000). DES also transferred \$20,542,000 from the Home and Community Based Services - Medicaid line item in FY 2015 to the operating budget (\$8,287,000), Case Management - Medicaid (\$3,174,000), Institutional Services - Medicaid (\$3,418,000), Medical Services - Medicaid (\$4,476,000), and Arizona Training Program at Coolidge - Medicaid (\$1,187,000) line items. The current display does not reflect these transfers.
- 3/ The Operating Lump Sum Appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- 4/ All state shares of retained earnings, fees and federal incentives above \$16,719,600 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New full-time equivalent positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 5/ All Domestic Violence Shelter Fund monies above \$2,220,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies above \$2,220,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ The Department of Economic Security shall report to the Joint Legislative Budget Committee on the amount of state and federal monies available statewide for domestic violence funding on or before December 15, 2015. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 7/ The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care program, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or more for a given fiscal year, the department shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee. The report shall include, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)
- 9/ The Department of Economic Security shall report all new placements into a state-owned ICF-MR or the Arizona Training Program at Coolidge Campus in FY 2016 to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee and the reason why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before July 15, 2016. (General Appropriation Act footnote)
- 10/ Before transferring any money in or out of the Case Management - Medicaid, Case Management - State-only, and DDD Operating Lump Sum line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; and Employment and Rehabilitation Services.

Summary

The Department of Economic Security's (DES) FY 2016 General Fund spending increased by \$13,639,600, or 2.8% above the FY 2015 appropriation. These changes include:

- \$1,177,200 for 11 Adult Protective Services staff.
- \$14,976,000 for new FY 2016 Developmentally Disabled (DD) Medicaid formula changes. This also funds a 3% DD capitation rate increase in FY 2016.
- \$(2,000,000) for a DES operating lump sum reduction.
- \$(500,000) to remove one-time funding for a Homeless Capital Grant.
- \$(13,600) for statewide adjustments.

As part of the budget's 3-year spending plan, DES General Fund costs are projected to increase by \$17.6 million in FY 2017 above FY 2016 and \$30.6 million in FY 2018 above FY 2017. *(See Other issues for more information.)*

Operating Budget

The budget includes \$153,952,100 and 1,871.4 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<u>FY 2016</u>
General Fund	\$78,488,700
Child Support Enforcement Administration Fund	13,177,900
Child Support Enforcement Administration Fund (EA)	27,424,800
Federal Temporary Assistance for Needy Families (TANF) Block Grant	16,798,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Public Assistance Collections Fund	333,700
Special Administration Fund	1,708,800
Spinal and Head Injuries Trust Fund	546,700
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,395,900

- 11/ Laws 2015, Chapter 169 appropriated \$120,000 from the Special Administration Fund to restore services for certain members.
- 12/ It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families who qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I. (General Appropriation Act footnote)
- 13/ All Federal Workforce Investment Act monies that are received by this state in excess of \$56,050,500 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies above \$56,050,500 to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 14/ The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security, pursuant to A.R.S. § 42-5029. (General Appropriation Act footnote)
- 15/ The Department of Economic Security shall forward a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals to the President of the Senate, the Speaker of the House of Representatives, the chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other funds, such as the statewide assessment for indirect costs, and any projected surplus in state-supported programs that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 16/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 17/ Laws 2014, 2nd Special Session, Chapter 2 appropriated \$35,000,000 from the General Fund in FY 2016 to account for the deferral of FY 2015 payments into FY 2016 so that \$35,000,000 does not appear in the FY 2016 General Appropriation Act. A total of \$21,000,000 was appropriated to DES and \$14,000,000 to line items that are now part of the new Department of Child Safety. The FY 2016 General Appropriation Act appropriates \$21,000,000 in FY 2017 to reflect the deferral of FY 2016 payments to FY 2017.
- 18/ Any Federal Temporary Assistance for Needy Families Block Grant monies received in FY 2016, including the beginning balance, by the Department of Economic Security in excess of \$218,728,100 is appropriated to the department in FY 2016. For every dollar the Department of Economic Security receives in Federal Temporary Assistance for Needy Families Block Grant monies in FY 2016 in excess of the \$218,728,100 appropriated to the Department of Economic Security and the Department of Child Safety, minus any FY 2015 revertments expected to be spent as administrative adjustments in FY 2016, the state General Fund appropriations for the Department of Economic Security and the Department of Child Safety are proportionally reduced by a corresponding dollar amount. The Department of Economic Security shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before September 1, 2015 its estimate of how much of the FY 2015 revertments of the Department of Economic Security and the Department of Child Safety will be spent as administrative adjustments in FY 2016 and excluded from the total amount of Federal Temporary Assistance for Needy Families Block Grant monies. On or before June 30, 2016, the Department of Economic Security shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of state General Fund monies, if any, that will not be expended under this provision. (General Appropriation Act footnote)
- 19/ Any FY 2015 balance in the department Long Term Care System Fund established pursuant to A.R.S. § 36-2913, Arizona Revised Statutes, that is unexpended and unencumbered on June 30, 2016 after administrative adjustments reverts to the state General Fund subject to approval by the Arizona Health Care Cost Containment System Administration. (General Appropriation Act footnote)

These amounts fund the following adjustments:

Adult Protective Services Staff

The budget includes an increase of \$1,177,200 and 11 FTE Positions from the General Fund in FY 2016 for additional Adult Protective Services (APS) staff. APS staff respond to reports of abuse, neglect and exploitation of vulnerable and incapacitated adults and offer appropriate services. The current caseload per APS investigator is 103. The additional staff is expected to allow the agency to start closing more cases than are being added.

Operating Lump Sum Reduction

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2016 for a lump sum reduction to the DES Administration operating budget.

New DDD Operating Line Item

The budget includes a decrease of \$(47,894,300) and (294.3) FTE Positions in FY 2016 to move funds from the operating budget to the new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	(14,362,000)
Long Term Care System Fund (EA)	(33,532,300)

This transfer will increase transparency regarding total DDD spending. *(Please see the new DDD Operating Lump Sum line item for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(15,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	205,500
Child Support Enforcement Administration Fund	(66,000)
Child Support Enforcement Administration Fund (EA)	(131,500)
Public Assistance Collections Fund	(1,900)
Special Administration Fund	(10,900)
Spinal and Head Injuries Trust Fund	(100)
Workforce Investment Act Grant	(10,300)

(Please see the Agency Detail and Allocations section.)

Administration

Attorney General Legal Services

The budget includes \$11,067,600 and 156.9 FTE Positions in FY 2016 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,229,000
Child Support Enforcement Administration Fund	2,462,600
Federal TANF Block Grant	123,100
Federal CCDF Block Grant	17,700
Federal Expenditure Authority	7,144,300
Public Assistance Collections Fund	90,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(73,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(8,400)
Child Support Enforcement Administration Fund	(16,600)
Federal Expenditure Authority	(48,100)
Public Assistance Collections Fund	(700)

Monies in this line item fund all AG legal services for the department. In FY 2014, this line item did not include child welfare related AG costs.

Aging and Adult Services

Adult Services

The budget includes \$7,924,100 from the General Fund in FY 2016 for Adult Services. This amount is unchanged from FY 2015.

This line item provides an array of independent living support to elderly persons, distributed as shown in *Table 1*.

Table 1		
Independent Living Support		
Services		FY 2016
Adult Protective Contracted Services		\$ 295,100
Supplemental Payments		95,500
Home Care		3,754,900
Older Americans Act		1,749,400
Assessments and Case Management		1,567,300
Respite Care		462,000
Total		\$7,924,100^{1/}

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

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2016 for Community and Emergency Services. This amount is unchanged from FY 2015.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related

to the needs of low-income families and individuals. In FY 2014, this line item provided short-term crisis services to 1,801 households, energy assistance to 34,544 households, and 9,398 households participated in telephone discount programs.

Coordinated Homeless

The budget includes \$2,522,600 in FY 2016 for Coordinated Homeless programs. This amount consists of:

General Fund	873,100
Federal TANF Block Grant	1,649,500

These amounts are unchanged from FY 2015.

In FY 2014, this line item provided emergency shelter services to 9,702 individuals, rapid re-housing services to 1,592 individuals, and homeless prevention services to 195 individuals.

Domestic Violence Prevention

The budget includes \$12,123,700 in FY 2016 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Shelter Fund	2,220,000

These amounts are unchanged from FY 2015.

In FY 2014, this line item, along with non-appropriated funds, served approximately 8,441 women and children in emergency shelters, 344 women and children in transitional housing, and 10,912 victims with legal and lay legal advocacy.

Homeless Capital Grant

The budget includes no funding in FY 2016 for the Homeless Capital Grant line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2016 to remove one-time funding for the Homeless Capital Grant program.

In FY 2015, monies in this line item funded a grant to a faith-based facility located in Phoenix that provides homelessness services, including substance abuse treatment, behavioral medicine treatment, and job training. The grant was awarded to the Phoenix Rescue Mission in October 2014.

Rural Long Term Care Assisted Living

The budget includes no funding in FY 2016 for Rural Long Term Care Assisted Living. This amount is unchanged from FY 2015. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

Monies in this line item were originally appropriated in FY 2015 to fund long term care assisted living services in a county with a population of less than 500,000 people. Section 117 of the FY 2016 General Appropriation Act repealed the \$300,000 FY 2015 appropriation.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$44,999,400 from the Federal TANF Block Grant in FY 2016 for TANF Cash Benefits. This amount is unchanged from FY 2015.

The enacted FY 2016 budget assumes a regular caseload level of 35,035. The average cost per person is projected to be \$90. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The enacted FY 2016 budget assumes a Diversion caseload of 770. The average Diversion payment per person is projected to be \$775.

As of February 2015, DES served a regular TANF Cash Benefit caseload of 24,382 individual recipients. Given the budgeted caseload of 35,035, the program is likely to generate a significant surplus in FY 2016.

As permanent law, the FY 2016 Human Services Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 18) reduces the cumulative lifetime limit on regular TANF Cash Benefits from 24 months to 12 months starting on July 1, 2016. The 3-year spending plan associated with the enacted FY 2016 budget would yield TANF savings of \$(9.0) million in FY 2017. These savings would then be used to pay existing General Fund costs, thereby freeing up a like amount of General Fund savings.

The FY 2016 Human Services BRB includes a session law provision continuing to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives.

There is currently a 24-month cumulative lifetime limit on regular TANF Cash Benefits. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

Coordinated Hunger

The budget includes \$1,754,600 in FY 2016 for Coordinated Hunger programs. This amount consists of:

General Fund	1,254,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2015.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2014, the USDA Commodities Food Program served 377,282 households quarterly.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2016 for Tribal Pass-Through Funding. This amount is unchanged from FY 2015.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the case assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 2 details the sources and uses of the CSEA Fund.

Table 2	
CSEA Fund Sources and Uses	
Sources	FY 2016
Balance Forward	\$ 1,705,000
State Share of Retained Earnings	4,100,000
Federal Incentive Payments	6,500,000
Fees	2,010,000
Excess Appropriation Authority ^{1/}	<u>4,814,800</u>
Total	\$19,129,800
Uses	
DCSE Administration (DES Operating)	\$13,243,900
Attorney General Legal Services	2,479,200
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,327,600</u>
Total	\$19,129,800
^{1/} This line is the difference between appropriation authority and expected revenues.	

County Participation

The budget includes \$6,740,200 in FY 2016 for County Participation. This amount consists of:

CSEA Fund	1,079,100
Federal Expenditure Authority	5,661,100

These amounts are unchanged from FY 2015.

The division contracts with Gila, La Paz, and Navajo Counties to operate child support programs in those counties. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Developmental Disabilities

DES provides services to individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Clients eligible for federal Medicaid program services are funded through the Long Term Care (LTC) program. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the FPL, and have certain functional needs. The division also provides 100% state-funded services for clients who are not eligible for federal Medicaid services.

The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities but does not appropriate any specific non-appropriated fund.

As of March 2015, the Division of Developmental Disabilities serves 34,918 clients, which includes 27,845 clients in the LTC program and 7,073 clients in the state-only portion. The primary disabilities are shown in *Table 3*.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Cognitive Disability	14,964	43%
At Risk	7,545	21%
Autism	7,599	22%
Cerebral Palsy	3,191	9%
Epilepsy	1,512	4%
Not Indicated	107	1%
Total	34,918	

The LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund.

Overall DES Formula Adjustments

The budget includes an increase of \$14,976,000 from the General Fund in FY 2016 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for a discussion of FY 2017 and 2018 formula changes.)*

As the AHCCCS-authorized provider of DD services, DES receives federal monies through prepaid monthly capitation payments based on rates for types of clients.

FMAP Adjustments

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2016, the Medicaid FMAP will increase to 68.81% (0.7% increase). The increased FMAP results in additional General Fund savings of \$(6,821,600).

FY 2016 Caseload Growth

The budget includes a net increase of \$10,705,500 from the General Fund in FY 2016 for DD caseload changes. From FY 2015 to FY 2016, caseloads are expected to grow by 4.5% to a level of 29,325 by June 2016.

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to Home and Community Based Services (HCBS) and Case Management/Medical Services Only, while caseloads for Institutional Services and the Arizona Training Program at Coolidge were held flat. All clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

<u>Line Item</u>	<u>FY 14</u>	<u>FY 15 Est</u>	<u>FY 16 Est</u>
Home and Community Based Services	23,087	24,295	25,558
Institutional Services	100	100	100
AZ Training Program at Coolidge	81	81	81
Subtotal	23,268	24,476	25,739
Case Management and Medical Services only	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Total	26,854	28,062	29,325

FY 2016 Capitation Rate Adjustments

The budget includes a 3% net capitation rate increase beginning July 1, 2015. The increased capitation rate results in an additional General Fund cost of \$11,065,800 in FY 2016. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. *(Please see Capitation and Provider Rates section in Other Issues for further discussion.)*

Medicare Clawback

The budget includes an increase of \$26,300 from the General Fund for adjustments associated with Medicare Clawback Payments.

FY 2015 Supplemental

The budget includes an FY 2015 supplemental appropriation for DES to address a shortfall in the DD program. This amount consists of \$7,852,000 from the General Fund and \$21,082,900 from the Long Term Care System Fund Expenditure Authority. *(Please see FY 2015 Supplemental section in Other Issues for further discussion.)*

DDD Operating Lump Sum

The budget includes \$47,835,800 and 294.3 FTE Positions in FY 2016 for a new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	14,322,300
Long Term Care System Fund	33,513,500

These amounts fund the following adjustments:

New DDD Operating Line Item

The budget includes an increase of \$47,894,300 and 294.3 FTE Positions in FY 2016 to move funds from the operating budget to a new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	14,362,000
Long Term Care System Fund	33,532,300

Statewide Adjustments

The budget includes a decrease of \$(58,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(39,700)
Long Term Care System Fund	(18,800)

Background – Monies in this line item fund direct DD operating and administrative costs. This line item does not include departmentwide administration and indirect costs. It has been added to create better transparency of total DD resources. A total of \$11.8 million of central administration funding associated with the DD program remains in the DES operating budget. A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Case Management - Medicaid

The budget includes \$50,968,300 and 1,009.6 FTE Positions in FY 2016 for Medicaid Case Management. These amounts consist of:

General Fund	16,210,700
Long Term Care System Fund	34,757,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$3,488,400 and 47.1 FTE Positions in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	1,088,200
Long Term Care System Fund	2,400,200

FTE Authority

The budget includes an increase of 207 FTE Positions for historical growth funded without FTE Position authority.

Statewide Adjustments

The budget includes a decrease of \$(281,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(88,400)
Long Term Care System Fund	(193,400)

Background – In addition to providing case management services to an estimated 25,739 clients receiving direct

services, this line item also funds “case management only” services to another 3,586 clients (see Table 4).

A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - Medicaid

The budget includes \$900,717,100 and 94.5 FTE Positions in FY 2016 for Medicaid Home and Community Based Services (HCBS). These amounts consist of:

General Fund	280,668,200
Long Term Care System Fund	620,048,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$52,272,600 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	11,603,200
Long Term Care System Fund	40,669,400

Statewide Adjustments

The budget includes a decrease of \$(75,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(22,500)
Long Term Care System Fund	(53,300)

Background – Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C). Approximately 25,558 individuals are expected to receive Medicaid home and community based services in FY 2016 (see Table 4).

Of the \$900,717,100 in this line item, \$888,408,400 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

The budget also includes \$20,000,000 in deferred FY 2015 General Fund payments appropriated in FY 2016 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$280,668,200 consists of

\$20,000,000 from Chapter 2 and \$260,668,200 from the FY 2016 General Appropriation Act.

Institutional Services - Medicaid

The budget includes \$20,737,300 and 74 FTE Positions in FY 2016 for Medicaid Institutional Services. These amounts consist of:

General Fund	6,468,900
Long Term Care System Fund	14,268,400

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,214,300 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	278,500
Long Term Care System Fund	935,800

Statewide Adjustments

The budget includes a decrease of \$(22,600) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(7,100)
Long Term Care System Fund	(15,500)

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-ID) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding the ATP-C. Approximately 100 individuals are expected to receive Medicaid institutional services in FY 2016 (see Table 4).

Of the \$20,737,300 in this line item, \$15,171,800 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

As permanent law, the FY 2016 Human Services BRB allows DES to contract with new private state licensed facilities to provide intermediate care facility services for members with developmental disabilities. Prior to the change, DES could only utilize institutional services through private facilities that contracted with the department before July 1, 1988; there is only 1 such institution.

Medical Services

The budget includes \$151,677,700 and 35.4 FTE Positions in FY 2016 for Medical Services. These amounts consist of:

General Fund	47,315,800
Long Term Care System Fund	104,361,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$9,051,900 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	2,083,700
Long Term Care System Fund	6,968,200

Statewide Adjustments

The budget includes a decrease of \$(27,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(8,600)
Long Term Care System Fund	(18,900)

Background – Of the \$151,677,700 in this line item, \$147,199,700 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The budget includes \$15,822,100 and 383.7 FTE Positions in FY 2016 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,935,500
Long Term Care System Fund	10,886,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$103,900 from the General Fund and a corresponding increase of \$(103,900) from the Long Term Care System Fund in FY 2016 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes a decrease of \$(90,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(28,300)
Long Term Care System Fund	(61,900)

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-IDs or state-operated group homes (SOGHs). As of June 2014 the current caseload at ATP-C is 81. The FY 2016 caseload is estimated at 81 (see Table 4). At that caseload, the blended cost per DD client at ATP-C will be \$195,300.

Medicare Clawback Payments

The budget includes \$2,928,700 from the General Fund in FY 2016 for Medicare Clawback Payments. This amount funds the following adjustment:

Formula Adjustments

The budget includes an increase of \$26,300 from the General Fund in FY 2016 for formula adjustments associated with Medicare Clawback Payments.

Background – DES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DES is required to make “Clawback” payments to Medicare based on a certain percent (75% in 2016) of the estimated drug costs.

Case Management - State-Only

The budget includes \$3,912,700 and 79.3 FTE Positions from the General Fund in FY 2016 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,900) from the General Fund in FY 2016 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. In FY 2016, this line is expected to fund services for 3,586 clients.

A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - State-Only

The budget includes \$21,443,200 and 53.6 FTE Positions in FY 2016 for state-only Home and Community Based Services. These amounts consist of:

General Fund	16,625,900
Long Term Care System Fund	4,697,300
Special Administration Fund	120,000

These amounts fund the following adjustments:

Cost Effectiveness Study Rate Adjustment

Laws 2015, Chapter 169 appropriates \$120,000 from the Special Administration Fund in FY 2016 to provide HCBS services for persons whose services were reduced under the current Cost Effective Study (CES) rate as a result of the FY 2015 provider rate increase.

The CES rate is based on the cost to provide DD services for members in an institutional setting. Medicaid does not cover the cost of HCBS services if a member goes above the CES rate as it is more cost effective at that point for the member to receive services in an institutional setting. The FY 2015 budget included a 2% increase to HCBS provider rates, which increased the cost of HCBS services and required some members to reduce services to keep from going over the CES rate.

Laws 2015, Chapter 169 appropriates \$120,000 from the Special Administration Fund in FY 2016 to restore services for members who had them reduced due to the 2% provider rate increase. Laws 2015, Chapter 169 also requires DES to annually determine the CES rate for persons receiving DD services and to report that rate on or before June 16 of each year to the JLBC.

Statewide Adjustments

The budget includes an increase of \$26,500 in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(200)
Long Term Care System Fund	26,700

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also includes funding for state-operated facilities, excluding ATP-C. As of October 2014, there are approximately 7,070 clients in the state-only program.

Of the \$21,443,200 in this line item, \$15,426,100 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$4,319,000 funds the Arizona Early Intervention Program.

In previous years, the Long Term Care System Fund appropriation in this line consisted of capitation payment equity. These monies are now required to be transferred to the General Fund, so there is no equity available for HCBS State-Only services. *(Please see Other Issues for further discussion on the Long Term Care System Fund.)*

State-Funded Long Term Care Services

The budget includes \$26,554,000 and 2 FTE Positions from the Long Term Care System Fund in FY 2016 for State-Funded Long Term Care Services. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(800) from the Long Term Care System Fund in FY 2016 for statewide adjustments.

Background – This line item funds a variety of services ineligible for Federal Funds reimbursement from AHCCCS. The most common service provided in this line item is room and board. The program also funds residential and day programs to clients with more severe developmental disabilities. These clients reside in Large Group Living Facilities or other nursing facilities.

Of the \$26,554,000 in this line item, \$26,492,200 funds State-Funded Long Term Care Services to clients enrolled in the DD program; the other \$61,800 funds program staff. *(Please see the SFLTC section in Other Issues for further discussion.)*

Autism Parenting Skills - Rural Areas

The budget includes no funding in FY 2016 for Autism Parenting Skills - Rural Areas. This amount is unchanged from FY 2015. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

Monies in this line item were originally appropriated in FY 2015 to train parents in counties with populations less than 500,000 to provide intensive behavioral treatment to children with autism who are younger than 5 years of age. Section 117 of the FY 2016 General Appropriation Act repealed the \$300,000 FY 2015 appropriation.

Employment and Rehabilitation Services

JOBS

The budget includes \$13,005,600 and 93 FTE Positions in FY 2016 for JOBS. These amounts consist of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Workforce Investment Act Grant	2,000,000
Special Administration Fund	1,110,900

These amounts fund the following adjustments:

Fund Shift

The budget includes an increase of \$2,000,000 from the Workforce Investment Act Grant in FY 2016 to shift funding from the Workforce Investment Act Services line item to the JOBS line item. A federal policy change once again allows states to use a portion of the Workforce Investment Act Grant for the JOBS program.

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

Expenditures	Amount
Case Management	\$ 9,810,000
Job Training	1,325,300
FLSA Supplement	150,000
Work-Related Transportation	1,420,300
Job Search Stipends	300,000
Total	\$13,005,600

Child Care Subsidy

The budget includes \$98,396,600 in FY 2016 for the Child Care Subsidy. This amount consists of:

Federal CCDF Block Grant	95,678,800
Federal TANF Block Grant	2,717,800

These amounts fund the following adjustments:

Fund Shift

The budget continues a FY 2015 ex-appropriation of \$(4,000,000) from the General Fund and a corresponding increase of \$4,000,000 from the CCDF Block Grant in FY 2016. Additional CCDF Block Grant monies were granted to the state in FY 2015 and are being appropriated in FY 2015 and FY 2016 to backfill General Fund dollars that were first appropriated for child care in FY 2014. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

The FY 2016 Health and Welfare BRB includes a session law provision continuing to allow DES to reduce the maximum income eligibility levels for child care assistance to manage within appropriated and available monies.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 165% of the FPL, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which has a 24-month cumulative lifetime time limit. As permanent law, the FY 2016 Human Services BRB reduces the TANF Cash Benefits lifetime limit to 12 months beginning July 1, 2016.

Subsidy Rates – The average subsidy paid to providers per child is projected to be approximately \$326 per month in FY 2016. This average includes children in DCS. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child’s child care costs.

Caseloads – The enacted FY 2016 budget assumes that the average number of children receiving child care services in FY 2016 will be 17,900 (see Table 6). Child care is also provided to children in the DCS system; these children’s care is funded in the DCS budget.

The FY 2016 General Appropriation Act continues a footnote stating it is the intent of the Legislature that the combined number of children authorized for the low-income working population be maintained throughout the year at a minimum of 8,500 children. DES projects that they will have the resources to exceed the minimum requirement and serve 10,500 in the low-income category in FY 2016 (see Table 6).

DES initiated a waiting list for the Low-Income Working category of child care services on February 18, 2009. Children must be determined eligible for child care

services to be placed on the waitlist. In January 2015, DES released all 5,239 children on the waitlist and notified the families to re-apply for child care. DES then re-established the waitlist for any new applications received after the full release. As of May 2015, approximately 770 children are on the waiting list. It is unknown how many of those children remain eligible.

Category	FY 14	FY 15 est	FY 16 est
TANF	2,689	2,600	2,600
Low-Income Working	7,503	8,750	10,500
Transitional Child Care	<u>5,156</u>	<u>4,900</u>	<u>4,800</u>
Total Served	15,348	16,250	17,900

Rehabilitation Services

The budget includes \$4,799,100 in FY 2016 for Rehabilitation Services. This amount consists of:

General Fund	4,594,400
Spinal and Head Injuries Trust Fund	204,700

These amounts are unchanged from FY 2015.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 9,369 clients at an average Total Funds cost of \$15,055 per client. Administrative expenditures and local match draw down additional federal match.

The budget also includes \$1,000,000 in deferred FY 2015 General Fund payments appropriated in FY 2015 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$4,594,400 consists of \$1,000,000 from Chapter 2 and \$3,594,400 from the FY 2016 General Appropriation Act.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2016 for Independent Living Rehabilitation Services. This amount consists of:

General Fund	166,000
Spinal and Head Injuries Trust Fund	1,123,400

These amounts are unchanged from FY 2015.

The Independent Living Rehabilitation Services program is expected to serve up to 722 clients at an average Total Funds cost of \$3,486.

In addition to these clients, the division is also expected to serve 300 clients at an average annual cost of \$3,307 per client, using federal Social Services Block Grant monies.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The budget includes \$51,654,600 from the Workforce Investment Act (WIA) Grant in FY 2016 for the Workforce Investment Act Services line item. These amounts fund the following adjustments:

Fund Shift

The budget includes a decrease of \$(2,000,000) from the Workforce Investment Act Grant in FY 2016 to shift funding from the Workforce Investment Act Services line item to the JOBS line item. A federal policy change once again allows states to use a portion of the Workforce Investment Act Grant for the JOBS program.

Background – These monies are the state’s allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 95% is allocated to local governments and 5% is retained at the state level.

The allocation of the WIA Grant for workforce related programs in FY 2016 is shown in *Table 7*.

Category	Amount
WIA Line Item	\$51,654,600
Administration	2,406,200 ^{1/}
JOBS	2,000,000 ^{2/}
Total	\$56,060,800

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

Additional Legislation

Long Term Care System Fund Transfer

Laws 2015, Chapter 169 requires the first \$100,000 in the LTCSF that is unexpended and unencumbered at the end of FY 2015 to be transferred to the Client Developmental Disability Services Trust Fund, subject to approval by the Arizona Health Care Cost Containment System Administration (AHCCCS). Monies from the Client Developmental Disability Services Trust Fund are used to enhance services presently available to the developmentally

disabled and to extend services to developmentally disabled persons not presently served.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Payment Deferral
- FY 2015 Supplemental
- Fund Transfers
- Capitation and Provider Rates
- Long Term Care System Fund
- TANF Block Grant

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, DES General Fund costs are projected to increase by \$17.6 million in FY 2017 above FY 2016 and \$30.6 million in FY 2018 above FY 2017. These estimates are based on:

- \$26.6 million in FY 2017 and \$30.6 million in FY 2018 for DD formula costs.
- \$(9.0) million in savings as a result of a new 12-month TANF time cap limit in FY 2017.

The DD estimates are based on:

- 4.5% caseload growth in FY 2017 and FY 2018, resulting in caseloads of 30,190 and 31,549 in June 2017 and June 2018, respectively.
- FMAPs of 68.92% in FY 2017 and FY 2018.
- 3% capitation growth for utilization and medical inflation in FY 2017 and FY 2018.

Payment Deferral

The budget continues the \$21.0 million payment deferral from FY 2016 to FY 2017. DES plans to defer a total of \$21.0 million in payments from the Special Line Items specified below:

Home and Community Based Services - Medicaid	20,000,000
Rehabilitation Services	1,000,000

Laws 2014, 2nd Special Session, Chapter 2 appropriated \$35.0 million in FY 2016 to pay the amount deferred from FY 2015 to FY 2016. A total of \$21.0 million was appropriated to DES and \$14.0 million was appropriated to line items now transferred to the newly formed DCS. These amounts do not appear in the General

Appropriation Act; however, the amounts are included in the agency General Fund totals in this report. As a result, the FY 2016 DES General Fund amount of \$496.2 million consists of \$21.0 million from the deferral appropriation and \$475.2 million from the General Appropriation Act.

The FY 2016 General Appropriation Act appropriates \$21,000,000 in FY 2017 to reflect the deferral of FY 2016 payments to FY 2017.

FY 2015 Supplemental

DDD Shortfall

As part of the FY 2016 budget, the Division of Developmental Disabilities received a supplemental appropriation in FY 2015 of \$7.9 million from the General Fund and \$21.1 million in LTCSF Expenditure Authority to address a program shortfall. These monies were allocated as follows:

	<u>GF</u>	<u>EA</u>
Home and Community Based Services - Medicaid	6,595,700	17,709,600
Institutional Services Medicaid	157,000	421,700
Medical Services - Medicaid	1,099,300	2,951,600

The FY 2015 budget assumed a 2% increase to the capitation rate, which included a 2% increase to HCBS provider rates. The actual FY 2015 blended capitation rate increased 5.1% over FY 2014. The higher rate was due to increases to provider compensation, along with increases in utilization, which produced higher costs. The capitation rate was adjusted to account for the higher costs, but as a result the FY 2015 budget did not have enough General Fund appropriation to fully fund the higher capitation rate.

General Fund Reductions

The FY 2016 budget included the following FY 2015 General Fund reductions:

- \$(300,000) for Rural Long-Term Care Assisted Living
- \$(300,000) for Autism Parenting Skills - Rural Areas
- \$(4,000,000) for Child Care Subsidy, offset by a corresponding \$4,000,000 CCDF increase

Fund Transfers

The budget includes the following FY 2016 transfers from this agency’s funds to the General Fund:

Special Administration Fund	\$4,000,000
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The budget includes FY 2016 transfers from department funds associated with implementing information technology projects that will put DES in compliance with state and federal security information technology standards. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Capitation and Provider Rates

The Division of Developmental Disabilities receives funding through capitated payments at a per member per month rate. The capitation rate represents the total cost to operate the ALTCS portion of the DD program and to provide services for its members. The capitation rate is renegotiated annually by DES, AHCCCS and the federal government to adjust for changes in medical inflation, utilization of services, and provider costs.

Provider rates are a component of the overall capitation rate. A capitation rate increase, however, does not mean that provider rates will experience the same increase. The capitation rate funds provider rate, inflation, and utilization adjustments so a capitation rate increase of a certain percent does not guarantee a like provider rate increase.

DES has different contracted rates with various types of providers. The divisions recently completed a rate rebase study that compared currently adopted provider rates with market “benchmark” rates. Current rates range from 48% (music therapy) to 116% (rural transition to employment) of the benchmarks.

Long Term Care System Fund

The LTCSF consists of 2 main revenue components: State-Funded Long Term Care (SFLTC) monies and LTCSF equity.

SFLTC Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, as seen in *Table 8*, include client billing revenue from room and board charges, one-time monies, and interest. SFLTC revenues primarily fund the SFLTC Services line item.

DES requires clients using residential programs to contribute a percentage of their income to help cover the cost of their room and board. Laws 2014, Chapter 167 decreased the amount of income DES is allowed to collect from clients for room and board from 88% to 70%, which is estimated to reduce client billing revenue by \$(2.0) million in FY 2015. Additionally, the SFLTC line item has been operating with an ongoing structural shortfall that DES has mitigated with transfers from LTCSF “equity,”

which is no longer available. LTCSF equity is made up of the funds remaining if DES is able to operate the DD program at a cost less than the capitation rate (see *LTCSF Equity section for further discussion*). Any equity accrued to the LTCSF is now required to be transferred to the General Fund so it will no longer be available for the SFLTC line item. DES estimates a FY 2016 shortfall of \$(3.6) million and an ongoing shortfall of \$(6.0) million in the SFLTC line item.

DES has the option of utilizing a portion of the surplus from the TANF Cash Benefit program in FY 2016 as a solution for the FY 2016 shortfall. In that circumstance, DES would need to allocate the surplus to offset General Fund spending in other non-DD areas of DES, and use those freed-up General Fund dollars to support the SFLTC line.

	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Sources			
Carry-Forward	\$ 6,042,400	\$ 8,210,300	\$ 2,419,000
Client Billing Revenue	21,911,200	19,868,500	20,424,800
LTCSF Equity	5,000,000	0	0
Interest	1,197,300	1,095,000	1,075,000
Other	<u>1,315,000</u>	<u>1,330,000</u>	<u>1,330,000</u>
Total	\$35,465,900	\$30,503,800	\$25,248,800
Uses			
SFLTC Services	<u>27,255,600</u>	<u>28,084,800</u>	<u>28,807,100</u>
Total	\$27,255,600	\$28,084,800	\$28,807,100
Ending Balance	\$ 8,210,300	\$ 2,419,000	\$ (3,558,300)

LTCSF Equity

Prior to FY 2015, the vast majority of the LTCSF consisted of federal payments made for the Developmental Disabilities (DD) program through a capitated system of payments. According to the terms of the federal agreement, the state assumes all liability for cost overages above the agreed capitation. Conversely, if DES is able to operate the program at a cost less than the federal capitation rate, then DES is able to retain the equity, which is essentially “profit.”

The FY 2016 Human Services BRB requires any equity accrued to the LTCSF from capitation payments that are unexpended and unencumbered at the end of the fiscal year to be deposited into the General Fund by June 30 of the following fiscal year. The transfer amount may be adjusted for “reported but unpaid claims” and “estimated

incurred but unreported claims”, subject to approval by AHCCCS.

The FY 2015 budget had assumed a \$35.0 million equity transfer in FY 2015; however, the only LTCSF equity balance available for transfer in FY 2015 is \$7.9 million from FY 2014. According to DES, it is not possible to transfer FY 2015 equity in the same year because bills and administrative adjustments are still being paid in FY 2016. Audited financials for the LTCSF that show the estimated balance from FY 2015 will not be released until November 2015.

Laws 2015, Chapter 169 requires the first \$100,000 of LTCSF equity that is unexpended and unencumbered at the end of FY 2015 to be transferred to the Client Developmental Disability Services Trust Fund (see *Additional Legislation section for further discussion*).

Theoretically, the capitated system of payments should not generate significant amounts of equity in the long run. Capitation rates are renegotiated annually, and the federal government should be adjusting their rates accordingly.

TANF Block Grant

The budget appropriates \$218.7 million of the state’s federal TANF Block Grant allocation in FY 2016. *Table 9* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

The FY 2014 budget allocated Long Term Care System Fund (LTCSF) equity funds to offset the loss of the TANF Population Supplemental revenues and other federal monies, while also picking up the cost of some caseload growth. The FY 2015 budget backfilled \$56.4 million of one-time LTCSF with General Fund. The FY 2015 budget also backfilled \$2.3 million in TANF Block Grant with General Fund in the Out-of-Home Support Services line item.

In the event that DES receives more TANF monies than anticipated, a General Appropriation Act footnote requires DES to revert General Fund monies dollar for dollar for TANF Block Grant monies received above \$218.7 million, including the beginning balance.

Table 9

TANF Block Grant Spending

	Actual FY 2014	Estimate FY 2015	Estimate FY 2016
Revenues			
Beginning Balance	\$ 170,800	\$ 383,500	\$ -
Adjustment for Obligated Funds	-	(383,500) ^{1/}	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues ^{2/}	21,078,500	20,014,100	18,564,100
Total TANF Available	\$ 221,390,600	\$ 220,155,400	\$ 218,705,400
Expenditures			
Department of Child Safety			
DCS Operating	\$ 50,072,900	\$ 46,928,000	\$ 46,928,000
Line Items			
Attorney General Legal Services	52,600	99,400	99,400
Inspections Bureau	-	549,700	549,700
Overtime	-	3,859,500	3,859,500
Adoption Services	20,645,700	20,645,700	20,645,700
Emergency and Residential Placement	16,423,000	16,423,000	16,423,000
Foster Care Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,743,000	1,743,000	1,743,000
In-Home Preventive Support Services	0	5,911,200	5,911,200
Out-of-Home Support Services	34,880,700	28,867,800	28,867,800
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 130,791,000	\$ 132,000,400	\$ 132,000,400
Department of Economic Security			
DES Operating	\$ 24,740,400	\$ 16,798,500	\$ 16,798,500
Line Items			
Administration			
Attorney General Legal Services	\$ 169,600	\$ 123,100	\$ 123,100
Aging and Adult Services			
Community and Emergency Services	\$ 3,724,000	\$ 3,724,000	\$ 3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,620,700	6,620,700	6,620,700
Total - Aging and Community Services	\$ 11,994,200	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 40,499,400	\$ 44,999,400	\$ 44,999,400
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 40,999,400	\$ 45,499,400	\$ 45,499,400
Developmental Disabilities			
State-Funded Long Term Care Services	\$ -	\$ -	\$ -
Employment and Rehabilitation Services			
JOBS	\$ 9,594,700	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 12,312,500	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 90,216,100	\$ 86,727,700	\$ 86,727,700
Administrative Adjustments	-	-	-
General Appropriation Act Footnote Additional Authority ^{2/}	-	1,427,300	-
TOTAL - STATEWIDE	\$ 221,007,100	\$ 220,155,400 ^{3/}	\$ 218,728,100
Ending Balance	\$ 383,500	\$ -	\$ (22,700)

^{1/} Per a General Appropriation Act footnote, the portion of the carry-forward balance that is used to pay administrative adjustments is deducted from the beginning balance.

^{2/} Per a General Appropriation Act footnote, all available TANF is appropriated to DES and DCS. Therefore, the difference of \$1,427,300 between the total TANF available in FY 2015 (\$220,155,400) and that fiscal year's TANF appropriation (\$218,728,100) is available for expenditure by the department. The department's FY 2015 General Fund appropriation is reduced by the corresponding amount of \$1,427,300. This increase and reduction is not displayed in the table at the front of the DES narrative.

^{3/} The original FY 2015 appropriation was \$218,728,100.

State Board of Education

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	0.0	11.0
Personal Services	0	0	556,500
Employee Related Expenditures	0	0	164,000
Professional and Outside Services	0	0	565,000
Travel – In State	0	0	1,000
Travel – Out of State	0	0	0
Other Operating Expenditures	0	0	293,500
Equipment	0	0	125,000
AGENCY TOTAL	0^{1/}	0^{1/}	1,705,000^{2/}
FUND SOURCES			
General Fund	0	0	1,325,200
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	0	0	379,800
SUBTOTAL - Other Appropriated Funds	0	0	379,800
SUBTOTAL - Appropriated Funds	0	0	1,705,000
TOTAL - ALL SOURCES	0	0	1,705,000

AGENCY DESCRIPTION — The 11-member State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Operating Budget

The budget includes \$1,705,000 and 11 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$1,325,200
Teacher Certification Fund	379,800

These amounts fund the following adjustments:

Establish Separate Budget Unit

The budget includes an increase of \$1,325,200 and 6 FTE Positions from the General Fund and \$379,800 and 5 FTE Positions from the Teacher Certification Fund in FY 2016 in order to establish the State Board of Education as a separate budget unit. The General Fund amount is \$90,400 and 2 FTE Positions higher than the amount appropriated to the board as a line item within the Department of Education (ADE) budget in FY 2015 due to a transfer from the Department of Education K-3 Reading line item for FY 2016 as a cost allocation measure. Ongoing responsibilities of the State Board of Education

and the Department of Education for the K-3 Reading program remain to be determined. (See the *Department of Education budget for more information.*)

The Teacher Certification Fund appropriation of \$379,800 is unchanged from the amount appropriated to the board in the Department of Education budget for FY 2015.

The 11-member State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

^{1/} Funded as part of the Department of Education budget prior to FY 2016.

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Education

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.9	175.9	164.9 ^{1/}
Personal Services	4,303,100	4,919,000	4,969,000
Employee Related Expenditures	1,575,000	1,842,200	1,805,000
Professional and Outside Services	125,600	241,300	241,300
Travel - In State	29,400	42,900	42,900
Travel - Out of State	130,600	110,700	110,700
Other Operating Expenditures	1,944,300	1,252,500	1,413,500
Equipment	476,400	193,500	193,500
OPERATING SUBTOTAL	8,584,400	8,602,100	8,775,900 ^{2/3/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,251,186,200	3,347,264,200	3,372,320,200 ^{4/-2/}
Additional Inflation	0	0	74,394,000 ^{8/}
K-3 Reading	40,007,700	40,007,700	39,917,300 ^{9/10/}
School Year 2013-2014 School District Charter School Conversions	0	24,500,000	0
Student Success Funding	0	21,500,000	0
Special Education Fund	33,242,100	33,242,100	32,242,100
Other State Aid to Districts	56,400	983,900	983,900
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	336,785,700	352,502,000	359,303,700
Additional State Aid - 1% Cap	0	7,407,200	7,380,300
Non-Formula Programs			
Accountability and Achievement Testing	3,591,600	18,223,600	16,422,400 ^{11/}
Adult Education	4,500,000	4,500,000	4,500,000
Alternative Teacher Development Program	0	0	500,000
Arizona Structured English Immersion Fund	8,791,400	4,960,400	4,960,400
English Learner Administration	3,999,200	6,516,800	6,507,900 ^{12/}
Information Technology Certifications	0	1,000,000	0
JTED Performance Pay	0	500,000	0
JTED Soft Capital	0	0	1,000,000 ^{13/}
School Safety Program	2,972,200	3,646,500	3,646,500
State Block Grant for Vocational Education	11,573,400	11,576,300	11,560,900
Student Success Fund Deposit	2,400,000	22,400,000	0
Teacher Certification	1,689,500	1,842,500	1,834,300
Technology-Based Language Development and Literacy Intervention Pilot Program	0	300,000	246,800
State Board of Education			
State Board of Education	1,543,300	1,614,600	0
AGENCY TOTAL	3,710,923,100	3,913,089,900	3,946,496,600 ^{14/-15/}
FUND SOURCES			
General Fund	3,661,757,100	3,835,253,800	3,889,519,500
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	200,000	200,100	399,000
Permanent State School Fund	46,475,500	46,475,500	47,359,500
Proposition 301 Fund	371,100	7,000,000	7,000,000
Student Success Fund	0	21,500,000	0
Teacher Certification Fund	2,119,400	2,360,500	1,971,800
Technology-Based Language Development and Literacy Intervention Fund	0	300,000	246,800

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SUBTOTAL - Other Appropriated Funds	49,166,000	77,836,100	56,977,100
SUBTOTAL - Appropriated Funds	3,710,923,100	3,913,089,900	3,946,496,600
Other Non-Appropriated Funds	543,237,300	555,357,800	602,768,300
Federal Funds	1,075,165,000	1,082,395,400	1,074,395,900
TOTAL - ALL SOURCES	5,329,325,400	5,550,843,100	5,623,660,800

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2016, it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts and approximately 450 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 50 GF and 22 OF FTE Positions funded from Special Line Items in FY 2016.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ The appropriation from the Department of Education Empowerment Scholarship Account Fund includes \$100,000 in funding for one-time information technology changes. (General Appropriation Act footnote)
- 4/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2014, Chapter 18. Laws 2015, Chapter 8 also appropriates \$930,727,700 in FY 2017 to reflect the deferral of FY 2016 payments.
- 5/ The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$47,359,500 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2016. (General Appropriation Act footnote)
- 6/ Receipts derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before expenditure of state General Fund monies. (General Appropriation Act footnote)
- 7/ Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, the income from the investment of permanent funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above. (General Appropriation Act footnote)
- 8/ The Department of Education shall allocate the \$74,394,000 amount appropriated through this line item to school districts and charter schools in FY 2016 in the same manner that it would allocate the monies if the monies were for an additional increase of \$54.31 in the base level defined for FY 2016 in A.R.S. § 15-901B2, and increase budget limits accordingly. The department shall also increase the budget limits of a school district that is not eligible to receive basic state aid funding for FY 2016 by the amount that the district's budget limits would be increased under this line item if the school district was eligible to receive basic state aid funding for FY 2016. The additional inflation amount is not an increase in the base level as defined in A.R.S. § 15-901. (General Appropriation Act footnote)
- 9/ The appropriated amount is for funding costs of the K-3 reading weight established in A.R.S. § 15-943. (General Appropriation Act footnote)
- 10/ Laws 2015, Chapter 310 authorizes the department to use up to \$500,000 of the K-3 Reading appropriation for technical assistance and state level administration of the program. Prior to the expenditure of any monies for technical assistance and state level administration of the K-3 reading program the department of education shall submit the expenditure plan for those monies to the Joint Legislative Budget Committee for review.
- 11/ Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 12/ The Department of Education shall use the appropriated amount to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC. (General Appropriation Act footnote)
- 13/ The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts. (General Appropriation Act footnote)
- 14/ The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and is due 30 days after the end of the applicable reporting period. (General Appropriation Act footnote)
- 15/ Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)
- 16/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

ADE's FY 2016 General Fund budget spending increases by \$54,265,700, or 1.4%. The budget includes both current law formula adjustments and policy changes:

Current Law Formula Adjustments

- A decrease of \$(2,953,900) to eliminate one-time funding for a property tax settlement.
- An increase of \$82,177,100 for 1.4% Average Daily Membership (ADM) growth in FY 2016.
- An increase of \$22,500,000 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$87,040,300 for a 1.59% inflator.
- A decrease of \$(42,772,900) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$4,494,500.
- An increase of \$22,500,000 for higher Homeowner's Rebate costs due to recent statutory changes.
- A decrease of \$(24,500,000) for charter conversions.
- An increase of \$3,220,700 for a new Joint Technical Education District (JTED) in Yuma County.
- A decrease of \$(1,000,000) for lower special education voucher caseloads.
- A decrease of \$(884,000) to offset higher available endowment earnings.
- A decrease of \$(716,700) for final year of 5-year Career Ladder phase out (state aid portion only).
- A decrease of \$(500,000) to eliminate one-time funding for JTED Performance Pay.
- An increase of \$700,000 for Empowerment Scholarship Accounts (ESAs).
- A decrease of \$(49,900) for other base adjustments and standard changes.

The current law formula adjustments total \$149,255,200.

Policy Changes

- An increase of \$74,394,000 for additional inflation.
- A decrease of \$(113,457,200) for District Additional Assistance.
- A decrease of \$(3,000,000) for Charter Additional Assistance.
- A decrease of \$(1,325,200) to fund State Board of Education as separate budget unit. This amount includes \$(90,400) transferred from the K-3 Reading line item.
- A decrease of \$(1,181,400) to fund incremental monies for district sponsored charter schools at 50% for FY 2016.
- A decrease of \$(22,400,000) to repeal Student Success Funding.

- A decrease of \$(20,219,700) for 1% property tax cap limitations.
- An increase of \$500,000 for an alternative teacher development program.
- A decrease of \$(1,800,000) for Achievement Testing due to elimination of AIMS high school retests.
- A decrease of \$(6,500,000) for small school weight for multisite charter phase out.
- A decrease of \$(1,000,000) for information technology certifications.
- An increase of \$1,000,000 for JTED soft capital.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$124,770,800 in FY 2017 above FY 2016 and \$156,605,200 in FY 2018 above FY 2017. (See *Other Issues* for more information.)

Operating Budget

The budget includes \$8,775,900 and 92.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<u>FY 2016</u>
General Fund	\$8,239,400
Department of Education Empowerment	
Scholarship Account Fund	399,000
Teacher Certification Fund	137,500

These amounts fund the following adjustments:

ESA Administration

The budget includes an increase of \$200,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2016 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This will provide the department with \$399,000 in ESA administration funding for FY 2016. A General Appropriation Act footnote stipulates that this includes \$100,000 for one-time information technology changes.

The Department of Education Empowerment Scholarship Account Fund is funded with monies retained from students' ESAs pursuant to A.R.S. § 15-2402C. That law allows ADE to retain up to 5% of each student's ESA funding for program administration, which for FY 2015 would have been as much as \$865,000 (an estimated \$17,300,000 ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer to fund the latter's costs for ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. (See *State Treasurer budget for State Treasurer's ESA administration funding*.)

Statewide Adjustments

The budget includes a decrease of \$(26,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(24,400)
Department of Education Empowerment Scholarship Account Fund	(1,100)
Teacher Certification Fund	(700)

(Please see the Agency Detail and Allocations section.)

Table 1	
FY 2016 Basic State Aid Formula Summary (estimated)	
General Fund	
FY 2015 Appropriation (including supplemental)	\$3,300,788,700
Base Adjustment – FY15 supplemental	(19,453,900)
Base Adjustment – FY15 enrollment growth	16,500,000
Enrollment Growth @ 1.4%	82,177,100
Higher Average Cost Per Pupil	22,500,000
1.59% Inflation	87,040,300
Property Taxes - New Construction	(42,772,900)
Yuma County JTED	3,220,700
Career Ladder Phase Out	(716,700)
Endowment Earnings	(884,000)
District Additional Assistance	(113,457,200)
Charter Additional Assistance	(3,000,000)
District Charter Phase Out	(1,181,400)
Multisite Charter Small School Weight	(6,500,000)
Empowerment Scholarship Accounts	700,000
FY 2016 budget	<u>3,324,960,700</u>
Additional Inflation (separate Line Item)	74,394,000
K-3 Reading Program (separate Line Item)	
FY 2015 Base	40,007,700
Transfer to State Board of Education	(90,400)
FY 2016 budget	<u>39,917,300</u>
FY 2014 Charter Conversions	
FY 2015 Base	24,500,000
Eliminate One-Time Funding	(24,500,000)
FY 2016 budget	<u>0</u>
Permanent State School Fund	
FY 2015 Base	46,475,500
Growth in Available Earnings	884,000
FY 2016 budget	<u>47,359,500</u>
Prop 301 Sales Tax (no change) ^{1/}	86,280,500
Local Property Taxes ^{1/}	
FY 2015 Base - estimated	2,356,192,800
Property Taxes - New Construction	42,772,900
Career Ladder Phase Out Local Share	(14,400,000)
Non-State Aid Formula Changes	12,212,300
FY 2016 Estimated ^{2/}	<u>2,396,778,000</u>
Grand Total (all sources) ^{3/}	\$5,969,690,000

1/ Non-appropriated, so excluded from appropriated totals.
 2/ An estimated \$366,684,000 of this total will be funded by the state through Homeowner’s Rebate and 1% cap funding.
 3/ Statutory formula cost would be approximately \$401,846,100 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are continued or increased in the budget on a session law basis, including the impact on non-state aid districts.

Formula Programs

Basic State Aid

The budget includes \$3,372,320,200 in FY 2016 for Basic State Aid. This amount consists of:

General Fund	3,324,960,700
Permanent State School Fund	47,359,500

The \$3,372,320,200 total does not include \$86,280,500 in “additional school day” funding from Proposition 301 that will be allocated through Basic State Aid in FY 2016, because those monies are non-appropriated (see Table 1). It also excludes local property taxes that will help fund K-12 formula costs for FY 2016, as they also are non-appropriated. In addition, it excludes \$39,917,300 for the K-3 Reading weight authorized in A.R.S. § 15-943, as those monies are appropriated to a separate line item (see narrative for K-3 Reading line item below).

(See Basic State Aid Formula Description under Other Issues for background information regarding the Basic State Aid formula.)

Base Adjustment – FY 2015 Supplemental

The budget includes a decrease of \$(19,453,900) from the General Fund in FY 2016 in order to adjust the base budget for supplemental funding from FY 2015. The FY 2016 budget continues \$16,500,000 of this amount through the “Base Adjustment – FY 2015 Enrollment Growth” discussed separately below. The remaining \$2,953,900 is not continued because it was for a one-time property tax settlement in FY 2015.

Base Adjustment – FY 2015 Enrollment Growth

The budget includes an increase of \$16,500,000 from the General Fund in FY 2016 to reflect higher than budgeted enrollment growth for FY 2015. That growth will increase starting point costs for the program for FY 2016 by an estimated \$16,500,000.

Enrollment Growth

The budget includes an increase of \$82,177,100 from the General Fund in FY 2016 for enrollment growth. This assumes that K-12 ADM will increase by 1.4% in FY 2016, or slightly less than the 1.7% growth rate computed for FY 2014 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Table 2

K-12 ADM (unweighted) ^{1/}

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% Change
2009	941,693	100,590	1,042,283	1,036	0.1%
2010	936,594	110,231	1,046,825	4,542	0.4%
2011	914,952	119,321	1,034,273	(12,552)	(1.2)%
2012	909,530	131,993	1,041,523	7,250	0.7%
2013	910,476	140,199	1,050,675	9,152	0.9%
2014	916,599	152,158	1,068,757	18,082	1.7%
2015 est	923,861	160,104	1,083,965	15,208	1.4%
2016 est	929,322	169,710	1,099,032	15,067	1.4%
2017 est	934,301	179,893	1,114,194	15,162	1.4%
2018 est	938,767	190,686	1,129,453	15,259	1.4%

^{1/} Actuals for FY 2009 through FY 2014 are from ADE payment data (FY 2014 adjusted for one-time charter conversions). Figures for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).

^{2/} Includes district-sponsored charter schools.

^{3/} Excludes district-sponsored charter schools.

Higher Average Cost Per Pupil

The budget includes an increase of \$22,500,000 from the General Fund in FY 2016 for growth in the average Basic State Aid cost per pupil for FY 2016. The average cost per pupil increases annually due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students (although they do not receive local bond and override funding) and special education students receive “add on” funding that increases their average per pupil costs.

The \$22,500,000 estimate includes \$12,000,000 for charter school pupils and \$10,500,000 for special education students in FY 2016. The charter estimate assumes that board sponsored charter schools will continue to grow by approximately 12,000 ADM in FY 2016 and receive approximately \$1,000 more per pupil than non-charter pupils (12,000 X \$1,000 = \$12,000,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 3,000 ADM in FY 2016 (see Table 3) and an average per pupil base level “add on” of \$3,500 (3,000 X \$3,500 = \$10,500,000). The assumed \$3,500 base level amount is “add on” in nature for special education pupils because it is in addition to base level funding that they generate under the “main” (non-special education) part of the Basic State Aid formula.

1.59% Inflation Adjustment

The budget includes an increase of \$87,040,300 from the General Fund in FY 2016 for a 1.59% inflation increase in the per pupil base level prescribed in A.R.S. § 15-901B2, the transportation funding levels prescribed in A.R.S. § 15-945A5 and the charter school Additional Assistance amounts prescribed in A.R.S. § 15-185B. These inflation

Table 3

Special Education ADM (weighted) ^{1/}

Fiscal Year	Districts	Charters	Total	Change	% Change
2009	81,311	3,239	84,550	5,219	6.6%
2010	83,450	4,104	87,554	3,004	3.6%
2011	88,633	5,189	93,822	6,269	7.2%
2012	92,738	5,858	98,596	4,774	5.1%
2013	95,560	6,522	102,082	3,485	3.5%
2014	95,034	7,698	102,732	650	0.6%
2015 est	95,984	9,748	105,732	3,000	2.9%
2016 est	96,944	11,788	108,732	3,000	2.8%

^{1/} Actuals for FY 2009 through FY 2014 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (293 additional “weighted” students for FY 2014) and students enrolled at ASDB.

adjustments are all included in the FY 2016 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 15) and will result in a base level of \$3,426.74 per pupil for FY 2016 versus \$3,373.11 for FY 2015.

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the “base level or other components of the Revenue Control Limit” (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The assumed FY 2016 adjustment is 1.59%, which equals the currently projected GDP price deflator for calendar year 2014. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32.

The budgets for FY 2011 through FY 2013 provided inflation increases for transportation and charter school Additional Assistance only. The State Supreme Court ruled in September 2013 (*Cave Creek Unified, et. al. v. Ducey*) that the state must inflate the K-12 per pupil “base level,” as well as transportation and charter Additional Assistance. It also remanded the case to Superior Court for resolution of funding amounts needed in order to address its ruling.

In August 2014, the Superior Court issued a judgment requiring the state to reset the base level to \$3,609 per pupil (\$236 higher) for FY 2015. It also scheduled evidentiary hearings for late October 2014 in order to determine whether the state also had to make back payments to schools for unfunded inflation in prior years.

A \$236 per pupil base level adjustment would increase Basic State Aid costs by an estimated \$332,032,000 in FY 2015 and \$336,680,400 in FY 2016 relative to current law.

In addition, the plaintiffs are seeking an estimated \$1,262,966,600 in back payments for unfunded inflation in prior years. This amount equals the cumulative sum of estimated unfunded inflation from recent years when the

base level was not adjusted for inflation (FY 2009, FY 2011, FY 2012 and FY 2013). A ruling on the back payment issue remains pending as of May 2015.

(See Additional Inflation line item for more information.)

Property Taxes from New Construction

The budget includes a decrease of \$(42,772,900) from the General Fund in FY 2016 due to a projected 1.73% increase in statewide Net Assessed Value (NAV) from new construction in FY 2016. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$42,772,900 in FY 2016. It also will decrease state costs by \$(42,772,900), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls (“existing property”) is expected to increase by 0.69% in FY 2016, resulting in a net 2.42% NAV increase for new construction and existing property combined for FY 2016.

The projected 0.69% NAV increase for existing property will not affect net QTR or SETR collections in FY 2016 because A.R.S. § 41-1276 (the “Truth in Taxation” or “TNT” law) requires the QTR and SETR to be adjusted each year in order to offset NAV changes for existing properties. As a result, the QTR will decrease to \$4.20 (from \$4.22 currently) and the SETR will decrease to \$0.5054 (from \$0.5089 currently) in FY 2016 in order to offset the estimated 0.69% NAV increase for existing property *(see Table 4)*.

Tax Rate	TNT Tax Rates	
	FY 2015	FY 2016
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.1123	\$2.0977
• Unified districts and elementary districts not located within a high school district	\$4.2246	\$4.1954
• State Equalization Tax Rate (SETR)	\$0.5089	\$0.5054

On a related note, Proposition 117 from the November 2012 General Election, caps annual growth in property values at 5% starting in FY 2016. The proposition will not affect K-12 QTR and SETR revenues from existing property, since they already are held constant from year to year by TNT. Proposition 117 also should not affect school district override revenues, since they are based on a district’s Revenue Control Limit rather than the size of its tax base. Proposition 117, however, could affect K-12 bonding, since caps on public school bonding are based on the size of a district’s tax base. Proposition 117 will slow tax base growth in the future for any year that otherwise would experience more than 5% growth in the value of existing properties. Laws 2015, Chapter 310 amends

statute regarding K-12 bonding limits in order to conform it to changes in Proposition 117.

Yuma County JTED

The budget includes an increase of \$3,220,700 from the General Fund in FY 2016 for estimated first-year Basic State Aid costs of a new JTED in Yuma County. Voters in that county approved the new JTED in November 2014 and its first year of operation will be FY 2016 pursuant to A.R.S. § 15-392B. The estimated Basic State Aid cost of \$3,220,700 for the new JTED for FY 2016 assumes that it will serve 800 ADM pupils in its first year based on input from member school districts.

Career Ladder Phase Out

The budget includes a decrease of \$(716,700) from the General Fund in FY 2016 in order to eliminate all remaining Career Ladder funding, as required by Laws 2011, Chapter 29. Chapter 29 phased out existing Career Ladder funding over 5 fiscal years, starting in FY 2012. Approximately \$(14,400,000) in local property tax funding for Career Ladder programs also will be phased out after FY 2015. A total of 28 school districts participated in the Career Ladder program.

Endowment Earnings

The budget includes a decrease of \$(884,000) from the General Fund and increase of \$884,000 from the Permanent State School Fund in FY 2016 for endowment earnings funding for Basic State Aid. This assumes that debt service costs for State School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in prior years in order to fund deficiencies correction in public schools will be \$24,903,500 for FY 2016 based on input from the SFB, which would be \$(884,000) below the currently budgeted level. This would increase the amount of land trust monies available to fund Basic State Aid in FY 2016 by \$884,000, to a total of \$47,359,500. It also would reduce General Fund costs for Basic State Aid by \$(884,000), since Endowment Earnings reduce General Fund costs for Basic State Aid on a dollar for dollar basis.

A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000. All endowment earnings above \$72,263,000 go to the Classroom Site Fund established by A.R.S. § 15-977. *(See Other Issues for more information.)*

Rollover

The budget includes no change from the General Fund in FY 2016 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of

current year (now FY 2016) state aid payments until the following fiscal year (now FY 2017).

The FY 2016 rollover continues to affect only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2016, which continues it at the \$930,727,700 level.

As a result of the continuing rollover, the 12 monthly payments that “large” school districts receive in FY 2016 will again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2014, Chapter 18 advance appropriated \$930,727,700 from the General Fund in FY 2016 in order to fund the \$930,727,700 deferred obligation from FY 2015. Those monies therefore do not appear in the FY 2016 General Appropriation Act. The Act, however, advance appropriates \$930,727,700 from the General Fund in FY 2017 in order to fund the deferred FY 2016 obligation.

A continued \$930,727,700 rollover for FY 2016 includes \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover, \$350,000,000 for the additional FY 2010 rollover and \$(21,900,000) to exempt districts with less than 600 students.

Additional Assistance Suspensions/Classroom Spending

The budget includes a decrease of \$(116,457,200) from the General Fund in FY 2016 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This amount suspends an additional \$(113,457,200) of DAA and additional \$(3,000,000) of CAA for FY 2016, as required by the FY 2016 K-12 Education BRB. This will suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2016.

The FY 2016 K-12 Education BRB requires all school districts to hold a public meeting to discuss or present their plans for the FY 2016 reductions pertaining to DAA funding. It also requires “C,” “D” and “F” schools to allow the community to submit comments or recommendations on the proposed reductions within 30 days of the meeting and requires the governing board to consider the comments or recommendations at a subsequent public meeting. It also requires the governing board of all school districts to include the percentage of classroom spending in the school district’s adopted budget on the page that governing board members sign. It further states that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined

categories of instruction, student support and instructional support as defined by the Auditor General.

School districts will receive an estimated \$63,000,000 in DAA funding in FY 2016, including an estimated \$5,000,000 self-funded by non-state aid districts, based on FY 2014 actuals. Without the continuing suspension they instead would receive an estimated \$445,497,800 in DAA funding, including an estimated \$33,626,900 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded) of \$450.76 to \$601.24 per pupil depending on the pupil’s grade level and the size of their school district.

As in prior years, the FY 2016 K-12 Education BRB requires non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they did qualify for state aid. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes only because of their strong local property tax base. The FY 2016 K-12 Education BRB also continues to extend this requirement to CAA reductions for non-state aid districts that have district-sponsored charter schools in order to conform to existing practice for DAA reductions.

The FY 2016 K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with less than 1,100 students at \$5,000,000 for FY 2016.

JTED/Hold Harmless Provisions

In addition to suspending a portion of DAA and CAA, the FY 2016 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2016 by funding their state aid at 95.5% of the full funding amount apart from unrelated DAA suspensions. This will suspend an estimated \$1,747,400 of large JTED formula funding for FY 2016.

Starting in FY 2017, the FY 2016 K-12 Education BRB also permanently reduces Base Support Level funding to JTEDs and their member districts and eliminates a “hold harmless” for school districts with declining enrollments. *(See Other Issues for additional information.)*

District Sponsored Charter School Phase Out

The budget includes a decrease of \$(1,181,400) from the General Fund in FY 2016 for estimated savings from a phasing out of pre-2014 district sponsored charter schools. Post-2014 district sponsored charter schools already are eliminated after FY 2015. *(See the School Year 2013-2014 School District Charter School Conversions line item narrative for more information.)*

The FY 2016 K-12 Education BRB funds “incremental monies” (the difference between district and charter per pupil formula funding) for pre-2014 district sponsored charter schools at 50% for FY 2016. The 50% funding factor will reduce state aid to the remaining district sponsored charter schools by an estimated \$(1,181,400) for FY 2016. It also will reduce local funding to non-state aid districts by an estimated \$(1,115,000) in FY 2016.

The BRB also indicates that it is the intent of the Legislature that district-sponsored charter schools be phased out by FY 2017, thereby reducing General Fund support by another \$(1,181,400).

Small School Weight Funding for Multisite Charter Schools

The budget includes a decrease of \$(6,500,000) from the General Fund in FY 2016 to begin eliminating small school weight funding for multisite charter schools in FY 2016. Multisite charters schools generally are charters schools with common organizational or governance structures. The FY 2016 K-12 Education BRB funds small school weights for most multisite charter schools at 66% for FY 2016 and 33% for FY 2017.

Relative to FY 2015, the budget assumes that this will reduce Basic State Aid costs by \$(6,500,000) in FY 2016, \$(13,000,000) in FY 2017 and \$(20,000,000) in FY 2018. The FY 2016 K-12 Education BRB makes multisite charters ineligible for small school weight funding after FY 2017 unless their combined student counts are less than 600 for grades K-8 or high school.

Small school weights are authorized by A.R.S. § 15-943, paragraph 1. They generate additional funding per pupil for eligible entities that have fewer than 600 ADM pupils in Grades K-8 or high school.

Empowerment Scholarship Accounts

The budget includes an increase of \$700,000 from the General Fund in FY 2016 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes that approximately 130 non-special education students who otherwise would attend private school (primarily incoming Kindergartners who live within the boundaries of a “D or F” school) will receive ESAs in FY 2016 (130 students X \$5,100 estimated average ESA cost for non-disabled pupils ≈ \$700,000). It also assumes that all other categories of new ESA students (such as disabled students who formerly attended school district or charter schools, and non-disabled students, such as from military families, who also qualify for ESAs) collectively would result in no net new cost based on formula modeling.

Laws 2015, Chapter 225 is the only new legislation impacting the program for FY 2016. *(See separate discussion of Chapter 225 below for more information.)*

Eligible students can use monies in an ESA to attend private school or fund other educational expenses, such as textbooks and tutoring. ESAs are funded primarily with Basic State Aid monies that a school district or charter school otherwise would have received for a student if they had remained in public school.

The program is open to Arizona resident students who meet at least one of the requirements listed below in addition to being either a full-time Arizona public school student in the prior year, a displaced or disabled School Tuition Organization (STO) scholarship recipient in the prior year, or an incoming kindergartner:

- A child with a disability.
- A child who is a ward of the juvenile court and is residing in prospective permanent placement foster care.
- A child who is a ward of the juvenile court and who achieved permanency through adoption.
- A child who is the sibling of a current ESA recipient.
- A child who attended a failing school in the prior year.
- An incoming Kindergartner who resides within the boundaries of a failing school.
- A child with an active duty military parent.
- A child who resides on an Arizona Indian reservation (new – see Chapter 225 discussion below).

(Please see the FY 2015 Appropriations Report for historical information on changes in program eligibility.)

Laws 2013, Chapter 250 caps the number of new ESAs approved by the department each year at 0.5% of total public school enrollment through calendar year 2019, or approximately 5,400 new students annually. Current ESA growth is substantially below this level, as the 1,869 ESAs approved for FY 2015 represent an increase of only 554 net students above the FY 2014 level *(see Table 5)*.

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015 (est)	1,315	\$17,300,000
FY 2016 (est)	1,869	\$24,400,000

^{1/} ADE data and estimates as of July 2014. “Total Awards” represent estimated ESA allocations rather than the net General Fund impact of the program after related Basic State Aid savings are deducted. The latter amount is unknown because it would depend in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

Chapter 250 also amended the funding formula for the ESA program to include “. . . an amount that is equivalent to ninety percent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student were attending a charter school.” The impact of this change has been unclear due to varying interpretations of the enacted language.

In May 2014, however, the Superintendent of Public Instruction indicated that starting in FY 2015 the department would interpret it as providing 90% of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. ADE estimates that this change will cause ESAs as a whole to cost about 9% than they would have without this policy change, which would be approximately \$1,557,000 for FY 2015 ($\$17,300,000$ estimated ESA cost for FY 2015 [from Table 5] X 9% = \$1,557,000).

The budget does not include a policy issue for this change for FY 2016, as it already would be reflected in the department’s base budget from FY 2015. It could be responsible, however, for part of the estimated \$16,500,000 Basic State Aid funding shortfall for FY 2015 (see *Base Adjustment – FY 2015 Supplemental for more information*).

Table 5 shows historical and projected data for the ESA program. For FY 2015, ADE estimates that 1,315 students are receiving \$17,300,000 in ESA funding. This represents an increase of 554 students, which is the same increase assumed in Table 5 for FY 2016 (1,869 students assumed for FY 2016 minus 1,315 assumed for FY 2015 = 554 student increase).

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the funding designated for each student’s ESA account, of which it is required to transfer one-fifth to the State Treasurer for related administration at the State Treasurer’s office. The budget appropriates \$399,000 to ADE from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2016 for program administration (see *agency Operating Budget narrative above*). The budget appropriates \$79,700 from the State Treasurer Empowerment Scholarship Account Fund in FY 2016 for ESA program administration (see *related narrative in State Treasurer Budget pages*).

Laws 2015, Chapter 225 expands ESA eligibility to a child who resides within the boundaries of an Arizona Indian reservation and who meets other eligibility criteria for the program, such as being a full time public school student in the prior year or an incoming kindergartner. Chapter 225 also establishes a study

committee to review issues pertaining to special education services that are provided through ESAs.

Additional Inflation

The budget includes \$74,394,000 from the General Fund in FY 2016 for Additional Inflation. These amounts fund the following adjustments:

Additional Inflation

The budget includes an increase of \$74,394,000 from the General Fund in FY 2016 for additional inflation. A footnote in the General Appropriation Act requires the department to allocate these monies as if they were for an additional increase of \$54.31 in the base level defined in A.R.S. § 15-901B2 for FY 2016 and to increase budget limits accordingly. It also requires the department to increase budget limits of non-state aid districts accordingly so they will receive corresponding increases in local funding. The footnote further stipulates that the additional funding is not an increase in the base level.

K-3 Reading

The budget includes \$39,917,300 from the General Fund in FY 2016 for the K-3 Reading program. These amounts fund the following adjustments:

Transfer to State Board of Education

The budget includes a decrease of \$(90,400) and (2) FTE Positions from the General Fund in FY 2016 in order to transfer a portion of program funding to the now-separate State Board of Education budget for FY 2016.

A FY 2015 General Appropriation Act footnote for the program allowed the State Board of Education to use for technical assistance and statewide administration of the program each year up to \$1,500,000 of the program’s appropriation. The amount actually used and the breakdown by department versus the State Board of Education varied annually.

In establishing the State Board of Education as a separate budget unit for FY 2016, the budget transfers \$(90,400) and (2) FTE Positions from this program in the Department of Education budget to the operating budget of the newly-separate State Board of Education. The General Appropriation Act also deleted the \$1,500,000 technical assistance footnote.

Laws 2015, Chapter 310, however, subsequently authorized the department to use up to \$500,000 of its FY 2016 appropriation for K-3 Reading for technical assistance and state level administration of the program. Chapter 310 requires the department to submit the

expenditure plan for these monies to the Joint Legislative Budget Committee for review prior to spending them. Ongoing responsibilities of the State Board of Education and the Department of Education for the K-3 Reading program remain to be determined.

The program is authorized by A.R.S. § 15-211, which requires the State Board of Education, in collaboration with the department, to establish a program to improve the reading proficiency of pupils in Grades K-3. Program funding is generated by the K-3 Reading "Group B" weight of 0.040 per student as established by A.R.S. § 15-943.

This line item only reflects initial funding of K-3 Reading when it was created in FY 2013. Since that time, approximately \$2,480,000 in additional K-3 Reading funding has been authorized for enrollment growth and inflation, since statewide enrollment has increased by approximately 3% and inflation has increased formula costs by 3.2% since the program began in FY 2013 ($\$40,000,000 \times 6.2\% = \$2,480,000$). That additional funding is part of the Basic State Aid line item.

School Year 2013-2014 School District Charter School Conversions

The budget includes no funding in FY 2016 for School Year 2013-2014 School District Charter School Conversions. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(24,500,000) from the General Fund in FY 2016 for the elimination of one-time funding for School Year 2013-2014 School District Charter School Conversions. This funding was one-time in nature, as Section 22 of the FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) stipulated that new charter conversions from FY 2014 could continue to operate as charter schools only through FY 2015.

In FY 2016, only school districts that operated charter schools prior to FY 2014 can continue to operate and receive state funding for them. Laws 2014, Chapter 214, however, caps their charter school ADM at 120% of their FY 2013 charter school ADM (approximately 2,800 ADM statewide). In addition, the FY 2016 K-12 Education BRB funds their charter school "incremental monies" at 50% for FY 2016 and expresses legislative intent that remaining district sponsored charter schools be eliminated by FY 2017 (see *District Sponsored Charter School Phase Out policy issue above*).

(See the *School Year 2013-2014 School District Charter School Conversions policy issue under Basic State Aid in*

the FY 2015 Appropriations Report for additional information.)

Student Success Funding

The budget includes no funding from the Student Success Fund in FY 2016 for Student Success Funding (SSF). This amount funds the following adjustments:

Eliminate Program

The budget includes a decrease of \$(21,500,000) from the Student Success Fund in FY 2016 in order to eliminate the program. In addition, the FY 2016 K-12 Education BRB repeals A.R.S. § 15-917, which established the Student Success Fund.

(See the *FY 2015 Appropriations Report for more information on the program.*)

Special Education Fund

The budget includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2016 for the Special Education Fund Special Line Item. These amounts fund the following adjustments:

Caseload Reduction

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2016 to reflect declining enrollment in residential programs at the Arizona State Schools for the Deaf and the Blind. (See *Arizona State Schools for the Deaf and the Blind narrative for more information.*)

The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the developmentally disabled operated by DES (A.R.S. § 15-1202). It also funds costs of residential education for students who require a private residential special education placement, or who are placed in a residential education facility by a state placing agency.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2016 for Other State Aid to Districts. This amount is unchanged from FY 2015.

This amount includes \$880,200 (unchanged) for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The budget includes \$359,303,700 from the General Fund in FY 2016 for the Additional State Aid (ASA) - Homeowner's Rebate line item. This amount funds the following adjustments:

New Homes

The budget includes an increase of \$4,494,500 from the General Fund in FY 2016 for increased Homeowner's Rebate costs associated with new home construction. The \$4,494,500 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2016 and that approximately 46.0% of the QTR taxes owed by new homes will be paid by the state through the Homeowner's Rebate.

Property Taxes - Statutory Changes

The budget includes an increase of \$4,400,000 from the General Fund in FY 2016 to offset an anticipated increase in Homeowner Rebate costs for FY 2016 due to tax law changes pertaining to commercial property. Laws 2011, 2nd Special Session, Chapter 1 phases down the assessment ratio on commercial property from 20% to 18% over 4 years beginning in FY 2014, which will reduce statewide property values for commercial property in FY 2016. This will cause the statewide property tax base to be smaller in FY 2016 than it otherwise would be and Truth in Taxation will require the K-12 QTR to be increased accordingly. The latter change will increase the amount of QTR taxes paid by homeowners, which will increase Homeowner's Rebate costs by an estimated \$4,400,000 in FY 2016.

In addition, Chapter 1 increases the rebate percentage for the Homeowner's Rebate in order to also hold homeowners harmless for non-QTR rate increases that otherwise would occur under Chapter 1 to compensate for the lower commercial property assessed value. These rates may affect K-12 non-QTR taxes for school bonds and overrides. In addition, non-school tax rates, such as for cities, counties and community colleges, may also increase.

In combination, the higher TNT QTR and the rebate percentage change (described separately below) will cost an estimated \$22,500,000 in FY 2016.

Increased Rebate Percentage

The budget includes an increase of \$18,100,000 from the General Fund in FY 2016 for costs associated with an increased Homeowner's Rebate percentage required by

Laws 2011, 2nd Special Session, Chapter 1. Chapter 1 requires DOR to adjust the Homeowner's Rebate percentages for FY 2014 through FY 2017 in order to offset homeowner tax rate increases that otherwise would occur in those years due to reduced assessment ratios for commercial property. Unlike the \$4,400,000 cost associated with the higher statewide QTR, the \$18,100,000 reflects the cost of the higher rebate percentage associated with keeping homeowner local property taxes from increasing.

For FY 2015, DOR increased the rebate percentage to 43.559% versus 41.825% in FY 2014. The currently estimated cost of the required rebate percentage increase for FY 2016 is \$18,100,000, which would reflect a rebate percentage of roughly 46%. DOR is not expected to determine the actual rebate percentage for FY 2016 until the summer of 2015.

Display 1% Cap Separately

The budget includes a decrease of \$(27,600,000) from the General Fund in FY 2016 to display costs of the 1% cap in a separate line item for greater transparency starting in FY 2016. An offsetting \$27,600,000 increase from the General Fund is displayed in that new line item starting in FY 2016, resulting in no net funding change for the Additional State Aid program as a whole (Homeowner's Rebate and 1% cap combined) relative to what it would have been under the prior format apart from new policy issues.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 primarily pays a portion of each homeowner's school district primary property taxes, up to a maximum of \$600 per parcel.

Additional State Aid - 1% Cap

The budget includes \$7,380,300 from the General Fund in FY 2016 for the Additional State Aid - 1% Cap line item. This amount funds the following adjustments:

Display 1% Cap Separately

The budget includes an increase of \$27,600,000 from the General Fund in FY 2016 to display costs of the 1% cap in a separate line item for greater transparency starting in FY 2016, as noted above.

Cap State Costs

The budget includes a decrease of \$(20,219,700) from the General Fund in FY 2016 to reflect a new cap on state costs for the program. The FY 2016 K-12 Education BRB amends A.R.S. § 15-972 in order to cap state costs for the 1% cap at a maximum of \$1,000,000 per county. The FY 2016 K-12 BRB requires the Property Tax Oversight Commission (PTOC) to allocate the loss of state 1% cap funding among local taxing jurisdictions based on its

determination of their pro rata shares of the overall 1% cap exceedance.

Background – The Additional State Aid program funds the Homeowner’s Rebate and any portion of a homeowner’s primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the “1% cap” and pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home’s full cash value and was added to the State Constitution in 1980. It applies any time a homeowner’s net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner’s Rebate is applied.

In practice, the 1% cap has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

In FY 2016, the FY 2016 K-12 Education BRB language will now require all taxing jurisdictions that contribute to an exceedance of the 1% cap, as determined by the Property Tax Oversight Commission (PTOC), to share in the excess cost after the state pays a maximum of \$1,000,000 in 1% cap funding per county.

In FY 2014, the 1% cap accounted for an estimated \$10.9 million (3.3%) of the \$329.1 million in total Additional State Aid costs based on formula modeling. The remaining \$318.2 million (96.7%) was used to fund the Homeowner’s Rebate.

For FY 2015, 1% cap costs grew by an estimated \$16.7 million to approximately \$27.6 million of the estimated \$359.9 million total cost of Additional State Aid for the year. The large increase in 1% cap costs for FY 2015 is attributable mostly to a \$1.43 increase in the combined primary property tax rate for property owners in the Tucson Unified School District (TUSD) (from \$11.98 in FY 2014 to \$13.41 in FY 2015). The impact of the \$1.43 increase on homeowners is passed on to the state because the combined primary property tax rate for property located within TUSD already exceeded the 1% cap in FY 2014. Other classes of property, such as commercial property and rentals, however, must pay the \$1.43 increase on their own, since the 1% cap does not apply to them.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,422,400 and 2 FTE Positions in FY 2016 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,422,400
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

No AIMS Retests

The budget includes a decrease of \$(1,800,000) from the General Fund in FY 2016 due to the elimination of AIMS retests for high school students. Laws 2015, Chapter 5 stipulates that a pupil is not required to pass a standardized test during school years 2014-2015 through 2017-2018 in order to graduate from high school, which eliminates the need for AIMS retesting. This is estimated to reduce statewide achievement testing costs by \$(1,800,000) for FY 2016. Apart from Chapter 5, high school students through the Class of 2016 would still need to pass AIMS in order to graduate.

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the General Fund in FY 2016 for statewide adjustments.

Background – New “AzMERIT” tests are being administered to Arizona public school students for the first time during the spring of 2015. The State Board of Education awarded the contract for the new test in November 2014 and at that time it was estimated to cost \$19,000,000 for FY 2015 and \$18,500,000 for FY 2016. Actual costs will depend on the proportion of students taking computer versus paper and pencil tests, which is not yet known. The \$19,000,000 estimate for FY 2015 assumed that 50% of students would take the less expensive computer based version during first year testing.

The Achievement Testing program, however, includes more than just AzMERIT testing. It also includes AIMS Science Tests, alternative exams for special needs students, and program administration. All of these functions and AzMERIT testing combined are expected to cost approximately \$25,700,000 in FY 2015 (see Table 6).

Table 6
Estimated Achievement Testing Costs and Available Funding for FY 2015
(\$ in Millions)

Estimated Costs	
AzMERIT	\$19.0 ^{1/}
AIMS Science Testing	2.7
Alternative Special Needs Exam	1.8
Staff and Administration	<u>2.2</u>
Total	\$25.7
Estimated Available Funding	
General Fund	\$11.2
Proposition 301 - School Accountability	7.0
Federal Funds	<u>8.2</u>
Total	\$26.4 ^{2/}

^{1/} Assumed that 50% of students will take computer-based test and 50% will take paper and pencil test. Actual cost will depend on percentages observed when tests are administered.
^{2/} ADE anticipates that carry-forward Proposition 301 monies from prior years will be available in FY 2015 to fund any difference between actual testing costs and other available funding.

Approximately \$26,400,000 was available to fund achievement testing costs in FY 2015, not including prior year carry-forward monies available from Proposition 301 (see Table 6).

The budget continues an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million” allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

Laws 2015, Chapter 76, prohibits the department from assigning letter grades to schools for FY 2015 and FY 2016 based on achievement testing scores. It also prohibits using a pupil’s achievement testing scores as a factor in determining their letter grade in any course in school years 2014-2015 and 2015-2016.

(See Other Issues for more information.)

Adult Education

The budget includes \$4,500,000 and 2 FTE Positions from the General Fund in FY 2016 for Adult Education. These amounts are unchanged from FY 2015.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including

GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are distributed through a competitive grant process. In FY 2015, a total of 25 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received approximately \$11,300,000 in federal funding in FY 2015. Its federal monies are subject to non-supplanting and maintenance of effort requirements stipulated in federal law.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2016 for an Alternative Teacher Development Program. This amount funds the following adjustments:

New Funding

The budget includes an increase of \$500,000 from the General Fund in FY 2016 in order to fund an Alternative Teacher Development Program. A.R.S. § 15-552 authorizes the establishment of an alternative teacher development program. This line item was last funded in FY 2008, when it received a General Fund appropriation of \$1,000,000.

Arizona Structured English Immersion Fund

The budget includes \$4,960,400 from the General Fund in FY 2016 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2015.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$5,705,100 to public schools from the fund in FY 2014. It also transferred \$7,858,400 in accumulated fund balances to the state General Fund during FY 2014, as required by Laws 2013, 1st Special Session, Chapter 3 (the FY 2014 K-12 Education BRB).

English Learner Administration

The budget includes \$6,507,900 and 17 FTE Positions from the General Fund in FY 2016 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(8,900) from the General Fund in FY 2016 for statewide adjustments.

The program is responsible for administering the Arizona English Language Learner Assessment (“AzELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 125,500 students are expected to take the AzELLA in FY 2015, including 47,000 for initial testing and 78,000 for retesting to see if they should continue to be classified as ELLs.

The English Learner Administration program was originally authorized by Laws 2006, Chapter 4 in order to address the *Flores v. State of Arizona* litigation. The lawsuit was filed in federal court in 1992 by parents of children enrolled in the Nogales Unified School District. Litigation in the case continued until March 2013, when a federal judge dismissed the case. Plaintiffs in the case appealed the federal judge’s ruling in April 2013. The timeline for appellate action in the case is unknown. (See FY 2011 Appropriations Report for additional history on this issue.)

The line item funds costs associated with implementing the English Language Education requirements in A.R.S. § 15-751 through 15-757. Those requirements pertain primarily to additional testing, teacher training and instructional services prescribed for English Learners.

Information Technology Certifications

The budget includes no funding from the General Fund in FY 2016 for Information Technology Certifications. This amount funds the following adjustments:

Eliminate Program

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2016, which eliminates program funding.

The program was intended to prepare students for industry-recognized information technology certification exams and provide for bulk purchasing of those exams.

JTED Performance Pay

The budget includes no funding in FY 2016 for JTED Performance Pay. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2016 for the elimination of one-time funding. A General Appropriation Act footnote required

the department to distribute the appropriated FY 2015 amount on a pro rata basis based on the actual costs incurred to secure industry credential assessments and examinations for JTED students.

JTED Soft Capital

The budget includes \$1,000,000 from the General Fund in FY 2016 for JTED Soft Capital. This amount funds the following adjustments:

New Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2016 for JTED Soft Capital. A General Appropriation Act footnote stipulates that the department shall distribute these monies to JTEDs with fewer than 2,000 ADM pupils on a pro rata basis based on their ADM counts.

Program funding is to be used for JTED soft capital and equipment expenses.

School Safety Program

The budget includes \$3,646,500 and 1 FTE Position from the General Fund in FY 2016 for the School Safety program. These amounts are unchanged from FY 2015.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.)

The FY 2016 K-12 Education BRB continues to require \$100,000 of the \$3,646,400 appropriation to be used for a pilot program on school emergency readiness. The FY 2016 K-12 Education BRB requires the department to submit a report that summarizes the results of the FY 2016 program by November 1, 2016.

The FY 2014 K-12 Education BRB required the department to submit a report that summarizes the results of the FY 2014 program by November 1, 2014. That report indicated that the 3 school districts that participated in the pilot program in FY 2014 (Continental Elementary, Osborn Elementary and Prescott Unified) all accomplished the following: 1) improved emergency management functions and aspects of school emergency response plans, 2) enhanced coordination and collaboration of internal district emergency planning team with community response partners, 3) trained staff on emergency operations plan supported by exercises and drills, and 4) worked with local law enforcement agencies to implement related software.

All available state General Fund and Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2015 is the first year of the current cycle.

Program funding is used primarily to pay officer salaries and benefits. Law enforcement agencies typically cover associated costs for police cars, uniforms and equipment. School districts and charter schools typically pay costs for related overhead, supervision and supplies.

State Block Grant for Vocational Education

The budget includes \$11,560,900 and 27 FTE Positions from the General Fund in FY 2016 for the State Block Grant for Vocational Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,400) from the General Fund in FY 2016 for statewide adjustments.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$24,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal maintenance of effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Student Success Fund Deposit

The budget includes no funding from the General Fund in FY 2016 for the Student Success Fund Deposit Line Item. This amount funds the following adjustments:

Eliminate Program

The budget includes a decrease of \$(22,400,000) from the Student Success Fund in FY 2016 in order to eliminate the program.

Monies in the line item were used in order to fund the Student Success Funding program. (See *Student Success Funding line item narrative above for more information.*)

Teacher Certification

The budget includes \$1,834,300 and 22 FTE Positions from the Teacher Certification Fund in FY 2016 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(8,200) from the Teacher Certification Fund in FY 2016 for statewide adjustments.

The program processes applications for teacher and administrator certification, including certification renewal. It is funded through fees paid by certification applicants pursuant to A.R.S. § 15-531.

The newly separate State Board of Education budget continues to receive \$379,800 (unchanged) from the Teacher Certification Fund in FY 2016 to investigate allegations of immoral or unprofessional behavior by teachers and other certificated school personnel. (See *State Board of Education budget for more information.*)

The board therefore continues to receive funding and perform duties pertaining to certification investigations, while the department continues to receive funding and perform duties pertaining to certification processing.

Technology-Based Language Development and Literacy Intervention Pilot Program

The budget includes \$246,800 from the Technology-Based Language Development and Literacy Intervention Fund in FY 2016 for the Technology-Based Language Development and Literacy Intervention Pilot Program. This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(53,200) from the Technology-Based Language Development and Literacy Intervention Fund in FY 2016 in order to align the program's budget with available resources.

The FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) established a 2-year pilot program on Technology-Based Language Development and Literacy Intervention to be funded through a new Technology-Based Language Development and Literacy Intervention Fund authorized by A.R.S. § 15-217H. Chapter 17 required the Commission for Postsecondary Education to transfer \$546,800 from the Commission for Postsecondary Education IGA/ISA Fund into the new fund by August 1, 2014 in order to help fund the pilot program. The \$546,800 amount consisted of unused funding from the now-eliminated Early Graduation Scholarship Program (formerly established by A.R.S. § 15-105).

As originally passed, Chapter 17 also required the Department of Education to transfer \$53,200 in state General Fund funding from its Accountability and Achievement Testing program to the Technology-Based

Language Development and Literacy Intervention Fund by August 1, 2014, which would have provided \$600,000 in total funding for the 2-year pilot. In 2014, the Governor, however, vetoed the latter provision. As a result, the program has \$(53,200) less in funding available for its second year (FY 2016) than the \$300,000 amount appropriated and available to it in FY 2015. The budget reduces the program's FY 2016 budget accordingly. Program funding for FY 2016 does not appear in the General Appropriation Act, since it has already been appropriated by Chapter 17.

The program seeks to promote English language development and literacy for public school pupils in Grades K-6. Chapter 17 requires the department to develop application procedures and selection criteria for school districts and charter schools that voluntarily decide to participate in the pilot program.

State Board of Education

State Board of Education

The budget includes no funding for FY 2016 for the State Board of Education. This amount funds the following adjustments:

Establish Separate Budget Unit

The budget includes a decrease of \$(1,234,800) and (4) FTE positions from the General Fund and \$(379,800) and (5) FTE Positions from the Teacher Certification Fund in FY 2016 in order to establish the State Board of Education as a separate budget unit.

The General Appropriation Act appropriates these amounts plus \$90,400 and 2 FTE Positions transferred from the K-3 Reading line item to the newly separate State Board of Education budget unit. *(See the State Board of Education budget unit narrative for more information.)*

The 11-member State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Additional Legislation

Tribal College Dual Enrollment Program Fund

The FY 2016 Higher Education BRB (Laws 2015, Chapter 16) establishes a Tribal College Dual Enrollment Program Fund. The fund is allocated 15% of unclaimed lottery prize monies, subject to legislative appropriation, plus any appropriations, gifts, grants, devices and other

contributions. The FY 2016 budget does not appropriate any monies out of the fund for FY 2016. The fund is to be administered by the Department of Education.

The department is to distribute monies in the fund to tribal colleges in order to compensate them for tuition and fees that are waived to allow high school students to attend tribal college campuses, including college classes taught electronically.

(See Arizona State Lottery Commission narrative for more information.)

JTED Satellite Courses at Charter Schools

Laws 2015, Chapter 309 allows a JTED governing board to contract with any charter school that is located within its boundaries to offer Career and Technical Education (CTE) courses or programs as a satellite campus. Previously only school districts could operate JTED satellite sites.

The bill will increase Basic State Aid costs by an estimated \$200,000 in FY 2017 and by \$1.0 million to \$2.0 million upon full utilization. These estimates are highly speculative, however, as the actual impact will depend on how individual JTEDs and charter schools will respond to new incentives created by the bill and on student interest in the newly-authorized JTED satellite programs.

Other Issues

This section includes information on the following topics:

- Fund Transfers
- Formula Changes for FY 2017
- Long-Term Budget Impacts
- Achievement Testing
- Education Learning and Accountability System
- Endowment Earnings
- Proposition 301
- Budget Overrides
- Basic State Aid Formula Description

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund.

State Facilities Special Education Fund	\$4,000,000
Student Success Fund	2,400,000

Formula Changes for FY 2017

JTED

Starting in FY 2017, the FY 2016 K-12 Education BRB permanently requires Base Support Level (BSL) funding for students who attend JTEDs to be funded at 92.5% for both the “sending” district or charter and for the JTED itself, except that districts and charters sending students to a JTED centralized campus will still receive full BSL funding for them. This is estimated to reduce state aid to JTEDs, districts and charters by \$(30,000,000) statewide for FY 2017.

The FY 2016 K-12 Education BRB allows a school district or charter school that experiences a funding loss due to the 92.5% BSL funding factor for JTED satellite students to use a portion of its JTED satellite funding to offset the loss, up to the amount of the loss. The FY 2016 K-12 Education BRB does not allow a school district to prohibit or discourage students from attending a JTED.

Hold Harmless

Starting in FY 2017, the FY 2016 K-12 Education BRB also permanently eliminates a “hold harmless” provision that currently delays for one year the impact of school district enrollment declines. This change will reduce state aid to school districts statewide by an estimated \$(40,000,000) for FY 2017. The FY 2016 K-12 Education BRB requires the department to notify school districts by December 15, 2015 on how it plans to implement current year Average Daily Membership funding in FY 2017 and report the estimated fiscal impact by district.

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, ADE General Fund costs are projected to increase by \$124,770,800 in FY 2017 above FY 2016 and \$156,605,200 in FY 2018 above FY 2017. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 12,000 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 1.86% for FY 2017 and 1.79% for FY 2018.
- New construction NAV growth of 2.03% for FY 2017 and 1.99% for FY 2018.
- A \$37.6 million increase in Homeowner’s Rebate costs in FY 2017 to hold homeowners harmless for tax rate changes associated with the final year of a 4-year phase down of the assessment ratio for Class 1 property. This cost remains in the base budget for FY 2018, but does not further increase that year, since

the assessment ratio phase down is completed after FY 2017.

- A \$(6.5) million decrease in FY 2017 and additional \$(7.0) million decrease in FY 2018 in order to fund small school weights for most multisite charter schools at 33% in FY 2017 and eliminate small school weight funding for most multi-site charter schools in FY 2018.
- A \$(1.2) million decrease in FY 2017 to eliminate remaining district sponsored charter schools.
- A \$(40.0) million decrease in FY 2017 to eliminate a one-year hold harmless provision for school districts with declining enrollments.
- A \$(30.0) million decrease in FY 2017 in order to reduce Base Support Level (BSL) per pupil funding for JTEDs and their “sending” districts and charters, as required starting in FY 2017 by the FY 2016 K-12 Education BRB. That law amends A.R.S. § 15-393 to require BSL per pupil funding to be funded at 92.5%

These estimates do not include additional funding that could be required for settlement of the current Proposition 301 inflation lawsuit. (See the 1.59% Inflation Adjustment narrative under Basic State Aid for additional information.)

Achievement Testing

The department is implementing a new statewide achievement test in the spring of FY 2015. The new test is aligned to new academic standards adopted by the State Board of Education in December 2010. There is no specific state statutory requirement regarding implementation of the new standards. The State Board of Education, however, adopted them in December 2010 under powers granted to it by A.R.S. § 15-203. In September 2013, the Governor issued an Executive Order requiring executive agencies to refer to these standards as “Arizona’s College and Career Ready Standards” (ACCR).

The ACCR standards list knowledge and skills that students are expected to learn each year in English language arts and Math in the 45 states that have adopted Common Core standards in some fashion. As a result, participating states will be able to use common exams and compare test performance of students across states. Prior to the adoption of ACCR standards, Arizona students were instead taught under state-specific academic standards and tested by Arizona Instrument to Measure Standards (AIMS) tests that were not comparable to tests used by other states.

Under AIMS, high school students could not graduate until they had passed AIMS Math, Reading and Writing tests that were administered separately from their high

school math and English classes. Under ACCR, the math and English content required for high school graduation will instead be incorporated into “end of courses tests” (final exams) for high school math and English classes themselves.

Students therefore will be able to graduate under ACCR if they pass all required classes without having to also pass separate graduation tests. Non-high school students generally will not have to pass annual ACCR exams in order to be promoted to the next grade, as is true under AIMS testing. Students in 3rd Grade, however, will still need to score at better than the “falls far below the 3rd Grade level” on ACCR English language tests in order to be promoted to 4th Grade under Arizona’s “Move on When Reading” law (A.R.S. § 15-701A2a).

States will be responsible for costs of administering the tests, once developed. Those costs are expected to rise under the new exams because of the more complex nature of their questions and of their subsequent scoring requirements.

Arizona used a competitive bid process to select a vendor to provide the new test and the scoring. As a result of this process, the State Board of Education awarded a contract for the new tests in November 2014 to the American Institutes for Research (AIR). The estimated cost of the new contract at the time of award was approximately \$19.0 million for FY 2015 and \$18.5 million for FY 2016. *(See the Accountability and Achievement Testing line item narrative for more information.)*

Education Learning and Accountability System

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to “collect, compile, maintain and report student level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades 1 through 12 and postsecondary educational programs in this state” (A.R.S. § 15-249A).

Beginning in FY 2015, ELAS funding is appropriated to the Arizona Department of Administration Automation Projects Fund rather than ADE. As a result, ELAS funding no longer appears in the ADE budget. *(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)*

The FY 2016 K-12 Education BRB continues to require community college and universities to transfer \$6 per Full-Time Student Equivalent (FTSE) to ADE by December 1 of the budget year for deposit into the ELAS Fund in order to continue to help fund ELAS.

Endowment Earnings

In FY 2014, endowment earnings from state trust lands public schools funded approximately \$125.1 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either “permanent” or “expendable” depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer. In FY 2014, public schools received \$125.1 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$57.3 million from the Land Department and \$67.8 million from the State Treasurer *(see Table 7)*.

Source	2006	2010	2014
Land Department	58.7	38.1	57.3
Treasurer	31.4	0.0	67.8
Total	90.1	38.1	125.1

Table 7 shows that K-12 endowment earnings increased from \$90.1 million in FY 2006 to \$125.1 million in FY 2014 after dropping temporarily to \$38.1 million during the Great Recession.

For FY 2015, the State Treasurer distribution of K-12 endowment earnings will be \$76.0 million, which is a known number because it is based on land trust market values through calendar year 2013 only (prior 5 calendar years). The State Land Department will distribute an estimated \$46.5 million in K-12 endowment earnings for FY 2015 based on revenue data for the first 8 months of FY 2015. The actual State Land Department distribution of K-12 endowment earnings for FY 2015 will not be known until after the close of the fiscal year.

Of the \$125.1 million in K-12 expendable earnings generated for FY 2014, \$25.8 million was used to help fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 and \$46.5 million was used to help fund Basic State Aid pursuant to A.R.S. § 37-521B3. The remaining \$52.8 million was deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4. The latter law dedicates to the Classroom Site Fund all growth in K-12 expendable endowment earnings above the FY 2001 level, which was \$72.3 million.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Currently, the State Constitution requires the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary's permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor was enacted into law by Proposition 118 in November 2012 and will be in effect through calendar year 2021. It is intended to reflect the long-term average for investment returns on invested land trust monies, while eliminating large fluctuations in expendable earning distributions to beneficiaries that occurred in prior years due to market volatility.

After calendar year 2021, the distribution formula in effect prior to Proposition 118 would resume under current law. That formula computed expendable Treasurer land trust earnings based on inflation adjusted rates of investment return observed for invested land trust proceeds over the preceding 5 calendar years. Those rates of return fluctuated substantially from year to year in the past depending on market conditions (see *Treasurer's earnings in Table 7*).

The total market value of state land trust monies currently invested by the State Treasurer for all beneficiaries combined (not just public schools) recently surpassed \$5.0 billion for the first time (up from \$1.2 billion in FY 2004, for example), due largely to strong stock market performance in recent years. This will increase the amount of expendable land trust earnings distributed by the State Treasurer in the future, since it will cause the flat 2.5% annual distribution factor from Proposition 118 to apply to a larger 5-year average value for invested land trust monies.

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (see *Table 8*).

As shown in *Table 8*, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction.
- Universities (12% of the remainder after SFB debt service).
- Community colleges (3% of the remainder).
- Tribal Colleges (same formula as community colleges).
- Income tax credit for sales tax paid by low income households (to offset the additional 0.6¢ sales tax rate).
- Additional School Days.
- School Safety and Character Education.
- School Accountability.
- Failing Schools.
- Classroom Site Fund (A.R.S. § 15-977).

Proposition 301 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share equaled \$333.9 million (55.6%) of the \$600.2 million collected for FY 2014 (see *Table 8*). The Proposition 301 sales tax expires after FY 2021.

Classroom Site Fund

Proposition 301 also dedicated to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72.3 million. In FY 2014, the Classroom Site Fund received approximately

Table 8

		Proposition 301 Monies (FY 2014 Actual) (\$ in Millions)
<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
School Facilities Board	\$56.2	For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	65.3	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	16.3	Receive 3% of monies after SFB debt service.
Tribal Colleges	0.7	Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non ADE Programs	163.5	
Additional School Days	86.3	To add 5 days to K-12 school year (180 days total).
School Safety	8.0	\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0	For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5	To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	<u>333.9</u>	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	436.7	
Grand Total	\$600.2	

\$52.8 million from K-12 endowment earnings, which resulted in total deposits of \$386.7 million (\$333.9 million from the 0.6¢ sales tax + \$52.8 million from endowment earnings = \$386.7 million).

The \$333.9 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2014 does not include approximately \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 7*. Those 2 amounts combined equaled \$436.7 million for FY 2014.

ADE distributed \$310 per pupil from the Classroom Site Fund in FY 2014. Those monies were in addition to funds allocated through the Basic State Aid formula. School districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$295 per pupil for FY 2015 and \$327 per pupil for FY 2016. The per pupil amount declined temporarily in FY 2015 due to the loss of one-time carry-forward monies.

Budget Overrides

Current law permits school districts to exceed statutory budget limits through “budget override” elections. This includes Maintenance and Operation (M&O) overrides (A.R.S. § 15-481E&F), Special Program overrides (A.R.S. § 15-482) and District Additional Assistance overrides (called Capital Overrides prior to FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2015, 94 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 9 have “Special Program” overrides pursuant to A.R.S. § 15-482, and 23 have District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2015 include \$387.3 million for M&O overrides, \$6.9 million for Special Program overrides and \$74.2 million for District Additional Assistance overrides. Grand total override funding for FY 2015 therefore equals \$468.4 million, which is \$25.5 million above the \$442.9 million amount budgeted for all overrides collectively in FY 2014 (*see Table 9*). (*See the*

School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.)

Type of Override	FY 2014	FY 2015	Change
M&O	364.7	387.3	22.6
Special Program	19.0	6.9	(12.1)
Additional Assistance	<u>59.2</u>	<u>74.2</u>	<u>15.0</u>
Total	442.9	468.4	25.5

A.R.S. § 15-249.04 requires ADE to report by November 30 of each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year. The data cited in *Table 9* are from the related ADE reports for FY 2014 and FY 2015.

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula “equalizes” formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require “Basic State Aid” monies in order to receive full formula funding.

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district’s student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district’s pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school district’s “equalization base,” which is its total funding entitlement under the K-12 equalization funding formula.

After a school district’s equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory “Qualifying Tax Rate” (QTR) (A.R.S. § 15-971B) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district’s share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base. If the district’s combined QTR

and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its “local share” funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district’s formula funding entitlement), or higher if the district is allowed to budget for items outside of its “Revenue Control Limit” (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a “charter,” and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and CAA funding. BSL funding for charter schools is determined under the same formula prescribed for traditional public schools in A.R.S. § 15-943. CAA funding amounts are established separately in A.R.S. § 15-185B4 and for FY 2015 (as modified by the FY 2015 K-12 Education BRB) equal \$1,707.77 per pupil for Grades K-8 and \$1,990.38 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Department of Emergency and Military Affairs

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
PROGRAM BUDGET			
Administration	1,904,700	4,396,200	1,909,200
Emergency Management	3,941,000	6,237,600	7,654,100
Military Affairs	1,892,500	2,543,300	1,539,400
AGENCY TOTAL	7,738,200	13,177,100	11,102,700
OPERATING BUDGET			
Full Time Equivalent Positions	66.6	68.6	69.6 ^{1/2/}
Personal Services	1,641,500	1,886,800	1,886,800
Employee Related Expenditures	587,800	740,700	729,600
Professional and Outside Services	37,800	0	0
Travel - In State	56,800	61,600	61,600
Travel - Out of State	16,200	22,200	22,200
Other Operating Expenditures	2,152,400	2,272,400	1,157,700
Equipment	55,400	228,000	228,000
OPERATING SUBTOTAL	4,547,900	5,211,700	4,085,900 ^{3/}
SPECIAL LINE ITEMS			
Governor's Emergency Fund	1,841,200	4,000,000	4,000,000 ^{4/}
Matching Funds	0	0	1,540,900
Nuclear Emergency Management Fund	1,259,100	1,375,400	1,385,900 ^{5/6/}
Military Airport Planning	90,000	2,590,000	90,000 ^{7/}
AGENCY TOTAL	7,738,200	13,177,100	11,102,700 ^{8/9/}
FUND SOURCES			
General Fund	7,626,700	13,044,400	11,102,700
<u>Other Appropriated Funds</u>			
Emergency Response Fund	111,500	132,700	0
SUBTOTAL - Other Appropriated Funds	111,500	132,700	0
SUBTOTAL - Appropriated Funds	7,738,200	13,177,100	11,102,700
Other Non-Appropriated Funds	149,500	156,000	156,000
Federal Funds	70,732,400	57,747,900	50,233,800
TOTAL - ALL SOURCES	78,620,100	71,081,000	61,492,500

1/ Includes 5.5 FTE Positions in FY 2016 appropriated by Laws 2015, Chapter 132 and 1 FTE Position appropriated by A.R.S. § 26-263.

2/ Includes 6.5 FTE Positions funded from Special Line Items in FY 2016.

3/ Laws 2015, Chapter 208 transferred \$(132,800) from the Emergency Response Fund in FY 2016 as part of the shift of the administration of the Arizona State Emergency Response Commission from the Department of Emergency and Military Affairs to the Department of Environmental Quality.

4/ Includes expenditures authorized by A.R.S. § 35-192, which states that up to \$4,000,000 may be spent on disaster prevention and mitigation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

5/ Laws 2015, Chapter 132 appropriated \$1,385,913 and 5.5 FTE Positions in FY 2016 and \$1,424,377 and 5.5 FTE Positions in FY 2017 for the Nuclear Emergency Management Fund.

6/ Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriation; any unexpended monies, however, shall be used to reduce the assessment and appropriation in future years.

7/ A.R.S. § 26-263 annually appropriates \$90,000 and 1 FTE Position from the General Fund for the administration of the Military Installation Fund. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

8/ The Department of Emergency and Military Affairs appropriation includes \$215,000 for service contracts. This amount is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2016 monies remaining unexpended and unencumbered on December 31, 2016 revert to the state General Fund. (General Appropriation Act footnote)

9/ General Appropriation Act funds are appropriated as a Lump Sum by Program with Special Line Items by Agency.

AGENCY DESCRIPTION — The department's Emergency Management Program prepares and coordinates emergency response plans for the state. The Military Affairs Program operates the Arizona National Guard and the Military Installation Fund Program.

Operating Budget

The budget includes \$4,085,900 and 63.1 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Camp Navajo Fund Shift

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2016 for a shift of funding sources to the Camp Navajo Fund. Both Laws 2015, Chapter 12 and Laws 2015, Chapter 208 allow the Department of Emergency and Military Affairs (DEMA) to utilize Camp Navajo Fund monies for the operation and maintenance of National Guard facilities after all budgeted costs of Camp Navajo are met. In FY 2014, the fund received \$6,175,500 more in revenues than were expended for the operation of Camp Navajo.

Emergency Response Fund Transfer

Laws 2015, Chapter 208 includes a decrease of \$(132,800) from the Emergency Response Fund in FY 2016 for the transfer of the administration of the fund from DEMA to the Department of Environmental Quality. *(Please see the Additional Legislation section for more information on this transfer.)*

Statewide Adjustments

The budget includes an increase of \$7,000 in FY 2016 for statewide adjustments. This amount consists of:

	<u>FY 2016</u>
General Fund	\$6,900
Emergency Response Fund	100

(Please see the Agency Detail and Allocations section.)

Governor's Emergency Fund

The budget includes \$4,000,000 from the General Fund in FY 2016 for the Governor's Emergency Fund. This amount is unchanged from FY 2015.

Under A.R.S. § 35-192, the Governor may, through emergency declarations, authorize up to \$4,000,000 annually from the General Fund for disaster prevention and mitigation without specific appropriation authority. Monies in this line item, therefore, are not included in the General Appropriation Act.

Matching Funds

The budget includes \$1,540,900 from the General Fund in FY 2016 for matching funds. This amount funds the following adjustments:

Matching Funds Increase

The budget includes an increase of \$1,540,900 from the General Fund in FY 2016 to provide matching funds for the Federal Emergency Management Performance Grant (EMPG). DEMA previously utilized Governor's Emergency Fund monies to match this grant. After a Federal audit, however, the federal government determined that monies used for construction, mitigation, or as a match for federal disaster declarations cannot serve as an EMPG match. This appropriation will serve to replace these monies.

Monies in this line item provide funding for the required 1:1 match for the EMPG not covered with existing DEMA resources. EMPG monies are allocated to DEMA who then either expends them or passes monies on to other state, county, and municipal agencies to help provide planning, training, and other preparation for natural hazards and emergencies. In FY 2016, DEMA estimates expending \$7,004,500 in EMPG funds.

DEMA anticipates utilizing the \$1,540,900 General Fund appropriation from this line item, \$633,200 in General Fund monies from the Nuclear Emergency Management Fund line item, and \$727,300 in General Fund monies from the Operating Budget, or a total of \$2,901,400, as a match towards their share of the EMPG. As a result, DEMA will retain \$2,901,400 in EMPG monies for DEMA-specific expenditures.

The remaining \$4,103,100 in federal EMPG monies will be awarded to counties, tribes, and possibly municipalities for their emergency preparedness programs. These funds will require a match from local fund sources prior to expenditure.

Nuclear Emergency Management Fund

The budget includes \$1,385,913 and 5.5 FTE Positions from the General Fund in FY 2016 and \$1,424,377 in FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts fund the following adjustments:

NEMF Allocation Increase

Laws 2015, Chapter 132 includes an increase of \$10,511 from the General Fund in FY 2016 for the NEMF Special Line Item and an increase of \$48,975 in FY 2017. These amounts represent the increase above the FY 2015 NEMF allocation of \$1,375,400 appropriated in Laws 2013, Chapter 13.

The monies in this line item are appropriated by Laws 2015, Chapter 132. As a result, these monies do not appear in the General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture receive monies from this bill. *(Please see the Department of Agriculture and Radiation Regulatory Agency narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2016 for Military Airport Planning. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,500,000) from the General Fund in FY 2016 for the removal of one-time funding for the purchase and preservation of land near military installations.

At the end of FY 2014, the Military Installation Fund had a balance of \$5,135,300. With the \$2,500,000 FY 2015 appropriation, the fund would have \$7,636,400 in resources in FY 2015. As of March 2015, DEMA had approved a plan to purchase or improve lands near Luke Air Force Base, Fort Huachuca, Davis-Monthan Air Force

Base, and other areas in Pima County and Yuma with anticipated expenditures totaling \$4,700,000. DEMA anticipates initiating the expenditure of monies by May 2015 and is currently accepting applications for the remaining \$2,936,400 in the fund.

Prior to the FY 2015 funding, the Military Installation Fund had no General Fund appropriation since FY 2011. The FY 2012 General Government Budget Reconciliation Bill (BRB) eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

Of the monies deposited into the Military Installation Fund, DEMA is required to award 80% to acquire private property, real estate, property rights, and related infrastructure. The remaining 20% is awarded to cities, towns, and counties. The purchasing entity - whether it is the state or a local government - owns the property and state properties are managed by DEMA. Currently, DEMA only awards funding for preservation and enhancement projects, and not land acquisition, to local governments.

Additional Legislation

Emergency and Military Affairs Omnibus

Laws 2015, Chapter 208 makes several changes to DEMA including:

- Transferring the Arizona State Emergency Response Commission (AZSERC) and Emergency Response Fund to the Department of Environmental Quality (DEQ).
- Eliminating the National Guard Relief Fund as well as its income tax refund donation and transferring all remaining monies in the fund to the Department of Veterans' Services.
- Creating a separate account in the National Guard Fund for revenues from National Guard facilities utilized for commercial purposes.
- Allowing excess monies in the Camp Navajo Fund to be utilized for National Guard facility maintenance.
- Increasing the amount of obligations that the Adjutant General can incur for a declared emergency from \$20,000 to \$100,000 in the event that he/she is authorized to do so by the Governor.
- Eliminating the Division of Military Affairs general staff provisions which are not currently in use.
- Making other technical changes.

As mentioned above, the bill transfers the responsibilities of AZSERC, which is responsible for developing the state hazardous materials emergency management program, from DEMA to DEQ. AZSERC oversees 15 local emergency planning committees, tracks hazardous chemicals in Arizona, coordinates hazardous materials alerts, provides hazardous materials training, issues grants, and offers education through community outreach. To fund these costs, the bill transfers the administration of the Emergency Response Fund from DEMA to DEQ in FY 2016. As a result, all of the \$132,800 FY 2016 Emergency Response Fund appropriation to DEMA included in the General Appropriation Act will shift to DEQ in FY 2016.

Additionally, as previously mentioned, the bill transfers the remaining monies from the National Guard Relief Fund to the Department of Veterans' Services. This amount is estimated to total \$1,288,600.

Department of Environmental Quality

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	13,082,500	15,504,700	15,504,700
Employee Related Expenditures	5,448,300	6,469,200	6,367,900
Professional and Outside Services	2,681,700	8,736,300	8,736,300
Travel - In State	360,600	568,400	568,400
Travel - Out of State	17,600	75,200	75,200
Other Operating Expenditures	12,517,200	14,888,800	14,807,700
Equipment	229,400	79,700	79,700
OPERATING SUBTOTAL	34,337,300	46,322,300	46,139,900
SPECIAL LINE ITEMS			
Emergency Response Commission (Ch. 208)	0	0	132,800 ^{1/}
Emissions Control Contractor Payment	21,500,200	21,119,500	21,119,500
Safe Drinking Water Program	0	1,800,000	1,800,000 ^{2/}
WQARF Priority Site Remediation	7,000,000	7,000,000	7,000,000 ^{3/4/5/}
AGENCY TOTAL	62,837,500	76,241,800	76,192,200^{5/}
FUND SOURCES			
General Fund	7,000,000	7,000,000	7,000,000
<u>Other Appropriated Funds</u>			
Air Permits Administration Fund	5,574,100	7,145,300	7,154,600 ^{2/}
Air Quality Fund	3,708,000	5,377,200	5,384,500
Emergency Response Fund	0	0	132,800
Emissions Inspection Fund	24,768,800	28,392,900	28,400,400
Hazardous Waste Management Fund	1,249,800	1,743,000	1,751,300
Indirect Cost Recovery Fund	12,182,400	13,410,100	13,193,700 ^{8/}
Recycling Fund	1,091,000	1,359,700	1,361,300
Solid Waste Fee Fund	824,100	1,243,000	1,241,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	6,439,300	10,548,600	10,550,600
SUBTOTAL - Other Appropriated Funds	55,837,500	69,241,800	69,192,200
SUBTOTAL - Appropriated Funds	62,837,500	76,241,800	76,192,200
Other Non-Appropriated Funds	38,428,500	37,822,000	37,822,000
Federal Funds	14,449,400	15,204,200	15,204,200
TOTAL - ALL SOURCES	115,715,400	129,268,000	129,218,400

1/ These monies were originally appropriated to the Department of Emergency and Military Affairs in the FY 2016 General Appropriation Act. Laws 2015, Chapter 208 transfers these monies to the Department of Environmental Quality.

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

3/ 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 2015, Chapter 13 reduced this transfer to \$7,000,000 in FY 2016.

4/ The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. This report shall also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. The department shall submit the FY 2016 report to the Joint Legislative Budget Committee on or before September 1, 2015. This budget shall specify the monies budgeted for each listed site during FY 2016. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 2, 2015, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table shall include the stage of remediation for each site at the end of FY 2015, indicate whether the current stage of remediation is anticipated to be completed in FY 2016 and indicate the anticipated stage of remediation at each listed site at the end of FY 2016, assuming FY 2016 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)

5/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2017 budget for the Water Quality Assurance Revolving Fund before September 1, 2015, 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 cleanup (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 \$46,139,900 and 322 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
Air Permits Administration Fund	\$7,154,600
Air Quality Fund	5,384,500
Emissions Inspection Fund	5,480,900
Hazardous Waste Management Fund	1,751,300
Indirect Cost Recovery Fund	13,193,700
Recycling Fund	1,361,300
Solid Waste Fee Fund	1,241,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,550,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(182,400) in FY 2016 for statewide adjustments. This amount consists of:

Air Permits Administration Fund	9,300
Air Quality Fund	7,300
Emissions Inspection Fund	7,500
Hazardous Waste Management Fund	8,300
Indirect Cost Recovery Fund	(216,400)
Recycling Fund	1,600
Solid Waste Fee Fund	(2,000)
Water Quality Fee Fund	2,000

(Please see the Agency Detail and Allocations section.)

The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) continues to allow the department to utilize up to \$6,531,000 from a combination of the Underground Storage Tank Revolving

Fund and Regulated Substance Fund (RSF) in FY 2016 for department administrative expenses.

Laws 2015, Chapter 247 abolishes the RSF and therefore modifies the FY 2016 Environment BRB so that only the Underground Storage Tank (UST) Revolving Fund can be used for department administrative expenses. *(Please see Additional Legislation for more information.)*

Emergency Response Commission (Ch. 208)

The budget includes \$132,800 from the Emergency Response Fund in FY 2016 for administration of the state hazardous materials emergency management program. This amount funds the following adjustments:

Transfer from DEMA

Laws 2015, Chapter 208 includes an increase of \$132,800 from the Emergency Response Fund in FY 2016 for the transfer of the administration of the fund from the Department of Emergency and Military Affairs (DEMA) to ADEQ.

The Emergency Response Fund receives 10% of ADEQ’s Hazardous Waste Management Fund and is used to develop and administer a state hazardous materials emergency management program and assist local governments.

The bill transferred the responsibilities of the Emergency Response Commission (AZSERC), which is responsible for developing the state hazardous materials emergency management program, from DEMA to ADEQ. AZSERC oversees 15 local emergency planning committees, tracks hazardous chemicals in Arizona, coordinates hazardous materials alerts, provides hazardous materials training, issues grants, and offers education through community outreach.

6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
 7/ All Air Permits Administration revenues received by the Department of Environmental Quality in excess of \$7,154,600 in FY 2016 are appropriated to the department. Before the expenditure of Air Permits Administration receipts in excess of \$7,154,600 in FY 2016, 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)
 8/ All Indirect Cost Recovery Fund revenues received by the Department of Environmental Quality in excess of \$13,193,700 in FY 2016 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund receipts in excess of \$13,193,700 in FY 2016, 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)

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2016 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2015.

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 ADEQ 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 Vehicle Emissions Inspection (VEI) 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 Emissions Control Contractor Payment. The FY 2016 budget did not implement the statutory fee cap.

In FY 2014 and FY 2015, these excess revenues (\$5,000,000 in FY 2014, \$6,800,000 in FY 2015) have been transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund. In FY 2016, \$5,000,000 of these excess revenues is being transferred to ADOA for this purpose.

In response to the report, ADEQ decreased the primary VEI fee in Maricopa County by 27% on July 1, 2014. The fee for Phoenix Metropolitan area residents who have 1981 and newer cars and light duty trucks was reduced from \$27.25 to \$20.00.

After the fee reduction, the VEI program is generating \$4.8 million more in fees than it costs to administer the program. (Please see the ADOA-Automation Projects Fund section for more information.)

Safe Drinking Water Program

The budget includes \$1,800,000 from the Emissions Inspection Fund in FY 2016 for the Safe Drinking Water Program. This amount is unchanged from FY 2015.

The FY 2016 Environment BRB continues to allow the department to use up to \$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 2016 for the Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount is unchanged from FY 2015.

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 2016 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 2014 and FY 2015. The budget continues the deposit at the reduced level in FY 2016.

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

WQARF Activity		
	Actual	Estimated
	FY 2014	FY 2015
Balance Forward	\$ 8,996,100	\$ 5,629,600
General Fund	7,000,000	7,000,000
Other Revenue	<u>4,534,500</u>	<u>3,862,200</u>
Total Funds Available	\$20,530,600	\$16,491,800
General Fund Expenditures	\$ 7,000,000	\$ 7,000,000
Other Funds Expended	7,493,000	7,775,000
Funds Transferred		
Dept. of Water Resources	\$ (300,000)	\$ (300,000)
Fund Sweeps	<u>(108,100)</u>	<u>0</u>
Year-End Fund Balance	\$ 5,629,600	\$ 1,416,800

Additional Legislation

Underground Storage Tank Tax Extension & Program

Laws 2015, Chapter 247 continues the 1¢ gasoline excise tax for underground storage cleanup and makes modifications to the program.

Laws 1990, Chapter 328 established the 1¢ excise tax on petroleum products and hazardous substances regulated by the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. The tax was deposited in the Underground Storage Tank (UST) State Assurance Account (SAF), which financed corrective action costs of repairing leaking USTs incurred by the department, owners, operators, or political subdivisions. The basic SAF limit of coverage was \$500,000 per UST release with certain exceptions. An eligible owner received up to 90% of their costs. The deadline to make a claim against the SAF 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 UST revenues, reimbursements, donations, and monies encumbered by ADEQ for implementing work plans and corrective action plans. The RSF would then be the funding source for USTs where the owner cannot be located.

Laws 2013, Chapter 244, however, extended the 1¢ excise tax to December 31, 2015. All monies collected from the tax would first be used for the UST Program.

Chapter 244 allowed the Director of ADEQ to issue a stop use order on USTs that are not in compliance with financial responsibility requirements (FR), removing exemptions to the UST release reporting deadline of July 1, 2006 for eligibility for SAF coverage, and provided a legislative intent clause that specified the monies in the SAF fund a new and

revised UST corrective action program and existing UST leak prevention program.

Chapter 244 required, after payment of claims, the department to transfer any monies remaining in the SAF to the RSF up to a maximum of \$60.0 million. Any monies deposited to the RSF in excess of \$60.0 million would be transferred to the State Highway Fund (SHF).

This transfer was modified by a provision in the FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14), which eliminated the transfer of monies to the SHF effective January 1, 2015. A total of \$27.7 million was transferred to the SHF before the transfer was eliminated.

Laws 2015, Chapter 247 establishes a newly-revised corrective action plan and extends the 1¢ excise tax to January 1, 2024, on which date the tax will be repealed. The bill also repeals the following: the State Assurance Account (SAF), the Regulated Substances Fund (RSF), the Grant Account, the UST Policy Commission, and the UST Technical Appeals Panel. UST Revolving Fund's allowable uses are redefined, and all unexpended and unencumbered monies from the abolished funds are transferred to the reorganized UST Revolving Fund. The bill also includes the following provisions:

1. Establishes a 7-year baseline period beginning January 1, 2016, and requires ADEQ to establish standards for conducting a baseline assessment, which determines whether an UST is leaking and whether corrective actions are necessary. Chapter 247 requires work plans to be submitted to ADEQ for approval until ADEQ develops standards for baselines by rule or by guidance documents.
2. Allows owners, operators, or property owners that locate and report to ADEQ an UST on their property to elect to conduct a baseline. Allows the individual undertaking a baseline to request a grant from ADEQ to cover the cost of the baseline and ADEQ to conduct the baseline on their behalf.
3. Allows ADEQ to provide grant monies from the UST Revolving Fund in order to conduct one or a combination of specified actions so long as the total costs do not exceed \$100,000 per site. Eligible grants include:
 - a. Up to \$100,000 for actions necessary to ensure that the UST complies with standards for new installations, including replacement of components;
 - b. Up to \$20,000 per UST tank removal, permanent tank closure, or tank replacement;
 - c. Up to \$10,000 for confirmation of a suspected release; and

- d. Up to \$30,000 for conducting a baseline assessment of a site.
- 4. Repeals the FR coverage of corrective action costs and replaces it with the preapproval process outlined in Chapter 247. This will allow ADEQ to reimburse owners or operators that implement a preapproved corrective action plan with monies from the UST Revolving Fund.
- 5. Limits corrective action cost reimbursements to releases reported prior to January 1, 2023. Applications for preapproval must be submitted no later than December 31, 2029 and reimbursement of eligible costs must be submitted no later than December 31, 2030.
- 6. Establishes reimbursement mechanisms for releases reported by January 1, 2016.
- 7. Specifies that reimbursement for corrective action costs is limited to up to \$500,000 per facility for applicants using an FR mechanism other than insurance and up to \$1 million per facility for applicants using insurance and an FR mechanism.
- 8. Provides eligibility for corrective action and reimbursement through a cost sharing obligation payment of the first \$50,000 per facility for work conducted beginning January 1, 2016.
- 9. Requires ADEQ to compile a report on the status of the UST program and submit on or before December 31, 2017 and on or before December 31 every 3 years thereafter.

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Air Quality Fund	\$5,500,000
Recycling Fund	2,493,700
Voluntary Vehicle Repair and Retrofit Program Fund	2,000,000

ADEQ Web Portal Development

The budget includes FY 2016 transfers from Department funds associated with the development of the ADEQ 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.)*

Governor's Office of Equal Opportunity

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	136,900	136,900	136,900
Employee Related Expenditures	44,900	44,900	44,900
Professional and Outside Services	4,000	4,000	4,000
Other Operating Expenditures	2,600	2,800	3,200
AGENCY TOTAL	188,400	188,600	189,000^{1/}
FUND SOURCES			
General Fund	188,400	188,600	189,000
SUBTOTAL - Appropriated Funds	188,400	188,600	189,000
Federal Funds	0	200	200
TOTAL - ALL SOURCES	188,400	188,800	189,200

AGENCY DESCRIPTION — The agency monitors equal opportunity plans submitted annually by each state agency and assists agencies in equal employment opportunity training and evaluation.

Operating Budget

The budget includes \$189,000 and 4 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$400 from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Equalization

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.0	7.0	7.0
Personal Services	263,900	289,000	289,000
Employee Related Expenditures	62,800	70,000	70,000
Professional and Outside Services	41,000	94,400	94,400
Travel - In State	16,600	17,000	17,000
Travel - Out of State	0	1,000	1,000
Other Operating Expenditures	136,500	146,200	147,200
Equipment	300	24,200	24,200
AGENCY TOTAL	521,100	641,800	642,800^{1/}
FUND SOURCES			
General Fund	521,100	641,800	642,800
SUBTOTAL - Appropriated Funds	521,100	641,800	642,800
TOTAL - ALL SOURCES	521,100	641,800	642,800

AGENCY DESCRIPTION — The State Board of Equalization consists of 33 members. The board hears property tax appeals for Maricopa and Pima Counties. Property tax appeals in other counties continue to be heard by the respective County Boards of Equalization. Of the 33 members, the 13 gubernatorial appointments also hear appeals of centrally-valued properties and equalization orders by the Department of Revenue.

Operating Budget

The budget includes \$642,800 and 7 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,000 from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Board of Executive Clemency

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	433,900	527,000	527,000
Employee Related Expenditures	187,900	210,800	207,200
Professional and Outside Services	0	27,500	27,500
Travel - In State	200	0	0
Other Operating Expenditures	163,600	193,300	194,300
Equipment	39,100	0	0
AGENCY TOTAL	824,700	958,600	956,000^{1/2/}
FUND SOURCES			
General Fund	824,700	958,600	956,000
SUBTOTAL - Appropriated Funds	824,700	958,600	956,000
TOTAL - ALL SOURCES	824,700	958,600	956,000

AGENCY DESCRIPTION — The board consists of 1 full-time chairman and 4 full-time members. The board conducts home arrest, parole, or work furlough release hearings at all adult prison institutions for prisoners convicted prior to January 1, 1994. The board considers executive clemency actions such as pardons, commutations, and absolute discharges for all prisoners convicted on or after January 1, 1994.

Operating Budget

The budget includes \$956,000 and 14 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Caseload Data

A footnote in the FY 2015 General Appropriation Act requires the board to report on FY 2014 caseload by November 1, 2014. In FY 2014, the board heard 3,058 cases, as described below:

- **Phases 1 and 2 Commutation (360):** After reviewing an inmate's request to have their sentence commuted, the board can decide to deny the request or allow the request to move to a Phase 2 Commutation hearing.
- **Pardon (22):** The board may recommend that the Governor pardon an offender.

- **Absolute Discharge (24):** The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.
- **Modification (3):** The board can recommend to the Governor that an inmate's sentence be modified or commuted.
- **Reprieve (2):** The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.
- **Parole (394):** These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.
- **Violator (2,253):** These hearings are conducted when an offender has violated the terms of community supervision.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{2/} The Board of Executive Clemency shall report to the Staff Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before November 1, 2015 on the total number and types of cases it reviewed in FY 2015. (General Appropriation Act footnote)

Arizona Exposition and State Fair Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,361,800	3,395,000	3,395,000
Employee Related Expenditures	882,100	903,500	897,800
Professional and Outside Services	3,583,600	3,672,400	3,672,400
Travel - In State	4,500	5,000	5,000
Travel - Out of State	7,400	7,000	7,000
Other Operating Expenditures	3,663,800	3,557,900	3,558,900
Equipment	30,600	80,000	80,000
AGENCY TOTAL	11,533,800	11,620,800	11,616,100^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Arizona Exposition and State Fair Fund	11,533,800	11,620,800	11,616,100
SUBTOTAL - Other Appropriated Funds	11,533,800	11,620,800	11,616,100
SUBTOTAL - Appropriated Funds	11,533,800	11,620,800	11,616,100
TOTAL - ALL SOURCES	11,533,800	11,620,800	11,616,100

AGENCY DESCRIPTION — The Arizona Exposition and State Fair Board is custodian of the 96-acre State Fairgrounds and Memorial Coliseum properties. The board directs and conducts the annual Arizona State Fair and leases the coliseum and fairgrounds facilities for special events, including the annual Arizona National Livestock Show.

Operating Budget

The budget includes \$11,616,100 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,700) from the Arizona Exposition and State Fair Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Arizona State Fairground Civic Building

The Civic Building was built in 1938 as a Works Progress Administration project. The building has been vacant since 2005. The Civic Building is not usable in its current condition. In 2012, Arizona Exposition and State Fair Board (AESF) began discussions with the ADOA General Services Department (GSD) about the viability of the building. Concerns existed regarding its structural integrity, primarily its roof.

An engineer was contracted to perform a building assessment study. The findings of the report were published in July 2013. The report found that the roof needed to be replaced. Also, the building had termite damage and a cracked foundation. The engineer estimated that the cost to repair and refurbish the building would be \$800,000. The cost to demolish the building was estimated at \$70,000.

In April 2014, the Governor signed the FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15) which appropriated \$1,000,000 to AESF for capital improvements. In May 2014, AESF submitted a set of capital projects for JCCR review.

Although no final decision had been made about repairing or demolishing the Civic Building, AESF believed that should the demolition occur, the site would need to be remediated in order to make the property useful for that year's State Fair. One of the projects submitted to JCCR in June 2014 called "Asphalt Improvements – South Property" involved paving and site remediation. AESF's submittal did not specify any connection with the demolition of the Civic Building. Based on the information they had gathered, the AESF Board voted to demolish the building in July 2014.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

The City of Phoenix, in conjunction with a member of the Historical Community, filed a temporary restraining order on July 16, 2014 halting the demolition. After discussions with the Governor's Office, and meetings with several lawmakers, AESF agreed to place the demolition on hold for 1 year until July 2015, while the city and the local community sought funding for repairs and potential adaptive uses for the building.

Current Status

After the Civic Building demolition was placed on hold, the City of Phoenix commissioned a historical architect to provide a Building Assessment Study. Based on the survey conducted by Swan Architects, which was presented initially in draft form to the preservation committee on March 19, 2015, but finalized in April, the probable cost per square foot to rehabilitate the building is \$85 to \$150 per square foot. This estimate includes site improvements, structural stabilization, exterior and interior rehabilitation, tenant improvements and development fees. Given the 12,120 square foot measurement identified in the survey, probable cost to refurbish the building ranges from \$1,030,200 to \$1,818,000. A funding source for the renovations has yet to be identified.

At the end of July 2015, it is AESF's intention to have discussions with the Governor's Office, Legislative Leadership and the Attorney General's Office. They will be briefed on the events of the past year and AESF will explain the factors being considered by the board in determining the future of the Civic Building.

Department of Financial Institutions

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.1	60.1	69.1 ^{1/}
Personal Services	2,322,600	2,587,200	2,587,200
Employee Related Expenditures	962,000	1,086,400	1,062,400
Professional and Outside Services	147,000	140,000	140,000
Travel - In State	3,900	10,000	10,000
Travel - Out of State	10,700	5,000	5,000
Other Operating Expenditures	424,500	426,500	542,200
Equipment	22,900	12,500	118,900
OPERATING SUBTOTAL	3,893,600	4,267,600	4,465,700
SPECIAL LINE ITEMS			
Real Estate Appraisal	0	0	821,400 ^{2/}
AGENCY TOTAL	3,893,600	4,267,600	5,287,100^{3/4/}
FUND SOURCES			
General Fund	3,011,200	3,020,200	3,008,000
<i>Other Appropriated Funds</i>			
Board of Appraisal Fund	0		821,400
Financial Services Fund	882,400	1,247,400	1,457,700
SUBTOTAL - Other Appropriated Funds	882,400	1,247,400	2,279,100
SUBTOTAL - Appropriated Funds	3,893,600	4,267,600	5,287,100
Other Non-Appropriated Funds	1,531,300	2,000,300	1,126,300
TOTAL - ALL SOURCES	5,424,900	6,267,900	6,413,400

AGENCY DESCRIPTION — The department regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions and banks. Beginning in FY 2016, the department will also regulate real estate appraisal entities which were previously overseen by the State Board of Appraisal.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) merges the State Board of Appraisal into the Department of Financial Institutions, effective July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the State Board of Appraisal, Chapter 19 states that all appropriated monies of the State Board of Appraisal are transferred to the Department of Financial Institutions. Chapter 19, however, does not specify the format of the appropriation. As a result, the *FY 2016 Appropriations Report* reflects the funding for the State

Board of Appraisal in the Department of Financial Institutions, displayed as its own line item.

Operating Budget

The budget includes \$4,465,700 and 60.1 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$3,008,000
Financial Services Fund	1,457,700

^{1/} Includes 9 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} General Appropriation Act funds for the State Board of Appraisal were appropriated as a Lump Sum by Agency but are displayed here as a Special Line Item as a result of being consolidated into the Department of Financial Institutions by Laws 2015, Chapter 19.

^{3/} The Department of Financial Institutions shall assess and set fees to ensure that monies deposited in the state General Fund will equal or exceed its expenditure from the state General Fund. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as a Lump Sum by Agency. General Appropriation Act funds appropriated to the State Board of Appraisal and consolidated into this agency's budget by Laws 2015, Chapter 19 are displayed as a Special Line Item.

These amounts fund the following adjustments:

Additional Legislation

Remove One-Time Funding

The budget includes a decrease of \$(10,000) from the Financial Services Fund in FY 2016 for the elimination of one-time funding for equipment expenses related to hiring new staff in FY 2015.

New Licensing System - Ongoing Operating Costs

The budget includes an increase of \$223,300 from the Financial Services Fund in FY 2016 for maintenance and operating costs for the electronic licensing system authorized in the FY 2014 budget. *(Please see Department Receivership Revolving Fund in the Additional Legislation section for information regarding the purchase of this licensing system.)*

Statewide Adjustments

The budget includes a decrease of \$(15,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(12,200)
Financial Services Fund	(3,000)

(Please see the Agency Detail and Allocations section.)

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) continues to allow the agency to use the Financial Services Fund in FY 2016 for general operating expenditures.

Department Receivership Revolving Fund

The FY 2016 Revenue BRB extends department spending authority from the Receivership Revolving Fund for the purchase of the electronic licensing system permitted by the FY 2014 Revenue BRB (Laws 2013, 1st Special Session, Chapter 9). Total expenditures for the purchase of the system in FY 2014, FY 2015, and FY 2016 may not exceed a total of \$850,000.

Real Estate Appraisal

The budget includes \$821,400 and 9 FTE Positions from the Board of Appraisal Fund in FY 2016 for Real Estate Appraisal. These amounts fund the following adjustments:

Merge the State Board of Appraisal into the Department of Financial Institutions

The budget includes an increase of \$821,400 and 9 FTE Positions from the Board of Appraisal Fund in FY 2016 for operating costs previously included in the budget for the State Board of Appraisal. The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) merges the State Board of Appraisal into the Department of Financial Institutions, effective July 3, 2015.

Chapter 19 eliminates the State Board of Appraisal and gives the authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions. All board personnel are transferred to comparable positions and pay classifications in the Department of Financial Institutions on the effective date.

Department of Fire, Building and Life Safety

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	47.0	48.0	48.0 ^{1/}
Personal Services	1,018,900	1,036,900	1,036,900
Employee Related Expenditures	443,600	463,000	455,200
Professional and Outside Services	19,400	27,600	27,600
Travel - In State	139,800	139,800	139,800
Other Operating Expenditures	282,900	304,700	309,900
Equipment	40,600	59,100	59,100
OPERATING SUBTOTAL	1,945,200	2,031,100	2,028,500
SPECIAL LINE ITEMS			
Fire School	0	174,200	173,500
AGENCY TOTAL	1,945,200	2,205,300	2,202,000^{2/}
FUND SOURCES			
General Fund	1,945,200	2,205,300	2,202,000
SUBTOTAL - Appropriated Funds	1,945,200	2,205,300	2,202,000
Other Non-Appropriated Funds	547,300	407,400	407,400
Federal Funds	262,600	302,600	302,600
TOTAL - ALL SOURCES	2,755,100	2,915,300	2,912,000

AGENCY DESCRIPTION — The agency enforces safety standards for manufactured homes, mobile homes, and factory-built buildings. The agency also includes the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training provided by the department must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona.

Operating Budget

The budget includes \$2,028,500 and 47 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Fire School

The budget includes \$173,500 and 1 FTE Position from the General Fund in FY 2016 for the Fire School. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item mainly go to help subsidize smaller rural volunteer fire departments attending Arizona State Fire School workshops which provide firefighting education. Generally, fire departments pay for tuition, but the firefighters pay for their room and board to attend the 4-day Fire School. The Arizona State Fire Training Committee, a non-profit organization, coordinates and manages the Fire School. The majority of Fire School workshops take place at the Mesa Convention Center in downtown Mesa with the exception of a few workshops that must be held at designated off-site locations.

Besides \$100,000 for subsidizing these costs, the remaining \$73,500 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

^{1/} Includes 1 FTE Position funded from Special Line Items in FY 2016.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

State Forester

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	52.0	55.0	55.0 ^{1/}
Personal Services	1,449,000	1,708,000	1,708,000
Employee Related Expenditures	626,500	728,100	709,500
Professional and Outside Services	109,000	10,000	10,000
Travel - In State	100	100	100
Other Operating Expenditures	281,100	336,900	293,700
OPERATING SUBTOTAL	2,465,700	2,783,100	2,721,300
SPECIAL LINE ITEMS			
Environmental County Grants	175,000	275,000	250,000
Fire Suppression	4,000,000	4,000,000	4,000,000 ^{2/}
Hazardous Vegetation Removal	0	1,350,000	1,350,000
Inmate Fire Crews	695,700	695,700	691,000
Resource Management Plan Grants	98,000	0	0
AGENCY TOTAL	7,434,400	9,103,800	9,012,300^{3/}
FUND SOURCES			
General Fund	7,434,400	9,103,800	9,012,300
SUBTOTAL - Appropriated Funds	7,434,400	9,103,800	9,012,300
Other Non-Appropriated Funds	34,346,100	27,121,800	27,121,800
TOTAL - ALL SOURCES	41,780,500	36,225,600	36,134,100

AGENCY DESCRIPTION — The State Forester is responsible for the prevention and suppression of forest fires on State Trust Land and private land outside incorporated municipalities (about 22 million acres total).

Operating Budget

The budget includes \$2,721,300 and 42 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(57,000) from the General Fund in FY 2016 for the elimination of one-time funding. The FY 2015 budget included one-time funding for the purchase of a replacement fire engine for the Tucson Fire District.

Statewide Adjustments

The budget includes a decrease of \$(4,800) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Environmental County Grants

The budget includes \$250,000 from the General Fund in FY 2016 for Environmental County Grants. This amount funds the following adjustments:

Environmental County Grants

The budget includes a decrease of \$(25,000) from the General Fund in FY 2016 for Environmental County Grants. The enacted FY 2015 budget included \$275,000 for the Environmental County Grants line item, of which \$100,000 was intended to be one-time. The enacted FY 2016 budget funds the program at \$250,000, all of which is ongoing funding.

Monies in this line item have been used by Greenlee, Graham, Gila, Navajo, and Apache Counties for environmental projects that impact economic development in those counties. The

^{1/} Includes 13 FTE Positions funded from Special Line Items in FY 2016.

^{2/} A.R.S. § 37-623.02 annually appropriates \$3,000,000 from the General Fund to the Fire Suppression Revolving Fund. Because this authorization is in permanent statute, \$3,000,000 of the \$4,000,000 appropriation is not included in the General Appropriation Act.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

State Forester's Office must approve any project prior to expenditure of the monies.

In FY 2015, this funding supported the following 9 projects:

- \$31,500 for the Four Forest Restoration Initiative, which is a plan to implement effective large scale forest restoration, and for the development and implementation of a successor strategy to the White Mountain Stewardship Contract, which allowed for restoration treatments and round wood and residual biomass supply projects in the White Mountains.
- \$46,500 to address threatened and endangered species issues, with a focus on the Mexican Gray Wolf recovery and experimental population programs and to conduct a National Environmental Policy Act analyses of other species listing, habitat designation, or recovery programs in eastern Arizona.
- \$56,500 to address watershed restoration issues, with a particular focus on the development and implementation of the Black River Stewardship Agreement project and the restoration of the C.C. Craigin reservoir watershed.
- \$21,000 for the protection, development, and management of Eastern Arizona electrical generation, water collection, and transportation infrastructures.
- \$21,000 to support the retention of existing motorized recreation; the development of an Arizona back county off-highway vehicle connected trails system along the Mogollon Rim; and new recreation opportunities, facilities and recreation-based economic development.
- \$21,000 to support development and implementation of renewable energy production facilities, convert eastern Arizona coal power plants at end of life to natural gas, and other energy-based economic retention and development projects.
- \$21,000 for participation in the development and implementation of comprehensive Natural Resources Management Plans.
- \$46,000 for participation in the development and implementation of an ecologically and economically sustainable management plan for public lands in Arizona and the West.
- \$10,500 for the development and implementation of an effective planning and execution strategy for emerging issues.

Fire Suppression

The budget includes \$4,000,000 from the General Fund in FY 2016 for Fire Suppression. This amount is unchanged from FY 2015.

This line item funds fire suppression on state trust land and rural private land. A.R.S. § 37-623.02 provides an annual appropriation of up to \$3,000,000 from the General Fund for fire suppression. Because this authorization is in permanent statute, \$3,000,000 of the \$4,000,000 would not be included in the General Appropriation Act.

Hazardous Vegetation Removal

The budget includes \$1,350,000 from the General Fund in FY 2016 for a Hazardous Vegetation Removal Program. This amount is unchanged from FY 2015.

This line item funds hazardous material removal programs that treat state and private lands through prescribed burning or thinning of flammable vegetation. This work can be conducted by State Forester crews or through fuel reduction grants to contractors.

Inmate Fire Crews

The budget includes \$691,000 and 13 FTE Positions from the General Fund in FY 2016 for Inmate Fire Crews. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,700) from the General Fund in FY 2016 for statewide adjustments.

These monies provide fire-fighting training for 12 inmate fire crews. The crews act as first responders and are used for fuel treatment and fire suppression.

State Board of Funeral Directors and Embalmers

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	191,800	197,800	197,800
Employee Related Expenditures	65,800	65,800	62,500
Professional and Outside Services	11,200	15,000	15,000
Travel - In State	5,400	8,500	8,500
Other Operating Expenditures	54,700	62,600	64,400
Equipment	4,400	4,000	4,000
AGENCY TOTAL	333,300	353,700	352,200^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Funeral Directors' and Embalmers' Fund	333,300	353,700	352,200
SUBTOTAL - Other Appropriated Funds	333,300	353,700	352,200
SUBTOTAL - Appropriated Funds	333,300	353,700	352,200
TOTAL - ALL SOURCES	333,300	353,700	352,200

AGENCY DESCRIPTION — The board licenses, registers, and regulates embalmers, prearranged funeral salespersons, crematories, and funeral homes. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$352,200 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,500) from the Board of Funeral Directors' and Embalmers' Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Game and Fish Department

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	13,696,500	15,149,900	15,496,000
Employee Related Expenditures	8,392,700	9,375,200	9,265,500
Professional and Outside Services	501,300	1,543,400	1,543,400
Travel - In State	233,100	278,800	278,800
Travel - Out of State	112,800	98,200	98,200
Other Operating Expenditures	6,457,600	7,449,500	12,402,200
Equipment	1,553,300	825,100	1,761,300
OPERATING SUBTOTAL	30,947,300	34,720,100	40,845,400
SPECIAL LINE ITEMS			
Lower Colorado Multispecies Conservation	350,000	350,000	0
Performance Incentive Pay Program	0	346,100	0
Pittman-Robertson/Dingell-Johnson Act	2,558,000	3,808,000	0
Watercraft Grant Program	0	1,000,000	1,000,000
Watercraft Safety Education Program	241,000	250,000	0
AGENCY TOTAL	34,096,300	40,474,200	41,845,400^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Capital Improvement Fund	1,326,900	999,700	1,000,900
Game and Fish Fund	29,110,000	34,545,900	35,347,700
Game, Non-Game, Fish and Endangered Species Fund	154,200	346,800	346,500
Watercraft Licensing Fund	3,339,000	4,565,800	5,134,100
Waterfowl Conservation Fund	166,200	0	0
Wildlife Endowment Fund	0	16,000	16,200
SUBTOTAL - Other Appropriated Funds	34,096,300	40,474,200	41,845,400
SUBTOTAL - Appropriated Funds	34,096,300	40,474,200	41,845,400
Other Non-Appropriated Funds	24,999,000	29,454,800	29,454,800
Federal Funds	33,910,200	37,275,800	37,275,800
TOTAL - ALL SOURCES	93,005,500	107,204,800	108,576,000

AGENCY DESCRIPTION — The Arizona Game and Fish Department (AGFD) manages Arizona wildlife populations through the operation of hunting and fishing license programs, enforcement actions for the unlawful taking of game, and wildlife habitat protection and development. A 5-member commission appointed by the Governor oversees department operations.

Operating Budget

The budget includes \$40,845,400 and 273.5 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
Capital Improvement Fund	\$1,000,900
Game and Fish Fund	35,347,700
Game, Non-Game, Fish and Endangered Species Fund	346,500
Watercraft Licensing Fund	4,134,100
Wildlife Endowment Fund	16,200

These amounts fund the following adjustments:

Operating Budget Shift

The budget includes an increase of \$4,754,100 in FY 2016 for a shift in resources from the Lower Colorado Multispecies Conservation line item, Performance Incentive Pay Program line item, Pittman-Robertson/Dingell-Johnson Act line item, and the Watercraft Safety Education Program line item to the Operating Budget. There is no net change in agency resources. This amount consists of:

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Game and Fish Fund	4,108,000
Watercraft Licensing Fund	646,100

Equipment

The budget includes an increase of \$936,200 in FY 2016 for the replacement of equipment. This includes the purchase of 7 Wildlife Manager vehicles, 5 boats, 4 mobile decontamination units, and body armor; refurbishment of 1 boat; and construction of covered storage for 6 patrol boats. This also includes the purchase of 210 replacement regulatory markers and navigation aids to provide to the State Parks Board in accordance with interagency agreements. This amount consists of:

Game and Fish Fund	373,700
Watercraft Licensing Fund	562,500

Sportfish Habitat

The budget includes an increase of \$500,000 from the Game and Fish Fund in FY 2016 for ongoing habitat enhancement projects to improve the quality and quantity of fish habitat in Arizona.

Statewide Adjustments

The budget includes a decrease of \$(65,000) in FY 2016 for statewide adjustments. This amount consists of:

Capital Improvement Fund	1,200
Game and Fish Fund	(71,900)
Game, Non-Game, Fish and Endangered Species Fund	(300)
Watercraft Licensing Fund	5,800
Wildlife Endowment Fund	200

(Please see the Agency Detail and Allocations section.)

Lower Colorado Multispecies Conservation

The budget includes no funding from the Watercraft Licensing Fund in FY 2016 for the Lower Colorado River Multispecies Conservation Plan (MSCP). This amount funds the following adjustments:

Operating Budget Shift

The budget includes a decrease of \$(350,000) from the Watercraft Licensing Fund in FY 2016 for a shift in resources from Lower Colorado Multispecies Conservation line item to the Operating Budget. There is no net change in agency resources.

The \$350,000 payment represents the department’s share of Arizona’s payment for the plan. This amount funds approximately 25% of the state’s annual payment. Currently, the total payment to MSCP is \$1,400,000. The Central Arizona Water Conservation District pays the remaining \$1,050,000 share of the state’s obligation under the plan.

Annual payments for the plan are made to the U.S. Bureau of Reclamation. The bureau uses the monies received from state payments to implement conservation measures under the MSCP agreement.

The MSCP is an agreement between Arizona, California, Nevada, Indian Tribes, and water and utility companies to protect species classified as threatened or endangered, and to prevent any additional species from being added to these lists. The MSCP implementation plan lasts for 50 years, is estimated to cost \$626,000,000, and is administered by the U.S. Bureau of Reclamation.

Performance Incentive Pay Program

The budget includes no funding in FY 2016 for the Performance Incentive Pay Program. This amount funds the following adjustments:

Operating Budget Shift

The budget includes a decrease of \$(346,100) in FY 2016 for a shift in resources from the Performance Incentive Pay Program line item to the Operating Budget. There is no net change in agency resources. This amount consists of:

Game and Fish Fund	(300,000)
Watercraft Licensing Fund	(46,100)

These monies fund the department’s Performance Incentive Pay Program. Employee distributions are based on 50% work unit performance measures and 50% on agencywide performance measures. These measures are determined by internal and external customer surveys, cycle times, and other quantifiable data.

Pittman-Robertson/Dingell-Johnson Act

The budget includes no funding from the Game and Fish Fund in FY 2016 for the Pittman-Robertson/Dingell-Johnson Act. This amount funds the following adjustments:

Operating Budget Shift

The budget includes a decrease of \$(3,808,000) from the Game and Fish Fund in FY 2016 for a shift in resources from the Pittman-Robertson/Dingell-Johnson Act line item to the Operating Budget. There is no net change in agency resources.

These monies fund the state’s 25% match for federal aid matching funds for wildlife restoration projects.

Watercraft Grant Program

The budget includes \$1,000,000 from the Watercraft Licensing Fund in FY 2016 for the Watercraft Grant Program line item. This amount is unchanged from FY 2015.

The program awards grants through a competitive grant process to Arizona watercraft enforcement agencies. These grants are used by agencies to expand Operation Under the Influence enforcement efforts, such as purchasing equipment, paying officers' overtime, or funding prevention and education programs.

Watercraft Safety Education Program

The budget includes no funding from the Watercraft Licensing Fund in FY 2016 for the Watercraft Safety Education Program line item. This amount funds the following adjustments:

Operating Budget Shift

The budget includes a decrease of \$(250,000) from the Watercraft Licensing Fund in FY 2016 for a shift in resources from the Watercraft Safety Education Program line item to the Operating Budget. There is no net change in agency resources.

The Watercraft Safety Education Program funds a statewide marketing campaign designed to promote a boating education class and an internet-based education program.

Department of Gaming

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	115.3	115.3	155.8 ^{1/}
Personal Services	4,282,000	4,633,900	4,633,900
Employee Related Expenditures	1,772,800	1,903,000	1,876,200
Professional and Outside Services	274,600	465,900	465,900
Travel - In State	269,000	250,600	250,600
Travel - Out of State	32,700	40,200	40,200
Other Operating Expenditures	1,139,500	875,500	879,400
Equipment	174,200	149,300	149,300
OPERATING SUBTOTAL	7,944,800	8,318,400	8,295,500
SPECIAL LINE ITEMS			
Additional Operating Expenses	0	800,400	800,400 ^{2/}
Casino Operations Certification	1,938,700	2,104,900	2,089,900
County Fairs Livestock and Agricultural Promotion	0	0	1,779,500 ^{3/4/}
Division of Racing	0	0	2,894,200 ^{4/}
Problem Gambling	1,990,500	2,292,500	2,287,000
AGENCY TOTAL	11,874,000	13,516,200	18,146,500 ^{5/}
FUND SOURCES			
General Fund	0	0	1,779,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	9,635,300	11,111,300	11,082,900
Racing Regulation Fund	0	0	2,894,200
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,938,700	2,104,900	2,089,900
SUBTOTAL - Other Appropriated Funds	11,874,000	13,516,200	16,367,000
SUBTOTAL - Appropriated Funds	11,874,000	13,516,200	18,146,500
Other Non-Appropriated Funds	0	0	90,000
TOTAL - ALL SOURCES	11,874,000	13,516,200	18,236,500

AGENCY DESCRIPTION — The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is funded by the Arizona Benefits Fund, which receives a portion of tribal gaming revenues to pay for regulation of tribal gaming and prevention of problem gambling. The agency is also responsible for certifying casino employees and vendors working with casinos. The department receives monies from the Tribal-State Compact Fund through casino employee and vendor certification application fees. Beginning in FY 2016, the responsibilities of the Department of Racing are transferred to the Gaming Department. The new duties include oversight of horse and dog racing as well as boxing and mixed martial arts.

^{1/} Includes 73.5 FTE OF Positions funded from Special Line Items in FY 2016.

^{2/} The Department of Gaming shall report to the Staff Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 1, 2015 on the expected amount and purpose of expenditures from the Additional Operating Expenses line item for FY 2016. The report shall include the projected line item detail. (General Appropriation Act footnote)

^{3/} The amount appropriated to the County Fairs Livestock and Agricultural Promotion line item is for deposit in the County Fairs Livestock and Agricultural Promotion Fund established by A.R.S. § 5-113, and administered by the Office of the Governor. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds for the Department of Racing were appropriated as an Operating Lump Sum with Special Line Items by Agency but are displayed here as a Special Line Item as a result of being consolidated into the Department of Gaming by Laws 2015, Chapter 19.

^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency. General Appropriation Act funds appropriated to the Department of Racing and consolidated into this agency's budget by Laws 2015, Chapter 19 are displayed as a Special Line Item.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming, effective July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the Department of Gaming, Chapter 19 states that all appropriated monies of the Department of Racing are transferred to the Department of Gaming. Chapter 19, however, does not specify the format of the appropriation. As a result, the *FY 2016 Appropriations Report* reflects the funding for the Department of Racing in the Department of Gaming, displayed as its own line items.

Administrative Expense

The budget includes \$9,095,900 in FY 2016 for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$800,400 for additional operating budget expenditures.

The department's actual spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's administration expenses from the Arizona Benefits Fund, excluding Problem Gambling, are limited to the greater of \$8,000,000 or 9% of state tribal gaming revenues.

In FY 2016, 9% of tribal gaming revenues are forecasted to be \$7,961,700. As a result, the minimum operating budget will be \$8,000,000. In that circumstance, the department would not be able to expend its appropriation of \$9,095,900 for administrative expenses from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2016 amount up to \$9,095,900.

Problem Gambling

The budget includes \$2,287,000 for Problem Gambling, which consists of \$1,987,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund. The department's actual spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues.

In FY 2016, 2% of tribal gaming revenues are projected to be \$1,769,400. In that circumstance, the department would not be able to expend its appropriation of \$1,987,000 for Problem Gambling from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2016 amount up to \$1,987,000.

Gaming Revenues

From FY 2013 to FY 2014 state gaming revenues grew 0.6% to \$86,728,500. Gaming revenues are expected to have flat growth from FY 2014 to FY 2015 maintaining a level of \$86,728,500. From FY 2015 to FY 2016, revenues are forecasted to grow by 2% to \$88,463,100. (*See Table 1 for more information on projected state revenues and department allocations.*)

Operating Budget

The budget includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(22,900) from the Arizona Benefits Fund in FY 2016 for statewide adjustments. (*Please see the Agency Detail and Allocations section.*)

Additional Operating Expenses

The budget includes \$800,400 from the Arizona Benefits Fund in FY 2016 for additional operating expenses. The department would be required to report on any new administrative spending. This amount is unchanged from FY 2015.

Monies in this line item are used to align spending with the 9% of projected tribal contributions. The agency may use this additional appropriation for administrative cost of regulating gaming. In FY 2016, these resources will be allocated to the appropriate operating budget line items. (*See footnote on additional operating expenses reporting.*)

Casino Operations Certification

The budget includes \$2,089,900 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2016 for Casino Operations Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,000) from the Tribal-State Compact Fund in FY 2016 for statewide adjustments.

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agricultural Promotion

The budget includes \$1,779,500 from the General Fund in FY 2016 for County Fairs Livestock and Agricultural Promotion. This amount funds the following adjustments:

Merge the Department of Racing into the Department of Gaming

The budget includes an increase of \$1,779,500 from the General Fund in FY 2016 for County Fairs Livestock and Agricultural Promotion. The FY 2016 Consolidation BRB transfers this line item from the Department of Racing to the Department of Gaming. *(Please see Division of Racing for more information.)*

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona’s livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Division of Racing

The budget includes \$2,894,200 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2016 to merge the Department of Racing into the Department of Gaming. These amounts fund the following adjustments:

Merge the Department of Racing into the Department of Gaming

The budget includes an increase of \$2,894,200 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2016 for operating costs previously included in the budget for the Department of Racing. The FY 2016 Agency Consolidation BRB merges the Department of Racing into the Department of Gaming, establishing a Division of Racing effective July 3, 2015.

The Agency Consolidation BRB also transfers the Department of Racing’s boxing and mixed martial arts regulation to the Department of Gaming. All personnel under the state personnel system who are employed by the Department of Racing are transferred to comparable positions and pay classifications within the Division of Racing on the effective date.

Problem Gambling

The budget includes \$2,287,000 and 5 FTE Positions in FY 2016 for Problem Gambling. These amounts consist of:

	FY 2016
Arizona Benefits Fund	\$1,987,000
State Lottery Fund	300,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,500) from the Arizona Benefits Fund in FY 2016 for statewide adjustments.

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state shall be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The budget includes \$1,987,000 for FY 2016 from the Arizona Benefits Fund. *(See Table 1 for more information on projected state revenues.)*

Table 1

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

<u>Recipient</u>	<u>Proposition 202 Formula</u>	<u>FY 2013 Actual</u> ^{1/}	<u>FY 2014 Actual</u> ^{1/}	<u>FY 2015 Projected</u>	<u>FY 2016 Projected</u>
State Government Distribution	88% of total	\$ 86,170,100	\$ 86,728,500	\$ 86,728,500 ^{2/}	\$ 88,463,100 ^{2/}
Local Government Distribution ^{3/}	12% of total	<u>11,750,500</u>	<u>11,826,600</u>	<u>11,826,600</u>	<u>12,063,200</u>
Total	100% of total	\$ 97,920,600	\$ 98,555,100	\$ 98,555,100	\$ 100,526,300
<u>Allocation of State Government's Share</u>					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000 ^{4/}	\$ 8,000,000 ^{4/}
Department of Gaming Problem Gambling Subtotal-Department of Gaming	2%	<u>1,723,400</u>	<u>1,734,600</u>	<u>1,734,600</u> ^{5/}	<u>1,769,400</u> ^{5/}
Instructional Improvement Fund (Department of Education)	56% of remainder	42,810,200	43,116,600	43,116,600	44,068,500
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	21,405,100	21,558,300	21,558,300	22,034,200
Arizona Wildlife Conservation Fund	8% of remainder	6,115,700	6,159,500	6,159,500	6,295,500
Tourism Fund	8% of remainder	<u>6,115,700</u>	<u>6,159,500</u>	<u>6,159,500</u>	<u>6,295,500</u>
Total		\$ 86,170,100	\$ 86,728,500	\$ 86,728,500	\$ 88,463,100

^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

^{2/} The budget projects flat growth in FY 2015 for tribal contributions to the Arizona Benefits Fund and 2.0% growth in FY 2016.

^{3/} Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

^{4/} While the FY 2015 appropriation and FY 2016 appropriation include \$9,118,800, A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. This provision is expected to allow the department to expend \$8,000,000 for FY 2015 and FY 2016 since 9% of projected FY 2015 and 2016 revenues are less than \$8,000,000.

^{5/} While the FY 2015 appropriation and FY 2016 appropriation include \$1,992,500, A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. This provision is expected to allow the department to only expend \$1,734,600 for problem gambling expenditures in FY 2015 and \$1,769,400 in FY 2016.

Arizona Geological Survey

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	10.3	10.3	10.3
Personal Services	495,200	505,000	505,000
Employee Related Expenditures	208,100	192,800	189,200
Professional and Outside Services	1,700	0	0
Travel - In State	16,500	0	0
Other Operating Expenditures	219,900	213,900	216,800
Equipment	0	30,000	30,000
AGENCY TOTAL	941,400	941,700	941,000^{1/}
FUND SOURCES			
General Fund	941,400	941,700	941,000
SUBTOTAL - Appropriated Funds	941,400	941,700	941,000
Other Non-Appropriated Funds	977,600	1,194,600	418,400
Federal Funds	6,554,600	4,566,000	1,270,200
TOTAL - ALL SOURCES	8,473,600	6,702,300	2,629,600

AGENCY DESCRIPTION — The Geological Survey investigates Arizona's geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The Survey also provides staffing to the Arizona Oil and Gas Conservation Commission, which regulates the drilling and production of oil, gas and other energy resources.

Operating Budget

The budget includes \$941,000 and 10.3 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Arizona Experience Museum Transfer

In April 2015, the Governor vetoed SB 1200, which would have transferred \$428,300 and 1 FTE Position from the General Fund from the Arizona Historical Society to the Arizona Geological Survey to reopen the Museum. The bill would have renamed the Centennial Museum as the Mining, Mineral and Natural Resources Educational Museum (Museum).

SB 1200 would have transferred all unexpended and unencumbered monies remaining in the Centennial Special Plate Fund to the Mining, Mineral and Natural Resources Educational Museum Account within the Arizona Geological Survey Fund consisting of monies received from the Museum to be used exclusively for restoration, maintenance, and operations of the Museum.

The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. The building was eventually renamed the Centennial Museum and then the Arizona Experience Museum, but was never reopened.

Rent is still paid on the vacant 18,000-square-foot property and a Curator position is retained to care for the mineral collection. Of the total current appropriation for the Arizona Experience Museum, \$360,800 is used to pay rent for the vacant property and the remaining \$67,500 is used to fund the Curator position.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Office of the Governor

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	6,884,300	6,920,100	6,889,000
AGENCY TOTAL	6,884,300	6,920,100	6,889,000^{1/2/3}
FUND SOURCES			
General Fund	6,884,300	6,920,100	6,889,000
SUBTOTAL - Appropriated Funds	6,884,300	6,920,100	6,889,000
Other Non-Appropriated Funds	4,228,400	4,064,600	4,064,600
Federal Funds	28,583,100	19,251,700	19,251,700
TOTAL - ALL SOURCES	39,695,800	30,236,400	30,205,300

AGENCY DESCRIPTION — The Governor is the state's Chief Executive Officer and responsible for the execution of state laws. The Office of the Governor includes the Office for Children, Youth and Families, Office on Aging, Office of Constituent Services, Arizona-Mexico Commission, Northern Office, and Tucson Office.

Operating Budget

The budget includes \$6,889,000 from the General Fund in FY 2016 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(31,100) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.
- ^{3/} Included in the Lump Sum appropriation of \$6,889,000 for FY 2016 is \$10,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

Governor's Office of Strategic Planning and Budgeting

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	22.0	22.0	22.0
Personal Services	1,177,800	1,330,900	1,330,900
Employee Related Expenditures	416,300	361,500	361,500
Professional and Outside Services	109,100	92,500	92,500
Travel - In State	700	100	100
Travel - Out of State	7,500	0	0
Other Operating Expenditures	231,000	207,200	207,200
Equipment	0	1,800	1,800
AGENCY TOTAL	1,942,400	1,994,000	1,994,000^{1/2/}
FUND SOURCES			
General Fund	1,942,400	1,994,000	1,994,000
SUBTOTAL - Appropriated Funds	1,942,400	1,994,000	1,994,000
TOTAL - ALL SOURCES	1,942,400	1,994,000	1,994,000

AGENCY DESCRIPTION — The Governor's Office of Strategic Planning and Budgeting advises the Governor in the preparation of the Executive budget and provides the Executive Branch a central resource for the compilation, analysis, and investigation of state fiscal matters. It facilitates a strategic planning process and assists agencies in preparation and execution of their budgets.

Operating Budget

The budget includes \$1,994,000 and 22 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts are unchanged from FY 2015.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Health Services

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,176.7	1,176.7	1,176.7 ^{1/}
Personal Services	55,430,600	19,178,500	19,178,500
Employee Related Expenditures	22,479,800	8,160,100	7,976,700
Professional and Outside Services	13,405,300	2,004,700	2,004,700
Travel - In State	448,000	400,500	400,500
Travel - Out of State	70,900	70,300	70,300
Other Operating Expenditures	33,585,100	34,883,600	34,850,700
Equipment	600,900	1,194,800	1,194,800
OPERATING SUBTOTAL	126,020,600	65,892,500	65,676,200
SPECIAL LINE ITEMS			
Behavioral Health			
Medicaid Behavioral Health - Traditional	752,526,300	829,506,100	873,803,300 ^{2/3/4/}
Medicaid Behavioral Health - Proposition 204	365,207,500	530,986,000	533,810,200 ^{2/3/4/5/}
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	155,731,500	179,831,300	174,324,200 ^{2/3/4/}
Medicaid Behavioral Health - Adult Expansion	0	73,805,900	41,459,300
Proposition 204 Administration	4,007,100	6,446,700	6,446,700
Medicare Clawback Payments	14,925,100	13,786,100	14,228,600
Medicaid Insurance Premium Payments	25,803,400	24,918,200	33,167,700
Non-Medicaid Seriously Mentally Ill Services	76,261,100	78,846,900	78,846,900
Supported Housing	5,249,500	5,324,800	5,324,800
Crisis Services	16,382,800	16,391,100	16,391,100
Mental Health First Aid	167,300	250,000	0
Arizona State Hospital			
ASH - Operating	0	58,366,200	59,268,700
ASH - Restoration to Competency	0	900,000	900,000 ^{6/}
ASH - Sexually Violent Persons	0	9,731,700	9,684,900 ^{2/}
Public Health/Family Health			
Adult Cystic Fibrosis	78,900	105,200	105,200
AIDS Reporting and Surveillance	902,700	1,000,000	1,000,000
Alzheimer's Disease Research	1,125,000	2,375,000	1,125,000 ^{8/}
Biomedical Research Support	0	2,000,000	2,000,000 ^{9/}
Breast and Cervical Cancer and Bone Density Screening	844,300	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	522,300	590,700	590,700
Emergency and Trauma Services	300,000	0	0
Emergency Medical Services Local Allocation	0	0	442,000
Folic Acid	379,800	400,000	400,000
High Risk Perinatal Services	1,829,300	2,543,400	2,543,400
Newborn Screening Program	5,785,300	6,307,700	6,297,300
Nursing Care Special Projects	0	50,000	100,000
Poison Control Centers Funding	742,500	990,000	990,000
Nonrenal Disease Management	44,300	198,000	198,000 ^{10/}
Renal Dental Care and Nutrition Supplements	1,000	300,000	300,000
School-Based Prevention Education	0	300,000	0
AGENCY TOTAL	1,554,837,600	1,913,512,900	1,930,793,600 ^{11/-15/}

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
FUND SOURCES			
General Fund	562,482,400	619,489,200	602,738,300
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	9,385,400	9,588,600	9,575,300
ASH Land Earnings Fund	623,700	650,000	650,000
Capital Outlay Stabilization Fund	1,559,800	1,559,800	1,559,900
Child Fatality Review Fund	69,400	94,800	95,000
Emergency Medical Services Operating Fund	4,257,100	5,122,400	5,368,800
Environmental Laboratory Licensure Revolving Fund	660,700	927,100	926,400
Federal Child Care and Development Fund Block Grant	830,400	879,400	876,100
Health Services Licensing Fund	8,616,100	9,275,100	9,264,200
Indirect Cost Fund	8,833,200	8,573,500	8,559,800
Newborn Screening Program Fund	5,785,300	6,739,600	6,738,300
Nursing Care Institution Resident Protection Revolving Fund	59,000	88,200	138,200
Substance Abuse Services Fund	2,250,000	2,250,000	2,250,200
TTHCF Health Research Account	1,000,000	3,000,000	3,000,000
TTHCF Medically Needy Account	35,147,800	35,467,000	35,467,000
Vital Records Electronic Systems Fund	2,456,000	3,635,500	3,629,000
SUBTOTAL - Other Appropriated Funds	81,533,900	87,851,000	88,098,200
SUBTOTAL - Appropriated Funds	644,016,300	707,340,200	690,836,500
<u>Expenditure Authority Funds</u>			
Federal Medicaid Services	910,821,300	1,206,172,700	1,239,957,100
SUBTOTAL - Expenditure Authority Funds	910,821,300	1,206,172,700	1,239,957,100
SUBTOTAL – Appropriated/Expenditure Authority Funds	1,554,837,600	1,913,512,900	1,930,793,600
Other Non-Appropriated Funds	125,647,800	128,886,600	128,886,600
Federal Funds	299,867,900	301,854,200	301,854,200
TOTAL - ALL SOURCES	1,980,353,300	2,344,253,700	2,361,534,400

AGENCY DESCRIPTION — The Department of Health Services (DHS) is responsible for the provision of most public health programs not administered by AHCCCS, most behavioral health programs, the Arizona State Hospital (ASH), emergency medical services, state laboratory support, vital records maintenance, disease control, and epidemiological monitoring.

- 1/ Includes 665 GF and 60.1 OF FTE Positions funded from Special Line Items in FY 2016.
- 2/ On or before January 6, 2016, the Department of Health Services shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received on or before that date since July 1, 2015. On June 30, 2016, the department shall report the same information for all of FY 2016. (General Appropriation Act footnote)
- 3/ The Department of Health Services shall report to the Joint Legislative Budget Committee on or before December 31, 2015, and June 30, 2016 on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the department's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County as follows: supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The department shall also report the amounts, by fund source, it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 4/ It is the intent of the Legislature that the percent attributable to administration/profit for the Regional Behavioral Health Authority in Maricopa County is 9% of the overall capitation rate. (General Appropriation Act footnote)
- 5/ The amounts included in the Proposition 204 Administration and Medicaid Behavioral Health - Proposition 204 line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 6/ The Arizona State Hospital - Restoration to Competency line item includes monies for direct costs associated with the Restoration to Competency program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 7/ The Arizona State Hospital - Sexually Violent Persons line item includes monies for direct costs associated with the Sexually Violent Person program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 8/ Of the \$1,125,000 for Alzheimer's Disease Research, \$1,000,000 of that amount is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773. (General Appropriation Act footnote)
- 9/ Laws 2014, Chapter 18, Section 128 appropriated \$2,000,000 annually from the Health Research Fund established by A.R.S. § 36-275 from FY 2015 through FY 2019 to the Department of Health Services for allocation to a nonprofit medical research institute headquartered in this state that meets certain criteria. (Please see the *Biomedical Research Support* line item for more information.)
- 10/ The Department of Health Services may use up to 4% of the amounts appropriated for Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)

Summary

DHS' FY 2016 General Fund spending decreases by \$(16,750,900), or (2.7)%, from FY 2015. The budget includes:

- \$9,531,000 for formula adjustments.
- \$(5,537,000) for the reduction of costs associated with mandatory Affordable Care Act adjustments.
- \$(8,429,700) for the reduction of costs associated with an increased federal match rate for the Childless Adult population.
- \$(11,400,000) for provider rate reductions.
- \$1,200,000 to increase the Arizona State Hospital (ASH) operating budget.
- \$(1,800,000) to eliminate funding for Alzheimer's Research, Mental Health First-Aid, and School-Based Prevention Education.
- \$(315,200) for statewide adjustments.

The budget also includes a \$6,127,100 increase from the General Fund in FY 2015 to reflect revisions to caseload projections. *(Please see Other Issues section for more information.)*

As part of the budget's 3-year spending plan, DHS General Fund costs are projected to increase by \$3,798,400 in FY 2017 above FY 2016 and by \$15,929,600 in FY 2018 above FY 2017.

The FY 2017 and FY 2018 estimates do not yet reflect the July 1, 2016 transfer of behavioral health functions from DHS to AHCCCS, as authorized by Laws 2015, Chapter 19 and Laws 2015, Chapter 195.

Operating Budget

The budget includes \$65,676,200 and 451.6 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$23,936,000
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	95,000
Emergency Medical Services (EMS) Operating Fund	4,476,800
Environmental Laboratory Licensure Revolving Fund	926,400
Federal Child Care and Development Fund (CCDF) Block Grant	876,100
Health Services Licensing Fund	9,264,200
Indirect Cost Fund	8,559,800
Newborn Screening Program Fund	441,000
Nursing Care Institution Resident Protection Revolving Fund	38,200
Substance Abuse Services Fund	200
Vital Records Electronic Systems Fund	3,629,000
Federal Medicaid Authority (FMA)	11,873,600

These amounts fund the following adjustments:

Emergency Medical Services Local Allocation Shift

The budget includes a decrease of \$(192,000) from the EMS Operating Fund in FY 2016 to shift costs associated with EMS Local Allocation distributions from DHS' operating budget to a new line item.

A corresponding increase of \$192,000 from the EMS Operating Fund can be found in the Emergency Medical Services Local Allocation line item. *(Please see Emergency Medical Services Local Allocation line item for more information.)*

11/ In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)

12/ On or before November 1 of each year, the Department of Health Services shall report to the Joint Legislative Budget Committee the revenues, expenditures and ending balances of the department's Intergovernmental/Interagency Service Agreements Fund from the previous, current and subsequent fiscal years. (General Appropriation Act footnote)

13/ The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for any behavioral health line items, the Department of Health Services shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or more for a given fiscal year, the department shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

14/ The Department of Health Services shall electronically forward a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation and total expenditure authority of the month and year-to-date for federally matched services. (General Appropriation Act footnote)

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

Statewide Adjustments

The budget includes a decrease of \$(24,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	15,800
Capital Outlay Stabilization Fund	100
Child Fatality Review Fund	200
EMS Operating Fund	(3,600)
Environmental Laboratory Licensure Revolving Fund	(700)
Federal CCDF Block Grant	(3,300)
Health Services Licensing Fund	(10,900)
Indirect Cost Fund	(13,700)
Newborn Screening Program Fund	9,100
Substance Abuse Services Fund	200
Vital Records Electronic Systems Fund	(6,500)
FMA	(11,000)

(Please see the Agency Detail and Allocations section.)

Behavioral Health

These line items fund 4 types of services: 1) Serious Mental Illness (SMI), 2) Children’s Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP). *(Please see Table 3 for more information.)*

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions. These adjustments totaling \$9,531,000 from the General Fund are comprised of FY 2016 changes to 1) caseloads, 2) capitation rates, 3) the federal match rate, and 4) Medicare Clawback payments. Formula adjustments do not include costs associated with federal health care expansion and new policy changes. *(Please see Table 1 for more information.)*

FY 2016 Caseload Growth

Most populations funded by the Traditional, Proposition 204, and Adult Expansion line items are projected to grow by 0.2% in FY 2016.

The SMI and CMDP populations are projected to experience higher rates of growth. The SMI population receiving integrated services in Maricopa County is projected to grow by 5% in FY 2016. This estimate is based on a 5-year annual growth average of 4.6%. The CMDP program enrollment is projected to grow 7% in FY 2016.

In the aggregate, the caseload growth is estimated to result in a \$7,908,900 General Fund cost increase in FY 2016.

In June 2016, there are projected to be 1,514,592 individuals eligible for Medicaid Behavioral Health services. DHS receives a monthly capitation payment from AHCCCS for every eligible individual, although only an estimated average of 8.9%, or 134,535, of the eligible population will utilize services. *(Please see Table 2 for more information.)*

Table 1

DHS General Fund Budget Spending Changes
(\$ in millions)

Formula Adjustments	
FY 2016 Caseload Growth	\$ 8
FY 2016 3% Capitation Rate Increase	10
FY 2016 Federal Match Rate Increase	(9)
Clawback Payment Increase	0
<i>Subtotal</i> ^{1/}	\$ 10
Mandatory ACA Changes	
Child Expansion	\$ (2)
Health Insurer Fee	(3)
Currently Eligible But Not Enrolled ^{2/}	--
<i>Subtotal</i> ^{3/}	\$ (6)
Optional Medicaid Expansion	
Childless Adults and Adult Expansion	\$ (8)
Policy Changes	
FY 2016 (5)% Provider Rate Reduction	\$ (11)
1.5% Capitation Rate Limit - FY 2017 and FY 2018 ^{3/}	0
Cost-Sharing Provisions - FY 2017 and FY 2018 ^{3/}	0
ASH Operating Increase	1
One-Time Funding for Alzheimer’s Research, School-Based Prevention Education and Mental Health First Aid	(2)
<i>Subtotal</i>	\$ (12)
Total Spending Change	\$ (17)
^{1/} Numbers do not add due to rounding.	
^{2/} Amounts are included in the formula adjustment above.	
^{3/} First year of impact is FY 2017. <i>(Please see Formula Adjustments narrative for more information.)</i>	

FY 2016 3% Capitation Rate Increase

Capitation rate growth is assumed to be 3% above FY 2015 for all Medicaid Behavioral Health programs. This assumption reflects recent state capitation trends in the program and national trends in the consumer price index for Medical Care and Medicaid per enrollee spending. The 3% capitation rate increase is estimated to cost the General Fund \$9,707,800 in FY 2016. Capitation rates include a risk corridor to limit profits and losses of the Regional Behavioral Health Authorities (RBHA) that administer Medicaid Behavioral Health services. *(Please see Risk Corridor in Other Issues section for more information.)*

Table 2

JLBC Forecasted Eligibility and Service Use
(June 1, 2016)

By Line Item	Eligible ^{1/}	No. Using Services	Rate of Use
Traditional	1,002,035	72,767	7.3%
Proposition 204	454,147	47,374	10.4
CMDP	16,721	10,023	59.9
Adult Expansion ^{2/}	<u>41,689</u>	<u>4,371</u>	<u>10.5</u>
Total Member Months	1,514,592	134,535	8.9%

By Service Type	Eligible ^{1/}	No. Using Services	Rate of Use
CBH	671,810	37,897	5.6%
SMI ^{3/}	826,061	32,244	10.5
GMH/SA ^{3/}	16,721	10,023	59.9
CMDP	<u>16,721</u>	<u>10,023</u>	<u>59.9</u>
Total Member Months	1,514,592	134,535	8.9%

1/ Projections in this table differ from total enrollment projections in the AHCCCS agency section as some populations enrolled in AHCCCS are not eligible to enroll in DHS. Additionally, some individuals receive all of their care through AHCCCS on an integrated basis.

2/ Parents and Childless Adults from 100%-133% of the federal poverty level (FPL).

3/ Each adult enrollee is eligible for both SMI and GMH/SA services.

FY 2016 Federal Match Rate Increase

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. The federal government provides an approximate 2:1 match for the traditional Medicaid program. During FY 2016, the base FMAP for Medicaid will increase to 68.81% (0.66% increase). The formula adjustments include a decrease of \$(8,528,200) in General Fund spending reflecting savings from the federal rate increase.

Adjustments to Medicare Clawback payments will increase General Fund costs by \$442,500.

The budget includes a \$6,127,100 supplemental from the General Fund in FY 2015 to cover shortfalls associated with higher-than-expected Medicaid caseload growth. The budget also permits AHCCCS to transfer up to an additional \$10,000,000 of its FY 2015 General Fund appropriation to DHS if the \$6,127,100 is insufficient. *(Please see Other Issues for more information.)*

Mandatory ACA Changes

Federal health care legislation, known as the Affordable Care Act (ACA), expanded mandatory levels of Medicaid coverage beginning on January 1, 2014. The General Fund cost of this expanded coverage is estimated to decrease by \$(5,537,000) in FY 2016. Of this amount, \$(2,240,800) is the result of an FMAP increase for the mandatory expansion. The remaining decrease of \$(3,296,200) reflects a lower health insurer fee.

After January 1, 2014, individuals are required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals also have access to health insurance through newly-created health insurance exchanges, and individuals under 400% FPL are eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled are not subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. As a result, the budget assumes a FY 2015 enrollment growth of 4.2% in the Traditional and Proposition 204 population line items. The budget assumes the currently eligible but not enrolled population grows at the same 0.2% growth assumed for the Traditional population in FY 2016.

(Please see Mandatory Affordable Care Act Changes in the AHCCCS section of this report.)

Optional Medicaid Expansion

The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) made a number of changes to Medicaid coverage, including the restoration of coverage for Childless Adults from 0% to 100% and expansion of coverage for adults up to 133% of the Federal Poverty Level (FPL).

Chapter 10 removed the enrollment freeze that had been in effect since FY 2012 and restored coverage for the Childless Adult population. The FY 2016 budget includes a higher match rate than the standard 2:1 match for the Childless Adult population between 0% and 100% FPL. The increased match was 85.48% in FY 2015 and will increase to 89.05% in FY 2016. In AHCCCS, the state match for Childless Adults is paid by the Hospital Assessment. In DHS, however, this cost is paid by the General Fund.

The FY 2016 budget also includes the federal government paying 100% of the cost of the Adult Expansion (parents and Childless Adults whose incomes are from 100% to 133% FPL) in 2014 to 2016.

The General Fund cost of Medicaid Restoration and Expansion is estimated to decrease by \$(8,429,700) in FY 2016. This decrease is the result of the enhanced federal match. *(Please see Childless Adult Restoration, Adult Expansion, and the Hospital Assessment in the AHCCCS section for additional information.)*

Table 3

General Fund Medicaid Behavioral Health Appropriations

	<u>FY 2015</u> <u>Appropriated</u>	<u>FY 2016</u> <u>Appropriated</u>	<u>FY 2016 Above</u> <u>FY 2015</u>
Medicare Clawback Payments	\$ 13,786,100	\$ 14,228,600	\$ 442,500
Medicaid Insurance Premium Payments	8,701,100	8,669,800	(31,300)
<u>State Match for Medicaid</u> ^{1/}			
CBH	91,862,700	90,500,300	(1,362,400)
SMI	128,848,700	129,456,500	607,800
GMH/SA	49,154,000	48,545,200	(608,800)
<u>State Match for Proposition 204</u>			
CBH	707,200	676,700	(30,500)
SMI	68,722,900	59,786,700	(8,936,200)
GMH/SA	45,717,900	40,926,100	(4,791,800)
State Match for CMDP	<u>55,438,500</u>	<u>54,355,600</u>	<u>(1,082,900)</u>
Total	<u>\$462,939,100</u>	<u>\$447,145,500</u>	<u>\$(15,793,600)</u> ^{2/}

^{1/} Base amounts include \$34,767,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund.

^{2/} The \$(642,100) difference between this total and the overall DHS General Fund change from the FY 2015 Appropriation to the FY 2016 Appropriation is related to the elimination of \$(1,800,000) from the Alzheimer’s Research, Mental Health First Aid, and School-Based Prevention Education line items, an increase of \$1,200,000 for the ASH - Operating line item, and a decrease of \$(42,100) for an FMAP change to the Proposition 204 Administrative line item.

Policy Changes

FY 2016 (5)% Provider Rate Reduction

Section 17 of the FY 2016 Health BRB (Laws 2015, Chapter 14) authorizes DHS to reduce provider rates by a cumulative total of up to (5.0)%. This rate reduction would not apply to nursing facilities, developmental disability providers, or home and community based services. DHS is permitted to use discretion in making these reductions. Any reduction would need to be federally approved and the state must prove that the reductions would not affect access to health care. If the capitation rate increase in FY 2016 is less than 3.0%, then DHS may use those savings to reduce the provider rate reductions. The budget includes a \$(11,400,000) General Fund reduction in FY 2016 for implementation of the provider rate decrease.

1.5% Capitation Rate Limit - FY 2017 and FY 2018

Section 27 of the FY 2016 Health BRB limits capitation rate increases to 1.5% in FY 2017 and FY 2018. The FY 2016 JLBC Baseline’s 3-year spending projection assumed that rates would increase by 3% in both years. Relative to the FY 2016 JLBC Baseline, these limits are estimated to reduce General Fund costs by \$(5.1) million in FY 2017 and \$(12.2) million in FY 2018. This change does not impact the FY 2016 budget amounts.

Cost Sharing Provisions – FY 2017 and FY 2018

Section 19 of the FY 2016 Health BRB requires the state to request the federal government for authority to impose

several cost-sharing provisions on Medicaid enrollees, beginning January 1, 2016. The provisions of section 19 are similar to mandatory and optional cost-sharing authority granted to Indiana that became effective February 1, 2015. Pending federal approval, the state would:

- Collect a premium equal to 2% of income from adult Medicaid enrollees with incomes up to 133% of FPL. This provision is estimated to result in General Fund savings of \$(1.1) million and \$(1.5) million in FY 2017 and FY 2018, respectively. The federal government granted Indiana authority to require a 2% premium for adult enrollees with income from 100% to 133% FPL. Adults with incomes from 0% to 100% FPL though, have the option of paying the premium in order to enroll in a health plan with enhanced benefits. The assumed savings of this provision only includes estimated premiums collected from adults with income from 100% to 133% FPL.
- Collect co-pays of up to \$25 for non-emergency use of an emergency department by adult enrollees up to 133% of FPL. Adults below 100% of FPL, however, would be charged a co-payment of \$8 for a first incident and \$25 thereafter. The cost impacts of this provision have been allocated to the AHCCCS spending plan in FY 2017 and FY 2018.
- No longer fund costs of non-emergency medical transportation services for adults with incomes between 100% to 133% FPL, from October 1, 2015 to

September 30, 2016. Due to data limitations, the impact of this provision was not estimated. The federal government funds all costs of this population through December 31, 2016.

The 3-year budget plan associated with the enacted FY 2016 budget includes General Fund savings of \$(1.1) million and \$(1.5) million in DHS for these cost-sharing provisions in FY 2017 and FY 2018, respectively. The 3-year budget plan additionally includes General Fund savings of \$(0.3) million in both FY 2017 and FY 2018 and non-General Fund savings of \$(6.6) million and \$(8.6) million for these provisions in the AHCCCS budget in FY 2017 and FY 2018, respectively. *(Please see the AHCCCS agency section for more information.)*

The budget includes General Fund savings of \$(1.8) million to reduce funding for the Alzheimer’s Disease Research line item and eliminate funding for the Mental Health First Aid and School-Based Prevention Education line items. The budget also increases ASH’s operating budget, costing the General Fund an additional \$1.2 million. *(Please see the respective line items for more information.)*

Medicaid Behavioral Health - Traditional

The budget includes \$873,803,300 in FY 2016 for Medicaid Behavioral Health - Traditional. This amount consists of:

General Fund	233,735,000
Tobacco Tax and Health Care Fund	34,767,000
Medically Needy Account	
Federal Medicaid Authority	605,301,300

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$44,297,200 in FY 2016 for Medicaid Behavioral Health - Traditional formula adjustments and policy changes. This amount consists of:

General Fund	(1,363,400)
Federal Medicaid Authority	45,660,600

The adjustments include:

- 0.2% enrollment growth.
- A change in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- (5)% provider rate reduction.

Background – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2016, there are projected to be 1,002,035 eligible individuals. DHS receives a monthly capitation payment

from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated average 7.3%, or 72,767, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

Medicaid Behavioral Health - Proposition 204

The budget includes \$533,810,200 in FY 2016 for Medicaid Behavioral Health - Proposition 204. This amount consists of:

General Fund	101,389,500
Federal Medicaid Authority	432,420,700

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$2,824,200 in FY 2016 for Medicaid Behavioral Health - Proposition 204 formula adjustments and policy changes. This amount consists of:

General Fund	(13,758,500)
Federal Medicaid Authority	16,582,700

The adjustments include:

- 0.2% enrollment growth.
- An increase in the federal match rate for the non-Childless Adult population from 68.15% to 68.81%.
- An increase in the federal match rate for Childless Adults from 85.48% to 89.05%.
- 3% capitation rate increase.
- (5)% provider rate reduction.

Background – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2016, there are projected to be 454,147 eligible individuals. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated average 10.4%, or 47,374, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The budget includes \$174,324,200 in FY 2016 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	54,355,600
Federal Medicaid Authority	119,968,600

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes a decrease of \$(5,507,100) in FY 2016 for Medicaid Behavioral Health - CMDP formula adjustments and policy changes. This amount consists of:

General Fund	(1,082,900)
Federal Medicaid Authority	(4,424,200)

The adjustments include 7% enrollment growth, an increase to the federal match rate, a 3% capitation rate increase and a (5)% provider rate reduction.

Background – This line item provides behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. DES administered acute care services for this population until this responsibility was transferred to DCS in FY 2015. DHS administers CMDP behavioral health services. Prior to FY 2014, DHS administered these services through its CBH program.

The budget assumes there will be 16,721 eligible individuals in June 2016. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for CMDP, and it is estimated that an average of 59.9%, or 10,023, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

Laws 2013, Chapter 220 requires AHCCCS, DES and DHS to determine and report on the most effective method for delivering medical, dental and behavioral health services to children who qualify for CMDP, considering the possibility of an administratively integrated system. The report is due by October 1, 2015. *(Please see Behavioral Health Transfer in Other Issues for a broader discussion of integration.)*

Medicaid Behavioral Health - Adult Expansion

The budget includes \$41,459,300 from Federal Medicaid Authority in FY 2016 for the Adult Expansion. This amount funds the following adjustments:

Formula Adjustments and Policy Changes

The budget includes a decrease of \$(32,346,600) in FY 2016 for Medicaid Behavioral Health - Adult Expansion for formula adjustment and policy changes.

The adjustments include 0.2% enrollment growth in FY 2016, and a 3% capitation rate increase.

Background – Beginning on January 1, 2014, the Adult Expansion provides Medicaid services for adults from 100%-133% FPL who are not eligible for another Medicaid

program. The federal government will pay 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The budget assumes that 41,689 individuals will be enrolled in June 2016. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that an average of 10.5%, or 4,371, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

Proposition 204 Administration

The budget includes \$6,446,700 in FY 2016 for Proposition 204 Administration. This amount consists of:

General Fund	2,011,000
Federal Medicaid Authority	4,435,700

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(42,100) from the General Fund and a corresponding increase of \$42,100 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

This line item provides funding for the administrative component of the Proposition 204 population.

Medicare Clawback Payments

The budget includes \$14,228,600 from the General Fund in FY 2016 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$442,500 from the General Fund in FY 2016 for formula growth associated with Medicare Clawback Payments.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS is required to make "Clawback" payments to Medicare based on a certain percent (75.0% in 2016) of the estimated drug costs.

Medicaid Insurance Premium Payments

The budget includes \$33,167,700 in FY 2016 for Medicaid Insurance Premium Payments. This amount consists of:

General Fund	8,669,800
Federal Medicaid Authority	24,497,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$8,249,500 in FY 2016 for Medicaid Insurance Premium Payments related to caseload growth and FMAP adjustments. This amount consists of:

General Fund	(31,300)
Federal Medicaid Authority	8,280,800

This line item provides funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays to RBHAs.

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$78,846,900 from the General Fund in FY 2016 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2015.

Background – This line item provides funding for Non-Medicaid SMI clients. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population.

In January 2014, an exit agreement from the litigation was signed by Arizona’s Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness.

(Please see Footnote 3 for more information on service targets established by the exit agreement; see the Non-Medicaid Behavioral Health Services Funding in Other Issues section for more information on total funding available to non-Medicaid behavioral health services; and see the FY 2015 Appropriations Report for a history of the case.)

Supported Housing

The budget includes \$5,324,800 from the General Fund in FY 2016 for Supported Housing. This amount is unchanged from FY 2015.

This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance. The program served an average of 1,539 clients per month in FY 2014.

Crisis Services

The budget includes \$16,391,100 in FY 2016 for Crisis Services. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,000

These amounts are unchanged from FY 2015.

This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services. These funds serve 100% state funded recipients. The program served an average of 2,590 clients per month in FY 2014.

Mental Health First Aid

The budget includes no funding in FY 2016 for Mental Health First Aid. This amount funds the following adjustments:

Eliminate Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 to eliminate funding for training and materials for the Mental Health First Aid program.

This line item provided training for Mental Health First Aid instructors. The Mental Health First Aid program is a public education effort to teach the public to identify, understand, and respond to signs of mental illnesses and substance abuse. In FY 2014 and FY 2015, DHS allocated \$134,500 and \$160,500, respectively, to RBHAs to provide training and materials in their regions and an additional \$79,000 and \$74,000, respectively, to train people to teach Mental Health First Aid classes.

Arizona State Hospital

ASH - Operating

The budget includes \$59,268,700 and 587.5 FTE Positions in FY 2016 for ASH - Operating. These amounts consist of:

General Fund	52,952,300
ASH Fund	5,666,400
ASH Land Earnings Fund	650,000

These amounts fund the following adjustments:

ASH - Operating Increase

The budget includes an increase of \$1,200,000 from the General Fund in FY 2016 to fund increased operating costs at ASH.

Statewide Adjustments

The budget includes a decrease of \$(297,500) from the General Fund in FY 2016 for statewide adjustments.

This line item provides funding for inpatient psychiatric hospitalization services for adult seriously mentally ill residents. Over the 13-month period from January 2014 through January 2015, ASH had an average monthly census of 237 patients.

ASH - Restoration to Competency

The budget includes \$900,000 from the ASH Fund in FY 2016 for ASH - Restoration to Competency. This amount is unchanged from FY 2015.

The FY 2016 Health BRB continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH.

Background – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. Over the 13-month period from January 2014 through January 2015, there was an average monthly census of 5 RTC patients treated at ASH.

ASH - Sexually Violent Persons

The budget includes \$9,684,900 and 112.5 FTE Positions in FY 2016 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,676,000
ASH Fund	3,008,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(46,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(33,500)
Arizona State Hospital Fund	(13,300)

After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. Since FY 2010, counties that have sent Sexually Violent Persons (SVP) to ASH are responsible for a portion of the daily cost of care. The FY 2010 Health and Welfare BRB (Laws 2009, 3rd Special Session, Chapter 10) initially required counties to pay 25% of the daily cost of care. The FY 2012 Health BRB (Laws 2011, Chapter 31) increased the county share to 50% of daily SVP costs. The FY 2014 Health and Welfare BRB permitted DHS to set the percentage rate at a level that would increase the state share of the cost by \$1.8 million in FY 2014. The FY 2015 Health and Welfare BRB requires that the counties' cost of care percentage for SVP treatment not increase from the FY 2014 levels. DHS determined that counties paid 33% of daily SVP costs in FY 2014 and estimates that counties will be billed at 32% of daily costs in FY 2015.

The FY 2016 Health BRB requires counties to pay 31% of their total SVP costs in FY 2016, slightly lower than estimated FY 2015 cost-sharing. Of the total amount appropriated for SVP care in FY 2016, counties would pay \$3,022,200. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

Over the 7-month period from July 2014 through January 2015, ASH had an average monthly census of 92 SVPs.

Public Health/Family Health

Adult Cystic Fibrosis

The budget includes \$105,200 from the General Fund in FY 2016 for Adult Cystic Fibrosis. This amount is unchanged from FY 2015.

This line item provides contracted care and treatment services through Phoenix Children's Hospital for 20 individuals with cystic fibrosis.

AIDS Reporting and Surveillance

The budget includes \$1,000,000 from the General Fund in FY 2016 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2015.

The line item provides \$100,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$850,000 to provide medications under the Arizona AIDS Drug Assistance Program, which also receives Federal Funds for the medications. The program served an average of 35 clients per month in FY 2014.

Alzheimer's Disease Research

The budget includes \$1,125,000 in FY 2016 for Alzheimer's Disease Research. This amount consists of:

General Fund	125,000
TTHCF Health Research Account	1,000,000

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,250,000) from the General Fund in FY 2016 to eliminate one-time funding for Alzheimer's disease research.

DHS distributes funding in the line item to the Arizona Alzheimer's Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer's disease.

The FY 2016 Health BRB continues to permit the department to use Tobacco Tax and Health Care Fund-Health Research Account monies for Alzheimer's disease research.

Biomedical Research Support

The budget includes \$2,000,000 from the Tobacco Tax and Health Care Fund-Health Research Account in FY 2016 for Biomedical Research Support. This amount is unchanged from FY 2015.

This line item is funded by Section 128 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). Section 128 appropriates \$2,000,000 annually in FY 2015 through FY 2019 from the Tobacco Tax and Health Care Fund-Health Research Account. As a result of the Chapter 18 funding, these monies do not appear in subsequent year General Appropriation Acts.

This line item is to provide funding to a nonprofit medical research institute headquartered in Arizona that specializes in biomedical research, conducts molecular epidemiological analyses to assist with disease outbreak investigations, and collaborates with universities, hospitals, and other public and private bioscience and related industries in this state. Section 128 requires the recipient of monies in this line item to submit an annual audit of expenditures of these monies to DHS by February 1 of each year.

DHS distributed monies from this line in FY 2015 to the Translational Genomics Research Institute (TGen), a nonprofit medical research institution headquartered in Arizona. In addition to these monies, Chapter 18 appropriated \$3,000,000 from the General Fund in FY 2015 through FY 2019 to Northern Arizona University (NAU) for biotechnology. NAU allocated its FY 2015 appropriation to TGen. *(Please see the NAU narrative for more information.)*

In FY 2013 and FY 2014, respectively, DHS allocated \$4,100,000 and \$2,000,000 to TGen from non-appropriated Health Research Account monies. At that time, however, there was no funding through NAU.

The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

Breast and Cervical Cancer and Bone Density Screening

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2016 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2015.

The Well Woman Healthcheck program provides contracted cancer screenings for women over age 40 who lack health insurance and have incomes less than 250% of the FPL. Women who are diagnosed with breast and cervical cancer

through this program are eligible to receive treatment through AHCCCS.

County Tuberculosis Provider Care and Control

The budget includes \$590,700 from the General Fund in FY 2016 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2015.

This line item provides General Fund reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs. At this time, DHS has not provided information on the amount distributed to each county in FY 2014.

Emergency Medical Services Local Allocation

The budget includes \$442,000 from the EMS Operating Fund in FY 2016 for a new Emergency Medical Services Local Allocation line item. This amount funds the following adjustments:

Emergency Medical Services Local Allocation Shift

The budget includes an increase of \$192,000 from the EMS Operating Fund in FY 2016 to shift costs associated with EMS Local Allocation distributions from DHS' operating budget to a new line item. A corresponding decrease of \$(192,000) from the EMS Operating Fund can be found in the DHS' operating budget.

Emergency Medical Services Local Allocation Statutory Conformity

The budget includes an increase of \$250,000 from the EMS Operating Fund in FY 2016 to conform the EMS Local Allocation distribution amount with current law, which requires DHS to distribute 8% of EMS Operating Fund revenue to EMS Councils. Previously, DHS distributed 8% of the monies appropriated from the EMS Operating Fund.

This line item provides funding to 4 regional EMS Councils that distribute funding for EMS training and equipment to cities and towns with a population of fewer than 90,000 people.

Folic Acid

The budget includes \$400,000 from the Tobacco Tax and Health Care Fund-Medically Needy Account in FY 2016 for Folic Acid. This amount is unchanged from FY 2015.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth

defects. In FY 2014, 33,317 women received folic acid education and multivitamins.

High Risk Perinatal Services

The budget includes \$2,543,400 in FY 2016 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
Emergency Medical Services Operating Fund	450,000

These amounts are unchanged from FY 2015.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

Newborn Screening Program

The budget includes \$6,297,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2016 for the Newborn Screening Program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(10,400) from the Newborn Screening Program Fund in FY 2016 for statewide adjustments.

This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders plus Chapter 171 provisions described below. In FY 2014, the program provided screening for approximately 84,593 newborns. The program also provides for follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing.

Laws 2014, Chapter 171 requires DHS to perform hearing tests on all newborns and screen them for critical congenital heart defects (CCHD). Chapter 171 also permits DHS to adopt tests for Severe Combined Immunodeficiencies (SCID) and Krabbe Disease if the department performs a cost benefit analysis and seeks stakeholder input. The law also allows DHS to designate other laboratories as testing facilities for conditions or tests added to the screening program. Prior to the enactment of this law, DHS was required to contract only with the State Health Laboratory.

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee would need to be increased by \$10 to pay for new equipment and other related costs. In March 2015, DHS received approval from the Governor's Office to establish new rules regarding CCHD and SCID. Those rules are expected to be finalized by July 1, 2015.

Nursing Care Special Projects

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2016 for special projects related to long-term care facilities. This amount funds the following adjustments:

Establish Nursing Care Special Projects

The budget includes a net increase of \$50,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2016 to establish and implement special projects related to long-term care facilities. This net increase includes a reduction of \$(50,000) to eliminate a FY 2015 nursing facility study and an increase of \$100,000 for new projects that are yet to be determined.

The Nursing Care Institution Resident Protection Revolving Fund receives deposits from civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications. Historically, DHS' operating budget has included an ongoing appropriation of \$38,000 from this fund for emergency patient relocation and patient personal property replacement. Additional amounts have been appropriated to fund specific projects in past fiscal years, including the recently eliminated nursing facility study.

Poison Control Centers Funding

The budget includes \$990,000 from the General Fund in FY 2016 for Poison Control Centers. This amount is unchanged from FY 2015.

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS allocated \$647,300 to the University of Arizona Poison Information Center and \$342,700 to the Banner Poison Control Center in FY 2015.

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative.

Nonrenal Disease Management

The budget includes \$198,000 from the General Fund in FY 2016 for Nonrenal Disease Management. This amount is unchanged from FY 2015.

This line item provides funding for medication and other transplant-related services for nonrenal transplant patients who are ineligible for other public assistance programs.

Renal Dental Care and Nutrition Supplements

The budget includes \$300,000 from the Tobacco Tax and Health Care Fund-Medically Needy Account in FY 2016 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2015.

This line item provides pre-operative dental care and ongoing nutritional assistance for low-income renal disease patients. Funding in this line item treats kidney disease and associated kidney damage.

School-Based Prevention Education

The budget includes no funding in FY 2016 for School-Based Prevention Education. This amount funds the following adjustments:

Eliminate Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2016 to eliminate funding for prevention education programs in middle and high schools.

This line item provided funding to organizations that implement school-based prevention education programs promoting positive life choices and focusing on the topics of substance abuse, mental health, violence, and other risky behaviors.

Additional Legislation

This section includes information on the following topics:

- IGA/ISA Fund Creation and Reporting
- Third-Party Liability Payments for Behavioral Health
- Seriously Mentally Ill Housing Trust Fund
- Homeland Security Reporting

IGA/ISA Fund Creation and Reporting

To provide greater transparency and ensure that restricted monies are not inappropriately comingled, the FY 2016 Health BRB establishes 4 new funds for monies received through intergovernmental or interagency agreements (IGA/ISA) shown below:

- The ISA for Behavioral Health Services Fund consisting of state and federal monies received by DHS to provide behavioral health services;
- The IGA for County Behavioral Health Services Fund consisting of county monies received by DHS to provide behavioral health services to persons identified through agreements with counties;
- The Health Services Lottery Fund consisting of monies transferred from the state lottery for teenage pregnancy prevention programs, the health start program and the federal women, infants, and children food program;
- The IGA/ISA Fund consisting of all monies received by DHS through IGAs/ISAs and transfers between DHS and other state and local entities.

Beginning November 1, 2015, DHS is required to annually report to the JLBC on these funds' revenues, expenditures, and ending balances from the previous, current, and subsequent fiscal years.

Third-Party Liability Payments for Behavioral Health

When a person receives behavioral health services from DHS and also has health insurance, then the insurance company is responsible for paying the provider. The FY 2016 Health BRB requires DHS to report by December 31, 2016 to the Directors of JLBC and OSPB on efforts to increase third-party liability payments for behavioral health services. The 3-year budget plan associated with the enacted FY 2016 budget estimates \$5.2 million in savings from increased third-party liability payments in FY 2017 and FY 2018.

Seriously Mentally Ill Housing Trust Fund

Laws 2015, Chapter 312 permits monies in the Seriously Mentally Ill Housing Trust Fund established in A.R.S. § 41-3955.01 to be used for rental assistance for persons with a serious mental illness (SMI). Prior to this law, monies in this fund could only be used to buy properties to house persons with SMI.

Additionally, Laws 2015, Chapter 195 transfers the administration of this fund from DHS to AHCCCS in FY 2016 as part of the larger behavioral health services transfer, effective July 1, 2016. *(Please see Behavioral Health Transfer in Other Issues section for more information.)*

Homeland Security Reporting

The FY 2016 Health BRB deletes a DHS homeland security allocation and expenditure reporting requirement because DHS has not received homeland security monies since FY 2008.

Other Issues

This section includes information on the following topics:

- FY 2015 Supplemental
- Long-Term Budget Impacts
- Behavioral Health Transfer
- SMI Funding
- Risk Corridor
- Non-Medicaid Behavioral Health Services Funding

FY 2015 Supplemental

The budget includes an increase of \$6,127,100 from the General Fund in FY 2015 to fund shortfalls in the Medicaid Traditional and Insurance Premium Payments line items. The overall shortfall is the result of higher-than-projected caseload growth. The budget also permits AHCCCS to transfer up to an additional \$10,000,000 of its FY 2015 General Fund appropriation if the \$6,127,100 is insufficient. Prior to implementation, AHCCCS shall submit the proposed transfer to the Joint Legislative Budget Committee for review.

Long-Term Budget Impacts

The budget's 3-year spending plan assumes that DHS' statutory caseload and policy changes will require a net additional \$3.8 million in FY 2017 above FY 2016 and a net additional \$15.9 million in FY 2018 above FY 2017 for Medicaid behavioral health services.

These estimates are based on:

- 2% and 0.1% enrollment growth in FY 2017 and FY 2018, respectively;
- Capping capitation rate growth at 1.5%;
- Annualization savings of the (5)% provider rate reduction on October 1, 2015;
- Federal approval of cost-sharing provisions;
- Decrease in the federal match rate for the Adult Expansion population; and
- Increase in the federal match rates for Childless Adults and all other enrollees.

The FY 2017 and FY 2018 estimates do not yet reflect the July 1, 2016 behavioral health transfer from DHS to AHCCCS, as authorized by Laws 2015, Chapters 19 and 195.

Behavioral Health Transfer

The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) and Laws 2015, Chapter 195 transfer responsibility for behavioral health services from DHS to AHCCCS effective July 1, 2016. ASH will remain under the jurisdiction of DHS. Chapter 195 requires AHCCCS and DHS to jointly submit a report by November 15, 2015 to JLBC for review that details the transfer of resources between the 2 departments.

The Chapter 19 legislation is an outgrowth of prior integration efforts. AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. Beginning October 1, 2015, DHS will expand integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa RBHA contracts. In both of these circumstances, the funding continues to be appropriated separately to AHCCCS and DHS.

Maricopa Integrated SMI Health Services

In April 2014, AHCCCS and DHS entered into an agreement to integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. These dual services are provided to approximately 19,000 people by Mercy Maricopa Integrated Care (MMIC), the RBHA for Maricopa County.

This integrated pilot program, unlike services provided to most Medicaid-eligible populations, uses an integrated capitation rate paid to one contractor (i.e., the acute care and behavioral health costs are combined into 1 rate as opposed to having 2 separate rates paid to 2 separate contractors by 2 separate agencies). The capitation rate for these services is paid on Medicaid-eligible SMI adults who live in Maricopa County. *(Please see SMI Funding in Other Issues for more information on the costs associated with the SMI population.)*

Table 4

JLBC Projected FY 2016 Behavioral Health Funding for SMI Services

By Fund	Integrated SMI (Maricopa County) ^{1/}	All Other Adult Enrollees ^{2/}	Total
State Match	\$115,654,300	\$78,649,400	\$194,303,700
Federal Match	<u>302,807,700</u>	<u>265,343,200</u>	<u>568,150,900</u>
Total Expenditures	\$418,462,000	\$343,992,600	\$762,454,600
June 1, 2016 Enrollees	18,956	13,287	32,243

^{1/} Excludes SMI enrollees who will receive integrated services outside of Maricopa County, beginning October 1, 2015. *(Please see Behavioral Health Transfer/Current Integration of Health Services in Other Issues.)*

^{2/} An SMI capitation rate is paid for all other adult enrollees, whether or not they use services.

Non-Maricopa Integrated SMI Health Services

DHS is expanding integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa RBHA contracts. There will be 2 Geographic Service Areas (GSAs) for which a RBHA would administer and coordinate integrated services for eligible persons. The North GSA would include Apache, Coconino, Gila, Mohave, Navajo, and Yavapai Counties, as well as a small portion of Graham County. The South GSA would include Cochise, Graham, Greenlee, La Paz, Pima, Pinal, Santa Cruz, and Yuma Counties.

DHS awarded the North GSA contract to Health Choice Integrated Care, a partnership between Northern Arizona RBHA and Health Choice Arizona, and the South GSA contract to Cenpatico Integrated Care, a partnership between Cenpatico of Arizona and the University of Arizona Health Network. These contracts will begin on October 1, 2015.

SMI Funding

As shown in *Table 4* the total funding in FY 2016 for SMI behavioral health services is \$762.5 million to cover a projected 32,243 recipients. State and federal funding for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the DHS budget.

The General Fund cost for Medicaid-eligible SMI adults in Maricopa County is projected to be \$115.7 million in FY 2016, covering 18,956 recipients. This group receives integrated behavioral health and acute care services.

The General Fund cost for Medicaid-eligible SMI adults who live outside of Maricopa County is projected to be \$78.6 million in FY 2016, covering 13,287 recipients. This group will begin to receive integrated services in October 2015.

Funding for acute care is located in the Traditional, Proposition 204, and Adult Expansion line items in the AHCCCS budget.

Risk Corridor

DHS contracts with community-based organizations, known as RBHAs, to administer behavioral health services. In turn, each RBHA contracts with a network of medical providers to deliver these services. DHS limits the service profit or loss of a RBHA to a percentage of the annual service revenue. If a RBHA exceeds the profit limit, then DHS can request the return of those excess profits. Conversely, if a RBHA experiences excess losses, then DHS will reimburse the RBHA. The profit/loss margin is called a "risk corridor."

Currently, the risk corridor for all RBHAs is 3% - their profits or losses, as a percentage of annual services revenues, are limited to 3%. The RBHA responsible for Maricopa County has a 4% risk corridor. Below is the list of RBHAs, by Geographic Service Area (GSA), and their risk corridors:

- GSA 1 (Apache, Coconino, Mohave, Navajo, and Yavapai) – Northern Arizona RBHA: 3%
- GSA 2 (La Paz, Yuma) – Cenpatico: 3%
- GSA 3 (Cochise, Graham, Greenlee, Santa Cruz), – Cenpatico: 3%
- GSA 4 (Gila, Pinal) – Cenpatico: 3%
- GSA 5 (Pima) – Community Partnership of Southern Arizona: 3%
- GSA 6 (Maricopa) – Mercy Maricopa Integrated Care: 4%

Effective October 1, 2015, the RBHAs serving GSAs 1-5 will be replaced by 2 integrated RBHAs that cover the Northern and Southern regions of the state. These integrated contracts, like Mercy Maricopa Integrated Care’s contract, have 4% risk corridors. *(Please see Non-Maricopa Integrated SMI Health Services above for more information about these new RBHAs.)*

In addition to the risk corridor, RBHA contracts also allow 9% of health capitation rates be used for administrative costs and risk contingency.

Non-Medicaid Behavioral Health Services Funding

The FY 2016 budget includes \$100,562,800 for Non-Medicaid behavioral health services, which are funded in the Non-Medicaid SMI Services, Supported Housing, and Crisis Services line items. This is the same funding level as in FY 2015. *(Please see the Non-Medicaid Seriously Mentally Ill Services, Supported Housing, and Crisis Services line items for more information and the FY 2015 Appropriations Report for more history on line item shifts.)*

Arizona Historical Society

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	51.9	51.9	51.9 ^{1/}
Personal Services	1,133,700	1,227,900	1,227,900
Employee Related Expenditures	492,700	529,900	523,400
Professional and Outside Services	58,400	18,300	18,300
Travel - In State	3,300	0	0
Other Operating Expenditures	427,100	341,200	350,700
Equipment	1,300	0	0
OPERATING SUBTOTAL	2,116,500	2,117,300	2,120,300
SPECIAL LINE ITEMS			
Arizona Experience Museum	428,300	428,300	428,100
Field Services and Grants	66,000	66,000	66,000
Papago Park Museum	544,200	544,400	542,800
AGENCY TOTAL	3,155,000	3,156,000	3,157,200 ^{2/}
FUND SOURCES			
General Fund	3,155,000	3,156,000	3,157,200
SUBTOTAL - Appropriated Funds	3,155,000	3,156,000	3,157,200
Other Non-Appropriated Funds	1,118,900	1,177,400	1,109,400
Federal Funds	16,800	100	1,900
TOTAL - ALL SOURCES	4,290,700	4,333,500	4,268,500

AGENCY DESCRIPTION — The Arizona Historical Society acquires, preserves, maintains, and publicly exhibits archival and museum objects pertaining to the history of Arizona, the West, and the Indian tribes inhabiting the state. The Society's major museums are in Yuma, Flagstaff, Tucson, Phoenix, and Tempe (Papago Park).

Operating Budget

The budget includes \$2,120,300 and 40.4 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,000 from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Arizona Experience Museum

The budget includes \$428,100 and 1 FTE Position from the General Fund in FY 2016 for the Arizona Experience Museum. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(200) from the General Fund in FY 2016 for statewide adjustments.

This line item funds personnel and rent of the Arizona Experience Museum. This facility was formerly the Arizona Mining and Mineral Museum on the Capitol Mall and was operated by the Department of Mines and Mineral Resources.

The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. The building was eventually renamed the Centennial Museum and then the Arizona Experience Museum but was never re-opened. The Arizona Historical Society (AHS) does not currently plan to re-open the facility.

Rent is still paid on the vacant 18,000 square-foot property and a Curator position is retained to care for the mineral collection. Of the total appropriation for the Arizona Experience Museum, \$360,800 is used to pay rent for the vacant property and the remaining \$67,500 is used to fund the Curator position.

^{1/} Includes 11.5 FTE Positions funded from Special Line Items in FY 2016.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

In October 2014, AHS opened an exhibition at the Papago Park Museum utilizing a portion of the mining and mineral collection. The remainder of the collection remains at the former Mining and Mineral Museum's facility.

The FY 2015 General Appropriation Act contained a footnote requiring AHS and the Department of Administration (ADOA) to submit a joint report before November 28, 2014 to the Joint Legislative Budget Committee (JLBC) with options and a recommendation for use of the vacant building. The report raised 4 options for the former Arizona Mining and Mineral Museum:

- 1) Re-open the Arizona Mining and Mineral Museum: Cost of \$2.1 million related to significant building system upgrades and space reconfiguration.
- 2) Convert the space into offices: Cost of \$3.1 million for renovations, upgrades to building systems, and relocation of memorabilia and equipment. This would result in a building containing approximately 123 workstations, including primarily cubicle space.
- 3) Sell the facility: One-time revenue (savings) of \$2.9 million. If the buyer were to convert the space to non-museum use, ADOA would incur costs related to relocating mining related memorabilia and equipment.
- 4) Keep the facility closed: No cost compared to current budget. However, AHS would still continue to pay ADOA rent of \$360,800 per year.

ADOA and AHS selected Option 4 as the preferred option for the former Arizona Mining and Mineral Museum. The agencies note that while Options 2 and 3 may repurpose the museum, the state would still face costs associated with relocating and storing the current mineral collections.

In April 2015, the Governor vetoed SB 1200, which would have transferred \$428,100 and 1 FTE Position (as adjusted for statewide allocations) from the General Fund from AHS to the Arizona Geological Survey to reopen the Museum. The bill would have renamed the Centennial Museum as the Mining, Mineral and Natural Resources Educational Museum (Museum).

SB 1200 would have transferred all unexpended and unencumbered monies remaining in the Centennial Special Plate Fund to the Mining, Mineral and Natural Resources Educational Museum Account within the Arizona Geological Survey Fund consisting of monies received from the Museum to be used exclusively for restoration, maintenance, and operations of the Museum. *(Please see Other Issues for more information.)*

Field Services and Grants

The budget includes \$66,000 and a 0.4 FTE Position from the General Fund in FY 2016 for Field Services and Grants. These amounts are unchanged from FY 2015.

This line item funds contracts with certified county historical societies for services to be performed for the benefit of the state.

Papago Park Museum

The budget includes \$542,800 and 10.1 FTE Positions from the General Fund in FY 2016 for the Papago Park Museum. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,600) from the General Fund in FY 2016 for statewide adjustments.

This line item funds the operations and maintenance of the Papago Park Museum.

Additional Legislation

Arizona History Magazine Fund Repeal

The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12) amended A.R.S. § 41-824 to repeal the Arizona History Magazine Fund, which was no longer active. The fund consisted of monies appropriated by the Legislature and all monies received from magazine subscriptions. Although AHS still publishes the Arizona History Magazine, the agency no longer collects a magazine subscription fee.

Other Issues

Experience Museum and Centennial Special Plate Funds

A.R.S. § 28-2448 established the centennial specialty license plate, which requires a \$25 fee. Of the \$25 fee, \$8 is for special plate administration costs, and \$17 is a donation for the Centennial Special Plate Fund. Beginning in FY 2013, permanent law required the Arizona Department of Transportation to make annual distributions of the monies in the Centennial Special Plate Fund to AHS to pay costs related to the maintenance and operations of the Centennial Museum that houses the Mining and Mineral Museum. To date, \$126,500 has been collected in the Centennial Special Plate Fund.

As noted in the discussion above, the Mining and Mineral Museum is now closed. As a result, AHS may not have the authority to expend these funds. AHS, however, plans to utilize the funds in FY 2016 to support the curation of

collections (including the mining and mineral collection), exhibits, and educational programs that were developed for the Arizona Experience Museum. The collections, exhibits, and programming will be primarily featured in the Papago Park facility.

Museum Attendance

Table 1	
FY 2014 Museum Attendance	
Facility	Visitors
Arizona History (Tucson)	7,014
Downtown History (Tucson)	927
Fort Lowell (Tucson)	3,086
Sanguinetti House (Yuma)	2,066
Museum at Papago Park (Tempe)	3,375
Pioneer Museum (Flagstaff)	6,277
Riordan Mansion (Flagstaff)	<u>22,008</u>
Total	44,753

Prescott Historical Society of Arizona

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	392,300	448,800	448,800
Employee Related Expenditures	193,700	220,200	218,700
Other Operating Expenditures	240,000	157,300	158,300
AGENCY TOTAL	826,000	826,300	825,800^{1/}
FUND SOURCES			
General Fund	826,000	826,300	825,800
SUBTOTAL - Appropriated Funds	826,000	826,300	825,800
Other Non-Appropriated Funds	571,500	589,200	589,200
TOTAL - ALL SOURCES	1,397,500	1,415,500	1,415,000

AGENCY DESCRIPTION — The Prescott Historical Society preserves and maintains the Old Governor's Mansion, together with the other buildings and properties of the Sharlot Hall Museum located in Prescott. The Society is responsible for acquiring, preserving, and publicly exhibiting archival and museum objects pertaining to the history, geological, and anthropological life of Arizona and the West.

Operating Budget

The budget includes \$825,800 and 13 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(500) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Homeland Security

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Federal Funds	23,871,000	34,680,800	12,983,000
TOTAL - ALL SOURCES	23,871,000	34,680,800	12,983,000

AGENCY DESCRIPTION — The Arizona Department of Homeland Security distributes funding received from the U.S. Department of Homeland Security to state agencies and local governments to prevent and mitigate acts of terrorism and natural disasters. The department publishes the Arizona Homeland Security Strategy and provides planning assistance to aid in the development of regional response plans for natural disasters or terrorism incidents.

Board of Homeopathic and Integrated Medicine Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	41,200	47,500	47,500
Employee Related Expenditures	15,100	27,900	27,900
Professional and Outside Services	2,100	1,800	1,800
Travel - In State	1,100	2,400	2,400
Other Operating Expenditures	21,400	22,500	23,200
AGENCY TOTAL	80,900	102,100	102,800^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	80,900	102,100	102,800
SUBTOTAL - Other Appropriated Funds	80,900	102,100	102,800
SUBTOTAL - Appropriated Funds	80,900	102,100	102,800
TOTAL - ALL SOURCES	80,900	102,100	102,800

AGENCY DESCRIPTION — The board licenses and regulates medical physicians who practice homeopathic and integrated medicine, a system of medical treatment based on the use of small quantities of remedies which in larger doses produce symptoms of the disease. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$102,800 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$700 from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Housing

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	157,400	177,400	177,400
Employee Related Expenditures	71,800	67,400	66,200
Professional and Outside Services	13,900	4,800	4,800
Travel - In State	8,200	8,600	8,600
Travel - Out of State	1,700	2,700	2,700
Other Operating Expenditures	57,200	51,600	56,700
Equipment	3,500	2,100	2,100
AGENCY TOTAL	313,700	314,600	318,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Housing Trust Fund	313,700	314,600	318,500
SUBTOTAL - Other Appropriated Funds	313,700	314,600	318,500
SUBTOTAL - Appropriated Funds	313,700	314,600	318,500
Other Non-Appropriated Funds	10,767,600	10,686,200	13,128,300
Federal Funds	80,492,300	77,895,800	79,758,500
TOTAL - ALL SOURCES	91,573,600	88,896,600	93,205,300

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$89 million in federal and non-appropriated state housing and community development funds. The appropriated budget reflects a portion of the agency's administration expenses. The department provides affordable housing opportunities in conjunction with the Arizona Housing Finance Authority.

Operating Budget

The budget includes \$318,500 and 3 FTE Positions from the Housing Trust Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,900 from the Housing Trust Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Housing Program Fund	\$5,000,000
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^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Independent Redistricting Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	2,577,800	1,115,300	1,115,300
AGENCY TOTAL	2,577,800 ^{1/2/3/}	1,115,300	1,115,300
FUND SOURCES			
General Fund	2,577,800	1,115,300	1,115,300
SUBTOTAL - Appropriated Funds	2,577,800	1,115,300	1,115,300
TOTAL - ALL SOURCES	2,577,800	1,115,300	1,115,300

AGENCY DESCRIPTION — Proposition 106, approved by voters in November 2000, established the Independent Redistricting Commission (IRC). The commission consists of 5 members, 4 of which are selected by the House and Senate majority and minority leadership. These 4 members then select the final member, who can not be affiliated with either of the 2 major political parties. The commission is charged with redrawing the boundaries for Arizona’s legislative and congressional districts based on the 10-year census.

Operating Budget

The budget includes \$1,115,300 from the General Fund in FY 2016 for the operating budget. This amount is unchanged from FY 2015.

Other Issues

Current Redistricting Cycle Funding

For the first year of the current 2010 redistricting cycle, the Legislature appropriated \$500,000 from the General Fund in FY 2011 for start-up expenses. In FY 2012, the Legislature appropriated \$3,000,000 from the General Fund. Given the commission’s legal expenses, these appropriations were insufficient. Laws 2012, Chapter 108 provided the commission with a FY 2012 supplemental General Fund appropriation of \$700,000.

The original FY 2013 General Fund appropriation of \$1,457,300 (including statewide adjustments) was also insufficient to provide for the commission’s legal expenses. Laws 2013, Chapter 2 appropriated \$500,000 from the General Fund and Laws 2013, Chapter 158 appropriated \$635,226 from the General Fund in FY 2013.

Laws 2013, 1st Special Session, Chapter 1 appropriated \$1,115,100 from the General Fund and Laws 2014, Chapter 3 appropriated \$1,462,701 from the General Fund in FY 2014 for continued operations and legal expenses.

<u>Fiscal Year</u>	<u>Appropriation</u>
FY 2011 (Laws 2010, 7 th SS, Ch. 1)	\$ 500,000
FY 2012 (Laws 2011, Ch. 24)	3,000,000
FY 2012 (Laws 2012, Ch. 108)	700,000
FY 2013 (Laws 2012, Ch. 294)	1,457,300
FY 2013 (Laws 2013, Ch. 2)	500,000
FY 2013 (Laws 2013, Ch. 158)	635,226
FY 2014 (Laws 2013, 1 st SS, Ch. 1)	1,115,100
FY 2014 (Laws 2014, Ch. 3)	1,462,701
FY 2015 (Laws 2014, Ch. 18)	1,115,300
FY 2016 (Laws 2015, Ch. 8)	<u>1,115,300</u>
Total	\$11,600,927

Laws 2014, Chapter 3 extended the availability of these funds through FY 2015 and Laws 2015, Chapter 8 further extended availability through FY 2016.

These appropriations, along with the FY 2015 and FY 2016 budget amounts, bring total funding for the current redistricting cycle to \$11,600,927 (see Table 1).

Litigation Status

The budget includes funding for several outstanding cases. Those 3 cases are as follows:

1. *Arizona Legislature v. Independent Redistricting Commission* – The Legislature has sued in federal court stating that the United States Constitution gives the Legislature

1/ Laws 2013, Chapter 158 specifies that the amount appropriated in FY 2014 may be used for the payment of obligations in FY 2013.

2/ Laws 2014, Chapter 3 specifies that of the amount appropriated in FY 2014, \$1,462,701 may be used for the payment of obligations incurred in FY 2015. An FY 2016 budget provision continued the use of this supplemental through FY 2016.

3/ Laws 2015, Chapter 8, Section 120 specifies that the amount appropriated in Laws 2014, Chapter 3 does not lapse until June 30, 2016.

sole responsibility to draw U.S. congressional districts. The U.S. Supreme Court heard the case in March 2015, with a ruling expected by June 2015.

2. *Leach v. Independent Redistricting Commission* – Various individuals are suing IRC in state court alleging IRC did not follow the process laid out in the Arizona Constitution for drawing the Congressional districts. Several motions have been filed in Superior Court and the individual commissioners were dismissed as defendants, but no trial date has been set as the case has been put on hold pending the resolution of *Arizona Legislature v. Independent Redistricting Commission*. A decision for the plaintiff would require a map redraw.
3. *Harris v. Independent Redistricting Commission* – Various individuals are suing the IRC in federal district court stating that the population counts of the state's legislative districts are the result of unconstitutional partisan bias. A 3 judge U.S. Court of Appeals panel found in favor of the commission in April 2014. The plaintiffs appealed the case to the U.S. Supreme Court in June 2014.

Arizona Commission of Indian Affairs

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	20,400	22,700	22,700
Employee Related Expenditures	9,100	8,600	8,600
Travel - In State	1,500	2,000	2,000
Other Operating Expenditures	23,200	23,600	24,100
AGENCY TOTAL	54,200	56,900	57,400^{1/}
FUND SOURCES			
General Fund	54,200	56,900	57,400
SUBTOTAL - Appropriated Funds	54,200	56,900	57,400
Other Non-Appropriated Funds	11,000	22,400	22,400
TOTAL - ALL SOURCES	65,200	79,300	79,800

AGENCY DESCRIPTION — The agency studies policy issues affecting the Indian tribes, attempts to facilitate better working relationships between the tribes and government agencies, and promotes an understanding of Indian history and culture through statewide forums and other educational activities.

Operating Budget

The budget includes \$57,400 and 3 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$500 from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Industrial Commission of Arizona

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	235.6	235.6	235.6
Personal Services	8,373,700	9,240,500	9,240,500
Employee Related Expenditures	3,568,000	3,865,100	3,797,600
Professional and Outside Services	1,795,800	1,590,700	1,590,700
Travel - In State	146,600	111,200	111,200
Travel - Out of State	8,900	0	0
Other Operating Expenditures	5,377,000	5,187,300	5,200,300
Equipment	292,900	0	0
AGENCY TOTAL	19,562,900	19,994,800	19,940,300^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Administrative Fund	19,562,900	19,994,800	19,940,300
SUBTOTAL - Other Appropriated Funds	19,562,900	19,994,800	19,940,300
SUBTOTAL - Appropriated Funds	19,562,900	19,994,800	19,940,300
<u>Other Non-Appropriated Funds</u>			
Federal Funds	45,061,300	30,119,500	19,527,300
TOTAL - ALL SOURCES	69,797,600	55,748,200	45,152,700

AGENCY DESCRIPTION — The Industrial Commission regulates the workers' compensation insurance industry. The commission is also responsible for child labor issues, occupational safety and health issues, wage claim dispute resolutions, licensing of private employment agencies and providing workers' compensation coverage for claimants of uninsured and self-insured employers or insolvent carriers. Laws 2014, Chapter 186 transfers the rights and obligations related to payment of workers' compensation claims on insolvent insurers from the Special Fund, administered by the Industrial Commission, to the Guaranty Fund within the Department of Insurance effective July 1, 2015.

Operating Budget

The budget includes \$19,940,300 and 235.6 FTE Positions from the Administrative Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(54,500) from the Administrative Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Additional Legislation

Workers' Compensation Insurance Account/Guaranty Fund

Laws 2014, Chapter 186 established the Workers' Compensation Insurance Account (WCIA) as part of the Arizona Property and Casualty Insurance Guaranty Fund (Guaranty Fund) within the Department of Insurance. The law transfers the rights and obligations related to

payment of workers' compensation claims on insolvent insurers from the Special Fund, administered by the Industrial Commission of Arizona (ICA), to the Guaranty Fund effective July 1, 2015. The law requires the ICA to transfer \$222,848,153 in assets from the Special Fund to the Guaranty Fund for deposit in the WCIA no less than 30 days before July 1, 2015.

The WCIA is to be used to continue workers' compensation benefits for claimants of insolvent carriers and bankrupt self-insured employers.

In the event of an insolvency or bankruptcy, the Department of Insurance may cover the cost of claims on that insurer or employer by levying an assessment of up to 1% on the other solvent workers' compensation insurers' premiums from all policies issued during the preceding calendar year. The assessment revenue is deposited into the WCIA for payment of those claims.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Insurance

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	90.5	90.5	95.5
Personal Services	3,010,200	3,190,000	3,475,000
Employee Related Expenditures	1,301,300	1,294,500	1,377,000
Professional and Outside Services	238,100	189,400	239,400
Travel - In State	23,400	23,900	29,300
Travel - Out of State	2,100	0	0
Other Operating Expenditures	680,300	662,500	728,900
Equipment	79,100	6,400	17,800
AGENCY TOTAL	5,334,500	5,366,700	5,867,400^{1/}
FUND SOURCES			
General Fund	5,334,500	5,366,700	5,867,400
SUBTOTAL - Appropriated Funds	5,334,500	5,366,700	5,867,400
Other Non-Appropriated Funds	9,109,500	10,375,400	21,375,400
Federal Funds	898,700	1,016,300	879,000
TOTAL - ALL SOURCES	15,342,700	16,758,400	28,121,800

AGENCY DESCRIPTION — The Department of Insurance licenses and authorizes the transaction of insurance business by insurers, producers, and other insurance-related entities. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.

Operating Budget

The budget includes \$5,867,400 and 95.5 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Insurance Fraud Investigators

The budget includes an increase of \$516,600 and 5 FTE Positions from the General Fund in FY 2016 for 4 Special Agent positions and 1 Investigations Division Assistant Director position in the department's Fraud Unit. The enacted budget assumes this General Fund appropriation is offset by an equivalent amount of additional fees collected by the department.

Statewide Adjustments

The budget includes a decrease of \$(15,900) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Additional Legislation

Statutory Fee Revenue Requirement Suspension

The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10) continues to suspend the statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2016.

Insurance Premium Tax Credit Reporting

The FY 2016 Revenue BRB requires the Department of Insurance to report the amount of Insurance Premium Tax credits that were used during a given fiscal year within 3 months of the end of a fiscal year.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Judiciary - Supreme Court

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	172.0	175.0	175.0 ^{1/}
Personal Services	5,741,900	5,987,800	5,987,800
Employee Related Expenditures	2,138,600	2,267,200	2,131,300
Professional and Outside Services	183,400	396,000	396,000
Travel - In State	87,300	77,600	77,600
Travel - Out of State	29,400	39,800	39,800
Other Operating Expenditures	4,928,500	5,272,100	4,345,300
Equipment	17,400	24,200	24,200
OPERATING SUBTOTAL	13,126,500	14,064,700	13,002,000 ^{2/}
SPECIAL LINE ITEMS			
State Aid	4,653,700	5,949,400	5,648,400
County Reimbursements	187,900	187,900	187,900 ^{3/}
Automation	9,388,000	11,345,000	20,013,100 ^{4/5/}
Case and Cash Management System	2,501,700	3,326,500	0
Foster Care Review Board	3,617,000	3,617,900	3,212,300
Court Appointed Special Advocate	2,652,700	3,043,100	2,862,500
Model Court	447,400	447,600	437,600
Domestic Relations	634,100	655,600	621,000
Judicial Nominations and Performance Review	427,600	428,500	413,500
Commission on Judicial Conduct	522,000	522,500	505,000
AGENCY TOTAL	38,158,600	43,588,700	46,903,300 ^{6/}
FUND SOURCES			
General Fund	15,901,900	16,012,900	17,951,100
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	320,600	488,200	488,400
Court Appointed Special Advocate Fund	2,550,700	2,941,100	2,942,800
Criminal Justice Enhancement Fund	2,315,600	3,004,800	4,363,800
Defensive Driving School Fund	3,498,400	4,194,700	4,197,300
Judicial Collection Enhancement Fund	11,233,300	14,002,400	14,014,900
State Aid to the Courts Fund	2,338,100	2,944,600	2,945,000
SUBTOTAL - Other Appropriated Funds	22,256,700	27,575,800	28,952,200
SUBTOTAL - Appropriated Funds	38,158,600	43,588,700	46,903,300
Other Non-Appropriated Funds	16,960,700	21,427,600	21,427,600
TOTAL - ALL SOURCES	55,119,300	65,016,300	68,330,900

^{1/} Includes 52.5 GF and 21.8 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} Included in the appropriation for the Supreme Court program is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote)

^{3/} Of the \$187,900 appropriated for County Reimbursements, State Grand Jury is limited to \$97,900 and Capital Postconviction Relief is limited to \$90,000 (General Appropriation Act footnote)

^{4/} On or before September 1, 2015, the Supreme Court shall report to the Joint Legislative Budget Committee on current and future automation projects coordinated by the Administrative Office of the Courts. The report shall include a list of court automation projects receiving or anticipated to receive state monies in the current or next 2 fiscal years as well as a description of each project, the number of FTE Positions, the entities involved and the goals and anticipated results for each automation project. The report shall be submitted in 1 summary document. The report shall indicate each project's total multiyear cost by fund source and budget line item, including any prior year, current year and future year expenditures. (General Appropriation Act footnote)

^{5/} Automation expenses of the Supreme Court shall be funded only from the Automation line item. Monies in the operating lump sum appropriation or other line items intended for automation purposes shall be transferred to the Automation Line Item before expenditure. (General Appropriation Act footnote as amended by Laws 2015, Chapter 276)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

AGENCY DESCRIPTION — The Supreme Court consists of 5 Supreme Court Justices, judicial support staff and the Administrative Office of the Courts (AOC). The Supreme Court, as the state’s highest court, has the responsibility to review appeals and to provide rules of procedure for all the courts in Arizona. Under the direction of the Chief Justice, the AOC provides administrative supervision over the Arizona court system.

Operating Budget

The budget includes \$13,002,000 and 100.7 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<u>FY 2016</u>
General Fund	\$9,181,300
Confidential Intermediary and Fiduciary Fund	488,400
Criminal Justice Enhancement Fund (CJEF)	5,600
Defensive Driving School Fund	705,000
Judicial Collection Enhancement Fund (JCEF)	2,621,700

These amounts fund the following adjustments:

Automation Centralization

The budget includes a decrease of \$(845,400) in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. This amount consists of:

General Fund	(631,400)
JCEF	(214,000)

(Please see the Automation line item for more information.)

Appropriation Reduction

The budget includes a decrease of \$(140,000) from the General Fund in FY 2016 for a reduction to the operating budget appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(140,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(77,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(98,200)
Confidential Intermediary and Fiduciary Fund	200
CJEF	5,600
Defensive Driving School Fund	2,600
JCEF	12,500

(Please see the Agency Detail and Allocations section.)

State Aid

The budget includes \$5,648,400 and 3.3 FTE Positions in FY 2016 for State Aid. These amounts consist of:

CJEF	2,703,400
State Aid to the Courts Fund	2,945,000

These amounts fund the following adjustments:

Automation Centralization

The budget includes a decrease of \$(301,400) from CJEF in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. *(Please see the Automation line item for more information.)*

Statewide Adjustments

The budget includes an increase of \$400 from the State Aid to the Courts Fund in FY 2016 for statewide adjustments.

The State Aid line item provides state aid to counties for the payment of judges pro tempore salaries, and for projects designed to improve the processing of criminal cases in the Superior Court and Justice Courts. The State Aid to the Courts Fund receives: 1) 40.97% of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and 2) a portion of the monies collected by the Supreme Court and the Court of Appeals.

The AOC distributes the monies appropriated from court fines and collections to the Superior Court and the Justice Courts based on a composite index formula using Superior Court felony filings and county population. Monies appropriated from the State Aid to the Courts Fund in the State Aid line item are distributed to all counties.

County Reimbursements

The budget includes \$187,900 from the General Fund in FY 2016 for County Reimbursements. This amount is unchanged from FY 2015.

The County Reimbursements line item provides reimbursement to counties for grand jury expenses and for state-funded representation of indigent defendants in first-time capital post conviction relief proceedings.

The FY 2015 Criminal Justice Budget Reconciliation Bill (Laws 2014, Chapter 12) permanently eliminated the statutory requirement that the state reimburse counties for 50% of grand jury and state-funded representation of indigent defendants in first-time capital post conviction relief proceedings. Instead, reimbursement was limited to the amount appropriated for those purposes. This provision had previously been suspended annually.

Automation

The budget includes \$20,013,100 and 13 FTE Positions in FY 2016 for Automation. These amounts consist of:

General Fund	3,392,500
Court Appoint Special Advocate (CASA) Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	3,492,300
JCEF	11,393,200

These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(198,000) from the General Fund in FY 2016 for a reduction to the Automation line item appropriation. The FY 2016 General Appropriation Act included a \$(3,590,500) General Fund reduction to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of this reduction to other lines in the Supreme Court and Superior Court budgets. This \$(198,000) reduction represents the remaining reduction from the FY 2016 General Appropriation Act after all shifts. *(Please see Table 1 in the Superior Court section for more information.)*

Automation Centralization

The budget includes an increase of \$8,866,100 in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. This amount consists of:

General Fund	3,590,500
CASA Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	139,400
JCEF	3,401,100

The Automation line item provides funding for court automation projects throughout the state. The budget includes monies from other Supreme Court and Superior Court line items in the Automation line item to allow for the centralization of Judicial automation expenditures. Going forward, automation costs will be solely funded from the Automation line item. As required by a General Appropriation Act footnote, any additional monies

expended from other line items for automation projects are to be transferred to the Automation line item prior to expenditure. *Table 1* below includes the line item sources of the funding shifted to the Automation line item in FY 2016.

Table 1

Source of Automation Shifts

Budget Line	FY 2016 Shift
Supreme Court	
Operating Lump Sum	\$ 845,400
State Aid	301,400
Case and Cash Management System	3,326,500
CASA	80,300
Domestic Relations	16,500
Foster Care Review Board	62,000
Supreme Court Total	<u>\$4,632,100^{1/}</u>
Superior Court Total	<u>\$4,234,000</u>
TOTAL	\$8,866,100

^{1/} Please see *Table 2* in the Superior Court budget for more information on the Superior Court line items that transferred funding to the Automation line item.

Case and Cash Management System

The budget includes no funding in FY 2016 for the Case and Cash Management System. This amount funds the following adjustments:

Automation Centralization

The budget includes a decrease of \$(3,326,500) in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. This amount consists of:

Defensive Driving School Fund	(139,400)
JCEF	(3,187,100)

(Please see the Automation line item for more information.)

The Case and Cash Management System line item funds the replacement of the computer systems in the larger volume Superior and Limited Jurisdiction Courts in Pima and Maricopa Counties, as well as the case and financial management system that is provided to approximately 144 of the 182 courts at the state, county and municipal level located throughout the state.

Foster Care Review Board

The budget includes \$3,212,300 and 40 FTE Positions from the General Fund in FY 2016 for the Foster Care Review Board. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(300,000) from the General Fund in FY 2016 for a reduction to the Foster Care Review Board line item. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments and a transfer of automation funding to the Automation line item. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(300,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Automation Centralization

The budget includes a decrease of \$(62,000) from the General Fund in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. *(Please see the Automation line item for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(43,600) from the General Fund in FY 2016 for statewide adjustments.

The Foster Care Review Board line item coordinates local volunteer review boards for foster care children in out-of-home placement.

Court Appointed Special Advocate

The budget includes \$2,862,500 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2016 for CASA. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(102,000) from the General Fund in FY 2016 for a reduction to the CASA line item. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments and a transfer of automation funding to the Automation line item. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(102,000) reduction is part

of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Automation Centralization

The budget includes a decrease of \$(80,300) from the CASA Fund in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. *(Please see the Automation line item for more information.)*

Statewide Adjustments

The budget includes an increase of \$1,700 from the CASA Fund in FY 2016 for statewide adjustments.

The CASA line item administers and monitors a community-based volunteer advocacy program for abused and neglected children in the Juvenile Court System. In FY 2014, 916 individuals volunteered for this program.

Model Court

The budget includes \$437,600 from the General Fund in FY 2016 for Model Court. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(10,000) from the General Fund in FY 2016 for a reduction to the Model Court line item. The FY 2016 General Appropriation Act included no reductions to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(10,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Monies in this line item represent a pass-through to counties to improve processing of dependency cases.

Domestic Relations

The budget includes \$621,000 and 4.9 FTE Positions from the General Fund in FY 2016 for Domestic Relations. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(10,000) from the General Fund in FY 2016 for a reduction to the Domestic Relations line item. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments and a transfer of automation funding to the Automation line item. Laws 2015, Chapter

276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(10,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Automation Centralization

The budget includes a decrease of \$(16,500) from the General Fund in FY 2016 to shift all automation costs incurred by the Supreme Court into the Automation line item. *(Please see the Automation line item for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(8,100) from the General Fund in FY 2016 for statewide adjustments.

The Domestic Relations line item provides coordination and technical support for groups formed to develop and review policies and programs related to domestic relations and child support.

Judicial Nominations and Performance Review

The budget includes \$413,500 and 3.6 FTE Positions from the General Fund in FY 2016 for Judicial Nominations and Performance Review. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(10,000) from the General Fund in FY 2016 for a reduction to the Judicial Nominations and Performance Review line item. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(10,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(5,000) from the General Fund in FY 2016 for statewide adjustments.

This line item funds administrative costs to oversee the nominations for the Supreme Court, the Court of Appeals, and the Superior Court in Maricopa, Pima, and Pinal Counties, as well as evaluating the performance of all merit retention justices and judges. The results of the performance evaluations are provided to the voters before each retention election.

Commission on Judicial Conduct

The budget includes \$505,000 and 4 FTE Positions from the General Fund in FY 2016 for Commission on Judicial Conduct. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(10,000) from the General Fund in FY 2016 for a reduction to the Commission on Judicial Conduct line item. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(10,000) reduction is part of that shift. *(Please see Table 1 in the Superior Court section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(7,500) from the General Fund in FY 2016 for statewide adjustments.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Additional Legislation

Appropriation Shift

Laws 2015, Chapter 276 shifts \$2,810,500 in General Fund monies in FY 2016 from the Superior Court to the Automation line item in the Supreme Court to mitigate a \$(3,590,500) FY 2016 General Fund reduction in the Automation line item included in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8). The bill also shifts \$582,000 in General Fund monies in FY 2016 from other line items in the Supreme Court to the Automation line item to further limit the reduction included in the FY 2016 General Appropriation Act. The total remaining reduction to the Automation line item is \$(198,000) in FY 2016. *Table 1* in the Superior Court displays how Laws 2015, Chapter 276 distributed the \$3,392,500 General Fund shift in FY 2016 from Supreme and Superior Court line items to the Automation line item.

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Alternative Dispute Resolution Fund	\$250,000
Arizona Lengthy Trial Fund	750,000
CASA Fund	500,000
State Aid to the Courts Fund	100,000

Judiciary - Court of Appeals

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
PROGRAM BUDGET			
Division I	9,875,100	10,039,900	9,988,800
Division II	4,289,800	4,340,300	4,326,700
AGENCY TOTAL	14,164,900	14,380,200	14,315,500
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8 ^{1/}
Personal Services	9,612,100	9,820,200	9,820,200
Employee Related Expenditures	3,323,700	3,431,900	3,364,200
Professional and Outside Services	23,800	5,000	5,000
Travel - In State	172,400	180,500	180,500
Travel - Out of State	19,000	16,000	16,000
Other Operating Expenditures	985,900	926,600	929,600
Equipment	28,000	0	0
AGENCY TOTAL	14,164,900	14,380,200	14,315,500 ^{2/}
FUND SOURCES			
General Fund	14,164,900	14,380,200	14,315,500
SUBTOTAL - Appropriated Funds	14,164,900	14,380,200	14,315,500
TOTAL - ALL SOURCES	14,164,900	14,380,200	14,315,500

AGENCY DESCRIPTION — The Court of Appeals has jurisdiction in all proceedings appealable from the Superior Court except criminal death penalty cases, which are automatically appealed to the Supreme Court. Division I also has statewide responsibility for reviewing appeals from the Arizona Corporation Commission, Industrial Commission, the Department of Economic Security unemployment compensation rulings, and the Arizona Tax Court. Division I convenes in Phoenix and encompasses the counties of Apache, Coconino, La Paz, Maricopa, Mohave, Navajo, Yavapai, and Yuma. Division II convenes in Tucson and encompasses the counties of Cochise, Gila, Graham, Greenlee, Pima, Pinal, and Santa Cruz.

Operating Budget

The budget includes \$14,315,500 and 136.8 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts include \$9,988,800 and 98.3 FTE Positions for Division I and \$4,326,700 and 38.5 FTE Positions for Division II. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(64,700) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} Of the 136.8 FTE Positions for FY 2016, 98.3 FTE Positions are for Division I and 38.5 FTE Positions are for Division II. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum by Subprogram.

Judiciary - Superior Court

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5 ^{1/}
Personal Services	0	0	2,767,400
Employee Related Expenditures	0	0	955,700
Professional and Outside Services	0	0	32,000
Travel - In State	0	0	46,900
Travel - Out of State	0	0	9,200
Other Operating Expenditures	0	0	514,500
OPERATING SUBTOTAL	0	0	4,325,700
SPECIAL LINE ITEMS			
Centralized Service Payments	0	0	3,458,000 ^{2/}
Judges Compensation	8,180,100	7,614,000	8,231,000
Adult Standard Probation	13,421,000	17,659,000	15,109,200 ^{3/}
Adult Intensive Probation	10,649,400	12,417,600	9,910,000 ^{3/}
Community Punishment	1,451,400	2,310,300	2,310,300
Interstate Compact	647,600	748,600	416,700 ^{3/}
Drug Court	1,013,600	1,013,600	993,600
Court Ordered Counseling	0	250,000	0
Drug Treatment Alternative to Prison	0	250,000	0
Probation Surcharge	6,019,200	0	0
Juvenile Standard Probation	4,575,000	4,756,300	3,745,700 ^{3/}
Juvenile Intensive Probation	8,809,300	9,175,700	5,532,700 ^{3/}
Juvenile Treatment Services	22,341,400	22,341,600	19,937,800 ^{4/}
Juvenile Family Counseling	653,400	660,400	500,000
Juvenile Diversion Consequences	9,024,900	9,024,900	8,039,300 ^{4/}
Juvenile Crime Reduction	3,883,300	5,192,100	3,308,000
Mental Health Court Report	18,700	0	0
Special Water Master	94,000	220,000	160,000
AGENCY TOTAL	90,782,300	93,634,100	85,978,000 ^{5/6/7/}
FUND SOURCES			
General Fund	79,428,400	80,102,500	73,911,400
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	4,834,700	7,002,200	5,542,000
Drug Treatment and Education Fund	500,000	500,200	502,400
Judicial Collection Enhancement Fund	6,019,200	6,029,200	6,022,200
SUBTOTAL - Other Appropriated Funds	11,353,900	13,531,600	12,066,600
SUBTOTAL - Appropriated Funds	90,782,300	93,634,100	85,978,000
Other Non-Appropriated Funds	986,700	752,100	752,100
TOTAL - ALL SOURCES	91,769,000	94,386,200	86,730,100

AGENCY DESCRIPTION — The Superior Court, which has a division in every county, is the state's only general jurisdiction court. Superior Court judges hear all types of cases except small claims, minor offenses, or violations of city codes and ordinances. In addition, the responsibility for supervising adults and juveniles who have been placed on probation resides in the Superior Court.

^{1/} Of the 137.5 FTE Positions, 82 FTE Positions represent Superior Court judges in counties with a population of less than 2,000,000 persons. One-half of their salaries are provided by state General Fund appropriations pursuant to A.R.S. § 12-128. This is not meant to limit the counties' ability to add judges pursuant to A.R.S. § 12-121. (General Appropriation Act footnote)

Operating Budget

The budget includes \$4,325,700 and 55.5 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$3,879,400
Criminal Justice Enhancement Fund (CJEF)	423,900
Drug Treatment and Education Fund	2,200
Judicial Collection Enhancement Fund (JCEF)	20,200

These amounts fund the following adjustments:

Administrative Cost Centralization

The budget includes an increase of \$4,567,300 and 55.5 FTE Positions in FY 2016 to shift all administrative costs incurred by the Administrative Office of the Courts (AOC) while overseeing Superior Court line items to a new operating budget. These amounts consist of:

General Fund	4,009,400
CJEF	530,700
JCEF	27,200

Appropriation Reduction

The budget includes a decrease of \$(130,000) from the General Fund in FY 2016 for a reduction to the operating budget appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than statewide adjustments. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016

General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(130,000) reduction is part of that shift.

(Please see Tables 1 and 2 for more information on these shifts.)

Statewide Adjustments

The budget includes a decrease of \$(111,600) in FY 2016 for statewide adjustments. This amount consists of:

CJEF	(106,800)
Drug Treatment and Education Fund	2,200
JCEF	(7,000)

(Please see the Agency Detail and Allocations section.)

Background – These monies represent the administrative costs incurred by the AOC while overseeing the various line items of the Superior Court budget. In prior years, these monies were included in the individual line items. In order to increase the clarity of expenditure sourcing, these monies have been shifted to a centralized operating budget leaving the monies passed through to the county Superior Courts in their respective line items.

Centralized Service Payments

The budget includes \$3,458,000 in FY 2016 for centralized service payments. This amount consists of:

General Fund	3,008,100
JCEF	449,900

- 2/ All centralized service payments made by the Administrative Office of the Courts on behalf of counties shall be funded only from the Centralized Service Payments line item. Centralized service payments include only training, motor vehicle payments, CORP review board funding, LEARN funding, research, operational reviews and GPS vendor payments. This footnote does not apply to treatment or counseling services payments made from the Juvenile Treatment Services and Juvenile Diversion Consequences line items. Monies in the operating lump sum appropriation or other line items intended for centralized service payments shall be transferred to the Centralized Service Payments line item before expenditure. (General Appropriation Act footnote)
- 3/ All monies in the Adult Standard Probation, Adult Intensive Probation, Interstate Compact, Juvenile Standard Probation and Juvenile Intensive Probation line items shall be used only as pass-through monies to county probation departments. Monies in the operating lump sum appropriation or other line items intended as pass-through for the purpose of administering a county probation program shall be transferred to the appropriate probation line item before expenditure. (General Appropriation Act footnote)
- 4/ Up to 4.6% of the amounts appropriated for Juvenile Treatment Services and Juvenile Diversion Consequences may be retained and expended by the Supreme Court to administer the programs established pursuant to A.R.S. § 8-322, and to conduct evaluations as needed. The remaining portion of the Juvenile Treatment Services and Juvenile Diversion Consequences appropriations shall be deposited in the Juvenile Probation Services Fund established by A.R.S. § 8-322. (General Appropriation Act footnote)
- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 6/ Receipt of state probation monies by the counties is contingent on the county maintenance of FY 2004 expenditure levels for each probation program. State probation monies are not intended to supplant county dollars for probation programs. (General Appropriation Act Footnote)
- 7/ On or before November 1, 2015, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee the FY 2015 actual, FY 2016 estimated and FY 2017 requested amounts for the following:
 1. On a county-by-county basis, the number of authorized and filled case carrying probation positions and non-case carrying positions, distinguishing between Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive. The report shall indicate the level of state probation funding, other state funding, county funding and probation surcharge funding for those positions.
 2. Total receipts and expenditures by county and fund source for the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items, including the amount of Personal Services expended from each revenue source of each account.
 3. The amount of monies from the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items that the office does not distribute as direct aid to counties. The report shall delineate how the office expends these monies that are not distributed as direct aid to counties. (General Appropriation Act footnote)

These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(670,000) from the General Fund in FY 2016 for a reduction to the Centralized Service Payments line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(670,000) reduction is part of that shift.

Service Payment Centralization

The budget includes an increase of \$4,128,000 in FY 2016 to shift all centralized payments paid by AOC on behalf of Superior Courts to an individual line item. This amount consists of:

General Fund	3,678,100
JCEF	449,900

(Please see Tables 1 and 2 for more information on these shifts.)

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for various services centrally. These services include training, motor vehicle payments, Corrections Officer Retirement Plan review board funding, Literacy Education and Resource Network program funding (an online G.E.D. preparation program), research, operational reviews and GPS vendor payments.

These monies have been shifted to this newly-created line item to improve the transparency of expenditure purposes.

Judges Compensation

The budget includes \$8,231,000 and 82 FTE Positions from the General Fund in FY 2016 for Judges Compensation. These amounts fund the following adjustments:

Judges Compensation Shift

The budget includes an increase of \$617,000 from the General Fund in FY 2016 for the shifting of Probation line item monies to the Judges Compensation line item. In FY 2014, the AOC transferred \$100,000 from the Adult Standard Probation line item, \$100,000 from the Adult Intensive Probation line item, and \$417,000 from the Juvenile Intensive Probation line item to the Judges Compensation line item to cover salary and Employee Related Expenditures expenses in excess of the \$7,614,000 FY 2014 appropriation. This shift realigns

these monies with their expenditure for no net overall change. *(Please see Table 2 for more information on this shift.)*

Background – This line item provides funding for the state’s 50% share of the salary and Elected Officials Retirement Plan costs for Superior Court Judges. The line item also funds 100% of the costs of Superior Court Judges that elect state benefits, although some opt to participate in county programs. In the latter circumstance, the county pays 100% of the cost.

A.R.S. § 12-128 requires the state General Fund to pay for one-half of Superior Court Judges’ salaries, except for Maricopa County judges. Maricopa County is responsible for 100% of the salary and benefits of its Superior Court Judges. Pursuant to A.R.S. § 12-121, each county receives one judge for the first 30,000 of population. Additional judges may be created for every additional 30,000 person increment upon approval by the Governor.

Probation Programs

The state and non-Maricopa Counties share the costs of probation. For the intensive programs, the state pays 100% of the costs (although the counties may provide offices and other support services). Counties typically contribute through Probation Service Fee collections, outside grants, and office space. Since FY 2004, Maricopa County has assumed the state’s share of its probation costs. *(Please see the Other Issues section for more information on probation funding.)*

Adult Standard Probation

The budget includes \$15,109,200 in FY 2016 for Adult Standard Probation. This amount consists of:

General Fund	11,335,100
JCEF	3,774,100

These amounts fund the following adjustments:

Judges Compensation Shift

The budget includes a decrease of \$(100,000) from the General Fund in FY 2016 for the shifting of monies to the Judges Compensation line item. *(Please see the Judges Compensation line item for more information.)*

Centralization

The budget includes a decrease of \$(2,449,800) and (10.4) FTE Positions in FY 2016 for the realignment of the Superior Court budget. This amount consists of:

General Fund (2,108,200)
 JCEF (341,600)

(Please see Table 2 for more information on this shift.)

Background – This line item provides funding for community supervision services for adults placed on standard probation by the Adult Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 12-251A, an adult probation officer shall not supervise more than 65 adults on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Adult Intensive Probation

The budget includes \$9,910,000 in FY 2016 for Adult Intensive Probation. This amount consists of:

General Fund 8,374,800
 JCEF 1,535,200

These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(20,000) from the General Fund in FY 2016 for a reduction to the Adult Intensive Probation line item appropriation. Laws 2015, Chapter 276 shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(20,000) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(2,387,600) and (7.8) FTE Positions in FY 2016 for the realignment of the Superior Court budget. This amount consists of:

General Fund (2,259,800)
 JCEF (127,800)

(Please see Tables 1 and 2 for more information on these shifts.)

Judges Compensation Shift

The budget includes a decrease of \$(100,000) from the General Fund in FY 2016 for the shifting of monies to the

Judges Compensation line item. *(Please see the Judges Compensation line item for more information.)*

Background – This line item provides funding for a sentencing alternative intended to divert serious, non-violent offenders from prison. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 13-916, 1 team shall not supervise more than 25 intensive probationers at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Community Punishment

The budget includes \$2,310,300 in FY 2016 for Community Punishment. This amount consists of:

CJEF 1,810,100
 Drug Treatment and Education Fund (DTEF) 500,200

These amounts fund the following adjustments:

Centralization

The budget includes a decrease of (0.9) FTE Positions from CJEF in FY 2016 for the realignment of the Superior Court budget. *(Please see Table 2 for more information on this shift.)*

Background – This line item provides behavioral treatment services for adult probationers and for enhanced supervision, such as electronic monitoring and specialized probation caseloads. The funding is intended to provide for diversion of offenders from prison and jail, as well as to enhance probation programs, excluding Maricopa County.

The monies in the Community Punishment line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Interstate Compact

The budget includes \$416,700 in FY 2016 for Interstate Compact. This amount consists of:

General Fund 323,900
 JCEF 92,800

These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(10,000) from the General Fund in FY 2016 for a reduction to the Interstate Compact line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than a transfer of funds for the centralization of AOC expenditures. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(10,000) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(321,900) and (4.8) FTE Positions in FY 2016 for the realignment of the Superior Court budget. This amount consists of:

General Fund	(314,200)
JCEF	(7,700)

(Please see Tables 1 and 2 for more information on these shifts.)

Background – This line item provides funding for supervision and intervention to probationers transferring to Arizona and monitors the supervision of probationers transferred to other states from Arizona.

As required by a General Appropriation Act footnote, the monies in the Interstate Compact line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Drug Court

The budget includes \$993,600 from the General Fund in FY 2016 for Drug Court programs. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(20,000) from the General Fund in FY 2016 for a reduction to the Drug Court line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(20,000) reduction is part of that shift. *(Please see the Additional Legislation section for more information on this shift.)*

Background – This line item provides funding for juvenile and adult drug courts within the Superior Court throughout the state. It provides funding for prosecuting, adjudicating and treating drug-dependent offenders. Superior Court divisions in 12 counties have implemented or are planning the implementation of drug courts. These programs utilize drug education, intensive therapy, parent support, case management, socialization alternatives, aftercare and compliance monitoring for drug abstinence.

Court Ordered Counseling

The budget includes no funding in FY 2016 for Court Ordered Counseling. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 for the elimination of a one-time appropriation to allow the Maricopa County Family Drug Court to contract with a provider offering integrated delivery of services from testing to treatment, as needed, using evidence-based treatment standards, and providing the option of an online case management system to report progress of clients to the court. The FY 2015 appropriation is non-lapsing through June 30, 2016.

Drug Treatment Alternative to Prison

The budget includes no funding in FY 2016 for the Pima County Drug Treatment Alternative to Prison Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 for the elimination of a one-time appropriation to provide additional funding to the Pima County Drug Treatment Alternative to Prison Program. The program allows drug addicted criminals that plead guilty to receive residential therapeutic treatment as an alternative to prison. The FY 2015 appropriation is non-lapsing through June 30, 2016.

Juvenile Standard Probation

The budget includes \$3,745,700 in FY 2016 for Juvenile Standard Probation. This amount consists of:

General Fund	3,595,700
JCEF	150,000

These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(210,000) from the General Fund in FY 2016 for a reduction to the Juvenile Standard Probation line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than a transfer of funds for the centralization of AOC expenditures. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(210,000) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(800,600) and (3.6) FTE Positions from the General Fund in FY 2016 for the realignment of the Superior Court budget.

(Please see Tables 1 and 2 for more information on these shifts.)

Background – This line item provides funding for community supervision services for juveniles placed on standard probation by the Juvenile Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-203B, a juvenile probation officer shall not supervise more than an average of 35 juveniles on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Intensive Probation

The budget includes \$5,532,700 from the General Fund in FY 2016 for Juvenile Intensive Probation. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(470,000) from the General Fund in FY 2016 for a reduction to the Juvenile Intensive Probation line item appropriation. Laws 2015, Chapter 276 shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(470,000) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(2,756,000) and (5.4) FTE Positions from the General Fund in FY 2016 for the realignment of the Superior Court budget.

(Please see Tables 1 and 2 for more information on these shifts.)

Judges Compensation Shift

The budget includes a decrease of \$(417,000) from the General Fund in FY 2016 for the shifting of monies to the Judges Compensation line item. *(Please see the Judges Compensation line item for more information.)*

Background – This line item provides funding for a sentencing alternative to divert serious, non-violent juvenile offenders from incarceration or residential care and to provide intensive supervision for high-risk offenders already on probation. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-353B, 1 JIPS team shall not supervise more than an average of 25 juveniles on intensive probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Treatment Services

The budget includes \$19,937,800 from the General Fund in FY 2016 for Juvenile Treatment Services. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(560,000) from the General Fund in FY 2016 for a reduction to the Juvenile Treatment Services line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than a transfer of funds for the centralization of AOC expenditures. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(560,000) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(1,843,800) and (15.6) FTE Positions from the General Fund in FY 2016 for the realignment of the Superior Court budget.

(Please see Tables 1 and 2 for more information on these shifts.)

The FY 2016 budget moves monies from other Superior Court line items to the Juvenile Treatment Services line item to allow for the centralization of probation treatment services payments. Going forward, juvenile probation treatment service costs will be solely funded from the Juvenile Treatment Services line item. Any additional monies expended from other line items for probation treatment services will be transferred to the Juvenile Treatment Services line item.

Background – This line item provides funding to the juvenile courts to meet the requirements of A.R.S. § 8-321 relating to the assignment of youths referred for delinquency or incorrigibility to treatment programs, residential treatment centers, counseling, shelter care and other programs.

The monies in the Juvenile Treatment Services line item shall be used only as pass-through monies to the counties for their treatment programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Family Counseling

The budget includes \$500,000 from the General Fund in FY 2016 for Juvenile Family Counseling. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(160,400) from the General Fund in FY 2016 for a reduction to the Juvenile Family Counseling line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(160,400) reduction is part of that shift. *(Please see the Additional Legislation section for more information.)*

Background – This line item provides funding to the Juvenile Division of the Superior Court for prevention of delinquency among juvenile offenders by strengthening family relationships. These monies are predominantly for non-adjudicated juveniles and their families and require a 25% county match.

Juvenile Diversion Consequences

The budget includes \$8,039,300 from the General Fund in FY 2016 for Juvenile Diversion Consequences. This amount funds the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(500,100) from the General Fund in FY 2016 for a reduction to the Juvenile Diversion Consequences line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line other than a transfer of funds for the centralization of AOC expenditures. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(500,100) reduction is part of that shift.

Centralization

The budget includes a decrease of \$(485,500) from the General Fund in FY 2016 for the realignment of the Superior Court budget.

(Please see Tables 1 and 2 for more information on these shifts.)

Background – This program diverts youth from formal court proceedings in order to reduce court costs and prevent re-offending. A juvenile diversion probation officer assigns consequences for the juvenile to complete, such as substance abuse education, graffiti abatement, counseling, or other community service programs. In FY 2014, there were approximately 11,355 juveniles diverted from formal court proceedings. Monies in this line item are distributed to all counties.

The monies in the Juvenile Diversion Consequences line item shall be used only as pass-through monies to the counties for their diversion programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Crime Reduction

The budget includes \$3,308,000 from CJEF in FY 2016 for Juvenile Crime Reduction. This amount funds the following adjustments:

Centralization

The budget includes a decrease of \$(1,884,100) and (7) FTE Positions from CJEF in FY 2016 for the realignment of the Superior Court budget. *(Please see Table 2 for more information on this shift.)*

Background – This line item provides funding for the design and implementation of community-based strategies for reducing juvenile crime. Strategies include prevention, early intervention, effective intermediate sanctions, and rehabilitation. Through a grant process, AOC distributes monies in this line item to approximately 23 public and private entities.

The monies in the Juvenile Crime Reduction line item shall be used only as pass-through monies to the counties for their crime reduction programs and are not available for AOC expenses.

Special Water Master

The budget includes \$160,000 from the General Fund in FY 2016 for the Special Water Master line item. These amounts fund the following adjustments:

Appropriation Reduction

The budget includes a decrease of \$(60,000) from the General Fund in FY 2016 for a reduction to the Special Water Master line item appropriation. The FY 2016 General Appropriation Act included no reductions to this line. Laws 2015, Chapter 276, however, shifted \$(3,392,500) of the \$(3,590,500) General Fund reduction to the Automation line item in the FY 2016 General Appropriation Act to other lines in the Supreme Court and Superior Court budgets. This \$(60,000) reduction is part of that shift. *(Please see the Additional Legislation section for more information.)*

Background – This line item provides funding for the Special Water Master assigned by the court in 1990 to the Little Colorado River and Gila River water rights adjudications. The adjudication of water rights for the Little Colorado River and Gila River were petitioned in 1978 and 1980, respectively. In FY 2014, 179 water rights claims were filed by individuals, communities, governments, and companies. The Special Water Master conducts hearings for each claimant and makes recommendations to a Superior Court judge.

Pursuant to statute, the costs of the Water Master are funded from claimant fees. If claimant fees are insufficient, statute requires the state General Fund to pay for these expenses in a special line item within the Superior Court budget. *(Please see the Other Issues section for more information.)*

Additional Legislation

Appropriation Shift

Laws 2015, Chapter 276 shifts \$2,810,500 in General Fund monies in FY 2016 from the Superior Court to the

Automation line item in the Supreme Court to mitigate a \$(3,590,500) FY 2016 General Fund reduction in the Automation line item included in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8). The bill also shifts \$582,000 in General Fund monies in FY 2016 from other line items in the Supreme Court to the Automation line item to further decrease the reduction included in the General Appropriation Act. The total remaining reduction to the Automation line item is \$(198,000) in FY 2016. *Table 1* displays how Laws 2015, Chapter 276 distributed the \$3,392,500 General Fund shift in FY 2016 from Supreme and Superior Court line items to the Automation line item.

<u>Budget Line</u>	<u>FY 2016 Change</u>
Supreme Court	
Operating Lump Sum	\$ (140,000)
Automation	3,392,500
CASA	(102,000)
Domestic Relations	(10,000)
Foster Care Review Board	(300,000)
Commission on Judicial Conduct	(10,000)
Judicial Nominations and Performance Review	(10,000)
Model Court	(10,000)
Supreme Court Total	\$2,810,500
Superior Court	
Operating Lump Sum	\$ (130,000)
Centralized Service Payments	(670,000)
Adult Intensive Probation	(20,000)
Interstate Compact	(10,000)
Drug Court	(20,000)
Juvenile Standard Probation	(210,000)
Juvenile Intensive Probation	(470,000)
Juvenile Treatment Services	(560,000)
Juvenile Family Counseling	(160,400)
Juvenile Diversion Consequences	(500,100)
Special Water Master	(60,000)
Superior Court Total	\$(2,810,500)
TOTAL	\$0

County Non-Supplanting Provisions

The FY 2016 Criminal Justice Budget Reconciliation Bill (Laws 2015, Chapter 17) continues to suspend county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and requires the counties to report on reductions in county funding as a result of the elimination of the non-supplanting provisions.

Other Issues

Budget Centralization

In an effort to better align expenditures with appropriations, the budget includes shifts from Superior Court line items to the newly-created Superior Court Operating Budget and Centralized Service Payments line item as well as the existing Superior Court Judges Compensation, Superior Court Juvenile Treatment Services and Supreme Court Automation line items. *Table 2* includes the shifts by line item for the FY 2016 budget.

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

CJEF	\$650,000
Drug Treatment and Education Fund	250,000
JCEF	500,000
Juvenile Probation Services Fund	3,000,000

Probation Caseloads

The budget includes \$28,838,300 in General Fund and \$5,459,300 in JCEF monies in FY 2016 to support non-Maricopa County adult and juvenile probation services. In addition to this amount, in the FY 2016 budget, a total of \$8,541,600 General Fund and \$469,400 JCEF is transferred from the probation line items to the newly-created Superior Court Operating Budget, the Centralized Service Payments line item, and the existing Superior Court Judges Compensation, Superior Court Juvenile Treatment Services and Supreme Court Automation line items for increased transparency of expenditures.

Prior to this shift, In FY 2014, the state appropriated \$38,079,500 in General Fund and \$5,928,700 in Other Fund monies to support non-Maricopa County adult and juvenile probation services. Additionally, counties provided \$32,381,600 in funding for these purposes. *Table 3* below displays total funding and probation officer expenditures from both county and state sources in FY 2014.

In FY 2014 the average non-Maricopa County probation caseload was 17,563. This represents a year-over-year decline of (3.0)%. While aggregate caseloads have been declining over the past several years, the Adult Standard category has seen multi-year increases. Additionally, the Adult Intensive category has recently started to see consistent caseload gains as well. *Table 4* shows the caseloads for FY 2012 - FY 2016 by probation category. The FY 2015 and FY 2016 figures represent estimated caseloads.

Special Water Master

In FY 2014, revenue and interest to the Gila River water rights adjudication, including a \$74,000 General Fund appropriation, totaled \$86,233 and expenditures were \$160,164 leaving an ending balance of \$23,411. The revenue consists of filing fees paid by claimants initiating water rights claims, interest, and monies appropriated by the Legislature. The FY 2015 budget included an additional \$126,000, or \$200,000 total, to ensure that the fund remains balanced. Laws 2015, Chapter 276 reduced this amount by \$(54,500) leaving a total of \$145,500 in General Fund support.

The FY 2014 revenue, interest and appropriations to the Little Colorado River water rights adjudication totaled \$21,489 and expenditures were \$28,913. The FY 2014 ending balance was \$86,761. Laws 2015, Chapter 276 reduced this amount by \$(5,500) in FY 2016 leaving a total of \$14,500 in General Fund support. *Table 5* displays a short history of the revenues and expenditures to the Gila River and Little Colorado River Water Masters from FY 2012 through FY 2016.

Table 2

FY 2016 Budget Shifts by Line Item^{1/}

Original Line Items and Fund Source	Recipient Line Item					Total
	Superior Court Operating Budget	Superior Court Centralized Service Payments	Superior Court Judges Compensation	Supreme Court Automation	Juvenile Treatment Services	
Adult Standard Probation (GF)	\$814,300	\$638,600	\$100,000	\$655,300	\$0	\$2,208,200
Adult Standard Probation (JCEF)	27,200	314,400	0	0	0	341,600
Adult Intensive Probation (GF)	708,600	926,400	100,000	624,800	0	2,359,800
Adult Intensive Probation (JCEF)	0	127,800	0	0	0	127,800
Interstate Compact (GF)	286,400	27,800	0	0	0	314,200
Interstate Compact (JCEF)	0	7,700	0	0	0	7,700
Juvenile Standard Probation (GF)	297,000	251,500	0	92,100	160,000	800,600
Juvenile Intensive Probation (GF)	473,700	1,091,100	417,000	290,700	900,500	3,173,000
Juvenile Treatment Services (GF)	1,429,400	477,200	0	997,700	(1,060,500)	1,843,800
Juvenile Diversion Consequences (GF)	0	265,500	0	220,000	0	485,500
Juvenile Crime Reduction (CJEF)	<u>530,700</u>	<u>0</u>	<u>0</u>	<u>1,353,400</u>	<u>0</u>	<u>1,884,100</u>
Total	\$4,567,300	\$4,128,000	\$617,000	\$4,234,000	\$0	\$13,546,300
Fund Source						
Total General Fund	\$4,009,400	\$3,678,100	\$617,000	\$2,880,600	\$0	\$11,185,100
Total CJEF	530,700	449,900	0	0	0	980,600
Total JCEF	<u>27,200</u>	<u>0</u>	<u>0</u>	<u>1,353,400</u>	<u>0</u>	<u>1,380,600</u>
Total Funding	\$4,567,300^{2/}	\$4,128,000^{2/}	\$617,000^{3/}	\$4,234,000^{3/}	\$0^{4/}	\$13,546,300

^{1/} These shifts reflect the Centralization and Judges Compensation policy issues. Laws 2015, Chapter 276 further reallocates monies from some of these shifts for the "Appropriation Reduction" policy issue. That reallocation is excluded from these figures.

^{2/} Reflects total funding for line item.

^{3/} Reflects the marginal change in line item funding.

^{4/} This amount does not include the \$(1,843,800) reduction to the line item for shifts to other Superior and Supreme Court line items reflected above.

Table 3

FY 2014 Non-Maricopa County Probation Funding

	<u>Adult Standard</u>	<u>Adult Intensive</u>	<u>Juvenile Standard</u>	<u>Juvenile Intensive</u>	<u>Total</u>
Probation Officers					
Case Carrying Positions	198.0	107.5	70.0	53.0	428.5
Non-Case Carrying Positions	<u>335.3</u>	<u>58.1</u>	<u>237.4</u>	<u>32.3</u>	<u>663.1</u>
Total Filled Positions	533.3	165.6	307.4	85.3	1,091.6
Probation SLI Expenditures					
Amount Distributed to Counties	\$11,350,800	\$8,404,600	\$3,978,500	\$5,836,500	\$29,570,400
Amount Retained by AOC	<u>2,070,200</u>	<u>2,244,800</u>	<u>596,500</u>	<u>2,972,800</u>	<u>7,884,300</u>
Total SLI Expenditures	\$13,421,000	\$10,649,400	\$4,575,000	\$8,809,300	\$37,454,700^{1/}
County Probation Expenditures					
State General Fund	\$11,350,800	\$8,816,100	\$3,968,600	\$6,619,800	\$30,755,300
Other State Funds	3,853,800	1,619,300	0	0	5,473,100
County Funding	<u>17,413,200</u>	<u>0</u>	<u>14,968,400</u>	<u>0</u>	<u>32,381,600</u>
Total Expenditures	\$32,617,800	\$10,435,400	\$18,937,000	\$6,619,800	\$68,610,000^{2/}

^{1/} Represents the amount expended by AOC in support of non-Maricopa County probation programs.

^{2/} Represents the amount expended by the counties from all sources, including current and prior years' monies received from the state.

Table 4

Non-Maricopa County Average Annual Probation Caseloads

	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Estimate</u>	<u>FY 2016 Estimate</u>
Probation Category				
Adult Standard ^{1/}	13,682	13,727	14,442	14,975
Adult Intensive	1,351	1,363	1,328	1,377
Juvenile Standard	2,102	1,738	1,750	1,815
Juvenile Intensive	<u>547</u>	<u>511</u>	<u>459</u>	<u>475</u>
Total Caseload	17,683	17,339	17,979	18,642

^{1/} Does not include Interstate Compact participants. In FY 2014 there was an average of 223 individuals in Pima and Yavapai Counties that were funded from the Interstate Compact line item.

Table 5

Special Water Master Funding

	<u>FY 2012 Actual</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Estimated^{1/}</u>	<u>FY 2016 Estimated^{1/}</u>
Gila River					
Beginning Balance	\$392,903	\$250,543	\$97,342	\$23,411	\$75,144
Revenues ^{2/}	17,687	3,042	86,233	212,233	157,733
Expenditures	<u>160,047</u>	<u>156,243</u>	<u>160,164</u>	<u>160,500</u>	<u>160,500</u>
Ending Balance	\$250,543	\$97,342	\$23,411	\$75,144	\$72,377
Little Colorado River					
Beginning Balance	\$104,261	\$99,753	\$94,185	\$86,761	\$79,250
Revenues ^{2/}	23,894	22,004	21,489	21,489	15,989
Expenditures	<u>28,402</u>	<u>27,572</u>	<u>28,913</u>	<u>29,000</u>	<u>29,000</u>
Ending Balance	\$99,753	\$94,185	\$86,761	\$79,250	\$66,239

^{1/} Estimated amounts were provided by the Administrative Office of the Courts.

^{2/} Includes an annual appropriation of \$74,000 for the Gila River Water Master in FY 2014 and \$200,000 in FY 2015. Laws 2015, Chapter 276 reduced this amount to \$145,500 in FY 2016 and beyond. The Little Colorado River Water Master revenues include an annual appropriation of \$20,000 through FY 2015. Laws 2015, Chapter 276 reduced this amount to \$14,500 in FY 2016 and beyond.

Department of Juvenile Corrections

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	24,116,900	25,778,500	25,313,500
Employee Related Expenditures	12,288,900	14,472,600	13,911,800
Professional and Outside Services	991,900	1,301,700	1,301,700
Travel - In State	428,900	428,900	428,900
Travel - Out of State	24,100	24,100	24,100
Other Operating Expenditures	4,706,800	5,335,800	1,369,500
Equipment	557,200	767,200	767,200
AGENCY TOTAL	43,114,700	48,108,800	43,116,700 ^{1/2/}
FUND SOURCES			
General Fund	39,647,800	44,165,900	26,984,600
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	332,300	530,600	531,300
Department of Juvenile Corrections Local Cost Sharing Fund	0	0	12,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,098,600	1,098,600	2,000,100
State Education Fund for Committed Youth	2,036,000	2,313,700	1,600,700
SUBTOTAL - Other Appropriated Funds	3,466,900	3,942,900	16,132,100
SUBTOTAL - Appropriated Funds	43,114,700	48,108,800	43,116,700
Other Non-Appropriated Funds	151,400	151,400	151,400
Federal Funds	1,802,300	1,802,600	1,802,600
TOTAL - ALL SOURCES	45,068,400	50,062,800	45,070,700

AGENCY DESCRIPTION — The Department of Juvenile Corrections (DJC) is responsible for the care and treatment of youth offenders adjudicated to be delinquent and remanded to the custody of the department. DJC has jurisdiction over youth until they are released from custody or reach age 18.

Operating Budget

The budget includes \$43,116,700 and 738.5 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$26,984,600
Criminal Justice Enhancement Fund (CJEF)	531,300
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	12,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100
State Education Fund for Committed Youth	1,600,700

These amounts fund the following adjustments:

Local Cost Sharing

The budget includes a decrease of \$(12,000,000) from the General Fund in FY 2016 and a commensurate increase of \$12,000,000 from the newly-created DJC Local Cost Sharing Fund. The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The Criminal Justice BRB requires that each county pay their proportional share of \$12,000,000 according to their population in the 2010 decennial census. *Table 1* displays the estimated payment by county.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{2/} Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the Department of Juvenile Corrections, in compliance with Section 25 of the Enabling Act and the Constitution of Arizona, to be used for the support of state juvenile institutions and reformatories. (General Appropriation Act footnote)

Table 1

Allocation of Local Cost Sharing

Recipient	FY 2016
Apache County	\$ 134,300
Cochise County	246,600
Coconino County	252,400
Gila County	100,600
Graham County	69,900
Greenlee County	15,800
La Paz County	38,500
Maricopa County	7,166,000
Mohave County	375,800
Navajo County	201,700
Pima County	1,840,300
Pinal County	705,400
Santa Cruz County	89,000
Yavapai County	396,200
Yuma County	367,500
TOTAL	\$12,000,000

Realign Education Dollars

The budget includes a decrease of \$(701,100) from the State Education Fund for Committed Youth in FY 2016 to align the appropriation with available revenues. As the DJC population has declined, the funding from the state's K-12 formula has declined as well.

One-Time Shift of Expenditures

The budget includes a one-time increase of \$901,400 from the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2016 to offset a commensurate decrease of \$(901,400) from the General Fund. This adjustment is funded from a one-time accumulation of monies in the State Charitable, Penal and Reformatory Institutions Land Fund.

Admission Changes

The budget includes a decrease of \$(4,000,000) from the General Fund in FY 2016 for reductions in the committed youth population within DJC. The FY 2016 Criminal Justice BRB alters the requirements for admission to DJC facilities. These changes include an increase in the minimum admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Statewide Adjustments

The budget includes a decrease of \$(291,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(279,900)
Criminal Justice Enhancement Fund (CJEF)	700
State Charitable, Penal and Reformatory Institutions Land Fund	100
State Education Fund for Committed Youth	(11,900)

(Please see the Agency Detail and Allocations section.)

Other Issues**Population Counts**

Table 2 lists the DJC population by category. The parole population has decreased significantly over the past few years. DJC reports that this is due to the decline in the number of committed youth, an increase in the age of the average offender resulting in shorter parole periods, and an increase in the recidivism rate.

Table 2

DJC Census

	FY 2012 Average Population	FY 2013 Average Population	FY 2014 Average Population	Population as of February 28, 2015
Housed Population				
Adobe Mountain	390	347	351	302
Parole Population				
Parole	317	252	135	117
Interstate Compact (inside Arizona) ^{1/}	143	139	120	107
Total Parole Population	460	391	255	224
Total DJC Population	850	738	606	526

^{1/} The Interstate Compact is an agreement between states to supervise parolees in each other's state. "Inside Arizona" means parolees from other states living in Arizona and "outside Arizona" means Arizona parolees living in other states. There were an average of 109 Arizona parolees outside of Arizona in FY 2014 and 98 parolees on February 28, 2015.

State Land Department

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	125.7	130.7	129.7
Personal Services	6,203,500	7,186,400	7,186,400
Employee Related Expenditures	2,524,500	3,090,100	3,025,100
Professional and Outside Services	955,100	1,416,600	1,416,600
Travel - In State	116,400	151,600	151,600
Travel - Out of State	15,000	15,600	15,600
Other Operating Expenditures	2,684,700	3,172,900	3,287,300
Equipment	61,300	75,500	75,500
OPERATING SUBTOTAL	12,560,500	15,108,700	15,158,100
SPECIAL LINE ITEMS			
CAP User Fees	641,600	737,800	737,800 ^{1/}
Due Diligence Fund	10,900	500,000	500,000
Natural Resource Conservation Districts	550,700	650,000	650,000 ^{2/}
Scanning and Digitizing Trust Land Records	0	1,200,000	0
AGENCY TOTAL	13,763,700	18,196,500	17,045,900^{3/}
FUND SOURCES			
General Fund	12,424,600	12,574,000	12,520,500
<u>Other Appropriated Funds</u>			
Due Diligence Fund	10,900	500,000	500,000
Environmental Special Plate Fund	173,700	260,000	260,500
Trust Land Management Fund	1,154,500	4,862,500	3,764,900
SUBTOTAL - Other Appropriated Funds	1,339,100	5,622,500	4,525,400
SUBTOTAL - Appropriated Funds	13,763,700	18,196,500	17,045,900
<u>Other Non-Appropriated Funds</u>			
Other Non-Appropriated Funds	848,100	1,183,700	806,600
Federal Funds	268,800	417,600	0
TOTAL - ALL SOURCES	14,880,600	19,797,800	17,852,500

AGENCY DESCRIPTION — The agency manages the state's 9.3 million acres of trust land on behalf of its 14 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from the operators of 2 copper mines on state land.

Operating Budget

The budget includes \$15,158,100 and 129.7 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$11,392,700
Environmental Special Plate Fund	500
Trust Land Management Fund	3,764,900

These amounts fund the following adjustments:

Trust Land Management Fund Increase

The budget includes an increase of \$100,000 from the Trust Land Management Fund in FY 2016 to cover ongoing web-hosting and storage service costs.

Statewide Adjustments

The budget includes a decrease of \$(50,600) for statewide adjustments. This amount consists of:

- 1/ The appropriation includes \$737,800 for Central Arizona Project User Fees in FY 2016. For FY 2016, from municipalities that assume their allocation of Central Arizona Project water for every dollar received as reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state General Fund in the year that the reimbursement is collected. (General Appropriation Act footnote)
- 2/ Of the amount appropriated for Natural Resource Conservation Districts in FY 2016, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers. (General Appropriation Act footnote)
- 3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

General Fund	(53,500)
Environmental Special Plate Fund	500
Trust Land Management Fund	2,400

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$737,800 from the General Fund in FY 2016 for Central Arizona Project (CAP) User Fees. This amount is unchanged from FY 2015.

CAP Rate Adjustment

The budget includes a supplemental increase of \$64,200 from the General Fund in FY 2015 for revised CAP rates. This increase is continued in FY 2016. This funding level assumes that the department will be billed for "capital charges" of \$23 per acre foot on 32,076 acre feet of water in FY 2015 and again in FY 2016 for a total annual charge of \$737,800. The original FY 2015 appropriation reflected capital charges of \$21 per acre foot, but the CAP rates were not determined until June 15, 2014, which was after passage of the FY 2015 budget. *(Please see Other Issues for more details.)*

Pursuant to A.R.S. § 36-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase 32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year in order to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the State General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The budget includes \$500,000 from the Due Diligence Fund in FY 2016 for this line item. This amount is unchanged from FY 2015.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The budget includes \$650,000 in FY 2016 for Natural Resource Conservation Districts (NRCs). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2015:

Monies in this line item are used to provide for natural resource research, activities, and staff at the state's 32 NRCs. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRC and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCs be used to provide grants to NRC environmental education centers. There are currently 24 education centers sponsored or co-sponsored by 30 NRCs. The \$30,000 is divided among the 24 education centers, meaning each center receives \$1,250. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2015 totaled \$152,800 and will not be able to fund the appropriated amount which is set at \$260,000. The revenue generated from the Environmental Special Plate Fund has trended downward and license plate sales have not reached \$260,000 since FY 2007.

Scanning and Digitizing Trust Land Records

The budget includes no funding in FY 2016 for Scanning and Digitizing Trust Land Records. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,200,000) and (1) FTE Position from the Trust Land Management Fund in FY 2016 for the elimination of one-time funding for scanning and digitizing land trust records.

This line item funded costs associated with the digital conversion of records and a new data system to modernize and improve workflow.

A.R.S. § 37-604 was also amended pursuant to Laws 2012, Chapter 278 to establish the specific exchange steps.

Additional Legislation

Self-Funding Agency

The FY 2016 Trust Land Management Budget Reconciliation Bill (BRB) (SCR 1018) proposes an amendment to the Arizona Constitution allowing up to 10% of annual proceeds from state trust land to be used for administration and disposition of trust lands. The amendment would appear on the November 2016 General Election Ballot.

The FY 2016 Environment BRB (Laws 2015, Chapter 13) would repeal the current Trust Land Management Fund and replace it with a new Trust Land Administration Fund if voters approve the proposed Constitutional amendment described above.

The new Trust Land Administration Fund would be administered by the State Land Commissioner and would consist of up to 10% of the annual proceeds of each beneficiary's trust lands. The fund is subject to legislative appropriation. On notice from the State Land Commissioner, the State Treasurer would invest and divest the monies in the fund pursuant to A.R.S. § 35-313.

Monies in the new Trust Land Administration Fund would be non-lapsing. If the balance in the fund at the end of any fiscal year exceeded 2 times the budget of the department for the administration of trust lands for the next fiscal year, however, the excess amount would be credited proportionately to each beneficiary's permanent fund based on the previous year's deposits.

Other Issues

FY 2015 Supplemental

The budget includes a \$64,200 General Fund supplemental in FY 2015 for CAP user fees. (*See CAP User Fees line item for more information.*)

Proposition 119

The Proposition, approved by voters in 2012, authorizes exchanges of State Trust land for public land for the purpose of preserving and protecting military facilities from encroaching development and to improve the management of state lands for the purpose of sale or lease. Exchanges may be made for land owned or administered by other state agencies, counties, municipalities, the United States or its agencies. These exchanges cannot be made with private land owners.

Legislature - Auditor General

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	184.8	184.8
Personal Services	11,235,800	11,235,800	11,235,800
Employee Related Expenditures	4,271,900	4,278,600	4,210,600
Professional and Outside Services	499,100	499,100	499,100
Travel - In State	116,000	290,800	290,800
Travel - Out of State	4,500	4,500	4,500
Other Operating Expenditures	1,120,300	1,120,300	1,125,200
Equipment	567,300	567,300	567,300
OPERATING SUBTOTAL	17,814,900	17,996,400	17,933,300
SPECIAL LINE ITEMS			
Independent Consultant	0	250,000	0
AGENCY TOTAL	17,814,900	18,246,400	17,933,300^{1/2/3/}
FUND SOURCES			
General Fund	17,814,900	18,246,400	17,933,300
SUBTOTAL - Appropriated Funds	17,814,900	18,246,400	17,933,300
Other Non-Appropriated Funds	1,758,300	1,744,900	1,744,900
TOTAL - ALL SOURCES	19,573,200	19,991,300	19,678,200

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

The budget includes \$17,933,300 and 184.8 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(63,100) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Independent Consultant

The budget includes no funding from the General Fund in FY 2016 for the Independent Consultant line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 to eliminate one-time funding for an independent consultant. Laws 2014, 2nd Special Session, Chapter 2 appropriated \$250,000 from the General Fund in FY 2015 for an independent consultant to review Department of Child Safety procedures.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{3/} Included in the lump sum appropriation is funding to pay state rent at the statewide rate. (General Appropriation Act footnote)

Legislature - House of Representatives

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	12,500,800	13,372,200	13,289,500
AGENCY TOTAL	12,500,800	13,372,200	13,289,500 ^{1/2/3/}
FUND SOURCES			
General Fund	12,500,800	13,372,200	13,289,500
SUBTOTAL - Appropriated Funds	12,500,800	13,372,200	13,289,500
TOTAL - ALL SOURCES	12,500,800	13,372,200	13,289,500

AGENCY DESCRIPTION — The House of Representatives is made up of 60 members, 2 of whom are elected from each of the legislative districts. The officers and employees of the House of Representatives consist of the Speaker of the House, a Chief Clerk of the House, and other employees as the House directs.

Operating Budget

The budget includes \$13,289,500 from the General Fund in FY 2016 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(82,700) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.
- ^{3/} Included in the Lump Sum appropriation of \$13,289,500 for FY 2016 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

Legislature - Joint Legislative Budget Committee

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,457,500	1,661,800	1,661,800
Employee Related Expenditures	451,900	606,700	604,000
Professional and Outside Services	87,500	125,000	125,000
Travel - In State	500	500	500
Travel - Out of State	400	0	0
Other Operating Expenditures	27,500	97,000	97,600
Equipment	400	2,000	2,000
AGENCY TOTAL	2,025,700	2,493,000	2,490,900^{1/2/}
FUND SOURCES			
General Fund	2,025,700	2,493,000	2,490,900
SUBTOTAL - Appropriated Funds	2,025,700	2,493,000	2,490,900
TOTAL - ALL SOURCES	2,025,700	2,493,000	2,490,900

AGENCY DESCRIPTION — The Staff of the Joint Legislative Budget Committee, established by the Arizona Legislature, provides its members with analysis, forecasts, research and recommendations on state government finances and public policies.

Operating Budget

The budget includes \$2,490,900 and 29 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Legislature - Legislative Council

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	47.0	49.0	49.0 ^{1/}
Personal Services	2,768,100	2,785,000	2,785,000
Employee Related Expenditures	1,035,700	974,700	958,900
Professional and Outside Services	7,500	60,300	60,300
Other Operating Expenditures	355,000	350,000	353,100
Equipment	1,595,600	3,250,400	3,250,400
OPERATING SUBTOTAL	5,761,900	7,420,400	7,407,700
SPECIAL LINE ITEMS			
Ombudsman-Citizens Aide Office	604,000	828,500	825,600 ^{2/}
AGENCY TOTAL	6,365,900	8,248,900	8,233,300 ^{3/4/5/}
FUND SOURCES			
General Fund	6,365,900	8,248,900	8,233,300
SUBTOTAL - Appropriated Funds	6,365,900	8,248,900	8,233,300
TOTAL - ALL SOURCES	6,365,900	8,248,900	8,233,300

AGENCY DESCRIPTION — The Legislative Council, a staff agency of the Legislative Department, provides bill drafting and research services, continuing code revision and manages the operation and renovation of certain legislative buildings and grounds. The council is also responsible for the development, operation, and maintenance of the legislative computer system.

Operating Budget

The budget includes \$7,407,700 and 40 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(12,700) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Ombudsman-Citizens Aide Office

The budget includes \$825,600 and 9 FTE Positions from the General Fund in FY 2016 for the Ombudsman-Citizens Aide Office. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,900) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item fund operation of the Ombudsman-Citizens Aide Office, which receives public complaints, investigates administrative acts of agencies, and may present their final opinion and recommendations to the Governor, the Legislature, the office of the appropriate prosecutor or the public, or any combination of these persons. The Ombudsman-Citizens Aide Office also trains public officials and educates the public on the rights of the public and the responsibilities of public agencies under the public access laws.

The FY 2015 Revenue Budget Reconciliation Bill (Laws 2014, Chapter 9) requires Child Protective Services or its successor agency (now the Department of Child Safety, established by Laws 2014, 2nd Special Session, Chapter 1) to establish a mechanism to direct complainants to the

^{1/} Includes 9 FTE Positions funded from Special Line Items in FY 2016.

^{2/} It is the intent of the Legislature that the Ombudsman-Citizens Aide prioritize the investigation and processing of complaints relating to the Department of Child Safety. (General Appropriation Act footnote)

^{3/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{5/} Dues for the Council of State Governments may be expended only on an affirmative vote of the Legislative Council. (General Appropriation Act footnote)

Ombudsman-Citizens Aide Office. It further requires the Ombudsman-Citizens Aide Office to process these complaints, and allows the Ombudsman-Citizens Aide after investigating a complaint to refer the matter to a Superior Court judge for further review and action. These requirements are repealed after June 30, 2016.

Legislature - Senate

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	8,330,300	8,283,800	8,223,900
AGENCY TOTAL	8,330,300	8,283,800	8,223,900 ^{1/2/3/}
FUND SOURCES			
General Fund	8,330,300	8,283,800	8,223,900
SUBTOTAL - Appropriated Funds	8,330,300	8,283,800	8,223,900
TOTAL - ALL SOURCES	8,330,300	8,283,800	8,223,900

AGENCY DESCRIPTION — The Senate is made up of 30 members elected from each of the legislative districts. The officers and employees of the Senate consist of the President of the Senate, a Secretary of the Senate, and other employees as the Senate directs.

Operating Budget

The budget includes \$8,223,900 from the General Fund in FY 2016 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(59,900) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.
^{3/} Included in the Lump Sum appropriation of \$8,223,900 for FY 2016 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

Department of Liquor Licenses and Control

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.2	45.2	45.2
Personal Services	1,594,900	1,522,700	1,522,700
Employee Related Expenditures	785,600	753,300	742,100
Professional and Outside Services	40,000	40,400	40,400
Travel - In State	77,800	110,400	110,400
Travel - Out of State	2,200	3,300	3,300
Other Operating Expenditures	423,400	532,400	536,400
Equipment	8,300	0	0
OPERATING SUBTOTAL	2,932,200	2,962,500	2,955,300
SPECIAL LINE ITEMS			
Licensing Replacement System	0	626,700	400,000
AGENCY TOTAL	2,932,200	3,589,200	3,355,300^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	2,932,200	3,589,200	3,355,300
SUBTOTAL - Other Appropriated Funds	2,932,200	3,589,200	3,355,300
SUBTOTAL - Appropriated Funds	2,932,200	3,589,200	3,355,300
Other Non-Appropriated Funds	1,007,300	974,500	974,500
Federal Funds	126,100	0	0
TOTAL - ALL SOURCES	4,065,600	4,563,700	4,329,800

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The budget includes \$2,955,300 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(7,200) from the Liquor Licenses Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Licensing Replacement System

The budget includes \$400,000 from the Liquor Licenses Fund in FY 2016 for a licensing and imaging system. This amount funds the following adjustment:

Licensing and Imaging System

The budget includes a decrease of \$(226,700) from the Liquor Licenses Fund in FY 2016 to adjust one-time

funding for the replacement of the licensing and imaging system.

The adjusted amount reflects the department's updated cost estimate and will be used to complete the replacement of the current system installed in the early 1990s. The new system will integrate both licensing and document imaging; enhance tracking, reporting and enforcement mechanisms; and allow the department to accept online license renewals and fee payments.

The FY 2016 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) extends department spending authority of the initial FY 2015 \$626,700 line item appropriation for the licensing and imaging system through FY 2016.

Total funding in FY 2015 and FY 2016 for the replacement of the licensing and imaging system is \$1,026,700.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona State Lottery Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	3,999,600	4,812,000	4,812,000
Employee Related Expenditures	1,817,400	1,772,300	1,732,800
Professional and Outside Services	401,800	386,800	386,800
Travel - In State	232,300	271,600	271,600
Travel - Out of State	21,600	16,800	16,800
Other Operating Expenditures	1,145,700	1,162,100	1,162,100
Equipment	86,900	0	0
OPERATING SUBTOTAL	7,705,300	8,421,600	8,389,400
SPECIAL LINE ITEMS			
Advertising	14,853,100	15,500,000	15,500,000
Charitable Commissions ^{1/}	865,300	922,900	969,000 ^{2/}
Instant Tickets ^{3/}	13,275,800	18,805,800	20,118,800 ^{3/}
On-Line Vendor Fees ^{4/}	8,722,800	9,033,200	9,519,900 ^{4/}
Retailer Commissions ^{5/}	47,598,200	51,047,800	54,357,500 ^{5/}
AGENCY TOTAL	93,020,500	103,731,300	108,854,600 ^{5/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	93,020,500	103,731,300	108,854,600
SUBTOTAL - Other Appropriated Funds	93,020,500	103,731,300	108,854,600
SUBTOTAL - Appropriated Funds	93,020,500	103,731,300	108,854,600
Other Non-Appropriated Funds	458,083,900	480,879,400	513,591,300
TOTAL - ALL SOURCES	551,104,400	584,610,700	622,445,900

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

Operating Budget

The budget includes \$8,389,400 and 98.8 FTE Positions from the State Lottery Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(32,200) from the State Lottery Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} Charitable Commissions, Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.
- ^{2/} An amount equal to 20% of Tab Ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be \$969,000 in FY 2016. (General Appropriation Act footnote)
- ^{3/} An amount equal to 3.6% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$20,118,800 in FY 2016. (General Appropriation Act footnote)
- ^{4/} An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$9,519,900, or 3.7% of actual on-line ticket sales in FY 2016. (General Appropriation Act footnote)
- ^{5/} An amount equal to 6.5% of gross lottery game sales, less Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or \$54,357,500 in FY 2016. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Advertising

The budget includes \$15,500,000 from the State Lottery Fund in FY 2016 for Advertising. This amount is unchanged from FY 2015.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes \$969,000 from the State Lottery Fund in FY 2016 for Charitable Commissions. This amount funds the following adjustments:

Tab Ticket Increase

The budget includes an increase of \$46,100 from the State Lottery Fund in FY 2016 to realign spending with projected revenues. (See Table 1 for more information.)

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Tab Tickets are games sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The budget includes \$20,118,800 from the State Lottery Fund in FY 2016 for Instant Tickets. This amount funds the following adjustments:

Instant Ticket Sales Increase

The budget includes an increase of \$1,313,000 from the State Lottery Fund in FY 2016 for Instant Tickets due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay for instant ticket printing and distribution costs. The actual appropriation is for 3.6% of instant ticket sales. The amount displayed is derived by applying the approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes \$9,519,900 from the State Lottery Fund in FY 2016 for On-Line Vendor Fees. This amount funds the following adjustments:

On-Line Vendor Fees Increase

The budget includes an increase of \$486,700 from the State Lottery Fund in FY 2016 for On-Line Vendor Fees due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor, which is 3.7%.

Retailer Commissions

The budget includes \$54,357,500 from the State Lottery Fund in FY 2016 for Retailer Commissions. This amount funds the following adjustments:

Retailer Commissions Increase

The budget includes an increase of \$3,309,700 from the State Lottery Fund in FY 2016 for Retailer Commissions due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

Additional Legislation

Tribal College Dual Enrollment Funding

The FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16) establishes the Tribal College Dual Enrollment Program Fund and directs Lottery to deposit 15% of unclaimed prize money from the State Lottery Fund to the fund, up to \$160,000 a fiscal year. In the past, unclaimed prize money has been used to supplement and guarantee payouts of prizes and to fund the state's Court Appointed Special Advocates (CASA) program. Laws 2015, Chapter 16 does not impact the amount of funding transferred to CASA, which retains its 30% share of unclaimed prize money. The Lottery would keep the remaining 55% of unclaimed prize money.

Internet Crimes Against Children Distribution

Laws 2015, Chapter 245 requires the Lottery to transfer up to \$900,000 to the Attorney General's Internet Crimes Against Children Enforcement Fund (ICACF) and up to \$100,000 to the Department of Public Safety's Victims' Rights Enforcement Fund (VREF) from proceeds of Lottery vending machines located in age-restricted areas (such as bars). Any proceeds in excess of the required transfers are to be deposited to the State Lottery Fund. Lottery tickets had not previously been sold in age-restricted areas. The legislation was enacted with an emergency clause and will therefore result in Lottery transfers to the funds in FY 2015 and FY 2016, assuming the installation of vending machines begins in age-restricted areas.

The legislation specifies that if proceeds from such games are less than \$1,000,000 during a fiscal year, the difference shall be paid to the ICACF and VREF from unclaimed prize money in the State Lottery Fund. Forecasted revenue and profit transfers in *Table 1* have not been adjusted for any additional games that may result from the legislation. (See *Additional Legislation in the Attorney General agency section for more information about the appropriation and use of this funding.*)

Other Issues

Lottery Forecast and Distributions

The budget assumes a 5.9% increase in overall Lottery ticket sales in FY 2015, followed by a 6.5% increase in FY 2016. For FY 2015 and FY 2016, the budget assumes Lottery ticket sales of \$766,522,300 and \$816,151,800, respectively.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2014 and the JLBC Staff projected distributions for FY 2015 and FY 2016. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. § 5-534 and § 5-572.

State Lottery Revenue Bond Debt Service Payment Fund

Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The principal and interest payments in FY 2015 and FY 2016 are expected to be \$37,499,000 and \$37,501,800, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Payment Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$11,444,400 in each FY 2015 and FY 2016.

Laws 1993, 6th Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at \$18,000,000 and was contingent upon the General Fund receiving \$45,000,000 in Lottery revenues.

Laws 2010, 7th Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of *Paisley v. Darwin* ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county.

General Fund - Part 1

The statutory distribution requires the General Fund to receive up to \$84,150,000. The General Fund - Part 2 would receive up to an additional \$15,490,000 (for a total of \$99,640,000) after the statutory funding obligations have been met through the Homeless Shelters distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2015 and FY 2016 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,499,000 in FY 2015 and \$37,501,800 in FY 2016 count towards the \$84,150,000 General Fund - Part 1 requirement. Total General Fund distributions, net of bond payments, are therefore estimated to be \$75,566,900 in FY 2015 and \$70,576,300 in FY 2016.

Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at \$10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY 2015 and FY 2016, the fund is projected to receive its entire allocation.

Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is \$18,467,700 in FY 2015 and \$18,801,500 in FY 2016. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2015 and FY 2016.

Homeless Shelters

Under the statutory distribution, DES would receive up to \$1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2015 and FY 2016.

General Fund - Part 2

As noted above, the General Fund would receive up to an additional \$15,490,000 after all prior allocations have been met. In FY 2015 and FY 2016, the General Fund is estimated to receive its entire allocation of \$15,490,000.

Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at \$3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2015 and FY 2016.

University Capital Improvement Fund

This fund serves as the source for up to 80% of the annual debt service associated with \$800,000,000 of University Capital construction lease-purchase agreements. This fund received \$17,572,600 in FY 2014, which was 80% of the annual debt service payments on the \$536,235,000 of lease-purchase agreements that have been issued to date. The UCI Fund is expected to require \$24,133,600 in FY 2015 and \$40,582,000 in FY 2016 to make the expected level of debt service payments. The FY 2016 estimate includes debt service payments on \$683,130,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2016. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,900, depending on assumptions of repayment

lengths and interest rates. *(Please see the FY 2016 ABOR Capital Outlay section for more details.)*

General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These payments to the General Fund are estimated to equal \$13,425,900 in FY 2015 and \$8,438,100 in FY 2016.

Table 1

Forecast of Lottery Revenue Distribution
(\$ in Millions)

Sales	FY 2014	FY 2015	FY 2016
Instant Sales	\$488.3	\$522.4	\$558.9
On-Line Sales	<u>235.6</u>	<u>244.1</u>	<u>257.3</u>
Total Sales	\$723.9	\$766.5	\$816.2
<i>Less:</i>			
Operating Budget ^{1/}	\$ 93.0	\$ 103.7	\$ 108.9
Automation Projects Fund Transfer ^{2/}	0.7	0.0	0.0
Gaming Distribution	0.3	0.3	0.3
Prizes ^{3/}	<u>458.1</u>	<u>480.9</u>	<u>513.6</u>
Net Profit ^{4/}	\$171.8	\$181.6	\$193.4
Profit Transfers ^{5/}			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{6/}	11.2	11.4	11.4
General Fund - Part 1 ^{7/}	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	18.1	18.5	18.8
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{7/}	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	17.6	24.1	40.6
General Fund - Part 3 ^{7/}	<u>10.7</u>	<u>13.4</u>	<u>8.4</u>
Total Transfer	\$171.8	\$181.6	\$193.4

^{1/} Of this amount, an estimated \$922,900 in FY 2015 and an estimated \$969,000 in FY 2016 will be distributed as commissions to charities that sell lottery Tab Tickets.

^{2/} In accordance with Laws 2013, 1st Special Session, Chapter 1, \$713,600 was transferred from the State Lottery Fund to the Automation Projects Fund in FY 2014 for the agency's share of costs to replace the Arizona Financial Information System.

^{3/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Automation Projects Fund transfer from total Lottery sales.

^{4/} To derive the profit transfer amounts, the actual FY 2014 rate of return for each game was applied to the current budget forecast. The cumulative profit transfer rate is 23.88%.

^{5/} In addition to these listed transfers, the following monies are distributed:

- \$900,000 and \$100,000 from vending machine sales in age-restricted areas to the Internet Crimes Against Children Enforcement Fund and the Victims' Rights Enforcement Fund, respectively.
- 30% of unclaimed prizes to the Court Appointed Special Advocates program.
- 15% of unclaimed prizes, not to exceed \$160,000 to the Tribal College Dual Enrollment Program Fund.

^{6/} As a result of a federal court order, Maricopa County's share of Local Transportation Assistance Fund II monies was reinstated starting September 2011. (See *Other Issues* section for more information.)

^{7/} Excluding fund transfers, distributions to the General Fund totaled \$72,881,300 in FY 2014 and are estimated to be \$75,566,900 in FY 2015 and \$70,576,300 in FY 2016.

Board of Massage Therapy

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	222,000	242,800	242,800
Employee Related Expenditures	90,300	98,300	98,100
Professional and Outside Services	22,100	6,600	6,600
Travel - In State	400	400	400
Other Operating Expenditures	88,700	88,500	105,800
Equipment	32,100	2,100	2,100
AGENCY TOTAL	455,600	438,700	455,800^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	455,600	438,700	455,800
SUBTOTAL - Other Appropriated Funds	455,600	438,700	455,800
SUBTOTAL - Appropriated Funds	455,600	438,700	455,800
TOTAL - ALL SOURCES	455,600	438,700	455,800

AGENCY DESCRIPTION — The board licenses and regulates massage therapists. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$455,800 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Online Licensing

The budget includes a one-time increase of \$15,000 from the Board of Massage Therapy Fund in FY 2016 to design and implement online licensing.

Statewide Adjustments

The budget includes an increase of \$2,100 from the Board of Massage Therapy Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency

Arizona Medical Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.5	58.5	58.5
Personal Services	2,247,200	2,805,000	3,140,600
Employee Related Expenditures	830,500	1,037,900	1,144,000
Professional and Outside Services	1,012,900	885,700	991,700
Travel - In State	16,100	22,500	25,200
Travel - Out of State	7,200	20,900	23,400
Other Operating Expenditures	1,046,000	766,400	875,100
Equipment	494,200	201,900	226,000
OPERATING SUBTOTAL	5,654,100	5,740,300	6,426,000
SPECIAL LINE ITEMS			
Credentials Verification Service	0	0 ^{1/}	0
Ch. 2. Arizona Medical Board; Fingerprinting; Disclosure	0	200,000	0
AGENCY TOTAL	5,654,100	5,940,300	6,426,000^{2/}

FUND SOURCES

Other Appropriated Funds

Arizona Medical Board Fund	5,654,100	5,940,300	6,426,000 ^{3/}
SUBTOTAL - Other Appropriated Funds	5,654,100	5,940,300	6,426,000
SUBTOTAL - Appropriated Funds	5,654,100	5,940,300	6,426,000
TOTAL - ALL SOURCES	5,654,100	5,940,300	6,426,000

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The budget includes \$6,426,000 and 58.5 FTE Positions from the Arizona Medical Board Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Backlog and Verification Staffing

The budget includes an increase of \$684,400 from the Arizona Medical Board Fund in FY 2016 to fill vacant FTE Positions to address enhanced licensing requirements, licensing backlogs, and complaints.

Statewide Adjustments

The budget includes an increase of \$1,300 from the Arizona Medical Board Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Credentials Verification Service

The budget includes no funding from the Arizona Medical Board Fund in FY 2016 for the Credentials Verification line item. This amount is unchanged from FY 2015.

Laws 2014, Chapter 251 included a one-time supplemental appropriation of \$855,000 from the Arizona Medical Board Fund in FY 2014 for the review of initial applications received by the board from October 1, 2011 through February 5, 2014, after the Ombudsman-Citizens Aide Office found that an expedited licensing process had not followed state statute and rules. The monies were not expended in FY 2014 due to a delay in contractor selection and procurement. Chapter 251 also allows the board to expend the monies in FY 2015.

The board has since contracted with an in-state credentials verification service to review over 3,000 initial license applications. The board has paid the contractor

^{1/} The Arizona Medical Board may also expend appropriated monies in FY 2015. (Laws 2014, Chapter 251 footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{3/} The Arizona Medical Board may use up to 7% of the Arizona Medical Board Fund balance remaining at the end of each fiscal year for a performance based incentive program the following fiscal year based on the program established pursuant to A.R.S. § 38-618. (General Appropriation Act footnote)

\$666,800 as of March 2015 and projects spending the total amount of \$855,000 in FY 2015.

Ch. 2. Arizona Medical Board; Fingerprinting; Disclosure

The budget includes no funding from the Arizona Medical Board Fund in FY 2016 for the Ch. 2, Arizona Medical Board; Fingerprinting; Disclosure line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from the Arizona Medical Board Fund in FY 2016 to remove one-time FY 2015 supplemental funding for renewal fee refunds as appropriated by Laws 2015, Chapter 2.

An October 2013 Ombudsman-Citizens Aide Office report found that the board's expedited licensing process had not followed state statute or rules. The report made various recommendations including fingerprinting all applicants for criminal background checks. Laws 2014, Chapter 124 established the fingerprinting requirement for new and renewal license applicants retroactive to September 1, 2014.

Laws 2015, Chapter 2, an emergency measure, removed the fingerprinting requirement for license renewal applicants retroactive to September 1, 2014. The measure included a one-time supplemental appropriation of \$200,000 from the Arizona Medical Board Fund in FY 2015 to refund fees collected by the board for state and federal criminal records checks for renewal applicants. New license applicants are still required to submit their fingerprints.

State Mine Inspector

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	486,000	506,700	506,700
Employee Related Expenditures	215,300	221,100	217,600
Professional and Outside Services	10,100	5,000	5,000
Travel - In State	69,200	62,900	62,900
Travel - Out of State	4,400	5,000	5,000
Other Operating Expenditures	216,900	207,200	210,300
Equipment	14,600	13,000	13,000
OPERATING SUBTOTAL	1,016,500	1,020,900	1,020,500
SPECIAL LINE ITEMS			
Abandoned Mines	175,900	194,700	194,700
Aggregate Mined Land Reclamation	30,200	112,500	112,800 ^{1/}
AGENCY TOTAL	1,222,600	1,328,100	1,328,000^{2/}
FUND SOURCES			
General Fund	1,192,400	1,215,600	1,215,200
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	30,200	112,500	112,800
SUBTOTAL - Other Appropriated Funds	30,200	112,500	112,800
SUBTOTAL - Appropriated Funds	1,222,600	1,328,100	1,328,000
Other Non-Appropriated Funds	10,100	60,000	60,000
Federal Funds	432,700	279,000	279,000
TOTAL - ALL SOURCES	1,665,400	1,667,100	1,667,000

AGENCY DESCRIPTION — The State Mine Inspector is an elected constitutional officer and may serve 4 consecutive 4-year terms. The office inspects the health conditions and safety of mining operations, investigates mining accidents, identifies abandoned mines, and conducts safety certification classes for mine employees.

Operating Budget

The budget includes \$1,020,500 and 14 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(400) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Abandoned Mines

The budget includes \$194,700 from the General Fund in FY 2016 for Abandoned Mines. This amount is unchanged from FY 2015.

Monies in this line item are used to pay contractors for costs to fill, plug, or fence abandoned mines. These monies are also used to pay administrative salaries and other costs. In addition to General Fund appropriations to the program, deposits can be made into the Abandoned Mines Safety Fund from sources such as intergovernmental agreements and donations.

^{1/} All Aggregate Mining Reclamation Fund receipts received by the State Mine Inspector in excess of \$112,800 in FY 2016 are appropriated to the Aggregate Mined Land Reclamation line item. Before the expenditure of any Aggregate Mining Reclamation Fund receipts in excess of \$112,800 in FY 2016, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act, as adjusted for statewide allocations)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Aggregate Mined Land Reclamation

The budget includes \$112,800 from the Aggregate Mining Reclamation Fund in FY 2016 for Aggregate Mined Land Reclamation. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$300 from the Aggregate Mining Reclamation Fund in FY 2016 for statewide adjustments.

Monies in this line item are used to review legally required plans to reclaim land damaged by aggregated mining and ensure compliance with those plans. Aggregate mining is a process whereby earth moving equipment is used to mine an area close to the surface for crushed rock or stone, granite, and sand. Aggregate Mining Reclamation Fund revenues come from fees paid by owners or operators of aggregate mining sites upon submitting a reclamation plan.

Naturopathic Physicians Medical Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	87,900	88,200	88,200
Employee Related Expenditures	32,000	32,000	32,000
Professional and Outside Services	1,600	11,000	11,000
Travel - In State	700	800	800
Other Operating Expenditures	29,800	40,600	42,700
Equipment	400	5,000	5,000
AGENCY TOTAL	152,400	177,600	179,700^{1/}

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	152,400	177,600	179,700
SUBTOTAL - Other Appropriated Funds	152,400	177,600	179,700
SUBTOTAL - Appropriated Funds	152,400	177,600	179,700
TOTAL - ALL SOURCES	152,400	177,600	179,700

AGENCY DESCRIPTION — The board licenses and regulates naturopathic physicians, and naturopathic medical assistants. The board certifies physicians to dispense natural remedies, and accredits and approves naturopathic medical schools, internships, and programs. The board also investigates persons unlawfully practicing naturopathic medicine and refers them for prosecution. This board is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$179,700 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,100 from the Naturopathic Physicians Medical Board Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Navigable Stream Adjudication Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	70,000	71,000	71,000
Employee Related Expenditures	26,000	29,000	26,400
Professional and Outside Services	167,400	6,500	6,500
Other Operating Expenditures	14,500	382,000	222,700
AGENCY TOTAL	277,900	488,500	326,600^{1/}
FUND SOURCES			
General Fund	197,900	129,200	126,600
<u>Other Appropriated Funds</u>			
Risk Management Revolving Fund	80,000	0	0
Arizona Water Banking Fund	0	359,300	200,000
SUBTOTAL - Other Appropriated Funds	80,000	359,300	200,000
SUBTOTAL - Appropriated Funds	277,900	488,500	326,600
TOTAL - ALL SOURCES	277,900	488,500	326,600

AGENCY DESCRIPTION — The Arizona Navigable Stream Adjudication Commission (ANSAC) is a 5-member body charged with determining the ownership of watercourses in the state by establishing whether the watercourses were navigable at the time of statehood. If navigable, title to the watercourse belongs to the state based on a series of court rulings. If non-navigable, the title to the watercourse belongs to the current title holder.

Operating Budget

The budget includes \$326,600 and 2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$126,600
Arizona Water Banking Fund	200,000

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(359,300) from the Arizona Water Banking Fund in FY 2016 in order to eliminate one-time supplemental funding from FY 2015. (Please see the *Other Issues* section for more information.)

Legal Fees

The budget includes an increase of \$200,000 from the Arizona Water Banking Fund in FY 2016 to pay legal fees.

The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) allows the commission to use monies appropriated to it from the Arizona Water Banking Fund for its unpaid legal obligations in FY 2015 and FY 2016, retroactive to July 1, 2014.

From FY 2011 through FY 2015, the budget instead allowed the commission to use up to \$80,000 annually from the Risk Management Revolving Fund for unpaid outside legal services and hearing related costs.

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the General Fund in FY 2016 for statewide adjustments. (Please see the *Agency Detail and Allocations* section.)

Other Issues

FY 2015 Supplemental

Laws 2015, Chapter 8 appropriates \$359,300 for a one-time supplemental from the Arizona Water Banking Fund in FY 2015 to address a shortfall in funding for outside legal counsel and related hearing expenses for the commission. The FY 2016 Environment BRB makes this supplemental and any other monies appropriated to it from the Arizona Water Banking Fund non-lapsing through 2016.

The FY 2014 budget included a one-time supplemental of \$150,000 from the General Fund to address a similar shortfall in funding for outside legal counsel and related hearing expenses. The supplemental was non-lapsing

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

through 2015. In FY 2014 the commission spent \$82,000 of the supplemental with the remaining balance spent in FY 2015. *(Please see the Operating Budget section.)*

Litigation

The commission is responsible for determining the navigability of state watercourses at the time of statehood. If navigable, the watercourses are considered State Trust Land and any related proceeds from the waterbeds would be deposited in the Riparian Trust Fund, pursuant to A.R.S. § 37-1156. The monies in this fund are primarily used to acquire and maintain land adjacent to the waterbeds for conservation purposes.

As of May 2006, ANSAC had determined all watercourses in Arizona to be non-navigable at the time of statehood. In June 2006, the first appeal was filed against the commission by the Arizona Center for Law in the Public Interest and the State Land Department regarding the commission's determination for the Lower Salt River. Five other appeals have been filed and stayed pending the completion of the Lower Salt River case.

In August 2007, the Maricopa County Superior Court affirmed the commission's determination. The Superior Court decision was appealed to the Arizona Court of Appeals. A decision by the Arizona Court of Appeals in May 2010 did not overturn the commission's determination concerning the Lower Salt River. Instead, the Court of Appeals set aside the Superior Court's original decision, and remanded the Lower Salt River case to the Maricopa County Superior Court to determine the "ordinary and natural condition" of the watercourses by considering navigability in the period prior to statehood.

In October 2011, the Maricopa County Superior Court remanded the 4 cases appealed in Maricopa County back to the commission to address issues raised by the May 2010 Arizona Court of Appeals opinion. The 2 cases appealed in Pima County were also returned to the commission to address the same issues.

As of March 2015, the commission indicates that hearings for the San Pedro River, Santa Cruz River and Gila River cases have been completed. The other 3 cases (Verde River, Upper Salt River and Lower Salt River) require additional hearings in order to further address questions raised by the Arizona Court of Appeals and a related 2012 U.S. Supreme Court ruling. The latter ruling requires the commission to resolve whether individual "segments" of the affected streambeds were navigable prior to statehood rather than making that determination only for each streambed as a whole. The commission indicates that hearings for the Verde River should be completed

within the calendar year. Hearings for the Upper Salt River and Lower Salt River are expected to continue into the 2016 calendar year. The commission is currently scheduled to sunset after June 30, 2020 pursuant to Laws 2015, Chapter 58.

State Board of Nursing

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	42.2	42.2	42.2
Personal Services	2,367,600	2,225,500	2,225,500
Employee Related Expenditures	904,100	871,700	849,300
Professional and Outside Services	388,000	494,600	494,600
Travel - In State	6,800	10,000	10,000
Travel - Out of State	4,600	5,000	5,000
Other Operating Expenditures	556,900	623,700	639,900
Equipment	41,700	41,600	41,600
OPERATING SUBTOTAL	4,269,700	4,272,100	4,265,900
SPECIAL LINE ITEMS			
Certified Nursing Assistant Program	150,000	150,000	536,700
AGENCY TOTAL	4,419,700	4,422,100	4,802,600^{1/}
FUND SOURCES			
General Fund	150,000	150,000	0
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,269,700	4,272,100	4,802,600
SUBTOTAL - Other Appropriated Funds	4,269,700	4,272,100	4,802,600
SUBTOTAL - Appropriated Funds	4,419,700	4,422,100	4,802,600
Other Non-Appropriated Funds	11,900	0	0
Federal Funds	426,100	414,700	414,700
TOTAL - ALL SOURCES	4,857,700	4,836,800	5,217,300

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The budget includes \$4,265,900 and 42.2 FTE Positions from the Board of Nursing Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(6,200) from the Board of Nursing Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Certified Nursing Assistant Program

The budget includes \$536,700 from the Board of Nursing Fund in FY 2016 for the Certified Nursing Assistant (CNA) Program line item. These amounts fund the following adjustments:

Fund Shift

The budget includes an increase of \$150,000 from the Board of Nursing Fund and a corresponding decrease of \$(150,000) from the General Fund in FY 2016. CNA costs can be paid by the Nursing Fund.

Certified Nursing Assistant Program Backfill

The budget includes an increase of \$386,700 from the Board of Nursing Fund in FY 2016 to backfill the board's cost of the CNA Program.

Laws 2015, Chapter 262 splits the current CNA classification into licensed nursing assistants (LNA) and certified nursing assistants (CNA) effective July 1, 2016. The board will register CNAs at no charge to the individual and with no fingerprinting requirement. This policy meets federal requirements for having a nurse assistant (aide) registry. The LNAs will pay application, fingerprinting and other fees to be deposited 10% to the General Fund and

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

90% to the Board of Nursing Fund. The revenue impact of the changes is unknown.

Monies in this line item fund CNA program costs not paid by federal monies.

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	195,400	231,800	231,800
Employee Related Expenditures	78,000	94,600	93,100
Professional and Outside Services	5,700	8,000	8,000
Travel - In State	5,600	7,000	7,000
Travel - Out of State	2,100	4,000	4,000
Other Operating Expenditures	58,100	70,300	73,600
Equipment	700	4,600	4,600
AGENCY TOTAL	345,600	420,300	422,100^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	345,600	420,300	422,100
SUBTOTAL - Other Appropriated Funds	345,600	420,300	422,100
SUBTOTAL - Appropriated Funds	345,600	420,300	422,100
TOTAL - ALL SOURCES	345,600	420,300	422,100

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes.

Operating Budget

The budget includes \$422,100 and 6 FTE Positions from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,800 from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Occupational Safety and Health Review Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	2,000	0	0
AGENCY TOTAL	2,000	0	0^{1/}
FUND SOURCES			
General Fund	2,000	0	0
SUBTOTAL - Appropriated Funds	2,000	0	0
TOTAL - ALL SOURCES	2,000	0	0

AGENCY DESCRIPTION — The board reviews cases involving violations of the state's occupational safety and health laws. The cases start with an informal conference with the Industrial Commission's Occupational Safety and Health Division Director. If the case cannot be resolved, the employer can request a hearing before an Industrial Commission Administrative Law Judge. If either the Director of the Occupational Safety and Health Division or the employer disagrees with the Administrative Law Judge's ruling, it can be appealed before the Occupational Safety and Health Review Board. The decisions of the Occupational Safety and Health Review Board can be appealed to the Court of Appeals.

Operating Budget

The budget includes no funding from the General Fund in FY 2016 for the operating budget. This amount is unchanged from FY 2015.

In FY 2012 the board received a one-time non-lapsing appropriation of \$15,000. Pursuant to A.R.S. § 23-422E, General Fund appropriations to the Occupational Safety and Health Review Board are exempt from lapsing. The board had an ending balance of \$11,700 in FY 2014.

The board uses the monies for outside legal services related to the administration of the board's activities. The board currently has no cases pending and does not estimate any cases occurring in FY 2015. Any unspent monies would be available for expenditure in FY 2016.

^{1/} Additional board expenses are paid for by the federal government as part of a grant. These monies are included in the non-appropriated budget of the Industrial Commission's Occupational Safety and Health Division.

Board of Occupational Therapy Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	96,300	99,000	99,000
Employee Related Expenditures	46,600	45,600	44,100
Professional and Outside Services	0	200	200
Travel - In State	700	1,300	1,300
Other Operating Expenditures	28,300	34,400	23,700
Equipment	100	3,700	3,700
AGENCY TOTAL	172,000	184,200	172,000^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Occupational Therapy Fund	172,000	184,200	172,000
SUBTOTAL - Other Appropriated Funds	172,000	184,200	172,000
SUBTOTAL - Appropriated Funds	172,000	184,200	172,000
TOTAL - ALL SOURCES	172,000	184,200	172,000

AGENCY DESCRIPTION — The board examines and licenses occupational therapists and occupational therapy assistants, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The budget includes \$172,000 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(11,600) from the Occupational Therapy Fund in FY 2016 to eliminate one-time funding for a database upgrade.

Statewide Adjustments

The budget includes a decrease of \$(600) from the Occupational Therapy Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Dispensing Opticians

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	67,000	67,000	67,000
Employee Related Expenditures	28,300	28,300	28,300
Professional and Outside Services	100	500	500
Travel - In State	8,800	7,200	7,200
Travel - Out of State	0	1,000	1,000
Other Operating Expenditures	27,300	27,300	28,300
Equipment	0	4,500	4,500
AGENCY TOTAL	131,500	135,800	136,800^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Dispensing Opticians Fund	131,500	135,800	136,800
SUBTOTAL - Other Appropriated Funds	131,500	135,800	136,800
SUBTOTAL - Appropriated Funds	131,500	135,800	136,800
TOTAL - ALL SOURCES	131,500	135,800	136,800

AGENCY DESCRIPTION — The board licenses and regulates optical establishments and opticians. An optician fits and sells optical devices such as contact lenses and eyeglasses. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$136,800 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,000 from the Board of Dispensing Opticians Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Optometry

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	115,500	121,000	121,000
Employee Related Expenditures	43,700	43,500	41,700
Professional and Outside Services	100	0	23,800
Travel - In State	900	1,500	1,500
Travel - Out of State	1,400	1,500	1,500
Other Operating Expenditures	38,000	38,600	40,700
AGENCY TOTAL	199,600	206,100	230,200^{1/}

FUND SOURCES

<i>Other Appropriated Funds</i>			
Board of Optometry Fund	199,600	206,100	230,200
SUBTOTAL - Other Appropriated Funds	199,600	206,100	230,200
SUBTOTAL - Appropriated Funds	199,600	206,100	230,200
TOTAL - ALL SOURCES	199,600	206,100	230,200

AGENCY DESCRIPTION — The board licenses and regulates optometrists and issues certificates authorizing the use of diagnostic pharmaceutical agents. An optometrist examines eyes, measures vision, and prescribes corrective lenses and treatments which do not require a licensed physician.

Operating Budget

The budget includes \$230,200 and 2 FTE Positions from the Board of Optometry Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Database and License Renewal System Upgrade

The budget includes a one-time increase of \$23,800 from the Board of Optometry Fund in FY 2016 for upgrades to the board database and licensing renewal system.

Statewide Adjustments

The budget includes an increase of \$300 from the Board of Optometry Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Board of Osteopathic Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.7	6.7	6.7
Personal Services	341,900	391,000	391,000
Employee Related Expenditures	138,100	165,000	162,800
Professional and Outside Services	109,600	119,500	119,500
Travel - In State	500	2,000	2,000
Travel - Out of State	3,400	6,000	6,000
Other Operating Expenditures	132,100	113,200	117,400
Equipment	18,600	5,000	5,000
AGENCY TOTAL	744,200	801,700	803,700^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Osteopathic Examiners Fund	744,200	801,700	803,700
SUBTOTAL - Other Appropriated Funds	744,200	801,700	803,700
SUBTOTAL - Appropriated Funds	744,200	801,700	803,700
TOTAL - ALL SOURCES	744,200	801,700	803,700

AGENCY DESCRIPTION — The agency licenses and regulates medical physicians who practice osteopathic medicine, a system of medical treatment that emphasizes the inter-relationship of the body's muscles, bones, and joints with other body systems as an adjunct to invasive and/or chemically-based treatment.

Operating Budget

The budget includes \$803,700 and 6.7 FTE Positions from the Board of Osteopathic Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,000 from the Board of Osteopathic Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Parents Commission on Drug Education and Prevention

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	4,406,000	4,986,700	4,986,700
TOTAL - ALL SOURCES	4,406,000	4,986,700	4,986,700

AGENCY DESCRIPTION — The commission funds programs that increase and enhance parental involvement and education regarding the serious risks and public health problems caused by the abuse of alcohol and controlled substances. The commission does not receive an appropriation from the Legislature.

Arizona State Parks Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0 ^{1/}
Personal Services	4,089,300	4,998,800	4,998,800
Employee Related Expenditures	1,838,400	2,175,800	2,152,700
Professional and Outside Services	319,500	0	0
Travel - In State	1,800	0	0
Other Operating Expenditures	2,545,100	3,110,500	3,150,900
Equipment	244,500	325,000	325,000
OPERATING SUBTOTAL	9,038,600	10,610,100	10,627,400 ^{2/}
SPECIAL LINE ITEMS			
Kartchner Caverns State Park	2,098,800	2,232,000	2,227,400
Yarnell Hill Memorial	0	500,000	0
AGENCY TOTAL	11,137,400	13,342,100	12,854,800 ^{3/}
FUND SOURCES			
General Fund	0	500,000	0
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	11,137,400	12,842,100	12,854,800
SUBTOTAL - Other Appropriated Funds	11,137,400	12,842,100	12,854,800
SUBTOTAL - Appropriated Funds	11,137,400	13,342,100	12,854,800
Other Non-Appropriated Funds	24,442,200	20,555,100	12,606,400
Federal Funds	2,503,600	6,306,800	3,903,800
TOTAL - ALL SOURCES	38,083,200	40,204,000	29,365,000

AGENCY DESCRIPTION — The Arizona State Parks Board is responsible for managing the state parks system, which includes recreational parks, historical parks, and natural areas. The Parks Board consists of 7 members appointed by the Governor. Major functions of the Parks Board, through its staff, include the maintenance and development of existing parks, new parks acquisitions, statewide recreational planning, historic preservation, the administration of the Arizona State Parks Board Heritage Fund grant programs, and the administration of Growing Smarter Grants.

Operating Budget

The budget includes \$10,627,400 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$17,300 from the State Parks Revenue Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

As session law, the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) continues to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs.

Kartchner Caverns State Park

The budget includes \$2,227,400 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2016 for Kartchner Caverns State Park. These amounts fund the following adjustments:

^{1/} Includes 35.8 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} All Other Operating Expenditures include \$26,000 from the State Parks Revenue Fund for Fool Hollow State Park revenue sharing. If receipts to Fool Hollow exceed \$260,000 in FY 2016, an additional 10% of this increase of Fool Hollow receipts is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to meet the revenue sharing agreement with the City of Show Low and the United States Forest Service. (General Appropriation Act footnote)

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes a decrease of \$(4,600) from the State Parks Revenue Fund in FY 2016 for statewide adjustments.

Kartchner Caverns is located in Benson, Arizona and was discovered in 1974. The State Parks Board acquired the property in 1988 and opened the caverns to the public in 1999.

Yarnell Hill Memorial

The budget includes no funding from the General Fund in FY 2016 for the new Yarnell Hill Memorial State Park. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2016 for the elimination of a one-time appropriation to establish Yarnell Hill Memorial State Park. The park is being created to honor 19 Prescott firefighters who were killed fighting a wildfire near Yarnell, Arizona.

The FY 2015 Environment BRB (Laws 2014, Chapter 13) established Yarnell Hill Memorial State Park. The Environment BRB created the Yarnell Hill Memorial Site Board, which will determine whether to establish the new park, in addition to allowing the board to designate a site for the park. The \$500,000 General Fund appropriation will be used for land acquisition.

Furthermore, the Environment BRB established the Yarnell Hill Memorial Fund, which consists of legislative appropriations and donations for the purposes of land acquisition, site maintenance and board member travel expenses. The Yarnell Hill Memorial Site Board will administer the fund until December 31, 2016, when the board's authority lapses. At that time, the State Parks Board will administer the fund.

Laws 2014, Chapter 273 contained the same language for Yarnell Memorial State Park as the FY 2015 Environment BRB, except for the \$500,000 General Fund appropriation. However, this separate legislation contains an emergency clause.

The FY 2016 Environment BRB clarifies that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design and construct the Yarnell Hill Memorial.

The Parks Board plans to purchase land for the Yarnell Hill Memorial at a State Land Department auction on June 30, 2015.

Other Issues

Fund Transfers

The budget includes the following FY 2016 fund transfers from this agency's funds to the General Fund:

Off-Highway Vehicle Recreation Fund	\$4,000,000
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Status of Parks

As of April 2015, all 27 state parks are open to the public:

- Fifteen open parks plan to use only existing state fund sources (Alamo Lake, Buckskin Mountain, Catalina, Cattail Cove, Dead Horse Ranch, Fool Hollow, Jerome, Kartchner Caverns, Lake Havasu, Lost Dutchman, Lyman Lake, Patagonia Lake, Picacho Peak, Slide Rock, and Tonto Natural Bridge).
- Eleven open parks will be funded through agreements between the State Parks Board and local governments or the local government will assume operational control of the park (Fort Verde, Red Rock, Riordan Mansion, Homolovi Ruins, Roper Lake, Boyce Thompson Arboretum, McFarland, Tombstone Courthouse, Tubac Presidio, Yuma Territorial Prison, and Yuma Quartermaster Depot).
- Oracle is funded through an agreement between the State Parks Board and a private entity.

State Personnel Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	110,700	125,000	125,000
Employee Related Expenditures	46,000	47,200	46,500
Professional and Outside Services	121,500	162,800	162,800
Travel - In State	1,400	2,400	2,400
Other Operating Expenditures	37,500	34,900	36,300
Equipment	0	2,700	2,700
AGENCY TOTAL	317,100	375,000	375,700^{1/}

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	317,100	375,000	375,700
SUBTOTAL - Other Appropriated Funds	317,100	375,000	375,700
SUBTOTAL - Appropriated Funds	317,100	375,000	375,700
TOTAL - ALL SOURCES	317,100	375,000	375,700

AGENCY DESCRIPTION — The State Personnel Board hears appeals for covered state employees in the State Personnel System who have been dismissed, involuntarily demoted, or suspended for more than 80 hours. The board may recommend modifying or reversing the agency decision, but the agency makes the final determination. The board also hears “whistleblower” complaints concerning reprisals against employees or former employees who disclose information to a public body. If the Personnel Board finds a reprisal occurred, the employee who committed the reprisal shall be ordered by the board to pay a civil penalty of up to \$5,000, and the board shall rescind the personnel action and order all lost pay and benefits be restored to the “whistleblower.”

Operating Budget

The budget includes \$375,700 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$700 from the Personnel Board Subaccount of the Personnel Division Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Office of Pest Management

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.0	30.0	30.0
Personal Services	719,700	743,100	743,100
Employee Related Expenditures	343,900	365,600	360,600
Travel - In State	28,400	31,600	31,600
Other Operating Expenditures	172,700	560,200	564,200
AGENCY TOTAL	1,264,700	1,700,500	1,699,500^{1/}

FUND SOURCES

Other Appropriated Funds

Pest Management Fund	1,264,700	1,700,500	1,699,500
SUBTOTAL - Other Appropriated Funds	1,264,700	1,700,500	1,699,500
SUBTOTAL - Appropriated Funds	1,264,700	1,700,500	1,699,500

Federal Funds	159,100	113,500	113,500
TOTAL - ALL SOURCES	1,423,800	1,814,000	1,813,000

AGENCY DESCRIPTION — The agency licenses and regulates professional pest control companies and conducts examinations of applicators of structural pesticides.

Operating Budget

The budget includes \$1,699,500 and 30 FTE Positions from the Pest Management Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,000) from the Pest Management Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona State Board of Pharmacy

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,043,300	858,400	858,400
Employee Related Expenditures	394,800	394,800	386,300
Professional and Outside Services	54,000	222,400	222,400
Travel - In State	39,500	40,000	40,000
Travel - Out of State	3,000	3,000	3,000
Other Operating Expenditures	518,700	499,000	510,400
Equipment	48,100	0	0
OPERATING SUBTOTAL	2,101,400	2,017,600	2,020,500^{1/}
SPECIAL LINE ITEMS			
One-Time Funding Leave Payout	0	36,300 ^{2/}	0
AGENCY TOTAL	2,101,400	2,053,900	2,020,500
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Arizona State Board of Pharmacy Fund	2,101,400	2,053,900	2,020,500
SUBTOTAL - Other Appropriated Funds	2,101,400	2,053,900	2,020,500
SUBTOTAL - Appropriated Funds	2,101,400	2,053,900	2,020,500
Other Non-Appropriated Funds	579,800	427,400	427,400
Federal Funds	2,700	2,000	2,000
TOTAL - ALL SOURCES	2,683,900	2,483,300	2,449,900

AGENCY DESCRIPTION — The board licenses, regulates, and conducts examinations of pharmacists and issues permits to distributors of approved medications. The board also educates pharmacists and the general public on the proper distribution and use of these medications.

Operating Budget

The budget includes \$2,020,500 and 18 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,900 from the Arizona State Board of Pharmacy Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

One-Time Funding Leave Payout

The budget includes no funding from the Arizona State Board of Pharmacy Fund in FY 2016 for Leave Payout. This amount funds the following adjustments:

Remove One-Time Leave Payout

The budget includes a decrease of \$(36,300) from the Arizona State Board of Pharmacy Fund in FY 2016 for the elimination of one-time funding.

The FY 2014 budget included \$48,900 in the operating budget for this purpose. None of the 4 employees who were eligible to retire in FY 2014 retired. Based on the balances at that time, the annual leave payout for potential retirements was \$36,300. The board's \$48,900 appropriation for this purpose was reduced by \$(12,600) and the remaining \$36,300 was moved into a non-lapsing special line item only authorized for leave payout in FY 2015. As of March 2015, none of this amount has been used; the agency anticipates using \$10,000 for leave payout in May 2015, however, pending the retirement of the current director.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriation. (General Appropriation Act footnote)

Board of Physical Therapy

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	205,500	196,300	196,300
Employee Related Expenditures	91,900	84,700	81,400
Professional and Outside Services	46,000	57,600	114,000
Travel - In State	1,000	5,700	5,700
Other Operating Expenditures	63,600	61,700	66,000
Equipment	1,000	2,000	17,000
AGENCY TOTAL	409,000	408,000	480,400^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Physical Therapy Fund	409,000	408,000	480,400
SUBTOTAL - Other Appropriated Funds	409,000	408,000	480,400
SUBTOTAL - Appropriated Funds	409,000	408,000	480,400
TOTAL - ALL SOURCES	409,000	408,000	480,400

AGENCY DESCRIPTION — The board licenses and regulates physical therapists. A physical therapist treats patients by exercise, massage, mechanical energy, electrical energy, heat, light, sound, and water. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$480,400 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Database Interface Upgrade

The budget includes an increase of \$23,600 from the Board of Physical Therapy Fund in FY 2016 to fund a web interface database. Of this amount, \$21,400 would be one-time.

Replace Multifunction Printer

The budget includes a one-time increase of \$15,000 from the Board of Physical Therapy Fund in FY 2016 to replace a multifunction printer.

Attorney General ISA Increase

The budget includes a one-time increase of \$35,000 from the Board of Physical Therapy Fund in FY 2016 for Attorney General services to reduce a hearing backlog.

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the Board of Physical Therapy Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Pioneers' Home

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	106.3	106.3	106.3
Personal Services	3,277,000	3,455,900	3,455,900
Employee Related Expenditures	1,645,700	1,773,600	1,734,400
Professional and Outside Services	115,900	128,500	128,500
Travel - In State	77,300	115,000	115,000
Other Operating Expenditures	695,500	588,500	563,900
OPERATING SUBTOTAL	5,811,400	6,061,500	6,004,900
SPECIAL LINE ITEMS			
Prescription Drugs	139,200	200,000	200,000
AGENCY TOTAL	5,950,600	6,261,500	6,204,900 ^{1/2/}
FUND SOURCES			
General Fund	1,600,800	1,603,400	0
<u>Other Appropriated Funds</u>			
Miners' Hospital Fund	1,866,100	2,080,100	2,040,000
State Charitable Fund	2,483,700	2,578,000	4,164,900
SUBTOTAL - Other Appropriated Funds	4,349,800	4,658,100	6,204,900
SUBTOTAL - Appropriated Funds	5,950,600	6,261,500	6,204,900
Other Non-Appropriated Funds	36,700	32,300	32,300
TOTAL - ALL SOURCES	5,987,300	6,293,800	6,237,200

AGENCY DESCRIPTION — The Arizona Pioneers' Home provides a home and long-term nursing care and medical care for Arizona pioneers, long-term residents, and disabled miners. The Home cares, on average, for 105 residents.

Operating Budget

The budget includes \$6,004,900 and 106.3 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
Miners' Hospital Fund	\$2,040,000
State Charitable Fund	3,964,900

These amounts fund the following adjustments:

Funding Shift

The budget includes a decrease of \$(1,603,400) from the General Fund and a corresponding increase of \$1,603,400 from the State Charitable Fund in FY 2016 for operating expenses. The projected State Charitable Fund FY 2016 ending balance is \$1,954,100.

Remove One-Time Funding

The budget includes a decrease of \$(29,500) from the Miners' Hospital Fund in FY 2016 for the elimination of 2-year funding for radiator cover upgrades.

Statewide Adjustments

The budget includes a decrease of \$(27,100) in FY 2016 for statewide adjustments. This amount consists of:

Miners' Hospital Fund	(10,600)
State Charitable Fund	(16,500)

(Please see the Agency Detail and Allocations Section.)

Prescription Drugs

The budget includes \$200,000 from the State Charitable Fund in FY 2016 for Prescription Drugs. This amount is unchanged from FY 2015.

Monies in this line item provide funding for prescription drugs used by residents at the Arizona Pioneers' Home.

^{1/} Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated for the Arizona Pioneers' Home and the State Hospital for Miners with Disabilities in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

State Board of Podiatry Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	69,000	71,200	71,200
Employee Related Expenditures	21,600	23,000	23,000
Professional and Outside Services	7,100	18,100	18,100
Travel - In State	2,300	3,500	3,500
Other Operating Expenditures	25,200	31,500	32,400
AGENCY TOTAL	125,200	147,300	148,200^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Podiatry Fund	125,200	147,300	148,200
SUBTOTAL - Other Appropriated Funds	125,200	147,300	148,200
SUBTOTAL - Appropriated Funds	125,200	147,300	148,200
TOTAL - ALL SOURCES	125,200	147,300	148,200

AGENCY DESCRIPTION — The board licenses and regulates Doctors of Podiatric Medicine. A podiatrist must take specialized training, serve an internship and pass a qualifying examination prior to licensure to diagnose and treat foot ailments. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$148,200 and 1 FTE Position from the Podiatry Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$900 from the Podiatry Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Commission for Postsecondary Education

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0 ^{1/}
Personal Services	112,700	118,900	118,900
Employee Related Expenditures	47,400	54,300	53,000
Professional and Outside Services	16,100	0	0
Travel - In State	700	0	0
Other Operating Expenditures	25,300	11,700	12,400
OPERATING SUBTOTAL	202,200	184,900	184,300
SPECIAL LINE ITEMS			
Arizona College and Career Guide	16,100	21,300	21,300 ^{2/}
Arizona Minority Educational Policy Analysis Center	18,900	100,000	100,000 ^{2/}
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500 ^{3/}
Math and Science Teacher Initiative	176,000	176,000	176,000
Twelve Plus Partnership	29,700	130,500	130,500 ^{2/}
AGENCY TOTAL	2,762,400	2,932,200	2,931,600 ^{4/5/}
FUND SOURCES			
General Fund	1,396,800	1,396,800	1,396,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,365,600	1,535,400	1,534,800
SUBTOTAL - Other Appropriated Funds	1,365,600	1,535,400	1,534,800
SUBTOTAL - Appropriated Funds	2,762,400	2,932,200	2,931,600
Other Non-Appropriated Funds	473,700	1,126,400	579,600
Federal Funds	1,188,200	22,400	0
TOTAL - ALL SOURCES	4,424,300	4,081,000	3,511,200

AGENCY DESCRIPTION — The Commission for Postsecondary Education reviews and recommends higher education policies, while providing a discussion forum for public and private postsecondary educational institutions and their stakeholders on issues of mutual interest. The 16 commissioners are authorized to administer certain federal and state student financial aid programs.

Operating Budget

The budget includes \$184,300 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(600) from the Postsecondary Education Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- 1/ Includes 0.5 FTE Positions funded from Special Line Items in FY 2016.
- 2/ The appropriations for the Arizona College and Career Guide, Arizona Minority Educational Policy Analysis Center and Twelve Plus Partnership are estimates representing all monies distributed to this fund, including balance forward, revenue and transfers, during FY 2016. The appropriations shall be adjusted as necessary to reflect actual final receipts credited to the Postsecondary Education Fund. (General Appropriation Act footnote)
- 3/ Each participating institution, public or private, in order to be eligible to receive state matching funds under the Leveraging Educational Assistance Partnership for grants to students, shall provide an amount of institutional matching funds that equals the amount of funds provided by the state to the institution for the Leveraging Educational Assistance Partnership. Administrative expenses incurred by the Commission for Postsecondary Education shall be paid from institutional matching funds and may not exceed 12% of the funds in FY 2016. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ Any unencumbered balance remaining in the Postsecondary Education Fund on June 30, 2015, and all grant monies and other revenues received by the Commission for Postsecondary Education, when paid into the State Treasury, are appropriated for the explicit purposes designated by line items and for additional responsibilities prescribed in A.R.S. § 15-1851 and A.R.S. § 15-1852. (General Appropriation Act footnote)

Arizona College and Career Guide

The budget includes \$21,300 from the Postsecondary Education Fund in FY 2016 for the Arizona College and Career Guide line item. This amount is unchanged from FY 2015.

The Arizona College and Career Guide is an annual publication that lists Arizona's public and private postsecondary educational institutions. The guide describes each institution's available degree and certificate programs, course lengths, and costs of attendance.

Arizona Minority Educational Policy Analysis Center

The budget includes \$100,000 and a 0.2 FTE Position from the Postsecondary Education Fund in FY 2016 for the Arizona Minority Educational Policy Analysis Center (AMEPAC) line item. These amounts are unchanged from FY 2015.

AMEPAC promotes minority students' access to Arizona's postsecondary educational institutions.

Leveraging Educational Assistance Partnership

The budget includes \$2,319,500 for the Leveraging Educational Assistance Partnership (LEAP) in FY 2016. This amount consists of:

	FY 2016
General Fund	\$1,220,800
Postsecondary Education Fund	1,098,700

These amounts are unchanged from FY 2015.

LEAP is a state and institutional partnership that provides financial assistance to students demonstrating substantial financial need. To be eligible, students must attend, on at least a half-time basis, an approved program at a properly accredited Arizona postsecondary educational institution (including public universities, public community colleges, private collegiate institutions, and proprietary schools). The federal portion of these funds was eliminated in FY 2012. (Please see *Other Issues* for more information.)

Math and Science Teacher Initiative

The budget includes \$176,000 from the General Fund in FY 2016 for the Math and Science Teacher Initiative. This amount is unchanged from FY 2015.

The program, also known as the Math, Science and Special Education Teacher Loan Forgiveness Program

(MSSE), offers forgivable loans to students pursuing a teaching degree at a postsecondary institution and who agree to teach math, science, or special education at an Arizona public school upon graduation. A.R.S. § 15-1784 allows the commission to retain up to 10% of the annual fund deposit for administration costs. The commission may also use the interest deposited into the fund for administration costs of the loan repayment portion of the program.

Twelve Plus Partnership

The budget includes \$130,500 and a 0.3 FTE Position from the Postsecondary Education Fund in FY 2016 for the Twelve Plus Partnership (TPP). These amounts are unchanged from FY 2015.

TPP is an early education awareness initiative with 3 components: Best Education Practices Conference and Awards Recognition, Think College, and College Goal Sunday. Approximately 70% of this line item funds College Goal Sunday, 25% of the monies go to Best Education Practices Conference and Awards Recognition, and the remaining 5% funds Think College. Private gifts, donations of service, and corporate sponsorships support TPP.

Other Issues

Status of Leveraging Educational Assistance Partnerships

LEAP was originally created as a federal, state, and institution partnership to provide financial assistance to students demonstrating substantial financial need. However, federal funding and authority was eliminated in FY 2012 by Public Law 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011. The program therefore now operates with state and institutional funding only. In FY 2014, awards were provided through 41 postsecondary institutions. Of the total funding distributed, 34% went to public universities, 53% to community colleges, and 13% to private institutions.

Repayment Programs

The commission currently administers repayment programs for unforgiven loans from the Private Postsecondary Education Student Financial Assistance program (PFAP) and the Postsecondary Education Grant (PEG) program, both of which are no longer awarding new grants. In addition, the commission administers repayment programs for unforgiven loans from the MSSE, and the non-appropriated Paul Douglas Teacher Scholarship (PDTs). Loan collections are returned to their respective program fund.

PFAP

Prior to FY 2011, PFAP distributed awards of up to \$2,000 annually, for up to 2 years, to qualified community college graduates enrolled at a private baccalaureate degree granting institution chartered in Arizona, pursuant to A.R.S. § 15-1854. The PFAP program has not been funded since FY 2011, but the repayment process for existing unforgiven loans remains. Repayments are deposited into the Private Postsecondary Education Student Financial Assistance Fund. If a grantee does not earn a baccalaureate degree within 3 years, the grantee must repay the commission all award monies. When a grantee refuses to repay award monies or cannot be located, the Office of the Attorney General takes over administration of the repayment process.

There have been 1,678 students awarded PFAP forgivable loans since its inception in 1996. A total of 228 borrowers are currently being tracked in the repayment program or will be placed in repayment once located. The commission has determined 39 of these loans as uncollectible and has forwarded the loans to the Attorney General for collection.

The FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16), as permanent law, allows the commission to use PFAP funds to administer PEG collections. The PFAP fund has a balance of \$23,500.

PEG

Prior to FY 2011, PEG distributed awards up to \$2,000 annually, for up to 4 years, to full-time and part-time students enrolled at a private baccalaureate degree-granting institution, pursuant to A.R.S. § 15-1855. The awards are forgiven if a student recipient earns a baccalaureate degree within 5 years. The program has not been funded since FY 2010, but the repayment process remains (though not started until FY 2012) for existing unforgiven loans. Repayments will be deposited into the PEG Program Fund.

There have been 4,084 students awarded PEG forgivable loans since its inception in 2007. Of those recipients, 2,300 graduated with a baccalaureate degree and 640 are working to complete their degree. The remaining 1,144 are reported as not enrolled at an institution and are being located to determine their enrollment or graduation status. The commission has not yet determined any of these loans to be uncollectible and therefore, has not forwarded them to the Attorney General for collection.

The FY 2016 Higher Education Budget BRB, as permanent law, allows the commission to contract with a third-party vendor to collect outstanding PEG debt.

MSSE

There have been 236 students awarded MSSE forgivable loans since its inception in FY 2007. Of those recipients, 116 completed the loan requirements and had their loan forgiven, 5 have paid their loan balance in full, 39 are currently in repayment, and 76 will require tracking for up to 15 years to ensure they meet the promissory note obligations and to determine retention rates.

PDTS

There have been 254 students awarded PDTS forgivable loans. Of those recipients, 2 are in default. All others have completed their obligation by fulfilling the teaching requirements of the program or repaying their loan in full.

Family College Savings Plan

A non-appropriated fund is now used to support the Family College Savings Program (FCSP), so the program no longer appears in the agency's standard summary table.

FCSP was established pursuant to Laws 1997, Chapter 171. It enables parents to save for their child's college education in plans compatible with Internal Revenue Code § 529 (529 Plans). Monies in these plans grow tax-free, and withdrawals for qualified higher educational expenses are federal and state income tax free. FCSP operates from the proceeds of new account fees, which are currently \$15 per account. The plans are available to both residents and non-residents of the state. The commission oversees 3 FCSP providers, 2 of which have multiple investment offerings in their plans.

In 2004, A.R.S. § 15-1873 established the Family College Savings Program Trust Fund, which is a non-appropriated fund. The FCSP Trust Fund will now directly receive FCSP fee revenues instead of the FCSP fee revenues passing through to the Postsecondary Education Fund.

Arizona Power Authority

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	34,688,400	34,823,500	34,823,500
TOTAL - ALL SOURCES	34,688,400	34,823,500	34,823,500

AGENCY DESCRIPTION — The Arizona Power Authority (APA) manages Arizona’s allocation of hydroelectric power from the Hoover Dam for the benefit of the state. Within the scope of that management, APA cooperates with federal, state, and non-governmental agencies to address regulatory and environmental matters that impact electric and water uses of the Colorado River. In addition, the APA serves as an informational resource for its customers on electricity utilization. APA is not subject to appropriation.

State Board for Private Postsecondary Education

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	222,400	234,500	234,500
Employee Related Expenditures	79,900	87,000	86,600
Professional and Outside Services	16,400	27,400	27,400
Travel - In State	500	2,000	2,000
Travel - Out of State	500	0	0
Other Operating Expenditures	49,700	39,000	40,000
Equipment	1,400	5,800	5,800
OPERATING SUBTOTAL	370,800	395,700	396,300
SPECIAL LINE ITEMS			
Student Tuition Recovery Fund Deposit	245,600	0	600,000
AGENCY TOTAL	616,400	395,700	996,300^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board for Private Postsecondary Education Fund	616,400	395,700	996,300
SUBTOTAL - Other Appropriated Funds	616,400	395,700	996,300
SUBTOTAL - Appropriated Funds	616,400	395,700	996,300
Other Non-Appropriated Funds	106,400	136,600	136,600
TOTAL - ALL SOURCES	722,800	532,300	1,132,900

AGENCY DESCRIPTION — The board licenses and regulates 260 private postsecondary education institutions that service approximately 636,614 students annually. The board processes license applications, determines compliance, investigates complaints and violations, and takes disciplinary action on all private postsecondary institutions that offer vocational and/or degree programs. However, the board does not have jurisdiction over cosmetology, barber, real estate, or professional driving schools. In addition to regulatory duties, the board administers the Student Tuition Recovery Fund, which provides restitution to students financially injured by private postsecondary institutional closures.

Operating Budget

The budget includes \$396,300 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$600 in FY 2016 from the Board for Private Postsecondary Education Fund for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Student Tuition Recovery Fund Deposit

The budget includes \$600,000 from the Board for Private Postsecondary Education Fund in FY 2016 for a Student

Tuition Recovery Fund deposit. This amount funds the following adjustments:

Transfer to Student Tuition Recovery Fund

The budget includes a one-time increase of \$600,000 from the Board for Private Postsecondary Education Fund in FY 2016 to transfer monies into the Student Tuition Recovery Fund.

The Student Tuition Recovery Fund is used to compensate students who suffer financial damages as a result of an institution ceasing operations. The fund is financed from school assessments of tuition of newly-enrolled students up to a maximum of \$10 per assessed student. Regionally accredited private postsecondary institutions, such as the University of Phoenix, are exempt from assessments. The board levies a new assessment on private postsecondary education institutions only when the fund's balance falls

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Lines by Agency.

below \$500,000. Although the fund balance is \$507,800, recent school closures have resulted in an influx of claims. The \$600,000 transfer will eliminate the need for new assessments.

State Board of Psychologist Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	161,000	199,100	221,400
Employee Related Expenditures	72,700	84,200	96,500
Professional and Outside Services	22,600	18,000	30,000
Travel - In State	6,400	7,400	7,400
Travel - Out of State	5,700	4,000	4,000
Other Operating Expenditures	77,500	97,900	86,200
Equipment	16,500	3,000	3,000
AGENCY TOTAL	362,400	413,600	448,500 ^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Psychologist Examiners Fund	362,400	413,600	448,500
SUBTOTAL - Other Appropriated Funds	362,400	413,600	448,500
SUBTOTAL - Appropriated Funds	362,400	413,600	448,500
TOTAL - ALL SOURCES	362,400	413,600	448,500

AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts.

Operating Budget

The budget includes \$448,500 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(23,800) from the Board of Psychologist Examiners Fund in FY 2016 to eliminate one-time funding for a license application and renewal management system.

Ongoing System Maintenance

The budget includes an increase of \$10,300 from the Board of Psychologist Examiners Fund in FY 2016 to maintain a license application and renewal system.

Restore Board Member Compensation

The budget includes an increase of \$15,000 from the Board of Psychologist Examiners Fund in FY 2016 to restore board member compensation.

Rulemaking

The budget includes a one-time increase of \$12,000 from the Board of Psychologist Examiners Fund in FY 2016 for required one-time rulemaking.

Make Administrative Assistant Full-Time

The budget includes an increase of \$21,100 from the Board of Psychologist Examiners Fund in FY 2016 to convert a current half-time Administrative Assistant position to full-time status.

Statewide Adjustments

The budget includes an increase of \$300 from the Board of Psychologist Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Public Safety

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,904.7	1,907.7	1,907.7 ^{1/}
Personal Services	96,020,600	103,981,300	103,981,300
Employee Related Expenditures	63,558,200	70,917,200	82,614,400
Professional and Outside Services	1,614,500	2,158,500	2,158,500
Travel - In State	329,500	652,500	652,500
Travel - Out of State	207,100	195,700	195,700
Other Operating Expenditures	30,668,200	28,832,200	26,281,200
Equipment	10,477,100	7,298,400	7,298,400
OPERATING SUBTOTAL	202,875,200	214,035,800	223,182,000
SPECIAL LINE ITEMS			
ACTIC	0	0	1,450,000
GIITEM	20,560,800	21,305,900	22,172,900 ^{2/3/}
GIITEM Subaccount	2,240,900	2,390,000	2,390,000
Public Safety Equipment	2,086,200	2,890,000	2,890,000
Motor Vehicle Fuel	3,920,100	3,935,500	5,454,600
AGENCY TOTAL	231,683,200	244,557,200	257,539,500^{4/5/}
FUND SOURCES			
General Fund	50,802,100	89,324,900	93,374,800
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	2,359,800	2,909,700	2,910,500
Automation Operations Fund	295,800	296,200	0
Concealed Weapons Permit Fund	0	1,276,400	1,391,400
Crime Laboratory Assessment Fund	870,600	871,300	870,300
Crime Laboratory Operations Fund	14,277,200	14,723,800	14,660,600
Criminal Justice Enhancement Fund	2,871,200	2,873,400	2,864,400
Deoxyribonucleic Acid (DNA) Identification System Fund	5,423,800	6,323,200	6,297,300
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,240,900	2,390,000	2,390,000
Highway Patrol Fund	19,608,200	19,024,300	20,397,100
Highway User Revenue Fund	119,247,100	89,255,000	96,409,200
Motorcycle Safety Fund	205,000	205,000	205,000
Parity Compensation Fund	1,885,300	1,950,100	2,115,500
Public Safety Equipment Fund	2,086,200	2,890,000	2,893,000
Risk Management Revolving Fund	1,199,900	1,233,700	1,228,100
Safety Enforcement and Transportation Infrastructure Fund	1,566,300	1,566,300	1,559,100
State Aid to Indigent Defense Fund	0	700,000	700,000
State Highway Fund	6,743,800	6,743,900	7,273,200
SUBTOTAL - Other Appropriated Funds	180,881,100	155,232,300	164,164,700
SUBTOTAL - Appropriated Funds	231,683,200	244,557,200	257,539,500
<u>Other Non-Appropriated Funds</u>			
Federal Funds	37,233,100	46,615,300	42,422,100
TOTAL - ALL SOURCES	305,829,500	321,796,500	325,272,900

AGENCY DESCRIPTION — The Department of Public Safety (DPS) is responsible for the enforcement of state criminal laws and traffic regulations. In addition to the Highway Patrol, DPS operates and maintains statewide communications systems, state crime laboratories and an automated fingerprint identification network, and performs aviation missions, special investigations, and other law enforcement activities.

Operating Budget

The budget includes \$223,182,000 and 1,770.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<u>FY 2016</u>
General Fund	\$66,067,700
Automated Fingerprint Identification System (AFIS) Fund	2,910,500
Concealed Weapons Permit Fund	1,391,400
Crime Laboratory Assessment Fund (CLAF)	870,300
Crime Laboratory Operations Fund (CLOF)	14,660,600
Criminal Justice Enhancement Fund (CJEF)	2,730,100
Deoxyribonucleic Acid (DNA) Identification System Fund	6,297,300
Highway Patrol Fund	20,098,700
Highway User Revenue Fund (HURF)	95,771,500
Motorcycle Safety Fund	205,000
Parity Compensation Fund	2,115,500
Public Safety Equipment Fund	3,000
Risk Management Revolving Fund	1,228,100
Safety Enforcement and Transportation Infrastructure Fund (SETIF)	1,559,100
State Highway Fund	7,273,200

These amounts fund the following adjustments:

ACTIC Funding Shift

The budget includes a decrease of \$(1,450,000) in FY 2016 to shift Arizona Counter Terrorism Information Center (ACTIC) operating expenses from the operating budget to its own line item. This amount consists of:

General Fund	(750,000)
State Aid to Indigent Defense Fund	(700,000)

Disaster Recovery Cost Shift

The budget includes a decrease of \$(296,200) from the Automation Operations Fund and a \$296,200 increase from the Highway Patrol Fund in FY 2016 to shift the fund sourcing of DPS Disaster Recovery costs.

Fuel Expenditure Realignment

The budget includes a decrease of \$(1,118,800) in FY 2016 to shift all fuel expenditures to the Motor Vehicle Fuel line item. This amount consists of:

General Fund	(279,700)
CJEF	(134,300)
Highway Patrol Fund	(67,100)
HURF	(637,700)

PSPRS Rate Increase

The budget includes an increase of \$12,509,700 in FY 2016 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. This amount consists of:

General Fund	2,934,200
Concealed Weapons Permit Fund	119,900
CLAF	1,100
CJEF	3,100
Highway Patrol Fund	1,159,700
HURF	7,557,300
Parity Compensation Fund	175,600
State Highway Fund	558,800

These monies will fund an increase in the DPS employer contribution rate from 57.81% in FY 2015 to 76.00% in FY 2016.

1/ Includes 136.8 GF FTE Positions funded from Special Line Items in FY 2016.

2/ Of the \$22,172,900 appropriated to GIITEM, only \$2,603,400 is deposited in the GIITEM Fund established by A.R.S. § 41-1724, and is appropriated for the purposes of that section. The \$2,603,400 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. This state recognizes that states have inherent authority to arrest a person for any immigration violation. (General Appropriation Act footnote, as adjusted for statewide allocations)

3/ Of the \$22,172,900 appropriated to GIITEM, \$9,814,200 shall be used for 100 Department of Public Safety GIITEM personnel. The additional staff shall include at least 50 sworn Department of Public Safety positions to be used for immigration enforcement and border security and 50 Department of Public Safety positions to assist GIITEM in various efforts, including:

- 1) Strict enforcement of all federal law relating to illegal aliens and arresting illegal aliens.
- 2) Responding to or assisting any county sheriff or attorney in investigating complaints of employment of illegal aliens.
- 3) Enforcing Arizona's law known as the Legal Arizona Workers Act, strict enforcement of Arizona's SB 1070, Arizona's "Support Our Law Enforcement and Safe Neighborhoods Act", investigating crimes of identity theft in the context of hiring illegal aliens and the unlawful entry into the country.
- 4) Taking strict enforcement action.

Any change in the GIITEM mission or allocation of monies shall be approved by the Joint Legislative Budget Committee. The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies not identified in the department's previous expenditure plans. (General Appropriation Act footnote, as adjusted for statewide allocations)

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

5/ Any monies remaining in the Department of Public Safety joint account on June 30, 2016 revert to the funds from which they were appropriated. The reverted monies shall be returned in direct proportion to the amounts appropriated. (General Appropriation Act footnote)

Radio and Infrastructure Equipment Replacement

The budget continues \$677,300 in FY 2016 for radio and infrastructure equipment replacement. This amount consists of:

General Fund	101,500
CJEF	117,900
Highway Patrol Fund	54,200
HURF	403,700

These amounts are unchanged from FY 2015. The equipment to be replaced includes portable radios, mobile radios, base stations, and telecommunications infrastructure.

Statewide Adjustments

The budget includes a decrease of \$(794,700) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(151,600)
AFIS Fund	800
Concealed Weapons Permit Fund	(4,900)
CLAF	(2,100)
CLOF	(63,200)
CJEF	(12,100)
DNA Identification System Fund	(25,900)
Highway Patrol Fund	(83,100)
HURF	(403,100)
Parity Compensation Fund	(10,200)
Public Safety Equipment Fund	3,000
Risk Management Revolving Fund	(5,600)
SETIF	(7,200)
State Highway Fund	(29,500)

(Please see the Agency Detail and Allocations section.)

ACTIC

The budget includes \$1,450,000 in FY 2016 for the operation of the Arizona Counter Terrorism Information Center (ACTIC). This amount consists of:

General Fund	750,000
State Aid to Indigent Defense Fund	700,000

These amounts fund the following adjustments:

ACTIC Funding Shift

The budget includes an increase of \$1,450,000 in FY 2016 to shift ACTIC operating expenses from the operating budget to its own line item. This amount consists of:

General Fund	750,000
State Aid to Indigent Defense Fund	700,000

Created in FY 2005, ACTIC is a joint effort between federal, state, and local law enforcement agencies to

combat terrorism, gang violence, and other crimes through information sharing. The salaries of participants are funded by their respective agencies, however, DPS is responsible for the operational costs of the 40,000 square foot building in which ACTIC is housed. These monies fund those costs.

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) continues to allow monies from the State Aid to Indigent Defense Fund to be used for DPS purposes. The budget appropriates \$700,000 from the State Aid to Indigent Defense Fund to DPS in FY 2016 for the operational costs of ACTIC.

GIITEM

The budget includes \$22,172,900 and 136.8 FTE Positions from the General Fund in FY 2016 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). These amounts fund the following adjustments:

Fuel Expenditure Realignment

The budget includes a decrease of \$(400,300) from the General Fund in FY 2016 to shift all fuel expenditures to the Motor Vehicle Fuel line item.

PSPRS Rate Increase

The budget includes an increase of \$1,312,100 from the General Fund in FY 2016 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. The required DPS employer contribution rate increased from 57.81% in FY 2015 to 76.00% in FY 2016.

Statewide Adjustments

The budget includes a decrease of \$(44,800) from the General Fund in FY 2016 for statewide adjustments.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,155,300 for gang enforcement, investigation, and interdiction; 2) \$9,814,200 for at least 50 sworn DPS positions to be used for immigration enforcement and border security and up to 50 DPS positions to expand GIITEM's public awareness, investigation, and intelligence efforts; 3) \$2,603,400 for local gang and immigration enforcement grants; and 4) \$600,000 for crime analysts associated with the state gang intelligence database (GangNet). *Table 1* identifies the various functions, as well as their corresponding allocations.

Table 1

Allocation of GIITEM Funding

<u>Function/Purpose</u>	<u>FY 2016</u>
Gang Enforcement & Investigation	\$ 9,155,300
DPS Immigration Personnel	9,814,200
Local Immigration Enforcement Grants	2,603,400 ^{1/}
GangNet Upgrade & Crime Analysts	<u>600,000</u>
TOTAL	\$22,172,900

^{1/} DPS also has prior year non-lapsing monies available for local efforts.

Monies deposited in the GIITEM Fund can be used for employer sanctions, smuggling, gang, and immigration enforcement. Local grants are distributed to county sheriffs and do not require further approval by the county board of supervisors. The local entity provides at least 25% of the cost of services.

Current statute allocates the first \$1,600,000 in local immigration enforcement grant monies to a county with more than 3,000,000 people (Maricopa County) and the next \$500,000 to a county with less than 500,000 people but more than 300,000 people (Pinal County).

The remaining \$503,400 may be used for agreements with cities, counties, and other entities at a 3:1 match rate. Maricopa and Pinal County are excluded from the matching requirements.

A.R.S. § 41-1724C requires DPS to distribute the monies in the GIITEM Fund as soon after July 1 of every year as practicable. Prior to distribution, DPS must submit an expenditure plan to JLBC for review regarding any monies not identified in the previous expenditure plans. *(Please see Table 4 in the Other Issues section for more information on actual expenditures.)*

GIITEM Subaccount

The budget includes \$2,390,000 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2016 for the GIITEM Subaccount for equipment and supplies for border security. This amount is unchanged from FY 2015.

The GIITEM Border Security and Law Enforcement Subaccount receives \$4 of a \$13 criminal fee. These revenues are estimated to total \$2,385,300 in FY 2016. The monies in the GIITEM Subaccount are for border security personnel and public safety equipment. The monies are to be provided directly to county sheriffs without approval by the respective Board of Supervisors. The authorizing legislation does not specify any particular distribution by county.

The FY 2016 Criminal Justice BRB also continues to require DPS to submit to the JLBC for review an expenditure plan for the GIITEM Subaccount for the coming fiscal year. At its June 19, 2014 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2015. The plan includes \$563,100 for detention liaison officers, \$407,000 for county sheriff deputies and municipal police department officers to augment the GIITEM Task Force’s border district unit, \$350,000 for the Pima County Border Crimes Unit, and \$1,049,800 for grants to county sheriffs for border security. *(Please see Table 4 in the Other Issues section for more information on actual expenditures and the Additional Legislation section for more information on session bills.)*

Public Safety Equipment

The budget includes \$2,890,000 from the Public Safety Equipment Fund in FY 2016 for Public Safety Equipment. This amount is unchanged from FY 2015.

The Public Safety Equipment Fund receives \$4 of a \$13 surcharge on fines, violations and penalties for criminal offenses and civil motor vehicle violations. In addition, DPS receives another \$4 of the surcharge if its officer issued the citation. These revenue sources are subject to appropriation.

Additionally, the fund receives the first \$1,200,000 collected from an assessment of up to \$1,500 on driving under the influence (DUI) offenses. This \$1,200,000 is not subject to appropriation.

The Public Safety Equipment line item monies can be used to purchase vehicles, protective armor, electronic stun devices and other safety equipment.

Motor Vehicle Fuel

The budget includes \$5,454,600 in FY 2016 for Motor Vehicle Fuel. This amount consists of:

General Fund	4,384,200
CJEF	134,300
Highway Patrol Fund	298,400
HURF	637,700

These amounts fund the following adjustments:

Fuel Expenditure Realignment

The budget includes an increase of \$1,519,100 in FY 2016 to shift all fuel expenditures to the Motor Vehicle Fuel line item. This amount consists of:

General Fund	680,000
CJEF	134,300
Highway Patrol Fund	67,100
HURF	637,700

The Motor Vehicle Fuel line item centralizes monies appropriated to DPS for motor vehicle fuel. In addition to \$3,920,100 in Motor Vehicle Fuel line item monies expended in FY 2014, DPS expended \$680,000 GF, \$839,100 OF, and \$867,500 in non-appropriated monies for fuel from other parts of the DPS budget in FY 2014.

Additional Legislation

HURF Cap

The FY 2016 Criminal Justice BRB continues to notwithstand the statutory spending provisions for HURF allowing DPS to spend more than the statutory cap of \$10,000,000.

Victims' Rights Enforcement Fund Deposit

Laws 2015, Chapter 245 deposits \$100,000 annually from vending machine lottery tickets into the Victims' Rights Enforcement Fund. The bill also allocates \$900,000 from lottery games that are sold from a vending machine to the Internet Crimes Against Children Enforcement Fund administered by the Attorney General. *(Please see the Attorney General narrative for more information.)*

Predictive Policing/GIITEM Subaccount Appropriation

Although vetoed by the Governor, SB 1293 would have appropriated \$1,150,000 from the Concealed Weapons Permit Fund in FY 2016 to the Arizona Department of Administration for block grants to the Phoenix, Mesa, Maricopa, and Sierra Vista Police Departments for the purchase of predictive policing software. Additionally, the bill would have required DPS to provide specific allocations totaling \$1,858,500 to all 15 County Sheriffs for border security. These monies would have been expended from the \$2,390,000 FY 2016 GIITEM Subaccount appropriation.

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Arizona Highway Patrol Fund	\$5,168,200
Fingerprint Clearance Card Fund	4,347,800

Long Term Budget Impacts: HURF Funding

The budget continues the previously approved \$30.0 million HURF shift. The FY 2015 budget reduced HURF funding from \$119.3 million to \$89.3 million and backfilled the reduction with a commensurate amount of General Fund monies. This reduction allowed for the \$30.0 million distribution from HURF to local governments included in the FY 2015 Revenue BRB. By statute, increased HURF funds are typically split evenly between local distributions and state highway construction.

The FY 2015 Revenue BRB allocated the \$30.0 million entirely to local jurisdictions as follows: 33.231% to counties, 48.097% to cities and towns, 5.247% to cities with a population larger than 300,000 individuals, and 13.425% to counties with a population of more than 800,000 individuals. These monies were distributed among local jurisdictions in the same proportions as the local share of regular HURF allocations. The impact of this shift is displayed in *Table 2*.

Beneficiaries	\$ Increase	Revised Total
Cities	16.0 ^{1/}	370.9
Counties	10.0	231.0
Controlled Access	4.0 ^{2/}	92.1
State Highway		
Construction	0.0	25.8
Total	30.0	719.8

^{1/} Includes \$1.6 million for Phoenix, Tucson, and Mesa.
^{2/} These monies are for distribution to Maricopa and Pima Counties.

The FY 2015 Revenue BRB continued the FY 2015 \$30.0 million distribution to local governments in FY 2016 and increased the level to \$60.0 million in FY 2017. However, the FY 2016 Revenue BRB (Laws 2015, Chapter 10) reduced the FY 2017 shift from the previously approved \$60.0 million to \$30.0 million.

HURF receives revenues from transportation related licenses, fees, and taxes such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's licenses. A.R.S. § 28-6537 and A.R.S. § 28-6993 cap the amount of highway user revenue monies distributed to DPS at \$10.0 million per year for both HURF and the State Highway Fund (the latter being a beneficiary of the HURF distribution formula). A series of session law provisions have notwithstood these caps in most years since FY 2002, however, in FY 2012 this provision was eliminated for the State Highway Fund. *Table 3* reflects DPS expenditures from HURF and the State Highway Fund.

(Please see ADOT Capital section for more information on the HURF distribution formula.)

Table 3
HURF and State Highway Fund Expenditures
(\$ in millions)

<u>Fiscal Year</u>	<u>HURF</u>	<u>State Highway Fund</u>	<u>Total</u>
2002	36.4	25.2	61.6
2003	54.4	28.3	82.7
2004	48.7	30.2	78.9
2005	52.2	32.7	84.9
2006	64.0	42.2	106.2
2007	10.0	10.0	20.0
2008	10.0	52.0	62.0
2009	84.9	41.1	126.0
2010	78.6	41.3	119.9
2011	79.2	41.5	120.7
2012	123.2	0.0	123.2
2013	119.1	6.7	125.8
2014	119.2	6.7	125.9
2015	89.3	6.7	96.0
2016	96.8	7.3	104.1

Table 4

**State Immigration Enforcement
Assistance to Local Governments**

DPS GIITEM Local Immigration Enforcement Grant Expenditures ^{1/}

Agency	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
	Actual	Estimate										
Pima County Sheriff's Department	\$825,400	-	-	-	-	-	-	-	-	-	-	-
Phoenix Police Department	584,400	-	342,100	-	-	-	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	438,800	-	397,000	-	-	-	-	-	-	-	-	-
Border County Officers (See Chart Below)	384,900	-	351,200	-	-	-	-	-	-	-	-	-
AZ Fraudulent Identification Task Force ^{3/}	-	-	-	-	-	-	-	-	-	-	-	-
Maricopa County Sheriff's Office	1,600,000	-	1,600,000	-	1,600,000	-	1,600,000	-	1,600,000	-	1,600,000	-
DPS Expenditures in Support of Local Grants	378,500	-	695,800	-	327,900	-	428,600	-	428,600	-	-	-
Crime Lab Transfer ^{4/}	-	-	-	-	-	-	-	-	-	-	-	-
Pinal County Sheriff's Department	-	-	500,000	-	500,000	-	500,200	-	500,000	-	500,000	-
TOTAL	\$4,212,000	\$3,886,100	\$3,886,100	\$2,427,900	\$2,427,900	\$2,528,800	\$2,528,800	\$2,528,800	\$2,528,600	\$2,528,600	\$2,100,000	\$2,100,000

Year of Appropriation of Funding

FY 2010	2,332,300	-	-	-	-	-	-	-	-	-	-	-
FY 2011 ^{5/}	1,879,700	5/	1,517,000	5/	-	-	-	-	-	-	-	-
FY 2012	-	2,413,000	189,300	-	-	-	-	-	-	-	-	-
FY 2013	-	-	2,238,600	363,100	2,400	-	-	-	2,400	-	-	-
FY 2014	-	-	-	2,165,700	437,700	-	-	-	437,700	-	-	-
FY 2015	-	-	-	-	2,088,500	-	-	-	2,088,500	-	2,100,000	-
TOTAL	\$4,212,000	\$3,930,000	\$2,427,900	\$2,528,800	\$2,427,900	\$2,528,800	\$2,528,800	\$2,528,800	\$2,528,600	\$2,528,600	\$2,100,000	\$2,100,000

Detention Liaison Officer Grants ^{6/}

	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
	Actual	Estimate	Actual	Estimate								
Cochise County Sheriff's Office	\$34,100	-	\$33,100	-	\$39,800	-	\$5,500	-	\$40,600	-	-	-
Graham County Sheriff's Office	31,200	-	21,100	-	31,200	-	15,200	-	37,300	-	-	-
Maricopa County Sheriff's Office	-	-	-	-	-	-	-	-	41,300	-	-	-
Pima County Sheriff's Office	44,000	-	43,900	-	44,500	-	56,700	-	94,000	-	-	-
Pinal County Sheriff's Office	56,200	-	46,300	-	58,700	-	-	-	46,300	-	-	-
Santa Cruz County Sheriff's Office	44,100	-	18,600	-	-	-	24,800	-	30,000	-	-	-
Yuma County Sheriff's Office	41,100	-	41,000	-	42,400	-	35,800	-	45,300	-	-	-
Department of Corrections	188,100	-	237,400	-	180,400	-	263,000	-	228,300	-	-	-
Total	\$438,800	\$441,400	\$397,000	\$401,000	\$397,000	\$401,000	\$401,000	\$401,000	\$563,100	\$563,100	\$0	\$0

Table 4 (Continued)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Estimate	Estimate
Border County Officers 6/						
Benson Police	\$59,100	\$63,700	\$63,000	\$36,300	\$59,000	-
Coolidge Police	66,300	46,600	62,900	66,200	56,000	-
Douglas Police	117,800	123,700	124,800	102,600	120,000	-
Oro Valley Police	59,600	62,200	54,800	47,300	48,000	-
Pinal County Sheriff's Office	57,600	54,500	45,700	89,700	64,000	-
Yuma County Sheriff's Office	24,400	-	-	47,900	60,000	-
Total	\$384,900 7/	\$350,700	\$351,200	\$390,000	\$407,000	\$0
Border Security and Law Enforcement Grants 6/						
Apache County Sheriff's Office	-	-	-	\$11,600	\$11,500	-
Cochise County Sheriff's Office	-	-	-	20,800	20,900	-
Coconino County Sheriff's Office	-	-	-	-	21,600	-
Gila County Sheriff's Office	-	-	-	8,400	8,600	-
Graham County Sheriff's Office	-	-	-	-	6,000	-
Greenlee County Sheriff's Office	-	-	-	-	1,700	-
La Paz County Sheriff's Office	-	-	-	3,200	3,300	-
Maricopa County Sheriff's Office	-	-	-	627,700	629,400	-
Mohave County Sheriff's Office	-	-	-	32,200	32,500	-
Navajo County Sheriff's Office	-	-	-	16,900	17,300	-
Pima County Sheriff's Department	-	-	-	156,600	158,900	-
Pinal County Sheriff's Office	-	-	-	61,100	62,800	-
Santa Cruz Sheriff's Office	-	-	-	7,500	7,900	-
Yavapai County Sheriff's Office	-	-	-	33,600	34,000	-
Yuma County Sheriff's Office	-	-	-	-	33,400	-
Total	\$0	\$0	\$0	\$979,600	\$1,049,800	\$0

GIITEM Subaccount Expenditures 8/9/10/11/

Agency	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Estimate	Estimate
Pima County Sheriff	-	\$500,000	\$500,000	\$350,000	\$350,000	-
General Fund Repayment	-	1,000,000	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	-	-	397,000	401,000	563,100	-
Border County Officers (See Chart Above)	-	-	351,200	390,000	407,000	-
Border Security and Law Enforcement Grants (See Chart Above)	-	-	-	979,600	1,049,800	-
TOTAL	-	\$1,500,000	\$1,248,200	\$2,120,600	\$2,369,900	\$0

Table 4 (Continued)

County Assistance 12/

Agency	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Pinal County Sheriff	-	\$1,000,000	-	-	-	-
TOTAL	-	\$1,000,000	-	-	-	-

County Attorney Immigration Enforcement Distributions 13/14/

Agency	FY 2011 Actual 15/	FY 2012 Actual 16/	FY 2013 Actual 16/	FY 2014 Actual 16/	FY 2015 Estimate 17/	FY 2016 Estimate
MariCopa County Attorney	\$1,213,200	\$200,000	\$200,000	\$200,000	\$200,000	-
MariCopa County Sheriff	-	500,000	500,000	500,000	500,000	-
Pima County Attorney	-	97,687	97,687	97,687	97,687	-
Pima County Sheriff	-	97,687	97,687	-	97,687	-
Pinal County Attorney	-	37,447	37,447	37,447	37,447	-
Pinal County Sheriff	-	37,447	37,447	37,447	-	-
Yavapai County Attorney	-	21,030	21,030	21,030	21,030	-
Yavapai County Sheriff	-	21,030	21,030	-	-	-
Mohave County Attorney	-	19,949	19,949	19,949	19,949	-
Mohave County Sheriff	-	19,949	19,949	-	-	-
Yuma County Attorney	-	19,507	19,507	19,507	19,507	-
Yuma County Sheriff	-	19,507	19,507	-	19,507	-
Cochise County Attorney	-	13,089	13,089	-	-	-
Cochise County Sheriff	-	13,089	13,089	-	-	-
Coconino County Attorney	-	13,396	13,396	-	-	-
Coconino County Sheriff	-	13,396	13,396	13,396	-	-
Navajo County Attorney	-	10,708	10,708	10,708	-	-
Navajo County Sheriff	-	10,708	10,708	-	-	-
Apache County Attorney	-	7,127	7,127	7,127	7,127	-
Apache County Sheriff	-	7,127	7,127	-	7,127	-
Gila County Attorney	-	5,341	5,341	5,341	-	-
Gila County Sheriff	-	5,341	5,341	-	-	-
Santa Cruz County Attorney	-	4,726	4,726	4,726	-	-
Santa Cruz County Sheriff	-	4,726	4,726	-	-	-
Graham County Attorney	-	3,709	3,709	-	-	-
Graham County Sheriff	-	3,709	3,709	-	-	-
La Paz County Attorney	-	2,042	2,042	2,042	2,042	-
La Paz County Sheriff	-	2,042	2,042	-	-	-
Greenlee County Attorney	-	841	841	-	-	-
Greenlee County Sheriff	-	841	841	-	-	-
Unallocated	-	-	-	212,689	184,087	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$1,189,100	\$1,213,200	\$0

- 1/ Funded from non-lapsing \$2.6 million General Fund appropriation, which is part of a \$21.3 million total GIITEM General Fund appropriation to DPS in FY 2013. Beginning in FY 2011, statute allocated the first \$1.6 million to the Maricopa County Sheriff's Office and the next \$500,000 to the Pinal County Sheriff's Office.
- 2/ FY 2016 figures represent statutory appropriations only.
- 3/ Funding for AFIT was eliminated in the FY 2010 budget. DPS was able to keep the task force operating for a time with "vacancy savings" from other initiatives but disbanded AFIT in November 2009.
- 4/ The FY 2009 Crime Lab Transfer was a one-time event to cover a budget reduction initially intended to be replaced through charges to local agencies. Local agencies did not pay the fees, and the funding was restored in FY 2010.
- 5/ Includes \$1,003,200 in other GIITEM SLI monies in FY 2011.
- 6/ Funding for the Detention Liaison Officer Grants and the Border County Officers in FY 2011 and FY 2012 is included in the annual \$2.6 million General Fund appropriation for Local Immigration Enforcement Grants. In FY 2013 - FY 2015 the monies were allocated from the GIITEM Subaccount. Funding for the Border Security and Law Enforcement Grants is provided from the GIITEM Subaccount.
- 7/ Numbers do not sum due to rounding.
- 8/ Funded from a \$2.1 million GIITEM Fund appropriation. Laws 2011, Chapter 308 created a \$13 surcharge on criminal fines and penalties and civil motor vehicle violations, \$4 of which is to be deposited into the GIITEM Fund Border Security and Law Enforcement Subaccount. These revenues totaled \$2,361,700 in FY 2014. The monies in the GIITEM Subaccount are for border security personnel and equipment. Additionally, the bill redirected the monies normally deposited into the Arizona Criminal Justice Commission's State Aid to Indigent Defense Fund, which totaled \$659,300, to the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012. This did not continue in FY 2013.
- 9/ Laws 2011, Chapter 308 required that the first \$1,000,000 in criminal fee revenue received by the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012, be used to repay the General Fund for a commensurate appropriation to the Pinal County Sheriff's Office in FY 2012. This did not continue in FY 2013.
- 10/ As required by Laws 2013, 1st Special Session, Chapter 5, JLBC reviewed DPS' FY 2014 GIITEM Subaccount expenditure plan on October 29, 2013.
- 11/ As required by Laws 2014, Chapter 12, JLBC reviewed DPS' FY 2015 GIITEM Subaccount expenditure plan on June 19, 2014. The FY 2016 allocation has not yet been determined.
- 12/ Funded from a one-time \$1 million General Fund appropriation. The monies were used to purchase and maintain a helicopter. The funding was not continued in FY 2013.
- 13/ Funded by a General Fund appropriation.
- 14/ Funding for this line item was not continued in FY 2016.
- 15/ The FY 2011 budget required the Department of Administration to distribute \$1,213,200 to the County Attorney in a county with a population greater than 1.5 million.
- 16/ The FY 2012, FY 2013, and FY 2014 budgets required the Department of Administration (ADOA) to distribute \$200,000 to the County Attorney of a county with a population of 2,000,000 or more persons and \$500,000 to the County Sheriff of a county with a population of 2,000,000 or more persons. With JLBC approval, the remaining monies can be distributed to County Attorneys and County Sheriffs of counties with populations of less than 2,000,000 persons. At their April 10, 2014 meeting, the JLBC gave approval to ADOA's FY 2014 expenditure plan to distribute monies proportionate to population. ADOA's proposal did not allocate funding to any county which did not plan to expend the funds. As a result, ADOA did not distribute \$212,689 of the \$1,213,200 FY 2014 appropriation. JLBC's approval included a provision that ADOA distribute the monies if subsequently requested to do so by a county attorney or sheriff not currently scheduled to receive funds. ADOA did not seek JLBC approval of its FY 2012 or FY 2013 distribution.
- 17/ These figures represent the FY 2015 proposed distribution that received a favorable review at the December 17, 2014 meeting of the JLBC.

Public Safety Personnel Retirement System

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SPECIAL LINE ITEMS			
EORP Fund Deposit	0	5,000,000	5,000,000 ^{1/2/}
Prescott Fire Employer Group Deposit	0	1,000,000	1,000,000 ^{3/}
AGENCY TOTAL	0	6,000,000	6,000,000
FUND SOURCES			
General Fund	0	6,000,000	6,000,000
SUBTOTAL - Appropriated Funds	0	6,000,000	6,000,000
Other Non-Appropriated Funds	11,777,200	12,009,000	12,245,900
TOTAL - ALL SOURCES	11,777,200	18,009,000	18,245,900

AGENCY DESCRIPTION — The Public Safety Personnel Retirement System (PSPRS) provides retirement, survivors, health, and disability benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters. In addition, PSPRS staff administers the Correctional Officers Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), which provide the same benefits to specified populations at the state and local level. PSPRS is not subject to appropriation. The EORP will be closed to new enrollees as of January 1, 2014, at which time elected officials will be enrolled in the Elected Officials' Defined Contribution Retirement System (EODC System).

EORP Fund Deposit

The budget includes \$5,000,000 from the General Fund in FY 2016 as part of the closure of the Elected Officials' Retirement Plan (EORP). This amount is unchanged from FY 2015.

Laws 2013, Chapter 217 made several changes relating to the closure of the defined benefit EORP and in creation of a new defined contribution plan, the Elected Officials Defined Contribution Retirement System (EODC System). Chapter 217 annually appropriates \$5,000,000 from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost and to amortize the unfunded accrued liability of the now closed EORP. Because the appropriation is in permanent statute, monies in this line item are not included in the General Appropriation Act.

Chapter 217 made several additional changes relating to the closure of the defined benefit EORP and in creation of the new defined contribution plan, the EODC System, with the major changes as follows:

1. Permanently establishes a 13% employee contribution rate for members of the now closed EORP.
2. Requires from January 1, 2014 through June 30, 2044, a level 23.5% employer contribution rate for employees in elected official positions, regardless of the date of appointment or election. For existing members of EORP, this contribution is paid entirely to the EORP Fund. For EODC System members, 6% is retained by the defined contribution system as an employer contribution, with the remaining 17.5% being paid to the EORP Fund.
3. Establishes an 8% employee contribution rate for all EODC System members, which is to be matched by the 6% employer contribution rate, with the funds to be deposited into the individual member's retirement account.

Chapter 217, in determining the level 23.5% employer contribution rate, and the annual EORP Fund deposit of \$5,000,000, assumed that a previously enacted reduction of Permanent Benefit Increases (PBIs) would be upheld as constitutional. Due to the ruling in *Fields v. Elected Officials Retirement Plan*, these assumptions may need to be analyzed further to account for additional PBI payments.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

^{2/} Laws 2013, Chapter 217 appropriated \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability.

^{3/} The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 133) appropriated \$1,000,000 annually from the General Fund to the employer account of the Prescott Fire Department group from FY 2015 through FY 2019 to offset increased pension liability.

(See the Consolidated Retirement Report section for more information.)

Prescott Fire Employer Group Deposit

The budget includes \$1,000,000 from the General Fund in FY 2016 for deposit into the employer account of the Prescott Fire Department group. This amount is unchanged from FY 2015.

In June 2013, 19 firefighters employed by the Prescott Fire Department died in the line of duty while fighting the Yarnell Hill Fire. Of the 19, 6 were classified as permanent employees and were enrolled in PSPRS. As such, their survivors qualify to receive ongoing payments equal to 100% of the employees' average monthly wages, including overtime. The increased liability resulting from these benefit payments would be funded from the employer account of the Prescott Fire Department through an increase in employer contribution rates.

To offset the increased pension liabilities resulting from this event, the FY 2015 budget appropriated \$1,000,000 from the General Fund for deposit into the employer account of the Prescott Fire Department from FY 2015 through FY 2019. As a result, monies in this line item are not included in the annual General Appropriation Act in future years.

Of the remaining 13 firefighters who were classified as seasonal employees and initially considered ineligible for membership in PSPRS, 3 were posthumously enrolled in PSPRS in 2015 after the Prescott Fire Department's local board determined that those firefighters met the criteria for membership. A September 2013 actuarial study estimates the total multi-year liability to the employer account of the Prescott Fire Department associated with these 3 additional enrollees is approximately \$1.9 million.

See the Consolidated Retirement Report section for more information on PSPRS legislation, membership and actuarial data.

Arizona Department of Racing

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	40.5	40.5	0.0
Personal Services	1,489,700	1,607,900	0
Employee Related Expenditures	604,000	643,200	0
Professional and Outside Services	420,800	333,700	0
Travel - In State	54,600	78,700	0
Travel - Out of State	15,200	7,500	0
Other Operating Expenditures	219,500	229,700	0
Equipment	12,000	0	0
OPERATING SUBTOTAL	2,815,800	2,900,700	0
SPECIAL LINE ITEMS			
Arizona Breeders' Award	250,000	250,000	0
County Fairs Livestock and Agricultural Promotion	1,779,500	1,779,500	0
AGENCY TOTAL	4,845,300	4,930,200	0
FUND SOURCES			
General Fund	2,029,500	2,029,500	0
Other Appropriated Funds			
Racing Regulation Fund	2,815,800	2,900,700	0
SUBTOTAL - Other Appropriated Funds	2,815,800	2,900,700	0
SUBTOTAL - Appropriated Funds	4,845,300	4,930,200	0
Other Non-Appropriated Funds	175,400	90,000	0
TOTAL - ALL SOURCES	5,020,700	5,020,200	0

AGENCY DESCRIPTION — The Arizona Department of Racing regulates the pari-mutuel horse and greyhound racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties. The Division of Boxing Regulation is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona. Beginning in FY 2016, the Department of Racing will become the Division of Racing within the Department of Gaming.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming, effective July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the Department of Racing, Chapter 19 states that all appropriated monies of the Department of Racing are transferred to the Department of Gaming. Chapter 19, however, does not specify the format of the appropriation. As a result, the *FY 2016 Appropriations Report* reflects the funding for the Department of Racing in the Department of Gaming, displayed as its own line items.

Operating Budget

The budget includes no funding in FY 2016 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(6,500) from the Racing Regulation Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Merge the Department of Racing into the Department of Gaming

The budget includes a decrease of \$(2,894,200) and (40.5) FTE Positions from the Racing Regulation Fund in FY 2016 to merge the Department of Racing into the Department of Gaming. The FY 2016 Agency Consolidation BRB merges the Department of Racing into the Department of Gaming, establishing a Division of Racing effective July 3, 2015.

The Agency Consolidation BRB also transfers the Department of Racing's boxing and mixed martial arts regulation to the Department of Gaming. All personnel under the state personnel system who are employed by the Department of Racing are transferred to comparable positions and pay

classifications within the Division of Racing on the effective date. *(Please see the Department of Gaming for more information.)*

Arizona Breeders' Award

The budget includes no funding in FY 2016 from the General Fund for the Arizona Breeders' Award. This amount funds the following adjustments:

Elimination of Arizona Breeders' Award

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 for the elimination of the Arizona Breeders' Award.

Monies in this line item go to award the breeder of every winning horse or greyhound foaled or whelped in the state.

County Fairs Livestock and Agricultural Promotion

The budget includes no funding in FY 2016 from the General Fund for County Fairs Livestock and Agricultural Promotion. This amount funds the following adjustments:

Merge the Department of Racing into the Department of Gaming

The budget includes a decrease of \$(1,779,500) from the General Fund in FY 2016 to merge the Department of Racing into the Department of Gaming effective July 3, 2015.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Radiation Regulatory Agency

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	33.5	33.5	34.5 ^{1/2/}
Personal Services	909,600	909,500	909,500
Employee Related Expenditures	392,700	392,700	386,200
Professional and Outside Services	13,900	13,900	13,900
Travel - In State	22,500	22,500	22,500
Travel - Out of State	2,100	2,100	2,100
Other Operating Expenditures	240,700	279,500	285,700
Equipment	6,600	6,600	6,600
OPERATING SUBTOTAL	1,588,100	1,626,800	1,626,500
SPECIAL LINE ITEMS			
Nuclear Emergency Management Fund	695,300	695,300	819,700 ^{3/4/}
AGENCY TOTAL	2,283,400	2,322,100	2,446,200 ^{5/}
FUND SOURCES			
General Fund	1,467,900	1,468,900	1,595,000
<u>Other Appropriated Funds</u>			
Radiation Regulatory Fee Fund	579,600	579,800	578,700
State Radiologic Technologist Certification Fund	235,900	273,400	272,500
SUBTOTAL - Other Appropriated Funds	815,500	853,200	851,200
SUBTOTAL - Appropriated Funds	2,283,400	2,322,100	2,446,200
Other Non-Appropriated Funds	30,600	30,600	30,600
Federal Funds	285,500	285,500	285,500
TOTAL - ALL SOURCES	2,599,500	2,638,200	2,762,300

AGENCY DESCRIPTION — The department regulates the use, storage, and disposal of sources of radiation. This includes licensing or certifying users, inspecting x-ray equipment, developing emergency response capability, and monitoring environmental radiation.

Operating Budget

The budget includes \$1,626,500 and 29 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$775,300
Radiation Regulatory Fee Fund	578,700
State Radiologic Technologist Certification Fund	272,500

Statewide Adjustments

The budget includes a decrease of \$(300) for statewide adjustments. This amount consists of:

General Fund	1,700
Radiation Regulatory Fee Fund	(1,100)
State Radiologic Technologist Certification Fund	(900)

(Please see the Agency Detail and Allocations section.)

These amounts fund the following adjustments:

^{1/} Includes 5.5 FTE Positions in FY 2016 appropriated by Laws 2015, Chapter 132.

^{2/} Includes 5.5 FTE Positions funded from Special Line Items in FY 2016.

^{3/} Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations; any unexpended monies must be used, however, to reduce the assessment and appropriation in future years.

^{4/} Laws 2015, Chapter 132 appropriated \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,663 in FY 2017 for the Nuclear Emergency Management Fund.

^{5/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Nuclear Emergency Management Fund

The budget includes \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,663 in FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts fund the following adjustments:

NEMF Allocation Increase

Laws 2015, Chapter 132 includes an increase of \$124,413 and 1 FTE Position from the General Fund in FY 2016 and an increase of \$94,413 in FY 2017 for the NEMF Line Item. These amounts represent an increase above the FY 2015 NEMF allocation of \$695,250 and 4.5 FTE Positions appropriated in Laws 2013, Chapter 13.

The monies in this line item are appropriated by Laws 2015, Chapter 132. As a result, these monies do not appear in the General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture receive monies from this bill. *(Please see the Department of Emergency and Military Affairs and the Department of Agriculture narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Additional Legislation

Fee Authority Continuation

The FY 2016 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) continues the fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2016. The bill continues an intent clause that limits additional revenues to \$561,000.

State Real Estate Department

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	37.0	37.0	37.0
Personal Services	1,365,800	1,612,600	1,612,600
Employee Related Expenditures	591,600	656,200	645,600
Professional and Outside Services	130,700	215,400	215,400
Travel - In State	46,400	40,000	40,000
Travel - Out of State	5,300	10,000	10,000
Other Operating Expenditures	424,000	410,500	416,600
Equipment	44,500	45,000	45,000
AGENCY TOTAL	2,608,300	2,989,700	2,985,200^{1/}
FUND SOURCES			
General Fund	2,608,300	2,989,700	2,985,200
SUBTOTAL - Appropriated Funds	2,608,300	2,989,700	2,985,200
Other Non-Appropriated Funds	42,000	230,100	230,100
TOTAL - ALL SOURCES	2,650,300	3,219,800	3,215,300

AGENCY DESCRIPTION — The department issues licenses for real estate, cemetery, and membership campground sales. The department also regulates the real estate industry, including licensees, developers, subdividers, and real estate schools. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.

Operating Budget

The budget includes \$2,985,200 and 37 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,500) from the General Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Residential Utility Consumer Office

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	588,900	757,700	757,700
Employee Related Expenditures	208,800	249,700	245,800
Professional and Outside Services	1,900	2,400	2,400
Travel - In State	900	8,600	8,600
Travel - Out of State	11,300	7,000	7,000
Other Operating Expenditures	170,100	167,400	168,500
Equipment	18,700	0	0
OPERATING SUBTOTAL	1,000,600	1,192,800	1,190,000
SPECIAL LINE ITEMS			
Professional Witnesses	31,300	145,000	145,000 ^{1/}
AGENCY TOTAL	1,031,900	1,337,800	1,335,000^{2/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Residential Utility Consumer Office Revolving Fund	1,031,900	1,337,800	1,335,000
SUBTOTAL - Other Appropriated Funds	1,031,900	1,337,800	1,335,000
SUBTOTAL - Appropriated Funds	1,031,900	1,337,800	1,335,000
TOTAL - ALL SOURCES	1,031,900	1,337,800	1,335,000

AGENCY DESCRIPTION — The Residential Utility Consumer Office (RUCO) serves as an advocate for residential customers of public utilities in rate hearings held before the Arizona Corporation Commission. Through its technical staff and expert consultants, RUCO analyzes utility company data to determine appropriate positions to take and present on behalf of residential ratepayers. The RUCO Director is appointed by the Governor.

Operating Budget

The budget includes \$1,190,000 and 11 FTE Positions from the RUCO Revolving Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,800) from the RUCO Revolving Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Professional Witnesses

The budget includes \$145,000 from the RUCO Revolving Fund in FY 2016 for Professional Witnesses. This amount is unchanged from FY 2015.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Board of Respiratory Care Examiners

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	166,000	176,500	176,500
Employee Related Expenditures	60,500	79,200	78,500
Professional and Outside Services	10,100	0	0
Travel - In State	1,200	300	300
Travel - Out of State	0	1,000	1,000
Other Operating Expenditures	59,100	39,100	42,700
Equipment	100	1,100	1,100
AGENCY TOTAL	297,000	297,200	300,100^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Respiratory Care Examiners Fund	297,000	297,200	300,100
SUBTOTAL - Other Appropriated Funds	297,000	297,200	300,100
SUBTOTAL - Appropriated Funds	297,000	297,200	300,100
TOTAL - ALL SOURCES	297,000	297,200	300,100

AGENCY DESCRIPTION — The board licenses and regulates respiratory care practitioners. A respiratory therapist performs inhalation therapy and respiratory therapy, which includes administering pharmacological, diagnostic, and therapeutic agents, as directed by a physician.

Operating Budget

The budget includes \$300,100 and 4 FTE Positions from the Board of Respiratory Care Examiners Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,900 from the Board of Respiratory Care Examiners Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona State Retirement System

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	246.9	246.9	250.9
Personal Services	12,641,900	12,757,000	13,091,900
Employee Related Expenditures	4,877,700	5,021,000	5,063,500
Professional and Outside Services	4,214,900	3,879,300	4,092,400
Travel - In State	30,100	30,000	31,300
Travel - Out of State	48,900	48,600	48,600
Other Operating Expenditures	1,889,700	2,684,800	2,732,800
Equipment	236,900	389,500	651,100
OPERATING SUBTOTAL	23,940,100	24,810,200	25,711,600
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	311,800 ^{1/}	0	0
Automation Upgrades	1,117,400 ^{1/}	4,484,500 ^{1/}	2,270,000 ^{2/}
Laws 2011, Ch. 26 Rate Change Administration Procedures	219,600 ^{1/}	0	0
Laws 2011, Ch. 357 Plan Changes	154,600	0	0
Laws 2012, Ch. 88 ASRS; Spousal Consent	5,800	0	0
Laws 2013, Ch. 110 ASRS; Amendments	200,000 ^{1/}	0	0
Laws 2013, Ch. 216 Public Retirement Systems; Ineligible Employees	12,600 ^{1/ 3/}	0 ^{3/}	0 ^{3/}
AGENCY TOTAL	25,961,900	29,294,700	27,981,600^{3/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Long-Term Disability Trust Fund Administration Account	2,532,400	2,800,000	2,800,000
State Retirement System Administration Account	23,429,500	26,494,700	25,181,600
SUBTOTAL - Other Appropriated Funds	25,961,900	29,294,700	27,981,600
SUBTOTAL - Appropriated Funds	25,961,900	29,294,700	27,981,600
Other Non-Appropriated Funds	85,221,100	96,005,500	100,609,000
TOTAL - ALL SOURCES	111,183,000	125,300,200	128,590,600

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The budget includes \$25,711,600 and 250.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
State Retirement System Administration Account	\$22,911,600
Long-Term Disability (LTD) Trust Fund Administration Account	2,800,000

These amounts fund the following adjustments:

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.
- ^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (General Appropriation Act footnote)
- ^{3/} Laws 2013, Chapter 216 appropriated \$502,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2014 for modifications regarding ineligible employees. The budget maintains 1 FTE Position and \$72,400 in the Operating Budget to continue these modifications.
- ^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

IT Security

The budget includes an increase of \$870,800 and 3 FTE Positions from the State Retirement System Administration Account in FY 2016 to enhance ASRS membership data protection. This increase will provide additional personnel, contracted IT security professionals, and software and equipment to manage IT security risks.

Internal Audit

The budget includes an increase of \$89,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2016 to expand the scope of employer audits in order to meet the revised accounting and financial reporting standard instituted by the Governmental Accounting Standards Board (GASB).

Statewide Adjustments

The budget includes a decrease of \$(58,800) from the State Retirement System Administration Account in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section for more information.)*

Automation Upgrades

The budget includes \$2,270,000 from the State Retirement System Administration Account in FY 2016 for Automation Upgrades. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,214,500) from the State Retirement System Administration Account in FY

2016 for the third year of a 4-year project to consolidate and upgrade an ASRS business application system with a more current Java-based Web application. The 4-year budget of the project is a total of \$10,214,500, as follows:

- Year 1: \$1,390,000
- Year 2: \$4,484,500
- Year 3: \$2,270,000
- Year 4: \$2,070,000

The project received approval through the Project Investment Justification (PIJ) process from the Arizona Strategic Enterprise Technology (ASET) Office, and from the Information Technology Authorization Committee (ITAC) in 2012. As part of this review, ASRS is required to give an annual update on the project to ITAC.

The project was originally planned to last 5 years, for a total cost of \$10,214,500. Due to an improved methodology used to implement the technology modernizations, the project is now expected to last 4 years. As a result, the FY 2015 budget shifted the funding that would have occurred in the fifth year of the project into the second year of the project. The FY 2016 budget readjusts funding to match estimated project costs in Year 3. The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

See the Consolidated Retirement Report section for more information on ASRS legislation, membership and actuarial data.

Department of Revenue

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	861.8	880.8	880.8 ^{1/}
Personal Services	30,869,300	34,499,800	34,499,800
Employee Related Expenditures	14,409,500	14,654,000	14,322,000
Professional and Outside Services	5,687,700	5,326,200	8,476,200
Travel - In State	282,200	336,000	336,000
Travel - Out of State	200,300	349,700	349,700
Other Operating Expenditures	10,531,100	8,048,900	8,244,900
Equipment	976,200	615,700	615,700
OPERATING SUBTOTAL	62,956,300	63,830,300	66,844,300
SPECIAL LINE ITEMS			
BRITS Operational Support	7,555,500	7,604,200	7,538,900
TPT Information Technology	0	0	1,230,700
TPT Simplification	0	1,000,000	990,600
Unclaimed Property Administration and Audit	1,497,100	1,218,500	1,218,500 ^{2/}
AGENCY TOTAL	72,008,900	74,653,000	77,823,000 ^{3/4/5/6/}
FUND SOURCES			
General Fund	46,040,200	48,139,400	30,338,600
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	24,684,600	24,436,800	46,407,500
Liability Setoff Revolving Fund	709,600	397,300	398,000
Tobacco Tax and Health Care Fund	574,500	679,500	678,900
SUBTOTAL - Other Appropriated Funds	25,968,700	25,513,600	47,484,400
SUBTOTAL - Appropriated Funds	72,008,900	73,653,000	77,823,000
Other Non-Appropriated Funds	1,693,500	5,847,400	5,847,400
TOTAL - ALL SOURCES	73,702,400	79,500,400	83,670,400

AGENCY DESCRIPTION — The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.

1/ Includes 70 GF FTE Positions funded from Special Line Items in FY 2016.

2/ If the total dollar value of properties retained by unclaimed property contract auditors exceeds \$1,218,500, the excess amount is transferred from the state General Fund to the DOR Administrative Fund, established by A.R.S. § 42-1116.01, and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)

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

4/ The department shall report the department's General Fund revenue enforcement goals for FY 2016 to the Joint Legislative Budget Committee on or before September 30, 2015. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2016 on or before September 30, 2016. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2016, including the amount of projected and actual enforcement collections for all tax types. (General Appropriation Act footnote)

5/ The FY 2016 appropriation for the Department of Revenue includes a \$3,150,000 state General Fund lump sum increase for contracting for private fraud prevention investigation services. Before awarding a contract for the services, the department shall make a request for proposals and review all submissions. (General Appropriation Act footnote)

6/ On or before September 30, 2015, the Department of Revenue shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the amount of individual income tax credits claimed in FY 2015. (General Appropriation Act footnote)

Operating Budget

The budget includes \$66,844,300 and 810.8 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<u>FY 2016</u>
General Fund	\$24,702,800
DOR Administrative Fund	41,064,600
Liability Setoff Revolving Fund	398,000
Tobacco Tax and Health Care Fund	678,900

These amounts fund the following adjustments:

DOR Local Cost Sharing

The budget includes a decrease of \$(20,755,800) from the General Fund and a corresponding increase of \$20,755,800 from the DOR Administrative Fund in FY 2016 for local cost sharing. The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10), as amended by Laws 2015, Chapter 323, requires DOR to assess a fee on counties and cities, as well as on councils of governments and regional transportation authorities (the Maricopa Association of Governments and Pima Association of Governments) to recover a portion of DOR’s operating costs incurred to collect, process, and distribute local and state shared tax revenues.

The bill includes an intent statement that the fees not exceed \$20,755,835, which are allocated between cities, counties, councils of governments and regional transportation authorities proportionally based on their share of tax distributions from DOR. The distribution of fees amongst the entities in a category (for example, Phoenix as a share of all city fees) is based on population. *Table 1* lists the estimated fees by category of government.

Table 1	
DOR Local Cost Sharing Estimates	
<u>Category</u>	<u>Amount</u>
Counties	\$ 6,749,336
Maricopa Association of Governments	2,582,397
Pima Association of Governments	511,203
Cities	<u>10,912,899</u>
Total	\$20,755,835

Income Tax Fraud Prevention

The budget includes an increase of \$3,150,000 from the General Fund in FY 2016 for income tax fraud prevention. These monies will be used to contract with a vendor to provide fraud prevention investigation services, make programming changes to the Taxpayer Accounting System (TAS), and provide audit and investigative support. The vendor will be paid for the total dollar value of the fraud

prevention, but the payment is not to exceed \$2,700,000. The enacted budget estimates this fraud prevention would increase state General Fund revenue by \$9.3 million during FY 2016.

Statewide Adjustments

The budget includes a decrease of \$(136,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(121,600)
DOR Administrative Fund	(14,500)
Liability Setoff Revolving Fund	700
Tobacco Tax and Health Care Fund	(600)

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$7,538,900 and 51 FTE Positions in FY 2016 for operational support of BRITS. These amounts consist of:

General Fund	4,645,200
DOR Administrative Fund	2,893,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(65,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(64,000)
DOR Administrative Fund	(1,300)

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage requirements, and information technology personnel to operate and maintain the BRITS system. BRITS is the state’s computer system for collecting and processing tax data.

TPT Information Technology

The budget includes \$1,230,700 from the DOR Administrative Fund in FY 2016 to make programming changes to TAS. This amount funds the following adjustments:

One-Time TPT Information Technology Funding

The budget includes a one-time increase of \$1,230,700 from the DOR Administrative Fund in FY 2016 for temporary Information Technology (IT) staff to make programming changes in TAS for Transaction Privilege Tax (TPT) simplification.

As part of the TPT simplification, Laws 2013, Chapter 255 and Laws 2014, Chapter 263 require DOR to operate a statewide electronic TPT filing system to receive TPT payments. This system was initially scheduled to be available in January 2015, but has been delayed until January 2016 due to extensive programming changes needed to establish the system. Monies in this line item will be used to hire temporary IT staff to make programming changes in TAS, which will allow DOR to complete the electronic TPT filing system.

The FY 2016 Revenue BRB requires DOR to assess a one-time fee to all “Non-Program” cities which currently collect their own TPT revenues. The bill includes an intent statement that the fee be \$0.76 per resident. The monies generated from this fee are estimated to be \$2.8 million and will be deposited into the DOR IGA and ISA Fund. The fee monies, combined with the \$1,230,700 from the DOR Administrative Fund, will be used to hire temporary IT staff to complete the electronic TPT filing system.

TPT Simplification

The budget includes \$990,600 and 19 FTE Positions from the General Fund in FY 2016 for TPT simplification responsibilities. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(9,400) from the General Fund in FY 2016 for statewide adjustments.

While this funding was initially included in the operating budget in FY 2015, the FY 2016 monies were appropriated in a separate line item. The FY 2015 amounts are displayed as a part of this line item for ease of comparison. *(Please see the FY 2015 Appropriations Report for more information.)*

Laws 2013, Chapter 255 and Laws 2014, Chapter 263 created a unified TPT audit and collections system under the auspices of DOR. As a result, DOR will assume the responsibility for the audit and collection of TPT taxes from all municipalities including the 18 “Non-Program” cities which currently administer their own TPT taxes. These monies will allow DOR to fund the additional staffing associated with the new TPT oversight responsibilities.

Unclaimed Property Administration and Audit

The budget includes \$1,218,500 from the DOR Administrative Fund in FY 2016 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2015.

Monies in this line item are used for the administrative costs of unclaimed or abandoned property. Contract auditors retain 10.25% to 12.5% of the dollar value of properties they recover. This amount is currently estimated at \$1,218,500.

Additional Legislation

Private Collectors

The FY 2016 Revenue BRB allows DOR to use up to \$2,000,000 to hire contracted collectors to collect TPT accounts receivable in FY 2016 and FY 2017. The department may use revenues collected by the contracted collectors to pay for services rendered. The enacted budget assumes the contracted collectors would increase state General Fund revenue (net of fees) by \$32.6 million during FY 2016.

Tax Amnesty

The FY 2016 Revenue BRB establishes a tax amnesty program which requires DOR to waive all penalties and interest payments for tax liabilities for tax years 2013 and before. The taxpayer must pay the total tax due during the specified amnesty period between September 1, 2015 and October 31, 2015. The enacted budget assumes the tax amnesty program would generate \$15,000,000 in additional one-time General Fund revenue in FY 2016.

Other Issues

Tobacco Tax/Master Settlement Agreement

The budget continues to transfer \$436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2016 for DOR staff to help enforce the provisions of the Master Settlement Agreement. These monies are provided in a footnote in the AHCCCS budget. This transfer funds 6 FTE Positions to perform luxury tax enforcement and audit duties. The FTE Position increase is not reflected in DOR's appropriation total. *(Please see the AHCCCS section for more information regarding these transfers.)*

Additionally, the budget includes a decrease of \$(1,000,000) to the Automation Projects Fund to eliminate one-time funding for the development of a luxury tax processing and revenue accounting system within DOR to help administer the Master Settlement Agreement. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

(Please see the FY 2015 Appropriations Report for background information relating to DOR tobacco tax enforcement funding.)

Capital Gains Reduction and Tax Credit Reporting

The budget includes a decrease of \$(1,700,000) to the Automation Projects Fund to eliminate one-time funding for programming improvements to capture, analyze, and report income tax credit information. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

School Facilities Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	942,400	993,600	993,600
Employee Related Expenditures	312,700	342,600	336,400
Professional and Outside Services	140,000	140,000	140,000
Travel - In State	25,500	36,000	36,000
Travel - Out of State	200	0	0
Other Operating Expenditures	165,700	164,900	166,500
Equipment	600	0	0
OPERATING SUBTOTAL	1,587,100	1,677,100	1,672,500
SPECIAL LINE ITEMS			
Access Our Best Public Schools Fund Deposit	0	0	23,900,000 ^{1/}
Access Our Best Public Schools Funding	0	0	23,900,000 ^{1/2/}
Building Renewal Grants	16,667,900	16,667,900 ^{3/}	16,667,900
New School Facilities	672,000	858,200	2,249,600 ^{4/}
New School Facilities Debt Service	172,719,800	160,739,300	172,388,100
AGENCY TOTAL	191,646,800	179,942,500	240,778,100^{5/6/}
FUND SOURCES			
General Fund	191,646,800	179,942,500	216,878,100
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	0	23,900,000
SUBTOTAL - Other Appropriated Funds	0	0	23,900,000
SUBTOTAL - Appropriated Funds	191,646,800	179,942,500	240,778,100
Other Non-Appropriated Funds	89,183,600	89,747,600	89,062,800
TOTAL - ALL SOURCES	280,830,400	269,690,100	329,840,900

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

- 1/ The FY 2016 budget deposits \$23,900,000 from the General Fund into the Access Our Best Public Schools Fund (the AOBPSF Deposit line). That amount is then appropriated from the Access Our Best Public Schools Fund (the AOBPS Funding line).
- 2/ The monies appropriated in the Access Our Best Public Schools Funding line item shall be deposited in the Access Our Best Public Schools Fund, established by A.R.S. § 15-2042. Monies in the fund shall not be expended until the Executive Branch submits an expenditure plan to the Joint Legislative Budget Committee for review. Monies in the Access Our Best Public Schools Fund are appropriated for the purpose of developing mechanisms that an Arizona Public School Achievement District could use to assist in the expansion of member schools or the construction of new facilities for member schools, including mechanisms for the state to act as the guarantor for debt financing for member schools. The Executive Branch shall recommend proposed legislation to codify the mechanisms developed. (General Appropriation Act footnote)
- 3/ Of the amount appropriated in the Building Renewal Grants line item for FY 2015, \$1,000,000 shall be transferred to the Emergency Deficiencies Correction Fund established by A.R.S. § 15-2022. A school district receiving monies from the Emergency Deficiencies Correction Fund in FY 2015 shall submit to the School Facilities Board a plan to improve the school's preventative maintenance building systems. (General Appropriation Act footnote)
- 4/ Pursuant to A.R.S. § 15-2041, the amount appropriated for New School Construction shall be used only for a facility that is to be constructed for a school district that received final approval from the School Facilities Board on or before March 1, 2015. (General Appropriation Act footnote)
- 5/ Pursuant to A.R.S. § 35-142.01, any reimbursement received by or allocated to the School Facilities Board under the federal Qualified School Construction Bond program in FY 2016 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$1,672,500 and 17 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,600) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations Section.)*

Access Our Best Public Schools Fund Deposit

The budget includes \$23,900,000 from the General Fund in FY 2016 for the Access Our Best Public Schools Fund Deposit. This amount funds the following adjustments:

New Program

The budget includes an increase of \$23,900,000 from the General Fund in FY 2016 for deposit into the Access Our Best Public Schools Fund.

The FY 2016 K-12 Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) establishes the Access Our Best Public Schools (AOBPS) Fund, which consists of monies appropriated by the Legislature and grants, gifts, and donations. The fund is administered by SFB and subject to legislative appropriation, except for donations.

Monies in the fund are to be made available to public schools that are members of the Arizona Public School Achievement District.

This line item reflects the deposit of General Fund monies into the AOBPS Fund, while the next line item is the appropriation of AOBPS monies out of the AOBPS Fund.

Access Our Best Public Schools Funding

The budget includes \$23,900,000 from the Access Our Best Public Schools Fund in FY 2016. This amount funds the following adjustments:

New Program

The budget includes an increase of \$23,900,000 from the Access Our Best Public Schools Fund in FY 2016 for Access Our Best Public Schools Funding.

The General Appropriation Act footnote and FY 2016 K-12 BRB specify that monies in the Access Our Public Schools Fund are to be made available to public schools that are members of the Arizona Public School Achievement District for the following purposes: 1) The expansion of existing schools; 2) New school construction; or 3) Serve as the

guarantor for debt financing. The FY 2016 appropriation requires JLBC review prior to the expenditure of any monies, and the Executive Branch is required to recommend proposed legislation to codify the process for debt financing guarantees. Statutory language for the new fund (A.R.S. § 15-2042) requires at least 50% of the projects that receive monies from the fund be in low socioeconomic areas.

In addition, the K-12 BRB transfers from the Department of Education to SFB the requirement to publish an annual report listing vacant and unused buildings (or portions of buildings) that are owned by the state or school districts that may be suitable for the operation of a charter school. The list is made available to charter school applicants and to existing charter schools. The list includes the address of each building, a short description of the building, the name of the owner of the building, and any other pertinent information related to the vacancy of the building.

This line item is the appropriation of AOBPS monies out of the AOBPS Fund, while the previous line item reflects the deposit of General Fund monies into the AOBPS Fund.

Building Renewal Grants

The budget includes \$16,667,900 from the General Fund in FY 2016 for Building Renewal Grants. This amount is unchanged from FY 2015.

The Building Renewal Grant Fund was created in FY 2009 to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by SFB.

SFB distributes monies to school districts to fund "primary" building renewal projects. SFB prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility and can provide a match of monies provided by the fund. "Primary" building renewal funding is for projects required to meet the minimum school facility adequacy guidelines.

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. NSF Fund revenues are derived from legislative appropriations and lease-purchase proceeds. SFB estimates the EDC Fund to have a \$0 balance at the end of FY 2016, absent any other changes.

As a result, the budget includes a one-time FY 2015 appropriation transfer of \$1,000,000 from the Building Renewal Grants line item to the Emergency Deficiencies Correction Fund. A school district receiving monies from the Emergency Deficiencies Correction Fund shall submit to the School Facilities Board a plan to improve the school's preventative maintenance of building systems.

The EDC Fund is used in a similar manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs, with the approval of the respective County Board of Supervisors.

New School Facilities

The budget includes \$2,249,600 from the General Fund in FY 2016 for New School Facilities. This amount funds the following adjustments:

New School Construction

The budget includes an increase of \$1,391,400 from the General Fund in FY 2016 for New School Construction. This amount funds the following changes:

- The elimination of \$(858,200) in one-time construction funds for Thatcher Unified School District (USD). The district had qualified for 9,720 square feet of additional space with a capacity of 116 K-6 students. The project cost a total of \$1,530,200 including additional site condition expenses. Of the total cost, \$858,200 occurred in FY 2015 and is removed in the FY 2016 budget.
- \$2,249,600 to begin construction of additional K-4 space for Benson Unified School District. The project is to be funded in FY 2016 and FY 2017. Benson will construct a new 17,190 square foot school with capacity for 191 students. The total project cost, including land and site conditions, is \$3,424,200. The project is funded as follows: FY 2016 funding of \$2,249,600, which includes: \$1,174,600 for construction, \$825,000 for land, and \$250,000 for site conditions; and FY 2017 funding of \$1,174,600 for construction.

Benson USD qualified for new school construction when its K-4 Average Daily Membership (ADM) exceeded 387 students. As of November 2014, the K-4 ADM at Benson USD was 406 students. For elementary schools, statute allows construction of space to accommodate no more than 5 years of future enrollment growth. SFB formally approved the project at its January 2015 meeting.

SFB assumes average annual ADM growth of 7.3% over the next 5 years. Under that projection, Benson USD would have 578 students in 2020, or 191 students over the 387 student threshold.

Background – The New School Facilities line item provides funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects. The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the current districtwide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances.

The dollar amount per square foot is adjusted annually based on a construction market index identified by the JLBC. At its December 2014 meeting, JLBC approved a 0% adjustment in the cost per square foot amounts. This inflation adjustment is based on a longitudinal measurement of construction costs since the last time the Committee adopted an adjustment. Construction costs are still below November 2008 levels, which is the last time the construction cost index was increased. *(Please see Table 1 for FY 2016 statutory funding guidelines.)*

Type of School	Square Feet Per Student	Funding Per Square Foot ^{1/2/}
K-6	90	\$136.66
7-8	100	\$144.27
9-12 (<1,800 pupils)	134	\$167.05
9-12 (≥1,800 pupils)	125	\$167.05

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2016 amounts. Adjusted annually for inflation.

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, not supplant, funding received from SFB. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for funding from the board. As of the end of FY 2014, there are \$4.1 billion Class B bonds outstanding.

New School Facilities Debt Service

The budget includes \$172,388,100 from the General Fund in FY 2016 for New School Facilities Debt Service. This amount funds the following adjustments:

Lease-Purchase Payment

The budget includes a decrease of \$(1,567,900) from the General Fund in FY 2016 for decreased lease-purchase payments. This reflects the variations in SFB's existing lease-purchase schedule.

Refinancing Agreement

The budget includes an increase of \$13,216,700 from the General Fund in FY 2016 to restore one-time savings from FY 2015 refinancing agreements. The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) authorized SFB to enter into refinancing agreements. At its October 2013 meeting, the JCCR favorably reviewed a refinancing agreement. That provided \$3,800,800 of non-recurring savings in FY 2015. The original FY 2015 budget incorporated this savings.

Additionally, at its April 2014 meeting, the JCCR favorably reviewed a second refinancing agreement. That provided an additional \$9,415,900 of non-recurring savings in FY 2015. Unlike the first refinancing, the original FY 2015 budget did not incorporate these savings. As a result, the enacted FY 2016 budget included an ex-appropriation of \$9,415,900 in FY 2015. *(Please see the FY 2015 Ex-Appropriation section for more information.)*

The FY 2016 K-12 BRB allows SFB to enter into a new refinancing agreement in FY 2016 that will reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024. SFB's lease-purchase payment reductions may not vary by more than \$1,000,000 in any single fiscal year during this period. Any refinancing agreement would be subject to JCCR review. The budget does not reflect any savings for FY 2016, but does incorporate savings into the 3-year planning projections. *(Please see the Long-Term Budget Impacts section for more information.)*

Background – In FY 2003 - FY 2005, FY 2008, FY 2009, and FY 2011, SFB entered into lease-purchase agreements to finance the costs of new school construction. For each agreement, SFB issued Certificates of Participation (COPs) that are typically repaid over a period of 15 years. At the end of FY 2016, the outstanding amount of General Fund lease-purchase principal to be paid will be \$765,251,600.

The FY 2016 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2016. The

lease-purchase agreement associated with the QSCBs requires the state to appropriate the entire debt service amount for the payment, as opposed to deducting the expected federal subsidy from the payment. The state is expected to receive a federal subsidy of \$3,976,500 in FY 2016 related to the lease-purchase payment. Pursuant to A.R.S. § 35-142.01, these funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$5,961,600.

Other Issues

FY 2015 Ex-Appropriation

The budget includes a one-time ex-appropriation of \$(9,415,900) from the General Fund in FY 2015 to reflect the additional savings from the refinancing agreement, reviewed by JCCR in April 2014. In addition, any future year savings amounts are included in the state's long-term estimates. *(Please see the New School Facilities Debt Service section for additional information.)*

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, SFB General Fund costs are projected to decrease by \$(5,309,600) in FY 2017 below FY 2016 and by \$(1,419,600) in FY 2018 below FY 2017. These estimates are based on:

Access Our Best Public Schools Fund – The long-term estimates assume the Access Our Best Public Schools Deposit will decrease by \$(2,400,000) in FY 2017 to level funding of \$21,500,000. There would be no change in funding in FY 2018.

Debt Service Changes – The long-term estimates make 2 adjustments for SFB debt service: existing changes in lease-purchase payments and savings from the refinancing agreement authorized by the FY 2016 K-12 BRB.

In terms of existing lease-purchase agreements, SFB debt service is expected to decrease by \$(128,400) in FY 2017 and by another \$(245,000) in FY 2018.

The long-term projections assume that SFB debt service will decline by \$(1,700,000) in FY 2017 due to additional refinancing savings. In FY 2018, there is expected to be no change in refinance savings (that is, the net savings of \$1,700,000 will occur again).

New School Construction – The estimates assume no additional funding will be provided for new school facilities beyond the Benson USD K-4 space. Funding for Benson includes \$1,174,600 in FY 2017, which represents a \$(1,075,000) decrease from FY 2016. New school construction spending would then decline by \$(1,174,600) in FY 2018 with the removal of the Benson USD funding.

Statewide Adjustments – A technical change of \$(6,200) in FY 2017 relating to statewide adjustments.

Long-term budget estimates are subject to change depending on SFB's future awards of new school construction and the actual savings from the refinancing agreement, which may differ from the currently estimated savings.

K-12 Capital Bonding

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation to be paid for with local property tax revenues. Article IX, Sections 8 and 8.1 of the Arizona Constitution limit non-unified and unified school district bonded indebtedness to no more than 15% or 30% of the district's assessed valuation, respectively.

However, A.R.S. § 15-1021 sets statutory limits below the constitutional limits for "Class B" bonds (for those issued after December 31, 1999). School district Class B bonding is limited to 10% and 20% of property values for non-unified and unified districts, respectively.

The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4, which include new construction, building renovations, furniture, equipment, technology and pupil transportation vehicles. In addition, bonds issued for furniture, equipment and technology have a maximum maturity of 5 years.

As of the end of FY 2014, 99 school districts have outstanding voter approved Class B bonds. The total amount of voter-approved Class B bonds outstanding at the end of FY 2014 was approximately \$4.1 billion.

Class B Bond Approvals

The FY 2016 K-12 Education BRB amended A.R.S. § 15-2002 to require each school district to report Class B bond approvals to SFB by December 1 of each year and requires SFB to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year.

Department of State - Secretary of State

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1 ^{1/}
Personal Services	4,838,900	4,904,900	4,904,900
Employee Related Expenditures	2,188,000	2,221,600	2,182,200
Professional and Outside Services	243,600	292,300	292,300
Travel - In State	11,700	11,700	11,700
Travel - Out of State	23,800	23,800	23,800
Other Operating Expenditures	3,085,200	2,933,100	2,957,400
Equipment	289,800	201,400	201,400
OPERATING SUBTOTAL	10,681,000	10,588,800	10,573,700 ^{2/}
SPECIAL LINE ITEMS			
Election Services	997,200	4,431,900	4,426,400 ^{3/}
Help America Vote Act (HAVA)	2,697,500	2,941,100	2,941,500 ^{4/5/}
Library Grants-in-Aid	531,700	651,400	651,400 ^{6/}
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	15,004,400	18,710,200	18,690,000 ^{7/}
FUND SOURCES			
General Fund	11,460,800	15,027,800	15,006,500
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	2,697,500	2,941,100	2,941,500
Records Services Fund	846,100	741,300	742,000
SUBTOTAL - Other Appropriated Funds	3,543,600	3,682,400	3,683,500
SUBTOTAL - Appropriated Funds	15,004,400	18,710,200	18,690,000
Other Non-Appropriated Funds	2,401,600	1,344,000	1,251,100
Federal Funds	3,727,700	3,727,700	3,727,700
TOTAL - ALL SOURCES	21,133,700	23,781,900	23,668,800

AGENCY DESCRIPTION — The Secretary of State is an elected Constitutional Officer. The Department of State is responsible for recordings and filings under the Uniform Commercial Code (U.C.C.); coordinating statewide elections; receiving required filings from legislators, state officials, judges, candidates for office, campaign committees, and lobbyists; receiving filings of administrative rules, intergovernmental agency agreements, and official executive orders/proclamations; registering trade names, trademarks and limited partnerships; appointing notaries public; and certifying certain telemarketing and charitable solicitation organizations. In addition, the Department of State is the archival authority and designated repository for historical records and documents of state and local governments, as well as a designated federal document regional repository.

- ^{1/} Includes 10 GF FTE Positions funded from Special Line Items in FY 2016.
- ^{2/} Included in the operating lump sum appropriation of \$10,573,700 for FY 2016 is \$5,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)
- ^{3/} Any transfer to or from the amount appropriated for the Election Services line item shall require review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{4/} The FY 2016 appropriation from the Election Systems Improvement Fund for the Help America Vote Act is available for use pursuant to A.R.S. § 35-143.01C and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2017. (General Appropriation Act footnote)
- ^{5/} The Secretary of State shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 31, 2015 the actual amount and purpose of expenditures from the Election Systems Improvement Fund established by A.R.S. § 41-129 in FY 2015 and the expected amount and purpose of expenditures from the fund for FY 2016. (General Appropriation Act footnote)
- ^{6/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{7/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$10,573,700 and 131.1 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$9,831,700
Record Services Fund	742,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(15,800)
Record Services Fund	700

(Please see the Agency Detail and Allocations section.)

Election Services

The budget includes \$4,426,400 and 10 FTE Positions from the General Fund in FY 2016 for Election Services. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,500) from the General Fund in FY 2016 for statewide adjustments.

This line item funds election-related activities, including voter registration and the certification of candidates, voting devices and the results of statewide elections. Funding is also used to publish the publicity pamphlet on state ballot propositions.

For traditional state elections, statute requires the Secretary of State to: 1) reimburse counties for the costs of printing, labeling, and postage for sample ballots; 2) pay the cost of any recount of votes; 3) reimburse the County Recorder for the costs of certifying petition and referendum signatures; and 4) print and mail a publicity pamphlet to every household with a registered voter for any initiative or referendum. *(See Additional Legislation section for more information.)*

Help America Vote Act (HAVA)

The budget includes \$2,941,500 from the Election Systems Improvement Fund in FY 2016 for the Help America Vote Act (HAVA) (P.L. 107-252). These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$400 from the Election Systems Improvement Fund in FY 2016 for statewide adjustments.

HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections. Assuming the Secretary of State spends the full appropriations in FY 2015 and FY 2016, approximately \$1.2 million in HAVA monies would be available in FY 2017.

Library Grants-in-Aid

The budget includes \$651,400 from the General Fund in FY 2016 for Library Grants-in-Aid. This amount is unchanged from FY 2015.

Monies in this line item are used to fund a portion of the state maintenance of effort that is required for receipt of federal dollars under the Library Services and Technology Act (LSTA). Receipt of LSTA monies is dependent on the state's ability to meet a maintenance-of-effort requirement, which is tied to the state contribution made in each of the 3 prior years.

Statewide Radio Reading Service for the Blind

The budget includes \$97,000 from the General Fund in FY 2016 for Statewide Radio Reading Service for the Blind. This amount is unchanged from FY 2015.

These monies are used to provide information access services for blind and visually impaired individuals. Services include radio information broadcasts, a telephone and web-based news reading service, and internet radio broadcasting for individuals who are outside the range of the radio broadcast.

Additional Legislation

Presidential Preference Election

Laws 2012, Chapter 361 required the Secretary of State to reimburse counties for 100% of the costs incurred for each Presidential Preference Election (PPE). PPE elections differ from all-mail and traditional elections in that they have a separate ballot for each recognized political party and no other election may appear on the PPE ballot.

The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12) repealed the 100% reimbursement rate established in Laws 2012, Chapter 361. The FY 2016 Government BRB returned the reimbursement rate to \$1.25 per active registered voter in that county on January 1 of the PPE year, the rate established in statute prior to Laws 2012, Chapter 361.

State Boards' Office

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	125,300	126,000	126,000
Employee Related Expenditures	65,900	66,300	66,300
Professional and Outside Services	1,500	1,100	1,100
Other Operating Expenditures	35,300	37,700	22,400
Equipment	800	0	0
AGENCY TOTAL	228,800	231,100	215,800^{1/}

FUND SOURCES

Other Appropriated Funds

Special Services Revolving Fund	228,800	231,100	215,800
SUBTOTAL - Other Appropriated Funds	228,800	231,100	215,800
SUBTOTAL - Appropriated Funds	228,800	231,100	215,800
TOTAL - ALL SOURCES	228,800	231,100	215,800

AGENCY DESCRIPTION — The office serves to centralize services and pool resources of small regulatory boards. Examples of shared items include office space and equipment, as well as accounting, clerical, administrative, and telephone services. The office is under the Management Services Division of the Arizona Department of Administration, but is supported by transfers of appropriated funds from the participating boards.

Operating Budget

The budget includes \$215,800 and 3 FTE Positions from the Special Services Revolving Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,300) from the Special Services Revolving Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

The breakdown of the FY 2016 State Boards' Office charges by agency is reflected in Table 1.

Board	FY 2014	FY 2015	FY 2016
Acupuncture Board of Examiners	\$ 19,000	\$ 19,200	\$ 17,900
Barbers, Board of	1,600	1,600	1,500
Funeral Directors & Embalmers, State Board of	36,800	37,200	34,700
Homeopathic and Integrated Medicine Examiners, Board of	14,700	14,800	13,800
Massage Therapy, Board of	42,700	43,100	40,300
Naturopathic Physicians Medical Board	18,200	18,400	17,200
Nursing Care Inst. Admin. & Assisted Living Facility Mgrs.	25,900	26,200	24,500
Opticians, State Board of Dispensing	24,300	24,600	23,000
Optometry, State Board of	23,400	23,600	22,000
Physical Therapy, Board of	100	100	100
Podiatry Examiners, State Board of	22,100	22,300	20,800
Total	\$228,800	\$231,100	\$215,800

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Tax Appeals

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	170,500	179,000	179,000
Employee Related Expenditures	48,700	44,600	44,600
Travel - In State	300	400	400
Other Operating Expenditures	41,400	41,600	42,400
Equipment	1,100	0	0
AGENCY TOTAL	262,000	265,600	266,400^{1/}
FUND SOURCES			
General Fund	262,000	265,600	266,400
SUBTOTAL - Appropriated Funds	262,000	265,600	266,400
TOTAL - ALL SOURCES	262,000	265,600	266,400

AGENCY DESCRIPTION — The board consists of 3 members appointed by the Governor. The board provides an independent appeals process for taxpayers with disputes relating to income, sales, use, estate, and luxury tax decisions from the Department of Revenue and resolves jurisdictional disputes between municipalities regarding the imposition of transaction privilege and use taxes.

Operating Budget

The budget includes \$266,400 and 4 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$800 from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Technical Registration

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.0	25.0	25.0
Personal Services	903,700	950,300	950,300
Employee Related Expenditures	368,600	387,200	379,000
Professional and Outside Services	111,000	117,200	117,200
Travel - In State	4,200	4,900	4,900
Travel - Out of State	10,300	10,900	10,900
Other Operating Expenditures	358,200	634,200	640,400
Equipment	18,700	19,900	19,900
AGENCY TOTAL	1,774,700	2,124,600	2,122,600^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Technical Registration Fund	1,774,700	2,124,600	2,122,600
SUBTOTAL - Other Appropriated Funds	1,774,700	2,124,600	2,122,600
SUBTOTAL - Appropriated Funds	1,774,700	2,124,600	2,122,600
TOTAL - ALL SOURCES	1,774,700	2,124,600	2,122,600

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of architects, assayers (assessors of mineral value), engineers, geologists, home inspectors, land surveyors, and landscape architects.

Operating Budget

The budget includes \$2,122,600 and 25 FTE Positions from the Technical Registration Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,000) from the Technical Registration Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Office of Tourism

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,513,000	1,779,000	1,779,000
Employee Related Expenditures	533,400	625,100	625,100
Professional and Outside Services	2,974,400	480,600	480,600
Travel - In State	21,600	11,600	11,600
Travel - Out of State	129,400	368,500	368,500
Other Operating Expenditures	1,889,100	3,818,900	3,825,600
Equipment	41,700	20,000	20,000
OPERATING SUBTOTAL	7,102,600	7,103,700	7,110,400
SPECIAL LINE ITEMS			
Arizona Promotion	0	2,000,000	0
AGENCY TOTAL	7,102,600	9,103,700	7,110,400^{1/}
FUND SOURCES			
General Fund	7,102,600	9,103,700	7,110,400
SUBTOTAL - Appropriated Funds	7,102,600	9,103,700	7,110,400
Other Non-Appropriated Funds	14,411,100	13,580,200	13,580,200
TOTAL - ALL SOURCES	21,513,700	22,683,900	20,690,600

AGENCY DESCRIPTION — The office is responsible for promoting tourism within the state, which includes planning and developing an information campaign, advertising, exhibitions, and operating a visitors' center. The agency receives a transfer from the Arizona Sports and Tourism Authority (AZSTA), a portion of tribal gaming contributions, and General Fund appropriations to the Tourism Fund.

Operating Budget

The budget includes \$7,110,400 and 28 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$6,700 from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Arizona Promotion

The budget includes no funding in FY 2016 for Arizona Promotion. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2016 for the elimination of one-time funding for the Arizona Promotion Special Line Item.

Monies in this line item funded the promotion of the tourism industry and tourism efforts in the state.

Other Issues

Funding Sources

The Office of Tourism receives funding from 3 primary sources: 1) a General Fund appropriation to fund the agency's operating budget; 2) a transfer from AZSTA, generated from partial allocations of a bed tax and car rental tax in Maricopa County (A.R.S. § 5-835), to fund Maricopa County tourism promotion; and 3) a portion of tribal gaming contributions (A.R.S. § 5-601.02) to fund statewide tourism promotion. *(For further details on agency revenues, please see Table 1.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum in the form of a deposit to the Tourism Fund.

Table 1

Office of Tourism Revenues

<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
<u>General Fund Appropriation</u>				
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$7,102,600	\$ 9,103,700	\$7,110,400
<u>Sports and Tourism Authority</u>				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302 - 2000)	Tourism Fund	7,015,100	7,574,100	7,952,800
<u>Tribal Gaming</u>				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>6,159,500</u>	<u>6,159,500</u> ^{1/}	<u>6,295,500</u> ^{1/}
Total		\$20,277,200	\$22,837,300	\$21,358,700

^{1/} The Tribal Gaming amounts for FY 2015 and FY 2016 are JLBC estimates.

Department of Transportation

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,548.0	4,548.0	4,548.0 ^{1/}
Personal Services	96,429,300	96,558,900	96,558,900
Employee Related Expenditures	44,212,500	43,349,900	42,272,500
Professional and Outside Services	4,485,000	4,522,000	4,107,200
Travel - In State	784,600	837,100	837,100
Travel - Out of State	178,400	205,500	205,500
Other Operating Expenditures	47,278,300	54,452,700	54,901,900
Equipment	6,564,200	7,089,300	7,089,300
OPERATING SUBTOTAL	199,932,300	207,015,400	205,972,400
SPECIAL LINE ITEMS			
Attorney General Legal Services	2,895,600	2,895,600	3,310,400
Fraud Investigation	770,400	773,600	768,500
Highway Maintenance	136,300,900	136,202,000	137,852,700 ^{2/}
New Third Party Funding	965,800	971,500	965,300
Vehicles and Heavy Equipment	17,112,500	18,507,000	18,545,500
AGENCY TOTAL	357,977,500	366,365,100	367,414,800 ^{3/4/5/6/}
FUND SOURCES			
General Fund	4,100	50,400	50,400
<u>Other Appropriated Funds</u>			
Air Quality Fund	34,700	74,500	74,200
Driving Under the Influence Abatement Fund	153,800	153,900	153,200
Highway User Revenue Fund	650,700	651,800	652,700
Motor Vehicle Liability Insurance Enforcement Fund	1,080,100	1,087,100	1,082,600
Safety Enforcement and Transportation Infrastructure Fund	1,878,200	1,881,000	1,875,500
State Aviation Fund	1,606,800	1,624,900	1,622,900
State Highway Fund	333,998,100	340,869,900	341,899,700
Transportation Department Equipment Fund	17,112,500	18,507,000	18,545,500
Vehicle Inspection and Title Enforcement Fund	1,458,500	1,464,600	1,458,100
SUBTOTAL - Other Appropriated Funds	357,973,400	366,314,700	367,364,400
SUBTOTAL - Appropriated Funds	357,977,500	366,365,100	367,414,800
Other Non-Appropriated Funds	34,378,600	169,568,800	169,568,800
Federal Funds	2,979,800	2,000,000	2,000,000
TOTAL - ALL SOURCES	395,335,900	537,933,900	538,983,600

AGENCY DESCRIPTION — The Arizona Department of Transportation (ADOT) has jurisdiction over state roads, state airports, and the registration of motor vehicles and aircraft.

^{1/} Includes 1,188 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} Of the total amount appropriated, \$137,852,700 in FY 2016 for Highway Maintenance is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all unexpended and unencumbered monies of the appropriation revert to their fund of origin, either the State Highway Fund or the Safety Enforcement and Transportation Infrastructure Fund, on August 31, 2016. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{3/} It is the intent of the Legislature that the department not include any administrative overhead expenditures in duplicate driver license fees charged to the public. (General Appropriation Act footnote)

^{4/} Of the total amount appropriated, the Department of Transportation shall pay \$16,773,800 in FY 2016 from all funds to the Department of Administration for its Risk Management payment. (General Appropriation Act footnote)

^{5/} The Department of Transportation shall submit an annual report to the Joint Legislative Budget Committee on progress in improving Motor Vehicle Division wait times and vehicle registration renewal by mail turnaround times in a format similar to prior years. The report is due on July 31, 2016 for FY 2016. (General Appropriation Act footnote)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$205,972,400 and 3,360 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$50,400
Air Quality Fund	74,200
Driving Under the Influence Abatement Fund	153,200
Highway User Revenue Fund	399,400
Motor Vehicle Liability Insurance Enforcement Fund	878,700
Safety Enforcement and Transportation Infrastructure Fund	1,313,000
State Aviation Fund	1,622,900
State Highway Fund	200,102,800
Vehicle Inspection & Title Enforcement Fund	1,377,800

These amounts fund the following adjustments:

Attorney General Realignment

The budget includes a decrease of \$(414,800) from the State Highway Fund in FY 2016 to shift funding from the operating budget to the Attorney General Legal Services line item, aligning all Attorney General resources into a single line item. There is no net change in agency resources.

Statewide Adjustments

The budget includes a decrease of \$(628,200) in FY 2016 for statewide adjustments. This amount consists of:

Air Quality Fund	(300)
Driving Under the Influence Abatement Fund	(700)
Highway User Revenue Fund	2,700
Motor Vehicle Liability Insurance Enforcement Fund	(3,300)
Safety Enforcement and Transportation Infrastructure Fund	(5,500)
State Aviation Fund	(2,000)
State Highway Fund	(613,100)
Vehicle Inspection & Title Enforcement Fund	(6,000)

(Please see the Agency Detail and Allocations section.)

Attorney General Legal Services

The budget includes \$3,310,400 from the State Highway Fund in FY 2016 for Attorney General Legal Services. This amount funds the following adjustments:

Attorney General Realignment

The budget includes an increase of \$414,800 from the State Highway Fund in FY 2016 to shift funding from the operating budget to the Attorney General Legal Services line item, aligning all Attorney General resources into a single line item. There is no net change in agency resources.

Monies in this line item reimburse the Attorney General for costs of providing legal services to the department, such as litigating cases, reviewing legal documents and proposed administrative rules, and issuing legal opinions.

Fraud Investigation

The budget includes \$768,500 and 10 FTE Positions from the State Highway Fund in FY 2016 for Fraud Investigation. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,100) from the State Highway Fund in FY 2016 for statewide adjustments.

Monies in this line item are used for investigation of fraudulent driver's licenses and motor vehicle documents.

Highway Maintenance

The budget includes \$137,852,700 and 932 FTE Positions in FY 2016 for Highway Maintenance. These amounts consist of:

Safety Enforcement and Transportation Infrastructure Fund	562,500
State Highway Fund	137,290,200

These amounts fund the following adjustments:

Highway Maintenance Workload

The budget includes an increase of \$2,086,000 from the State Highway Fund in FY 2016 to maintain and operate 173 new lane miles.

Statewide Adjustments

The budget includes a decrease of \$(435,300) from the State Highway Fund in FY 2016 for statewide adjustments.

In addition to the \$137,852,700 included for Highway Maintenance, the Proposition 400 Maricopa County half-cent sales tax extension makes another \$12,900,000 available in FY 2016 for landscape maintenance, trash pick-up, sweeping, and litter education from the non-appropriated Maricopa Regional Area Road Fund.

Monies in this line item are used to maintain the state highway system, including pavements, bridges, landscaping,

drainage, signals, lights, fences, signs, striping, and snow removal. The monies also fund the freeway management system and the traffic operations center.

New Third Party Funding

The budget includes \$965,300 and 21 FTE Positions in FY 2016 for New Third Party Funding. These amounts consist of:

Highway User Revenue Fund	253,300
Motor Vehicle Liability Insurance Enforcement Fund	203,900
State Highway Fund	427,800
Vehicle Inspection & Title Enforcement Fund	80,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(6,200) in FY 2016 for statewide adjustments. This amount consists of:

Highway User Revenue Fund	(1,800)
Motor Vehicle Liability Insurance Enforcement Fund	(1,200)
State Highway Fund	(2,700)
Vehicle Inspection & Title Enforcement Fund	(500)

Monies in this line item provide funding to review authorized third party transactions for accuracy. The funding also provides support for authorized third parties, which allow customers to receive Motor Vehicle Division services at non-ADOT locations.

Vehicles and Heavy Equipment

The budget includes \$18,545,500 and 225 FTE Positions from the Transportation Department Equipment Fund in FY 2016 for Vehicles and Heavy Equipment. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$38,500 from the Transportation Department Equipment Fund in FY 2016 for statewide adjustments.

Monies in this line item allow the department to maintain and replace the department's fleet and perform motor pool services for other state agencies.

Additional Legislation

Division of Weights and Measures

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department

of Agriculture as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the new Division within the Arizona Department of Agriculture, with the exception of responsibilities relating to taxis, limousines and livery vehicles, which are transferred to ADOT.

Pursuant to A.R.S. § 35-146 and 35-147, all fees currently collected by the Department of the Weights and Measures will continue to be deposited into the General Fund by the successor agencies. All personnel under the state personnel system who are employed by the Department of Weights and Measures are transferred to comparable positions and pay classifications in the Weights and Measures Services Division and ADOT on July 1, 2016.

The bill also requires the Arizona Department of Administration (ADOA) to facilitate the transfer of equipment, records, data and appropriated monies of the Department of Weights and Measures that remain unexpended and unencumbered to the Arizona Department of Agriculture and ADOT by July 1, 2016. The Director of ADOA will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. *(Please see the Department of Weights and Measures and the Arizona Department of Agriculture for more information.)*

Special Plates

The following special plate funds were added in 2015:

- Arizona Professional Golf (Laws 2015, Chapter 59)
- Community College District Collegiate (Laws 2015, Chapter 295)
- Firefighter (Laws 2015, Chapter 59)
- Health Sciences Educational Institution (Laws 2015, Chapter 124)
- Military Scholarship (Laws 2015, Chapter 96)

In order to establish these special plates, an entity must pay the \$32,000 implementation fee. Of the \$25 annual fee for the special plate, \$8 is deposited in the State Highway Fund and \$17 is a donation to the specified charity.

(Please see the Community Colleges and Veterans' Services narratives for information about the community college special plates and the military scholarship special plate.)

Other Issues

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Economic Strength Project Fund	\$4,560,000
Highway Expansion and Extension Loan Program Fund	20,000,000
State Aviation Fund	15,000,000
Motor Vehicle Liability Insurance Enforcement Fund	2,000,000

The budget also includes a transfer of \$710,000 in FY 2015 from the Motor Vehicle Liability Insurance Enforcement Fund to the Safety Enforcement and Transportation Infrastructure Fund. This transfer resolves a shortfall in the Safety Enforcement and Transportation Infrastructure Fund.

State Treasurer

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.4	30.4	30.4
Personal Services	1,623,900	1,725,300	1,725,300
Employee Related Expenditures	663,500	675,900	662,100
Professional and Outside Services	196,100	167,900	167,900
Travel - In State	700	2,000	2,000
Travel - Out of State	2,800	0	0
Other Operating Expenditures	236,700	250,800	290,800
OPERATING SUBTOTAL	2,723,700	2,821,900	2,848,100
SPECIAL LINE ITEMS			
Ch. 231 Virtual Border Fence; Appropriation	0	0	12,100 ^{1/}
Justice of the Peace Salaries	1,205,100	1,205,100	1,205,100
Law Enforcement/ Boating Safety Fund Grants	1,913,200	2,183,800	2,183,800
AGENCY TOTAL	5,842,000	6,210,800	6,249,100^{2/}
FUND SOURCES			
General Fund	1,205,100	1,205,100	1,205,100
<i>Other Appropriated Funds</i>			
Border Security Trust Fund	0	0	12,100
Law Enforcement and Boating Safety Fund	1,913,200	2,183,800	2,183,800
State Treasurer Empowerment Scholarship Account Fund	40,000	40,000	79,700
State Treasurer's Management Fund	197,500	197,600	196,600
State Treasurer's Operating Fund	2,486,200	2,584,300	2,571,800
SUBTOTAL - Other Appropriated Funds	4,636,900	5,005,700	5,044,000
SUBTOTAL - Appropriated Funds	5,842,000	6,210,800	6,249,100
Other Non-Appropriated Funds	4,772,400	4,772,400	4,772,400
TOTAL - ALL SOURCES	10,614,400	10,983,200	11,021,500

AGENCY DESCRIPTION — The State Treasurer is an elected Constitutional Officer. The primary responsibilities of the office are to receive and keep custody over all monies belonging to the state that are not required to be kept by another entity, to pay warrants of the Arizona Department of Administration, and to keep an account of all monies received and disbursed. The office also invests state monies and operates the Local Government Investment Pool (LGIP) for the benefit of participating units of local government.

Operating Budget

The budget includes \$2,848,100 and 30.4 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
State Treasurer Empowerment Scholarship Account Fund	\$79,700
State Treasurer's Management Fund	196,600
State Treasurer's Operating Fund	2,571,800

These amounts fund the following adjustments:

Empowerment Scholarship Account Increase

The budget includes an increase of \$40,000 from the State Treasurer Empowerment Scholarship Account (ESA) Fund in FY 2016 to provide additional resources for the Treasurer to manage increasing Empowerment Scholarship caseloads.

The State Treasurer Empowerment Scholarship Account Fund is funded with monies retained from students' ESAs

^{1/} Laws 2015, Chapter 231 appropriated all revenues collected by the Border Security Trust Fund in FY 2015 and FY 2016 to the Joint Border Security Advisory Committee for the purposes of administering and managing the construction and maintenance of a border fence. This amount is estimated to be \$12,100.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

pursuant to A.R.S. § 15-2402C. That law allows the Arizona Department of Education (ADE) to retain 5% of each student's ESA funding for program administration, which for FY 2015 would have been as much as \$865,000 (an estimated \$17,300,000 ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer Empowerment Scholarship Account Fund for the costs of ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. *(Please see the Arizona Department of Education narrative for more information on ESAs.)*

Statewide Adjustments

The budget includes a decrease of \$(13,800) in FY 2016 for statewide adjustments. This amount consists of:

State Treasurer Empowerment Scholarship Account Fund	(300)
State Treasurer's Management Fund	(1,000)
State Treasurer's Operating Fund	(12,500)

(Please see the Agency Detail and Allocations section.)

Ch. 231 Virtual Border Fence; Appropriation

Laws 2015, Chapter 231 appropriates \$12,100 from the Border Security Trust Fund in FY 2016 for the development of a fence along the Arizona-Mexico border. This amount funds the following adjustments:

Border Security Appropriation

The budget includes an increase of \$12,100 from the Border Security Trust Fund in FY 2016 to allow for the construction of a border fence.

Laws 2015, Chapter 231 appropriates all monies received by the Border Security Trust Fund in FY 2015 and FY 2016 to the Border Security Advisory Committee for the construction and maintenance of a fence along the Arizona-Mexico border. This amount is estimated to be approximately \$12,100. Prior to this bill, Laws 2012, Chapter 247 appropriated all of the monies received by the fund in FY 2012 and FY 2013 for the construction of a border fence, although no monies have been expended to date.

Justice of the Peace Salaries

The budget includes \$1,205,100 from the General Fund in FY 2016 for the Justice of the Peace (JP) Salaries Special Line Item. This amount is unchanged from FY 2015.

A.R.S. § 22-117 requires the state to pay 19.25% of the salary for each Justice of the Peace, with the county paying the remainder. This provision does not apply to

Maricopa County, which pays 100% of its JP costs. The FY 2014 Criminal Justice Budget Reconciliation Bill (Laws 2013, 1st Special Session, Chapter 5) permanently limited the amount that the state can reimburse to the counties to the amount appropriated.

Justice of the Peace salaries are based on a proportion of the annual compensation for a Superior Court judge as determined by the guidelines for Judicial Productivity Credits (JPCs) outlined in statute. JPCs are calculated every 2 years and are based on the total and type of cases that a Justice of the Peace hears and whether or not the Justice receives clerical help. An annual average JPC total is compared against the salary ranges in statute to determine an individual Justice's compensation.

Law Enforcement/Boating Safety Fund Grants

The budget includes \$2,183,800 from the Law Enforcement and Boating Safety Fund (LEBSF) in FY 2016 for the administration of the Law Enforcement/Boating Safety Fund grants. This amount is unchanged from FY 2015.

A.R.S. § 5-383 requires the State Treasurer to administer LEBSF monies. However, the allocation determinations are made by the Arizona Game and Fish Commission. The Treasurer disburses monies to county law enforcement agencies in Apache, Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, and Yuma counties in accordance with the distribution formula developed by the Arizona Game and Fish Commission. The FY 2014 allocation is included in *Table 1*. The distribution is less than the appropriation due to insufficient revenues.

County	FY 2014	FY 2015 Thru March 31
Apache	\$ 54,700	\$ 36,700
Coconino	222,500	124,000
Gila	187,700	121,800
La Paz	319,900	224,700
Maricopa	324,300	235,100
Mohave	563,000	361,800
Navajo	61,300	42,000
Yuma	179,800	123,500
Total	\$1,913,200	\$1,269,600

Laws 2014, Chapter 127 redirected fees for operating watercraft while "under the influence" from the Public Safety Equipment Fund to LEBSF and created a new \$500 fee for individuals who refuse a sobriety test and are convicted of operating a watercraft while under the influence. These fees are deposited into LEBSF and are subject to legislative appropriation. This shift is projected to increase LEBSF revenues by approximately \$601,500 in FY 2015.

<i>Additional Legislation</i>

Transfer of Arizona Commission of African-American Affairs

The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12) transfers the administration of the Arizona Commission of African-American Affairs Fund from the Treasurer to the Arizona Commission of African-American Affairs. *(Please see the Arizona Commission of African-American Affairs for more information.)*

Transfer of Indebtedness Report to Treasurer

Laws 2015, Chapter 221 transfers the state indebtedness reporting requirement and the Debt Oversight Commission from the Department of Revenue to the State Treasurer. The report is to be transmitted by December 15th yearly to the Governor, President of the Senate, and Speaker of the House and shall include all bonds, certificates of participation, or other debt issued for a term in excess of 1 year by both state and local governmental entities. The Debt Oversight Commission shall be chaired by the Treasurer and comprised of 4 private citizens with a financial background. The commission is required to review state and local debt data and report to the Governor and Legislature any findings and recommendations.

Commission on Uniform State Laws

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SPECIAL LINE ITEMS			
National Dues and Travel	75,000	0	0
AGENCY TOTAL	75,000	0	0
FUND SOURCES			
General Fund	75,000	0	0
SUBTOTAL - Appropriated Funds	75,000	0	0
TOTAL - ALL SOURCES	75,000	0	0

AGENCY DESCRIPTION — The commissioners are members of the National Uniform Laws Commission, which meets annually to discuss where uniformity among the 50 states is desirable. The commission then recommends to the Legislature proposed uniform laws promulgated by the National Commission which are deemed appropriate for Arizona.

National Dues and Travel

The budget includes no funding in FY 2016 for the National Dues and Travel Special Line Item. This amount is unchanged from FY 2015.

Monies in this line item were used to pay annual membership dues to the National Uniform Laws Commission, in addition to travel expenses for Arizona’s 6 commissioners to attend various committees throughout the year. In FY 2014, a total of \$54,000 was used for dues; the remaining \$21,000 was used for travel expenses.

The FY 2007 Budget Procedures Budget Reconciliation Bill (Laws 2007, Chapter 259) eliminated the agency’s statutory authority. The commission was reestablished by Executive Order on July 24, 2007, but did not receive any appropriation until FY 2014 for 1 year.

Arizona Board of Regents

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,622,500	1,497,500	1,497,500
Employee Related Expenditures	460,900	551,000	551,000
Professional and Outside Services	20,300	24,000	24,000
Other Operating Expenditures	245,600	280,000	280,000
OPERATING SUBTOTAL	2,349,300	2,352,500	2,352,500
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	5,000,000	5,000,000 ^{1/2/3/4/}
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	131,000	137,000	137,000
WICHE Student Subsidies	4,077,400	4,094,000	4,094,000
AGENCY TOTAL	21,902,600	21,928,400	21,928,400 ^{5/}
FUND SOURCES			
General Fund	21,902,600	21,928,400	21,928,400
SUBTOTAL - Appropriated Funds	21,902,600	21,928,400	21,928,400
Other Non-Appropriated Funds	12,728,600	16,244,800	11,310,800
Federal Funds	387,600	1,085,000	939,700
TOTAL - ALL SOURCES	35,018,800	39,258,200	34,178,900

AGENCY DESCRIPTION — Article 11 of the Arizona Constitution creates the Arizona Board of Regents (ABOR). ABOR governs the 3 state institutions comprising the Arizona University System: Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The board is legally, fiscally, and strategically responsible for the state universities.

Operating Budget

The budget includes \$2,352,500 and 25.9 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts are unchanged from FY 2015.

Arizona Teachers Incentive Program

The budget includes \$90,000 from the General Fund in FY 2016 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2015.

^{1/} The Arizona Board of Regents shall allocate the \$5,000,000 appropriation for performance funding to the 3 universities under its jurisdiction in accordance with a performance funding model to be adopted by the board that is substantially similar to what the board used in allocating the performance funding appropriation for FY 2015. (General Appropriation Act footnote)

^{2/} It is the intent of the Legislature that the Arizona Board of Regents adopt a performance funding model and report to the Joint Legislative Budget Committee the final allocation of the \$5,000,000 performance funding lump sum appropriation on or before July 1, 2015. The formula shall be consistent with board objectives previously adopted in the board's enterprise plan. The performance funding model shall use select performance metrics that include, at a minimum, the increase in degrees awarded, the increase in completed student credit hours and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy. (General Appropriation Act footnote)

^{3/} It is further the intent of the Legislature that the Arizona Board of Regents use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities under the jurisdiction of the Arizona Board of Regents. (General Appropriation Act footnote)

^{4/} Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan for review to the Joint Legislative Budget Committee. The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year. The additional revenue expenditure plan shall provide as much detail as the university budget requests. (General Appropriation Act footnote)

^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Laws 1990, Chapter 340 mandated that ABOR establish and administer a loan program for students of deaf and blind education at the UA College of Education. Students may earn forgiveness for their loans by teaching in an Arizona deaf and blind program for a time equal to their period of loan support. In FY 2014, ATIP distributed \$50,000 in loans among 10 students, as well as \$40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System

The budget includes \$213,700 from the General Fund in FY 2016 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2015.

A.R.S. § 15-1824 establishes ATASS as a joint initiative, among the public community colleges and universities, to facilitate efficient transfer of course curricula and credits. ATASS is also developing a shared statewide student and financial information database. The tribal colleges and community college districts overall contributed \$277,200 to the system in FY 2014 and are projected to also contribute \$277,200 in both FY 2015 and FY 2016.

Performance Funding

The budget includes \$5,000,000 from the General Fund in FY 2016 for the Performance Funding line item. This amount is unchanged from FY 2015 and represents a continuation of the same \$5,000,000 that was appropriated in FY 2015.

The FY 2015 appropriation of \$5,000,000 to ABOR was distributed as follows:

- \$2,348,800 to ASU - Tempe/Downtown Phoenix (DPC)
- \$165,300 to ASU - East
- \$190,900 to ASU - West
- \$1,090,000 to NAU
- \$1,205,000 to UA - Main

These amounts are the same as the FY 2014 performance funding. The FY 2016 budget retains these same \$5,000,000 funds in ABOR with the distribution by university to be determined later.

The \$5,000,000 was first appropriated in FY 2013. These funds were distributed as follows:

- \$2,192,000 to ASU - Tempe/Downtown Phoenix (DPC)
- \$156,300 to ASU - East
- \$271,700 to ASU - West
- \$1,035,000 to NAU
- \$1,345,000 to UA - Main

Unlike the FY 2014 and FY 2015 monies, the FY 2013 allocation is appropriated directly to each university.

In summary, the FY 2013 - FY 2016 budgets provided a total increase of \$10,000,000 from the General Fund for performance funding. Of that amount, \$5,000,000 has been allocated to individual campuses and \$5,000,000 remains in ABOR.

Background - The FY 2013 Higher Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 301) required ABOR and the universities to adopt a performance funding model by July 1, 2012. The model uses performance metrics that include the increase in degrees awarded, the increase in completed student credit hours, and the increase in externally generated research and public service funding, and may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy. Continuing General Appropriation Act footnotes require that ABOR report the final allocation of performance funding to the JLBC by July 1 of each year, and that the allocation model be similar to that used in FY 2015 and take into account the metrics outlined in a separate footnote stating legislative intent.

A General Appropriation Act footnote requires that ABOR use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities.

Student Financial Assistance

The budget includes \$10,041,200 from the General Fund in FY 2016 for Student Financial Assistance. This amount is unchanged from FY 2015.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The Arizona Financial Aid Trust (AFAT) fee is 1% of the full-time resident undergraduate tuition rate, or \$51 - \$95 in FY 2015, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee. The FY 2016 Higher Education BRB (Laws 2015, Chapter 16) continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2016.

AFAT retains 25% of all annual receipts as an endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy in-state students. In FY 2014, AFAT disbursed \$19,080,400. *(Please see Table 5 for additional information on financial aid.)*

Western Interstate Commission Office

The budget includes \$137,000 from the General Fund in FY 2016 for the Western Interstate Commission Office. This amount is unchanged from FY 2015.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies

The budget includes \$4,094,000 from the General Fund in FY 2016 for WICHE student subsidies. This amount is unchanged from FY 2015.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not offer programs in dentistry, optometry, occupational therapy, osteopathy, physician assistance, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

In FY 2015, the board is providing subsidies to 172 Arizona students, which is (2) fewer than FY 2014. Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 100% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

Additional Legislation

Tuition Waivers

Laws 2015, Chapter 69 changes the criteria for a tuition waiver for persons formerly in foster care from the age of 21 to the age of 23.

In-State Tuition for Veterans

Laws 2015, Chapter 201 provides immediate in-state status to veterans enrolling at a public Arizona university or community college who receives GI bill funding.

Laws 2015, Chapter 304 establishes a tuition waiver program for members of the Arizona National Guard who either: a) have completed initial active duty training and are in good standing as an active member or b) had their enrollment interrupted by active duty service. The legislation includes the following provisions:

- Prohibits public universities and/or community colleges from using basic operating monies to offset the costs of providing tuition.
- Sets the effective date of the legislation at the start of the 2017-2018 academic year.
- Makes program conditional on there being enough private monies, grants, and other monies available in FY 2018 to reimburse the public institution of higher learning, with ABOR certifying this to Legislative Council.

There is no expected General Fund impact. Since National Guard members are eligible for federal aid that covers the cost of tuition at community colleges, there is no expected cost to the community colleges for these students. The universities would be responsible for the costs beyond the annual federal tuition assistance of \$4,500. The FY 2015 public university tuition weighted average is \$10,200, so the cost to the University for the foregone tuition revenues from an enrolled National Guard member in the future would be at least \$5,700. The total amount of foregone tuition revenues to the universities in FY 2018 is dependent on the number of enrolled military veterans and future tuition costs.

Education Learning and Accountability Fund

The FY 2016 K - 12 Education Budget Reconciliation Bill (Laws 2015, Chapter 15) continues to require each university and community college to deposit \$6 per each full-time student into the Department of Education's Education Learning and Accountability Fund by December 1, 2015. This assessment is expected to generate \$869,800 from the universities and \$768,500 from the community colleges. *(Please see the Arizona Department of Education budget narrative for more information.)*

Other Issues

University System Reductions

The university budgets include a systemwide reduction of \$(99,000,000) from the General Fund in FY 2016. The distribution of the reduction is based on the Governor's proposed \$(75) million reduction that distributed the cuts proportionally based on fall 2013 student enrollment. The Executive used the enrollment numbers shown in *Table 6* under the column "Lump Sum Reduction." For UA and UA-Health Science Center (HSC), the Executive determined the adjustment for UA-HSC based on the medical student enrollment, and included the other health sciences students under UA-Main.

The reduction is allocated among the universities as follows:

ASU-Tempe/DPC	\$ (45,219,400)
ASU-East	(3,597,300)
ASU-West	<u>(4,437,400)</u>
ASU Subtotal	\$ (53,254,100)
NAU	\$ (17,303,500)
UA-Main	\$ (27,941,100)
UA-HSC	<u>(501,300)</u>
UA Subtotal	\$ (28,442,400)
Total	\$ (99,000,000)

In total, FY 2016 university funding declined by (\$107,576,800). This amount includes:

- \$(99.0) million lump sum reduction by campus.
- \$(6.1) million for statewide adjustments.
- \$(2.5) million for research infrastructure refinancing.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ABOR General Fund costs are projected to increase by \$5,998,900 in and FY 2017 above FY 2016, and \$3,698,900 in FY 2018 over FY 2017.

The additional FY 2017 and FY 2018 costs include:

- An increase of \$3.9 million in FY 2017 over FY 2016, and a total increase of \$3.7 million in FY 2018 over FY 2017 for 2003 Research Infrastructure Financing payments. These payments were refinanced in FY 2014 which primarily resulted in one-time savings in FY 2015 to FY 2017. *(Please see 2003 Research Infrastructure Refinancing for more information.)*

- \$(6.1) million FY 2017 below FY 2016 for the annualization of the employee health care statewide adjustments.
- \$8.1 million in FY 2017 over FY 2016 to offset expected reductions associated with annualization of employee health care savings. These savings were estimated at \$(8.1) million, but will now be \$(6.1) million.

Parity Funding

Beginning in FY 2013, the Legislature began appropriating funds to ASU and NAU to increase their per pupil General Fund support to the higher level of UA. The original intent of the parity funding was to add \$76.4 million collectively to the ASU and NAU budgets in \$15.3 million annual increments between FY 2013 and FY 2017. The FY 2013 budget added the first \$15.3 million. The FY 2014 budget added another \$15.3 million (for a total of \$30.5 million).

Rather than continue to fund a new incremental parity appropriation through FY 2017, the FY 2015 budget added an additional final parity appropriation of \$27.5 million for a total of \$58.0 million. In making the FY 2015 appropriation, the legislative intent was that the parity funding would continue at this level without further increases.

The \$58,040,000 was allocated as follows:

- \$38,843,100 to ASU - Tempe/Downtown Phoenix
- \$6,647,000 to ASU - East
- \$12,549,900 to NAU

The parity funding for FY 2016 and beyond is rolled into the operating budgets of ASU and NAU, and the FY 2016 budget eliminated any associated footnotes.

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267 appropriated for FY 2008 to FY 2031 monies for lease-purchase capital financing of research infrastructure projects such as installations and facilities for continuance and growth of scientific and technological research activities at the university to the respective universities each year.

The budget includes a reduction of \$(2.5) million from the General Fund in FY 2016 to amend research infrastructure lease-purchase payments to their actual debt service obligations. ABOR refinanced the Certificates of Participation (COPs) for the 2003 research infrastructure appropriation, resulting in total savings across all 3 universities of \$(5.6) million in FY 2015, \$(8.1) million in FY 2016 and \$(4.3) million in FY 2017. The \$(2.5) million reduction reflects the

additional savings in FY 2016 beyond that of FY 2015. Since Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations by these amounts through FY 2017, the additional savings do not appear in the FY 2016 General Appropriation Act. Due to Section 134, the General Fund amounts need to be adjusted by \$(2,523,300) for ASU, \$1,700 for NAU, and \$400 for UA. The university savings are as follows:

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
ASU	\$ (522,600)	\$(3,045,900)	\$(2,329,800)
NAU	(408,500)	(406,800)	(1,653,200)
UA	<u>(4,659,800)</u>	<u>(4,659,400)</u>	<u>(274,600)</u>
Total	\$(5,590,900)	\$(8,112,100)	\$(4,257,600)

After FY 2017, the savings are generally less than \$600,000. The majority of the savings would accrue to NAU. (Please see *Capital Outlay - Arizona Board of Regents* section for additional information.)

Payment Deferral

The budget includes \$200,000,000 from the General Fund for universitywide FY 2015 payments deferred until FY 2016 and includes a universitywide FY 2016 General Fund payment deferral of \$(200,000,000) until FY 2017. The payment deferral has been unchanged since FY 2011.

The FY 2016 payment deferrals are allocated among the universities as follows:

ASU-Tempe/DPC	\$ (74,760,400)
ASU-East	(5,750,200)
ASU-West	<u>(10,064,800)</u>
ASU Subtotal	\$ (90,575,400)
NAU	\$ (30,494,800)
UA-Main	\$ (62,153,100)
UA-HSC	<u>(16,776,700)</u>
UA Subtotal	<u>\$ (78,929,800)</u>
Total	\$(200,000,000)

University System Summary Tables

The University Summary Tables address the following:

- Total Spending Authority
- Tuition Distribution
- Tuition Rates
- Financial Aid
- Enrollment

Total Spending Authority

In total, the Universities' total projected spending authority is \$4.8 billion, including \$660.8 million from the General Fund and \$1.9 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2016 tuition rate changes. *Table 2* summarizes the FY 2016 expenditure authority amounts for the Arizona University System.

Distribution of Tuition

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes financial aid, facilities (plant fund), debt service, and some of their operating budget. Total tuition collections for the Arizona University System equal an estimated \$1.8 billion in FY 2015 and \$1.9 billion in FY 2016 (see *Table 3*). The FY 2016 amount reflects estimated student growth, but does not include tuition changes approved in May 2015.

Tuition Rates

ABOR approved FY 2016 tuition rates on May 4, 2015:

- Over the previous 6 years, NAU has maintained a guaranteed tuition model for incoming freshman. NAU is increasing undergraduate resident tuition by 3.7% for new students.
- UA began a similar program in FY 2015. The rates for new students will increase, but current students can opt-in at the FY 2015 rates. UA is increasing undergraduate resident tuition by 4.1% for new students.
- For FY 2016, ASU resident undergraduate students did not see a tuition increase, but will be charged a \$320 tuition surcharge fee (representing a 3.2% increase to tuition and mandatory fees).

Table 4 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The University System distributed \$2.0 billion in financial aid in FY 2014. Of the \$2.0 billion total financial aid distributions in FY 2014, the federal government financed \$923 million and university institutional sources provided \$670 million. The latter includes tuition collections set aside for financial aid. (See *Table 5* for details.)

Enrollment

Between fall 2013 and fall 2014, university enrollment increased from 140,144 FTE to 146,611 FTE, or 4.6%, as displayed in *Table 6*. Spring enrollment is traditionally lower than the fall.

Table 2

FY 2016 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total
	General Fund ^{1/}	Collections Fund ^{2/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds	
ABOR	\$ 21,928,400	\$ 0	\$ 0	\$ 939,700	\$ 11,310,800	\$ 34,178,900
ASU-Tempe/DPC	239,189,400	516,159,000	0	291,467,000	940,803,000	1,987,618,400
ASU-East	22,162,700	29,466,500	2,000,000	6,344,000	14,669,000	\$74,642,200
ASU-West	28,754,100	40,917,600	1,600,000	11,567,000	20,977,000	\$103,815,700
NAU	100,917,600	132,857,500	0	75,631,500	213,856,400	\$523,263,000
UA-Main	179,499,400	300,783,000	0	241,771,900	943,465,200	1,665,519,500
UA-Health Sciences	68,393,500	43,315,600	0	97,012,500	235,951,500	444,673,100
Total	\$660,845,100	\$1,063,499,200	\$3,600,000	\$724,733,600	\$2,381,032,900	\$4,833,710,800

^{1/} Includes statewide adjustments.

^{2/} Represents only appropriated share of tuition; excludes FY 2016 tuition rate changes.

Table 3

Tuition Revenue Allocation

	FY 2014 <u>Actual</u>	FY 2015 <u>Estimate</u>	FY 2016 <u>Estimate</u> ^{2/}
Appropriated			
Operating Budget	\$ 956,217,600	\$ 1,065,168,200 ^{1/}	\$ 1,063,499,200
Non-Appropriated			
Operating Budget	\$ 160,930,800	\$ 191,571,500	\$ 223,252,000
Financial Aid	430,025,400	465,718,800	481,607,900
Plant Fund	31,332,600	33,463,300	40,055,800
Debt Service	<u>89,608,200</u>	<u>86,312,800</u>	<u>92,346,300</u>
<i>Subtotal</i>	\$ 711,897,000	\$ 777,066,400	\$ 837,262,000
Total	\$1,668,114,600	\$1,842,234,700	\$1,900,761,200

^{1/} This amount reflects appropriated tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its September 2014 meeting.

^{2/} The source for these non-appropriated amounts are the universities' FY 2016 budget requests from October 2014. The appropriated amount includes all FY 2016 estimated tuition collections and fees at that time as adjusted for statewide adjustments, but do not reflect FY 2016 tuition adjustments that were approved by ABOR in May 2015.

Table 4

Arizona University System
FY 2016 Undergraduate and Graduate Tuition and Mandatory Fees ^{1/}

	Resident Undergraduate		Resident Graduate		Non-Resident Undergraduate		Non-Resident Graduate	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,478 ^{2/}	3.2%	\$11,604 ^{2/}	2.8%	\$25,458 ^{3/}	3.9%	\$27,760	3.9%
NAU	\$10,358 ^{4/}	3.7%	\$9,606	4.8%	\$23,348 ^{4/}	3.7%	\$21,244	4.9%
UA	\$11,403 ^{4/}	4.1%	\$12,048	2.8%	\$32,630 ^{4/}	10.9%	\$30,370	5.8%

^{1/} The table displays base tuition and fees for the main campuses. Other campuses, satellite locations, and some online programs have different rates. Additional details for the FY 2016 rates set by ABOR can be found [here](#).

^{2/} ASU resident tuition includes a \$320 one-year temporary fee.

^{3/} ABOR approved a rate of \$26,584 for international undergraduate students at ASU.

^{4/} Reflects guaranteed tuition rate for new students at NAU and UA.

Table 5

FY 2014 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}

	<u>Federal</u>	<u>State</u> ^{2/}	<u>Institutional</u> ^{3/}	<u>Private/Other</u> ^{4/}	<u>Total</u>
Grants	\$225,307.1	\$1,672.4	\$502,710.1	\$185,226.3	\$ 914,915.9
Loans	690,815.0	229.1	60.1	229,708.4	920,812.6
Employment	<u>7,191.9</u>	<u>0.0</u>	<u>166,750.4</u>	<u>0.0</u>	<u>173,942.3</u>
Total	\$923,314.0	\$1,901.5	\$669,520.6	\$414,934.7	\$2,009,670.9 ^{5/}

^{1/} Information provided by ABOR.

^{2/} State sources of aid include revenues from the Commission for Postsecondary Education.

^{3/} Institutional sources of aid include revenues from: Local Retention, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.

^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

^{5/} Numbers do not add due to rounding.

Table 6

Arizona University System 45th Day Enrollment ^{1/}

	<u>Fall 2013</u>	<u>Spring 2014</u>	<u>Fall 2014</u>	<u>Spring 2015</u>	<u>Fall 2013 to Fall 2014 % Change</u>	<u>Lump Sum</u> ^{2/} <u>Calculation</u>
ASU-Tempe/ DPC	64,393	61,346	68,612	66,770	6.6%	64,852
ASU-East	5,177	4,992	5,687	5,744	9.8%	5,159
ASU-West	6,344	5,995	6,610	7,282	4.2%	6,364
NAU	24,593	23,367	25,743	24,865	4.7%	24,816
UA-Main	36,606	34,682	37,131	36,672	1.4%	40,072
UA-Health Sciences	<u>3,031</u>	<u>2,866</u>	<u>2,828</u>	<u>3,343</u>	<u>(6.7)%</u>	<u>719</u> ^{3/}
Total	140,144	133,248	146,611	144,676	4.6 %	141,982

^{1/} Adjusted FTE does not include students with excess credit hours.

^{2/} University reduction of \$(99.0) million was based on Executive enrollment calculations derived from the numbers reported by the individual campuses to the Arizona Board of Regents in fall 2013 and the addition of the medical students at UA - Health Sciences.

^{3/} The Lump Sum Reduction for UA - Health Sciences includes only the medical students.

Arizona State University - Tempe/DPC

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,142.9	6,142.9	6,142.9 ^{1/}
Personal Services	367,043,200	412,626,400	412,626,400
Employee Related Expenditures	111,845,700	126,012,700	122,489,000
Professional and Outside Services	5,526,900	5,275,200	5,275,200
Travel - In State	183,900	202,000	202,000
Travel - Out of State	3,446,700	4,255,800	4,255,800
Other Operating Expenditures	70,925,000	58,163,900	51,787,600
Equipment	16,852,500	19,037,500	19,037,500
OPERATING SUBTOTAL	575,823,900	625,573,500	615,673,500^{2/}
SPECIAL LINE ITEMS			
Biomedical Informatics	2,697,300	2,746,600	2,721,300
Downtown Phoenix Campus	110,777,700	126,739,200	126,444,500
Parity Funding	20,444,400	38,843,100	0
Research Infrastructure Lease-Purchase Payment	13,553,600	13,032,400	10,509,100 ^{3/}
AGENCY TOTAL	723,296,900	806,934,800	755,348,400^{4/5/6/}
FUND SOURCES			
General Fund	270,228,200	290,104,300	239,189,400 ^{7/8/9/}
<u>Other Appropriated Funds</u>			
University Collections Fund	453,068,700	516,830,500	516,159,000 ^{10/}
SUBTOTAL - Other Appropriated Funds	453,068,700	516,830,500	516,159,000
SUBTOTAL - Appropriated Funds	723,296,900	806,934,800	755,348,400
Other Non-Appropriated Funds	797,705,600	867,604,500	940,803,000
Federal Funds	272,250,800	282,074,200	291,467,000
TOTAL - ALL SOURCES	1,793,253,300	1,956,613,500	1,987,618,400

^{1/} Includes 804.2 GF FTE Positions funded from Special Line Items in FY 2016.

^{2/} Includes \$2,000,000 appropriated by the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) for university operating expenditures in FY 2016 and FY 2017.

^{3/} Includes \$13,555,000 from the General Fund appropriated by Laws 2003, Chapter 267 to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(3,045,900) in Section 134 of the FY 2015 General Appropriation Act to reflect savings from refinancing the lease-purchase payments.

^{4/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)

^{5/} The appropriated monies may not be used by the Arizona State University College of Law Legal Clinic for any lawsuits involving inmates of the State Department of Corrections in which the state is the adverse party. (General Appropriation Act footnote)

^{6/} General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{7/} The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)

^{8/} It is the intent of the Legislature that the General Fund base funding for ASU-Tempe/DPC is \$226,680,300. This appropriation includes a deferral of \$74,760,400 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments) The FY 2016 General Fund budget as adjusted for statewide adjustments is \$239,189,400. This amount includes \$155,092,100 in ASU-Tempe/DPC's individual section of the FY 2016 General Appropriation Act less \$(3,172,200) for statewide adjustments, \$13,555,000 in Laws 2003 Chapter 267 lease-purchase appropriations less \$(3,045,900) from the refinance of Certificates of Participation for research infrastructure in the FY 2015 General Appropriation Act, the \$2,000,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, and \$74,760,400 appropriated in the FY 2015 General Appropriation Act to reflect deferral of FY 2015 monies into FY 2016.

^{9/} The increased state General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)

^{10/} Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay, and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

AGENCY DESCRIPTION — Established in 1885, Arizona State University (ASU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, ASU offers 297 Baccalaureate, Master’s, Doctoral and first professional degree programs, and 86 undergraduate and graduate certificate programs to 67,446 full- and part-time students at its Tempe Campus. The Downtown Phoenix Campus (DPC), budgeted as a unit of the Tempe Campus, offers 70 degree programs and 36 certificate programs to 21,997 full- and part-time students.

Operating Budget

The budget includes \$615,673,500 and 5,338.7 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$204,718,000
University Collections Fund	410,955,500

These amounts fund the following adjustments:

Parity Funding Transfer

The budget includes an increase of \$38,843,100 and 45 FTE Positions from the General Fund in FY 2016 to transfer parity funding into the operating budget. This funding was appropriated to a Parity Funding line item to bring ASU-Tempe/DPC’s per pupil funding to that of the higher University of Arizona amount. The FY 2015 increase completed the parity initiative. The budget transfers these monies into the operating budget for no net change in resources.

Lump Sum Reduction

The budget includes a decrease of \$(45,219,400) from the General Fund in FY 2016 for a lump sum reduction. This amount represents ASU-Tempe/DPC’s allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(3,523,700) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(2,958,300)
University Collections Fund	(565,400)

(Please see the Agency Detail and Allocations section.)

The \$204,718,000 General Fund amount for the operating budget includes \$2,000,000 that was appropriated for FY 2016 in the FY 2015 General Appropriation Act. As a result, these monies do not appear in the FY 2016 General Appropriation Act. The FY 2015 General Appropriation Act also included a \$2,000,000 appropriation for FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections

Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Biomedical Informatics

The budget includes \$2,721,300 and 14.2 FTE Positions in FY 2016 for the Biomedical Informatics Department. These amounts consist of:

General Fund	1,931,000
University Collections Fund	790,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(25,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(24,200)
University Collections Fund	(1,100)

This multidisciplinary department incorporates computer science, biology, and engineering to organize and analyze medical data. This department moved from the DPC to Mayo Clinic’s hospital in Phoenix last year.

Downtown Phoenix Campus

The budget includes \$126,444,500 and 790 FTE Positions in FY 2016 for programs headquartered at the DPC. These amounts consist of:

General Fund	22,031,300
University Collections Fund	104,413,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(294,700) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(189,700)
University Collections Fund	(105,000)

The DPC offers undergraduate and graduate programs in disciplines including health, nursing, journalism, mass communication, teaching and public programs. The

campus opened in 2006 with 2,700 students and had a full-time student enrollment of 13,396 in fall 2014.

Parity Funding

The budget includes no funding for the Parity Funding line item in FY 2016. This amount funds the following adjustments:

Parity Funding Transfer

The budget includes a decrease of \$(38,843,100) and (45) FTE Positions from the General Fund in FY 2016 to transfer parity funding to the operating budget.

Research Infrastructure Lease-Purchase Payment

The budget includes \$10,509,100 from the General Fund in FY 2016 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Savings

The budget includes a decrease of \$(2,523,300) from the General Fund in FY 2016 to reflect savings from the refinance of Certificates of Participation (COPs) for research infrastructure projects.

Laws 2003, Chapter 267 appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) reduced the ASU research infrastructure appropriation of \$13,555,000 by \$(522,600) in FY 2015, \$(3,045,900) in FY 2016, and \$(2,329,800) in FY 2017.

Since this funding appears in Laws 2003, Chapter 267 and Laws 2014, Chapter 18, Section 134, this funding does not appear in the General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, ASU-Tempe/DPC has issued \$187,200,000 in COPs.

Other Issues

Payment Deferral

The budget includes \$74,760,400 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2016 General Fund payment deferral of \$(74,760,400) until FY 2017. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget is \$239,189,400. Of this amount:

- \$155,092,100 is included in ASU-Tempe/DPC's individual section of the FY 2016 General Appropriation Act.
- \$(3,172,200) is reduced for statewide adjustments.
- \$13,555,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$(3,045,900) was reduced in Section 134 of the FY 2015 General Appropriation Act for Research Infrastructure savings.
- \$2,000,000 was appropriated by a footnote in the FY 2015 General Appropriation Act.
- \$74,760,400 was appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.

Arizona State University - East Campus

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	425.6	425.6	425.6
Personal Services	24,807,700	24,358,700	24,358,700
Employee Related Expenditures	7,733,700	7,593,700	7,457,300
Professional and Outside Services	4,003,200	3,930,700	3,930,700
Travel - In State	31,100	30,600	30,600
Travel - Out of State	288,600	283,400	283,400
Other Operating Expenditures	16,017,200	10,512,700	13,562,400
Equipment	1,109,200	1,089,100	1,089,100
OPERATING SUBTOTAL	53,990,700	47,798,900	50,712,200
SPECIAL LINE ITEMS			
Parity Funding	3,497,800	6,647,000	0
Research Infrastructure Lease-Purchase Payment	917,000	917,000	917,000 ^{1/}
TRIF Lease-Purchase Payment	2,000,000	2,000,000	2,000,000
AGENCY TOTAL	60,405,500	57,362,900	53,629,200^{2/3/}
FUND SOURCES			
General Fund	22,704,200	25,853,400	22,162,700 ^{4/5/6/}
Other Appropriated Funds			
Technology and Research Initiative Fund	2,000,000	2,000,000	2,000,000
University Collections Fund	35,701,300	29,509,500	29,466,500 ^{2/}
SUBTOTAL - Other Appropriated Funds	37,701,300	31,509,500	31,466,500
SUBTOTAL - Appropriated Funds	60,405,500	57,362,900	53,629,200
Other Non-Appropriated Funds	13,083,300	14,134,900	14,669,000
Federal Funds	5,911,600	6,139,000	6,344,000
TOTAL - ALL SOURCES	79,400,400	77,636,800	74,642,200

AGENCY DESCRIPTION — Established as a separate budget unit in 1994, Arizona State University - East Campus (ASU-East), also known as the Polytechnic Campus, currently offers 44 professional and technical Baccalaureate, Master's, and Doctoral degree programs and 9 undergraduate certificate programs to 12,290 full- and part-time students. ASU-East is located at the 600-acre site of the former Williams Air Force Base in southeast Mesa.

- ^{1/} Includes \$917,000 from the General Fund appropriated by Laws 2003, Chapter 267 to finance lease-purchase payments for research infrastructure projects.
- ^{2/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{4/} The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)
- ^{5/} It is the intent of the Legislature that the General Fund base funding for Arizona State University-East Campus is \$21,245,700. This appropriation includes a deferral of \$5,750,200 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments) The FY 2016 General Fund budget as adjusted for statewide adjustments is \$22,162,700. This amount includes \$15,588,900 in ASU-East's individual section of the FY 2016 General Appropriation Act less \$(93,400) for statewide adjustments, the \$917,000 in Laws 2003, Chapter 267 lease-purchase appropriations, and \$5,750,200 appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies into FY 2016.
- ^{6/} The increased state General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- ^{7/} Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Operating Budget

The budget includes \$50,712,200 and 425.6 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$21,245,700
University Collections Fund	29,466,500

These amounts fund the following adjustments:

Parity Funding Transfer

The budget includes an increase of \$6,647,000 and 9 FTE Positions from the General Fund in FY 2016 to transfer parity funding into the operating budget. This funding was appropriated to a Parity Funding line item to bring ASU-East's per pupil funding to that of the higher University of Arizona amount. The FY 2015 increase completed the parity initiative. The budget transfers these monies into the operating budget for no net change in resources.

Lump Sum Reduction

The budget includes a decrease of \$(3,597,300) from the General Fund in FY 2016 for a lump sum reduction. This amount represents ASU-East's allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(136,400) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(93,400)
University Collections Fund	(43,000)

(Please see the Agency Detail and Allocations section.)

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Parity Funding

The budget includes no funding for the Parity Funding line item in FY 2016. This amount funds the following adjustments:

Parity Funding Transfer

The budget includes a decrease of \$(6,647,000) and (9) FTE Positions from the General Fund in FY 2016 to transfer parity funding to the operating budget.

Research Infrastructure Lease-Purchase Payment

The budget includes \$917,000 from the General Fund in FY 2016 for the Research Infrastructure Lease-Purchase Payment line item. Unlike the ASU-Tempe/DPC payment, this amount is unchanged from FY 2015.

Laws 2003, Chapter 267 appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Therefore, this funding does not appear in the General Appropriation Act. In total, the universities have issued \$482,500,000 in Certificates of Participation (COPs) for research infrastructure projects. Of this amount, ASU-East has issued \$19,000,000 in COPs for the Interdisciplinary Science & Technology Building II, which is now complete.

TRIF Lease-Purchase Payment

The budget includes \$2,000,000 from the Technology and Research Initiative Fund (TRIF) in FY 2016 for lease-purchase payment requirements. This amount is unchanged from FY 2015.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,400,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$27,500,000 in infrastructure development at ASU-East. Beginning in FY 2003, the lease-purchase payment increased to \$2,000,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

Payment Deferral

The budget includes \$5,750,200 from the General Fund for FY 2015 payments that were deferred until FY 2016 and includes a FY 2016 General Fund payment deferral of \$(5,750,200) until FY 2017. These amounts constitute a portion of a \$200,000,000 universitywide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget is \$22,162,700. Of this amount:

- \$15,588,900 is included in ASU-East's individual section of the FY 2016 General Appropriation Act.
- \$(93,400) is reduced for statewide adjustments.
- \$917,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$5,750,200 was appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.

Arizona State University - West Campus

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	562.9	562.9	562.9
Personal Services	32,671,600	33,384,500	33,384,500
Employee Related Expenditures	10,417,700	10,644,900	10,450,400
Professional and Outside Services	3,976,200	4,062,900	4,062,900
Travel - In State	33,500	34,200	34,200
Travel - Out of State	139,800	142,900	142,900
Other Operating Expenditures	26,478,900	25,460,700	21,023,300
Equipment	561,200	573,500	573,500
OPERATING SUBTOTAL	74,278,900	74,303,600	69,671,700
SPECIAL LINE ITEMS			
TRIF Lease-Purchase Payment	1,600,000	1,600,000	1,600,000
AGENCY TOTAL	75,878,900	75,903,600	71,271,700 ^{3/4/5/}
FUND SOURCES			
General Fund	33,328,100	33,328,100	28,754,100 ^{3/4/5/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	1,600,000	1,600,000	1,600,000
University Collections Fund	40,950,800	40,975,500	40,917,600 ^{5/}
SUBTOTAL - Other Appropriated Funds	42,550,800	42,575,500	42,517,600
SUBTOTAL - Appropriated Funds	75,878,900	75,903,600	71,271,700
Other Non-Appropriated Funds	20,911,500	20,321,300	20,977,000
Federal Funds	10,811,300	11,194,200	11,567,000
TOTAL - ALL SOURCES	107,601,700	107,419,100	103,815,700

AGENCY DESCRIPTION — Established as a separate budget unit in 1984, Arizona State University - West Campus (ASU-West) currently offers 48 Baccalaureate, selective Master's, and Doctoral degree programs in the professional and liberal arts and 10 undergraduate certificate programs to 14,548 full- and part-time students. ASU-West is located at a 277-acre site in northwest Phoenix.

Operating Budget	FY 2016
General Fund	\$28,754,100
University Collections Fund	40,917,600
These amounts fund the following adjustments:	

- 1/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 2/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 3/ The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)
- 4/ It is the intent of the Legislature that the General Fund base funding for Arizona State University - West Campus is \$28,754,100. This appropriation includes a deferral of \$10,064,800 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments) The FY 2016 General Fund budget as adjusted for statewide adjustments is \$28,754,100. This amount includes \$18,825,900 in ASU-West's individual section of the FY 2016 General Appropriation Act less \$(136,600) for statewide adjustments, and \$10,064,800 appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies into FY 2016.
- 5/ The increased General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 6/ Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Lump Sum Reduction

The budget includes a decrease of \$(4,437,400) from the General Fund in FY 2016 for a lump sum reduction. This amount represents ASU-West's allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(194,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(136,600)
University Collections Fund	(57,900)

(Please see the Agency Detail and Allocations section.)

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

TRIF Lease-Purchase Payment

The budget includes \$1,600,000 from the Technology and Research Initiative Fund (TRIF) in FY 2016 for lease-purchase payment requirements. This amount is unchanged from FY 2015.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,100,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$21,600,000 in infrastructure development at ASU-East. Beginning in FY 2003, the lease-purchase payment increased to \$1,600,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

Payment Deferral

The budget includes \$10,064,800 from the General Fund for FY 2015 payments that were deferred until FY 2016 and includes a FY 2016 General Fund payment deferral of \$(10,064,800) until FY 2017. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget is \$28,754,100. Of this amount:

- \$18,825,900 is included in ASU-West's individual section of the FY 2016 General Appropriation Act.
- \$(136,600) is reduced for statewide adjustments.
- \$10,064,800 was appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.

Northern Arizona University

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,057.2	2,057.2	2,057.2 ^{1/}
Personal Services	58,743,300	71,956,700	71,956,700
Employee Related Expenditures	19,570,400	20,823,400	20,763,000
Professional and Outside Services	5,852,600	3,623,200	3,623,200
Travel - In State	176,200	227,800	227,800
Travel - Out of State	334,800	0	0
Other Operating Expenditures	127,731,700	128,446,300	123,692,700
Equipment	0	299,300	299,300
OPERATING SUBTOTAL	212,409,000	225,376,700	220,562,700 ^{2/}
SPECIAL LINE ITEMS			
Biomedical Research	0	3,000,000	3,000,000 ^{3/}
NAU - Yuma	2,194,000	2,430,000	2,428,600
Parity Funding	6,605,200	12,549,900	0
Research Infrastructure Lease-Purchase Payment	5,900,000	5,491,500	5,493,200 ^{4/}
Teacher Training	2,417,900	2,290,600	2,290,600 ^{5/}
AGENCY TOTAL	229,526,100	251,138,700	233,775,100 ^{6/7/}
FUND SOURCES			
General Fund	109,245,000	118,281,200	100,917,600 ^{8/9/10/}
<u>Other Appropriated Funds</u>			
University Collections Fund	120,281,100	132,857,500	132,857,500 ^{11/}
SUBTOTAL - Other Appropriated Funds	120,281,100	132,857,500	132,857,500
SUBTOTAL - Appropriated Funds	229,526,100	251,138,700	233,775,100
Other Non-Appropriated Funds	187,383,500	201,697,200	213,856,400
Federal Funds	74,058,300	74,798,900	75,631,500
TOTAL - ALL SOURCES	490,967,900	527,634,800	523,263,000

1/ Includes 29.4 GF FTE Positions funded from Special Line Items in FY 2016.

2/ Includes \$500,000 appropriated by the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) for university operating expenses in FY 2016 and FY 2017.

3/ Laws 2014, Chapter 18 appropriated \$3,000,000 annually from the state General Fund in FY 2015, FY 2016, FY 2017, FY 2018 and FY 2019 to Northern Arizona University for distribution to a nonprofit medical research foundation in this state that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers.

4/ Includes \$5,900,000 from the General Fund appropriated by Laws 2003, Chapter 267 to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(406,800) in Section 134 of the FY 2015 General Appropriation Act to reflect savings from refinancing the lease-purchase payments.

5/ The appropriated amount for the Teacher Training line item shall be distributed to the Arizona K-12 Center for Program Implementation and Mentor Training for the Arizona Mentor Teacher program prescribed by the State Board of Education. (General Appropriation Act footnote)

6/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)

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

8/ The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)

9/ It is the intent of the Legislature that the General Fund base funding for Northern Arizona University is \$91,924,400. This appropriation includes a deferral of \$30,494,800 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments) The FY 2016 General Fund budget as adjusted for statewide adjustments is \$100,917,600. This amount includes \$61,491,400 in NAU's individual section of the FY 2016 General Appropriation Act less \$(61,800) for statewide adjustments, the \$5,900,000 in Laws 2003, Chapter 267 lease-purchase appropriations less \$(406,800) in savings from the refinance of Certificates of Participation for research infrastructure in the FY 2015 General Appropriation Act, the \$3,000,000 Biomedical Research appropriation in the FY 2015 General Appropriation Act, the \$500,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, and \$30,494,800 appropriated in the FY 2015 General Appropriation Act to reflect deferral of FY 2015 monies into FY 2016.

10/ The increased state General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)

AGENCY DESCRIPTION — Established in 1899, Northern Arizona University (NAU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). The university's primary focus is undergraduate residential education. NAU offers 152 degree programs and 67 certificate programs to 27,715 students in 9 colleges/divisions through its campus in Flagstaff and its distance learning programs. Besides its online offerings, the university provides programs through 38 instructional sites, including a Yuma Branch Campus that operates in conjunction with Arizona Western College and NAU Yavapai, a partnership with Yavapai Community College.

Operating Budget

The budget includes \$220,562,700 and 2,027.8 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$87,705,200
University Collections Fund	132,857,500

These amounts fund the following adjustments:

Parity Funding Transfer

The budget includes an increase of \$12,549,900 from the General Fund in FY 2016 to transfer parity funding into the operating budget. This funding was appropriated to a Parity Funding line item to bring NAU's per pupil funding to that of the higher University of Arizona amount. The FY 2015 increase completed the parity initiative. The budget transfers these monies into the operating budget for no net change in resources.

Lump Sum Reduction

The budget includes a decrease of \$(17,303,500) from the General Fund in FY 2016 for a lump sum reduction. This amount represents NAU's allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(60,400) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

The \$87,705,200 General Fund amount for the operating budget includes \$500,000 that was appropriated for FY 2016 in the FY 2015 General Appropriation Act. As a result, these monies do not appear in the FY 2016 General Appropriation Act. The FY 2015 General Appropriation Act also included a \$500,000 appropriation for FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Biomedical Research

The budget includes \$3,000,000 from the General Fund in FY 2016 for the Biomedical Research Special Line Item (SLI). This amount is unchanged from FY 2015.

Section 132 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) appropriated \$3,000,000 annually to NAU from FY 2015 to FY 2019 for biotechnology. As a result these monies do not appear in the General Appropriation Act.

Funding is to be allocated to a nonprofit medical research foundation that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers. NAU has awarded the funding to the Translational Genomics Research Institute (TGen). *(Please see the Department of Health Services section for additional information on nonprofit medical research funding.)*

NAU - Yuma

The budget includes \$2,428,600 and 29.4 FTE Positions from the General Fund in FY 2016 for NAU-Yuma. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,400) from the General Fund in FY 2016 for statewide adjustments.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

^{11/} Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay, and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Parity Funding

The budget includes no funding in FY 2016 for the Parity Funding line item. This amount funds the following adjustments:

Parity Funding Transfer

The budget includes a decrease of \$(12,549,900) from the General Fund in FY 2016 to transfer parity funding to the operating budget.

Research Infrastructure Lease-Purchase Payment

The budget includes \$5,493,200 from the General Fund in FY 2016 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes an increase of \$1,700 from the General Fund in FY 2016 to adjust anticipated savings from the refinance of Certificates of Participation (COPs) for research infrastructure projects from the previous year.

Laws 2003, Chapter 267 appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. The FY 2015 General Appropriation Act reduced the NAU research infrastructure appropriation of \$5,900,000 by \$(408,500) in FY 2015, \$(406,800) in FY 2016, and \$(1,653,200) in FY 2017.

Since this funding appears in Laws 2003, Chapter 267 and Laws 2014, Chapter 18, Section 134, this funding does not appear in the General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, NAU has issued \$77,475,000 in COPs.

Teacher Training

The budget includes \$2,290,600 from the General Fund in FY 2016 for Teacher Training. This amount is unchanged from FY 2015.

The Teacher Training program serves to increase the number of teachers serving as mentors under the Teacher Training ("Master Teacher") program. The Arizona K-12 Center is affiliated with NAU and is located in downtown Phoenix.

Other Issues

Payment Deferral

The budget includes \$30,494,800 from the General Fund in FY 2015 payments that were deferred until FY 2016 and includes a FY 2016 General Fund payment deferral of \$(30,494,800) until FY 2017. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget is \$100,917,600. Of this amount:

- \$61,491,400 is included in NAU's section of the FY 2016 General Appropriation Act.
- \$(61,800) is reduced for statewide adjustments.
- \$5,900,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$(406,800) was reduced in Section 134 of the FY 2015 General Appropriation Act for Research Infrastructure savings in FY 2016.
- \$3,000,000 was appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.
- \$500,000 was appropriated by a footnote in the FY 2015 General Appropriation Act.
- \$30,494,800 was appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.

University of Arizona - Main Campus

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5,365.0	5,393.0	5,393.0 ^{1/}
Personal Services	266,590,600	289,631,500	289,631,500
Employee Related Expenditures	86,192,800	93,401,600	91,225,500
Professional and Outside Services	3,281,300	4,710,100	4,710,100
Travel - In State	90,300	82,600	82,600
Travel - Out of State	611,000	75,300	75,300
Other Operating Expenditures	38,394,900	48,940,500	20,999,400
Equipment	1,009,700	1,809,400	1,809,400
OPERATING SUBTOTAL	396,170,600	438,651,000	408,533,800 ^{2/}
SPECIAL LINE ITEMS			
Agriculture	38,818,200	38,195,600	37,890,100
Arizona Cooperative Extension	13,040,900	16,360,200	16,202,500
Freedom Center	497,900	500,000	500,000
Research Infrastructure Lease-Purchase Payment	13,723,400	9,593,200	9,593,600 ^{3/}
Sierra Vista Campus	5,837,200	7,601,500	7,562,400
AGENCY TOTAL	468,088,200	510,901,500	480,282,400 ^{4/5/}
FUND SOURCES			
General Fund	208,501,000	209,341,200	179,499,400 ^{6/7/8/}
<u>Other Appropriated Funds</u>			
University Collections Fund	259,587,200	301,560,300	300,783,000 ^{9/}
SUBTOTAL - Other Appropriated Funds	259,587,200	301,560,300	300,783,000
SUBTOTAL - Appropriated Funds	468,088,200	510,901,500	480,282,400
Other Non-Appropriated Funds	903,944,600	919,876,100	943,465,200
Federal Funds	234,892,200	235,609,500	241,771,900
TOTAL - ALL SOURCES	1,606,925,000	1,666,387,100	1,665,519,500

^{1/} Includes 768.9 GF FTE Positions funded from Special Line Items in FY 2016.

^{2/} Includes \$2,000,000 appropriated by Laws 2014, Chapter 18 for university operating expenditures in FY 2016 and FY 2017.

^{3/} Includes \$14,253,000 from the General Fund appropriated by Laws 2003, Chapter 267 to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(4,659,400) in Section 132 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect savings from refinancing the lease-purchase payments.

^{4/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)

^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{6/} The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)

^{7/} It is the intent of the Legislature that the General Fund base funding for University of Arizona - Main Campus is \$167,905,800. This appropriation includes a deferral of \$62,153,100 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments). The FY 2016 General Fund budget as adjusted for statewide adjustments is \$179,499,400. This amount includes \$107,653,800 in UA-Main's individual section of the FY 2016 General Appropriation Act less \$(1,901,100) for statewide adjustments, \$14,253,000 of lease-purchase appropriations in Laws 2003, Chapter 267 less \$(4,659,400) in savings from the refinance of Certificates of Participation for research infrastructure, the \$2,000,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, and \$62,153,100 appropriated in the FY 2015 General Appropriation Act to reflect the deferral of FY 2015 monies to FY 2016.

^{8/} The increased state General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)

^{9/} Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

AGENCY DESCRIPTION — Established in 1885, The University of Arizona (UA) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, UA offers 356 degree-programs to approximately 37,131 full and part-time students in 39 colleges and schools at its Main Campus in Tucson. Upon its establishment, UA received the federal land grant for Arizona, allowing the creation of agricultural and mining programs that continue today. UA-South is a branch campus of the university in Sierra Vista.

Operating Budget

The budget includes \$408,533,800 and 4,624.1 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$123,806,300
University Collections Fund	284,727,500

These amounts fund the following adjustments:

Lump Sum Reduction

The budget includes a decrease of \$(27,941,100) from the General Fund in FY 2016 for a lump sum reduction. This amount represents University of Arizona – Main’s allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for additional information.)*

Statewide Adjustments

The budget includes a decrease of \$(2,176,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(1,441,800)
University Collections Fund	(734,300)

(Please see the Agency Detail and Allocations Section.)

The \$123,806,300 General Fund amount for the operating budget includes \$2,000,000 that was appropriated for FY 2016 in the FY 2015 General Appropriation Act. As a result, these monies do not appear in the FY 2016 General Appropriation Act. The FY 2015 General Appropriation Act also included a \$2,000,000 appropriation for FY 2017.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Agriculture

The budget includes \$37,890,100 and 515.1 FTE Positions in FY 2016 for the Agriculture Programs. These amounts consist of:

General Fund	28,348,300
University Collections Fund	9,541,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(305,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(279,900)
University Collections Fund	(25,600)

This line item supports agricultural academic programs in Animal Systems; Environment and Natural Resources; Family, Youth, and Community; Human Nutrition, Food Safety and Health; Marketing, Trade, and Economics; and Plant Systems.

Arizona Cooperative Extension

The budget includes \$16,202,500 and 181.1 FTE Positions in FY 2016 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,507,200
University Collections Fund	1,695,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(157,700) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(152,900)
University Collections Fund	(4,800)

This line item supports Agriculture Experiment Stations and Cooperative Extension services that provide non-credit community outreach seminars and youth programs throughout the state.

Freedom Center

The budget includes \$500,000 from the General Fund in FY 2016 for the Freedom Center. This amount is unchanged from FY 2015.

This line item supports the Freedom Center, which is within the UA College of Social and Behavioral Sciences. The Freedom Center's functions include: published research, undergraduate education, graduate education, and community outreach.

Research Infrastructure Lease-Purchase Payment

The budget includes \$9,593,600 from the General Fund in FY 2016 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes an increase of \$400 from the General Fund in FY 2016 to adjust anticipated savings from the refinance of Certificates of Participation (COPs) for research infrastructure projects from the previous year.

Laws 2003, Chapter 267 appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) reduced the UA research infrastructure appropriation of \$14,253,000 by \$(4,659,800) in FY 2015, \$(4,659,400) in FY 2016, and \$(274,600) in FY 2017.

Since this funding appears in Laws 2003, Chapter 267 and Laws 2014, Chapter 18, Section 134, this funding does not appear in the General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, UA-Main has issued \$187,200,000 in COPs.

Sierra Vista Campus

The budget includes \$7,562,400 and 72.7 FTE Positions in FY 2016 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,744,000
University Collections Fund	4,818,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(39,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(26,500)
University Collections Fund	(12,600)

UA-South offers upper-division undergraduate programs in 16 disciplines for community college transfer students. While ABOR authorized this UA branch campus for Sierra Vista in 1995, the Legislature has not formally established the campus in statute.

Other Issues

Payment Deferral

The budget includes \$62,153,100 from the General Fund for FY 2015 payments that were deferred until FY 2016 and includes FY 2016 General Fund payment deferral of \$(62,153,100) until FY 2017. These amounts constitute a portion of a \$200,000,000 universitywide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget as adjusted for statewide allocations is \$179,499,400. Of this amount:

- \$107,653,800 is included in UA-Main individual section of the FY 2016 General Appropriation Act.
- \$(1,901,100) is reduced for statewide adjustments.
- \$14,253,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$(4,659,400) was reduced in Section 134 of the FY 2015 General Appropriation Act for research infrastructure savings.
- \$2,000,000 was appropriated by a footnote in the FY 2015 General Appropriation Act for university operating expenditures in FY 2016 and FY 2017.
- \$62,153,100 was appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.

University of Arizona - Health Sciences Center

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,054.1	1,054.1	1,054.1 ^{1/}
Personal Services	48,061,200	50,886,300	50,886,300
Employee Related Expenditures	14,711,100	15,086,100	14,624,700
Professional and Outside Services	5,026,900	1,705,600	1,705,600
Travel - In State	60,500	41,200	41,200
Travel - Out of State	181,400	7,700	7,700
Other Operating Expenditures	5,252,900	2,102,900	1,601,600
Equipment	468,800	186,800	186,800
OPERATING SUBTOTAL	73,762,800	70,016,600	69,053,900
SPECIAL LINE ITEMS			
Clinical Rural Rotation	345,300	353,400	350,500
Clinical Teaching Support	8,587,000	8,587,000	8,484,400
Liver Research Institute	467,800	430,100	426,900
Phoenix Medical Campus	29,071,500	31,778,700	31,554,900
Telemedicine Network	1,854,200	1,854,400	1,838,500
AGENCY TOTAL	114,088,600	113,020,200	111,709,100 ^{2/3/}
FUND SOURCES			
General Fund	69,585,300	69,585,300	68,393,500 ^{4/5/6/}
Other Appropriated Funds			
University Collections Fund	44,503,300	43,434,900	43,315,600 ^{7/}
SUBTOTAL - Other Appropriated Funds	44,503,300	43,434,900	43,315,600
SUBTOTAL - Appropriated Funds	114,088,600	113,020,200	111,709,100
Other Non-Appropriated Funds	205,927,100	229,888,600	235,951,500
Federal Funds	93,795,100	94,186,800	97,012,500
TOTAL - ALL SOURCES	413,810,800	437,095,600	444,673,100

AGENCY DESCRIPTION — The University of Arizona's Health Sciences Center (UA-HSC) includes its Colleges of Medicine, Nursing, Pharmacy, and Public Health and its School of Health Professions enrolls over 2,779 full-time students as well as 456 medical students at its 48-acre campus in Tucson. UA-HSC currently operates a medical campus in Phoenix that opened in FY 2006. The Colleges of Pharmacy and Public Health also have a presence on the Phoenix Biomedical campus, which has increased its enrollment to 301 medical and 49 Master of Public Health students.

- ^{1/} Includes 424.9 GF FTE Positions funded from Special Line Items in FY 2016, including 212 FTE Positions filled by students and associated with the Clinical Teaching Support Special Line Item.
- ^{2/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{4/} The state General Fund appropriations may not be used for alumni association funding. (General Appropriation Act footnote)
- ^{5/} It is the intent of the Legislature that the General Fund base funding for University of Arizona - Health Sciences Center is \$68,393,500. This appropriation includes a deferral of \$16,776,700 from FY 2016 to FY 2017. This deferral shall be paid as required in this act. (General Appropriation Act footnote, as adjusted for statewide adjustments) The FY 2016 General Fund budget as adjusted for statewide adjustments is \$68,393,500. This amount includes \$52,307,300 in UA-HSC's individual section of the FY 2016 General Appropriation Act less \$(690,500) for statewide adjustments, and \$16,776,700 appropriated in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect the deferral of FY 2015 monies to FY 2016.
- ^{6/} The increased state General Fund appropriations from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- ^{7/} Any unencumbered balances remaining in the collections account on June 30, 2015 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Operating Budget

The budget includes \$69,053,900 and 629.2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$34,037,000
University Collections Fund	35,016,900

These amounts fund the following adjustments:

Lump Sum Reduction

The budget includes a decrease of \$(501,300) from the General Fund in FY 2016 for a lump sum reduction. This amount represents UA-HSC's allocation of a \$(99,000,000) General Fund reduction to the university system. *(Please see the ABOR section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(461,400) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(361,900)
University Collections Fund	(99,500)

(Please see the Agency Detail and Allocations Section.)

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Clinical Rural Rotation

The budget includes \$350,500 and 6.1 FTE Positions from the General Fund in FY 2016 for the Clinical Rural Rotation program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,900) from the General Fund in FY 2016 for statewide adjustments.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The budget includes \$8,484,400 and 212 FTE Positions from the General Fund in FY 2016 for Clinical Teaching Support. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(102,600) from the General Fund in FY 2016 for statewide adjustments.

Clinical Teaching Support provides hospital training, through internships and residencies, for medical, nursing, clinical, and other health students in a wide variety of specialty areas. Students fill all the above-mentioned FTE Positions. Since participation in the program has been stable for several years, the funding summary above includes these FTE Positions.

Liver Research Institute

The budget includes \$426,900 and 6.5 FTE Positions from the General Fund in FY 2016 for the Liver Research Institute. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,200) from the General Fund in FY 2016 for statewide adjustments.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The budget includes \$31,554,900 and 185.4 FTE Positions in FY 2016 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,256,200
University Collections Fund	8,298,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(223,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(204,000)
University Collections Fund	(19,800)

The Phoenix Medical Campus currently has 301 medical students and 49 Master of Public Health students. By FY 2025,

UA envisions developing a campus of approximately 1,200,000 square feet incorporating research, instruction, and clinical facilities to serve a planned population of 480 medical students, 250 graduate students, and 1,660 science students.

Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9 authorized the Arizona Board of Regents (ABOR) to enter into lease-to-own and bond transactions up to a maximum of \$800,000,000 to pay for building renewal projects and new facilities of which ABOR is required to allocate \$376,000,000 for the Phoenix Medical Campus.

In September 2014, the JCCR favorably reviewed UA's planned SPEED bond issuance of \$136,100,000 to fund construction of the Biosciences Partnership Building on the Phoenix Medical Campus. The bond was issued in February 2015, and debt service is paid with 80% from Lottery revenues and 20% from university system revenues.

Of the \$376,000,000 allocated for the Phoenix Medical Campus, the Joint Committee on Capital Review (JCCR) has reviewed \$275,545,000. *(For additional information on university lottery bonding, please see the Capital Outlay - ABOR Building System section of this report. For historical information, please see the FY 2015 Appropriations Report.)*

Telemedicine Network

The budget includes \$1,838,500 and 14.9 FTE Positions from the General Fund in FY 2016 for the Telemedicine Network. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,900) from the General Fund in FY 2016 for statewide adjustments.

Telemedicine is the use of computers, video imaging, broadband Internet channels, and other telecommunication technologies to diagnose and treat patients in rural communities and state penitentiaries.

Other Issues

Payment Deferral

The budget includes \$16,776,700 from the General Fund for FY 2015 payments that were deferred until FY 2016 and includes a FY 2016 General Fund payment deferral of \$(16,776,700) until FY 2017. These amounts constitute a portion of a \$200,000,000 universitywide payment

deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2016 General Fund budget as adjusted for statewide allocations is \$68,393,500. Of this amount:

- \$52,307,300 is included in UA-HSC's individual section of the FY 2016 General Appropriation Act.
- \$(690,500) is reduced for statewide adjustments.
- \$16,776,700 was appropriated in the FY 2015 General Appropriation Act to reflect the deferral of FY 2015 monies to FY 2016.

University of Arizona Health Network

In July 2014, the University of Arizona Health Network (UAHN) comprised of the 2 UA hospitals, its health plan division and physicians group, working with their academic medical partner, the UA announced plans to negotiate an affiliation with Banner Health. On February 27, 2015, the merger of Banner Health network and the UAHN was completed.

Prior to 1984, the University Medical Center was owned by the state. In 1984, the Arizona Legislature adopted A.R.S. § 15-1637 to allow ABOR to enter into an agreement in which University Medical Center was operated by the non-profit University Medical Center Corporation (UMCC). With the subsequent lease and conveyance agreement, the UMCC became responsible for the debt obligations and running the hospital (the full liability of operating a hospital was considered a burden to the state at the time of the agreement). ABOR leased the land to the UMCC, and ABOR conveyed the hospital building and equipment to the UMCC. The state remained responsible for a limited amount of liability for the hospital. UMCC eventually became the non-profit entity, UAHN, with the University Medical Center, other UAHN medical facilities, a health plan division, and a physicians group.

In January 2015, the terms of the contract were finalized:

- The purchase of the University Medical Center land site and additional land for a total of \$60 million. Of this amount, \$39 million was directed to the Academic Enhancement Fund, and the remaining \$21 million is for the use of the University of Arizona. The statutory authority to sell land rests with ABOR, and no legislative authority was necessary for the transaction.
- The removal of the risk management liability for University Medical Center that was still held by the state.
- Establishment of a \$300 million Academic Enhancement Fund endowment to provide \$20 million per year for ongoing funding for academic

enhancements, faculty recruitment, and program development at the Tucson and Phoenix medical schools. The endowment includes \$39 million of proceeds from the land sale.

- An additional \$20 million per year to support the clinical enterprise and additional funding support based on growth in revenues.
- \$500 million for capital improvements to University Medical Center and development of an outpatient center.
- The transfer to Banner Health of the contract that the UAHN health plan had with the Arizona Health Care Cost Containment System (AHCCCS). University Family Care (formerly operated by UA Health Plans) served an AHCCCS population of 129,000 members in 10 counties when AHCCCS approved the change of ownership to Banner in November 2014.
- The contract with the UA-South Campus hospital will remain in place with Pima County.
- UA faculty are dually employed by UA and Banner. University faculty hold teaching appointments at the University of Arizona and clinical duties at the hospital. Their time is cost allocated so UA-HSC spending only reflects time spent on academic issues.

The new entity for Banner Health's academic enterprise is called Banner - University Medicine. Within the new system, the individual entities changed to the following names:

- University Medical Center is now Banner - University Medical Center Tucson Campus.
- UA-South Campus is now Banner - University Medical Center South Campus.
- Banner Good Samaritan Medical Center (not previously associated with UAHN) is now Banner - University Medical Center Phoenix Campus.

The transaction does not change the operation of the UA Health Sciences Center. UA continues to be responsible for the education of students at the Colleges of Medicine in Phoenix and Tucson. Banner - University Medicine is the primary clinical partner to the Colleges of Medicine. An academic council comprised of 6 persons — 3 appointed by UA, and 3 by Banner — will oversee the clinical, clinical research, teaching operations of the physicians group, the residency program in the Tucson and Phoenix hospitals, and the medical student rotations at the Phoenix and Tucson campuses.

The University of Arizona will direct the expenditure of the \$21 million received from the sale of the land, and the yearly \$20 million from the endowed Academic Enhancement Fund to be used for academic enhancements, faculty recruitment, and program development at the medical schools.

Department of Veterans' Services

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	500.3	500.3	512.3 ^{1/}
Personal Services	1,694,100	1,867,100	1,867,100
Employee Related Expenditures	645,100	636,600	621,500
Professional and Outside Services	38,000	44,900	44,900
Travel - In State	27,000	25,900	25,900
Travel - Out of State	7,900	12,100	12,100
Other Operating Expenditures	528,800	516,400	529,300
Equipment	83,400	118,200	118,200
OPERATING SUBTOTAL	3,024,300	3,221,200	3,219,000
SPECIAL LINE ITEMS			
Arizona State Veterans' Homes	29,315,700	31,095,000	30,986,600
Arizona State Veterans' Cemeteries	275,600	275,600	928,000
Veterans' Benefit Counseling	2,712,500	2,848,100	2,833,700
AGENCY TOTAL	35,328,100	37,439,900	37,967,300 ^{2/}
FUND SOURCES			
General Fund	5,485,700	5,438,300	6,077,800
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	29,315,700	31,095,000	30,986,600
Veterans' Conservatorship Fund	526,700	906,600	902,900
SUBTOTAL - Other Appropriated Funds	29,842,400	32,001,600	31,889,500
SUBTOTAL - Appropriated Funds	35,328,100	37,439,900	37,967,300
<u>Other Non-Appropriated Funds</u>			
Other Non-Appropriated Funds	2,395,800	9,079,700	9,217,700
Federal Funds	531,800	850,600	850,600
TOTAL - ALL SOURCES	38,255,700	47,370,200	48,035,600

AGENCY DESCRIPTION — The agency supervises and operates 2 skilled nursing homes for Arizona veterans in Phoenix and Tucson, assists veterans in developing and filing claims for federal entitlements, acts as a guardian or conservator for incapacitated veterans or their families, and operates the Southern Arizona Veterans' Memorial Cemetery.

Operating Budget

General Fund 1,500
Veterans' Conservatorship Fund (3,700)

The budget includes \$3,219,000 and 62.8 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

(Please see the Agency Detail and Allocations Section.)

Arizona State Veterans' Homes

FY 2016
General Fund \$2,316,100
Veterans' Conservatorship Fund 902,900

The budget includes \$30,986,600 and 380 FTE Positions from the State Home for Veterans' Trust Fund in FY 2016 for the Arizona State Veterans' Homes. These amounts fund the following adjustments:

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,200) in FY 2016 for statewide adjustments. This amount consists of:

^{1/} Includes 69.5 GF and 380 OF FTE Positions funded from Special Line Items in FY 2016.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes a decrease of \$(108,400) from the State Home for Veterans' Trust Fund in FY 2016 for statewide adjustments.

The monies in this line item are used for expenses related to the Arizona State Veterans' Homes in Phoenix and Tucson. Monies in this line item are from fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.

Arizona State Veterans' Cemeteries

The budget includes \$928,000 and 12.5 FTE Positions from the General Fund in FY 2016 for the Arizona State Veterans' Cemeteries. These amounts fund the following adjustments:

New Cemetery Operating Cost

The budget includes an increase of \$653,800 and 12 FTE Positions from the General Fund in FY 2016 for the operating costs of the new Flagstaff and Marana Veterans' Cemeteries. This funds 9 months of operating costs with non-appropriated interment fees expected to contribute another \$138,000.

The federal government approved the construction of 2 new cemeteries in Flagstaff and Marana. The federal government typically pays most of the construction cost, but the state is responsible for the ongoing operational cost. Construction for the Flagstaff cemetery began in March 2014 and construction for the Marana cemetery began in August 2014. The department projects both cemeteries will open by January 2016.

Monies in this line item are also used to partially fund the operating costs at the Southern Arizona Cemetery in Sierra Vista. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12) changes the name of the Southern Arizona Veterans' Cemetery Trust Fund to the Arizona State Veterans' Cemetery Trust Fund. Monies deposited into this fund will be used to operate and maintain all 3 cemeteries in the state. The name of this line item has been changed to reflect the location of cemeteries throughout the state.

Statewide Adjustments

The budget includes a decrease of \$(1,400) from the General Fund in FY 2016 for statewide adjustments.

Veterans' Benefit Counseling

The budget includes \$2,833,700 and 57 FTE Positions from the General Fund in FY 2016 for Veterans' Benefit Counseling. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(14,400) from the General Fund in FY 2016 for statewide adjustments.

The monies in this line item are used to assist Arizona veterans with questions about benefit eligibility, completion and filing of U.S. Department of Veterans' Affairs claims, and in obtaining earned benefits.

Additional Legislation

Military Scholarship Special Plates

Laws 2015, Chapter 96 establishes the Military Scholarship Special Plate, provided that the \$32,000 implementation fee is paid. Of the \$25 annual fee for the special plate, \$8 is deposited into the State Highway Fund and \$17 is a donation to a subaccount of the Veterans' Donations Fund. The agency will annually allocate monies from the subaccount to a foundation that provides need-based scholarships to children of military members.

Military Family Relief Fund

Laws 2015, Chapter 200 increases the amount that the Military Family Relief Advisory Committee can issue to eligible recipients from the Military Family Relief Fund from \$10,000 to \$20,000 without requiring a two-thirds approval vote. In FY 2014, the fund received \$1.1 million in revenue and had an ending of balance of \$4.5 million.

Emergency and Military Affairs Omnibus

Laws 2015, Chapter 208 makes several changes to the Department of Emergency and Military Affairs including eliminating the National Guard Relief Fund and the transferring of all remaining monies in the fund to the Department of Veterans' Affairs. This amount is estimated to total \$1,288,600.

Arizona State Veterinary Medical Examining Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.5	6.0	6.0
Personal Services	251,600	318,300	318,300
Employee Related Expenditures	77,200	111,400	107,700
Professional and Outside Services	30,200	35,700	35,700
Travel - In State	7,200	9,500	9,500
Travel - Out of State	1,100	1,500	1,500
Other Operating Expenditures	63,400	89,900	61,500
Equipment	3,500	11,000	11,000
AGENCY TOTAL	434,200	577,300	545,200^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Veterinary Medical Examining Board Fund	434,200	577,300	545,200
SUBTOTAL - Other Appropriated Funds	434,200	577,300	545,200
SUBTOTAL - Appropriated Funds	434,200	577,300	545,200
TOTAL - ALL SOURCES	434,200	577,300	545,200

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises.

Operating Budget

The budget includes \$545,200 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(30,500) from the Veterinary Medical Examining Board Fund in FY 2016 to eliminate one-time funding for technology updates.

Statewide Adjustments

The budget includes a decrease of \$(1,600) from the Veterinary Medical Examining Board Fund in FY 2016 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Water Infrastructure Finance Authority

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 ESTIMATE
SPECIAL LINE ITEMS			
Water Supply Development Revolving Fund Deposit	0	0	0
AGENCY TOTAL	0	0	0
FUND SOURCES			
General Fund	0	0	0
SUBTOTAL - Appropriated Funds	0	0	0
Other Non-Appropriated Funds	110,193,800	115,448,300	115,448,300
Federal Funds	36,450,400	31,540,200	31,540,200
TOTAL - ALL SOURCES	146,644,200	146,988,500	146,988,500

AGENCY DESCRIPTION — The Water Infrastructure Finance Authority (WIFA) finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities/projects. The agency also provides general administrative support to the Greater Arizona Development Authority (GADA). The Chairman of the WIFA board is the Director of the Arizona Department of Environmental Quality (ADEQ) or the Director's representative.

Water Supply Development Revolving Fund Deposit

The budget includes no funding from the General Fund in FY 2016 for the non-appropriated Water Supply Development Revolving Fund. This amount is unchanged from FY 2015.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 135) included a one-time \$1,000,000 FY 2015 General Fund appropriation to the Water Supply Development Revolving Fund. This appropriation was repealed in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).

Laws 2007, Chapter 226 established the Water Supply Development Revolving Fund. Prior to FY 2015, however, no funding had been previously appropriated for the purpose of community lending. Monies in the fund were to be used to provide financial assistance to construct water supply projects to water providers in Arizona, particularly in rural areas, lacking sufficient water supplies to meet their long-term water demands. Financial assistance for water supply development projects as defined in statute includes support for the planning or design of projects, direct loans for projects, or using funds as security for bonded projects.

Additional Legislation

Prohibition from Unilaterally Amending Agreements

Laws 2015, Chapter 260 prohibits WIFA from unilaterally amending financial assistance, loan, or bond agreements after execution. In addition, Chapter 260 prohibits WIFA from imposing a redemption premium or interest payments beyond prepayment as a condition of an entity refinancing or prepaying a financing agreement unless the financing agreement contained those specific provisions at the time of execution.

Current WIFA agreements with local governments and entities typically grant WIFA the authority to determine when to accept prepayment from an entity. Prepayment typically occurs when WIFA loans are refinanced. In order to conform to typical private bond issuance terms, WIFA has historically imposed a 10-year call date for all WIFA loans. If an entity were to refinance before this 10-year date, they would be liable to pay off the loan balance along with interest until the 10-year date. Chapter 260 would prohibit the practice unless the financing agreement explicitly contained these requirements at the time of execution.

Small Water System Fund

Laws 2015, Chapter 241 amends A.R.S. § 49-355 to allow the Small Water System Fund to be used only for providing emergency grants to repair or replace water infrastructure. Chapter 241 also defines a small water

system as a public water system that services 500 or fewer connections.

Other Issues

FY 2015 Ex-Appropriation

As part of the FY 2016 budget, the \$1,000,000 FY 2015 appropriation was repealed.

Department of Water Resources

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	90.0	96.0	100.0 ^{1/}
Personal Services	3,238,200	4,178,900	4,358,900
Employee Related Expenditures	1,301,600	1,596,300	1,633,300
Professional and Outside Services	179,200	210,000	345,000
Travel - In State	146,100	224,400	230,800
Travel - Out of State	24,600	77,000	93,400
Other Operating Expenditures	1,810,900	1,934,500	2,232,000
Equipment	123,500	280,000	311,400
OPERATING SUBTOTAL	6,824,100	8,501,100	9,204,800
SPECIAL LINE ITEMS			
Adjudication Support	1,209,000	1,257,200	1,251,800 ^{2/}
Assured and Adequate Water Supply Administration	1,727,500	1,990,300	1,983,200 ^{3/}
Automated Groundwater Monitoring	403,400	410,300	409,400
Conservation and Drought Program	405,400	410,200	408,300
Lower Colorado River Litigation Expenses	330,900	500,000	500,000 ^{4/5/}
Rural Water Studies	1,152,700	1,168,100	1,164,500 ^{6/}
Ch. 149 Water Banking Fund	0	0	237,400
AGENCY TOTAL	12,053,000	14,237,200	15,159,400 ^{7/}
FUND SOURCES			
General Fund	11,970,200	13,330,300	12,803,100
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	0	266,500	266,600
Water Banking Fund	0	0	1,448,500
Water Resources Fund	82,800	640,400	641,200
SUBTOTAL - Other Appropriated Funds	82,800	906,900	2,356,300
SUBTOTAL - Appropriated Funds	12,053,000	14,237,200	15,159,400
Other Non-Appropriated Funds	7,239,200	8,905,600	8,905,600
Federal Funds	32,100	469,400	469,400
TOTAL - ALL SOURCES	19,324,300	23,612,200	24,534,400

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

^{1/} Includes 52 GF FTE Positions funded from Special Line Items in FY 2016.

^{2/} Monies in the Adjudication Support line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-256 and A.R.S. § 45-257B4. The Department of Water Resources may not transfer any monies into or out of the Adjudication Support line item. (General Appropriation Act footnote)

^{3/} Monies in the Assured and Adequate Water Supply Administration line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-108 and A.R.S. § 45-576 through A.R.S. § 45-579. The Department of Water Resources may not transfer any monies into or out of the Assured and Adequate Water Supply Administration line item. (General Appropriation Act footnote)

^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

^{5/} The Department of Water Resources may not transfer any monies from the Lower Colorado River Litigation Expenses line item without the prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{6/} It is the intent of the Legislature that monies in the Rural Water Studies line item be spent only to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's Active Management Areas and not be made available for other department operating expenditures. (General Appropriation Act footnote)

^{7/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$9,204,800 and 48 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$7,852,500
Water Banking Fund	1,211,100
Water Resources Fund	141,200

These amounts fund the following adjustments:

Water Supply Issues

The budget includes an increase of \$488,300 and 4 FTE Positions from the Water Banking Fund in FY 2016 for statewide water supply issues. This includes hiring staff and contracting with Professional and Outside Services to address department goals related to securing the long-term stability of Arizona's water supply.

Rent Increase

The budget includes an increase of \$221,400 from the Water Banking Fund in FY 2016 for a contractual rent increase for the department's headquarters located in central Phoenix. ADOA negotiated a reduced rent for the department effective FY 2011 through November 2017. This increase is part of the negotiated amount.

Operating Budget Shift

The budget includes an increase of \$500,000 from the Water Banking Fund and a corresponding decrease of \$(500,000) from the General Fund in FY 2016 for agency operations. There is no net change in agency resources.

Statewide Adjustments

The budget includes a decrease of \$(6,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(8,200)
Water Banking Fund	1,400
Water Resources Fund	800

(Please see the Agency Detail and Allocations section.)

Adjudication Support

The budget includes \$1,251,800 and 14.5 FTE Positions from the General Fund in FY 2016 for Adjudication Support. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,400) from the General Fund in FY 2016 for statewide adjustments.

A.R.S. § 45-256 requires the Department of Water Resources to provide technical and administrative support to judicial proceedings involving water rights claims in the Gila River and Little Colorado River watersheds, which include approximately two-thirds of the land within the state. In 1952, Congress passed the McCarran Amendment, which waived the sovereign immunity of the United States to the adjudication of its federal reserved water right claims in state court on behalf of itself and Indian tribes. Due to the ongoing state court proceedings, the federal court has declined to exercise its jurisdiction over the federal reserved water right claims of the United States and Indian Tribes. Absent a state court proceeding, the federal court could exercise jurisdiction over these federal reserved water rights claims. *(Please see the Lower Colorado River Litigation Expenses section.)*

Assured and Adequate Water Supply Administration

The budget includes \$1,983,200 and 19.8 FTE Positions in FY 2016 for the Assured and Adequate Water Supply (AAWS) Program. These amounts consist of:

General Fund	1,716,600
AAWS Administration Fund	266,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(7,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(7,200)
AAWS Administration Fund	100

All new subdivisions within the state's 5 Active Management Areas (AMAs) must either obtain a Certificate of Assured Water Supply from the Department of Water Resources or obtain a commitment of water service from a municipal provider designated as having an Assured Water Supply. An applicant for a Certificate of Assured Water Supply or a Designation of Assured Water Supply must demonstrate the availability of water for the next 100 years.

New developers outside the 5 AMAs may obtain a commitment of water service from a municipal water provider designated as having an Adequate Water Supply or developers must obtain from the department a report of the water available to the new subdivision for 100 years before any lots may be sold. In most areas outside the AMAs, if the water supply report determined the water supply to be inadequate, lots may still be sold, but buyers must be notified of the determination. In certain

areas outside the AMAs, lots may not be sold unless the water supply is determined to be adequate for 100 years.

Automated Groundwater Monitoring

The budget includes \$409,400 and 2 FTE Positions from the General Fund in FY 2016 for Automated Groundwater Monitoring. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(900) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item are to provide for automated measuring instruments, which provide daily measurements of groundwater levels. This information is used to support the administration of all the water management programs that the Department of Water Resources is responsible for, including but not limited to, determining assured and adequate water supply, implementation and evaluation of recharge activities, rural water budgets, and water supply studies.

Conservation and Drought Program

The budget includes \$408,300 and 4.7 FTE Positions from the General Fund in FY 2016 for the Conservation and Drought Program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,900) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item are used to assist local communities to assess conservation needs and assist rural communities in the development of conservation programs, promote water education throughout the state, create guidelines for more efficient use of water, and provide suggestions for funding and implementing conservation programs. Monies in this line item are also used by the Department of Water Resources to administer the requirements of the Community Water System program, including but not limited to annual water use reporting (mailings, electronic notification, and submittals), improvements to increase efficiencies of reporting and data collection, data analysis and compliance.

Lower Colorado River Litigation Expenses

The budget includes \$500,000 from the Water Resources Fund in FY 2016 for Lower Colorado River Litigation Expenses. This amount is unchanged from FY 2015.

Monies in this line item are used to pay the litigation costs associated with the *Navajo Nation v. United States Department of the Interior* case, in which the Department of Water Resources is an intervening defendant. This case involves the Navajo Nation's claims to water from the Lower Colorado River and challenges operations that were put in place after the initial lawsuit was filed in 2003. The Navajo Nation filed an amended complaint on June 3, 2013 to begin litigating the case. The United States and the state interveners filed motions to dismiss in August 2013, which were granted in October 2014. The case is being appealed.

Rural Water Studies

The budget includes \$1,164,500 and 11 FTE Positions from the General Fund in FY 2016 for Rural Water Studies. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,600) from the General Fund in FY 2016 for statewide adjustments.

Monies in this line item are used to support the department's administration, data collection, and evaluation of rural water studies. The monies are also used to provide assistance to local communities to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs. The current AMAs are Prescott, Phoenix, Pinal, Tucson, and Santa Cruz. These studies are administered, in most cases, through partnerships with local resource agency officials and stakeholders. Partnerships generally require local entities to provide some resources to match General Fund receipts, although if a community has a significant need the department can waive this requirement. The studies are primarily conducted by the local entity, with the department providing technical advice and financial assistance. The department is currently involved in 9 studies.

Ch. 149 Water Banking Fund

Laws 2015, Chapter 149 appropriates \$237,400 from the Water Banking Fund in FY 2016 for Ch. 149 Water Banking Fund. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$237,400 from the Water Banking Fund in FY 2016. Laws 2015, Chapter 149 allows the Arizona Water Banking Authority to spend during FY 2016 any unencumbered monies remaining in the Nevada Operating and Resource subaccounts of the Arizona Water Banking Fund as of June 30, 2015 for use in performing its responsibilities under A.R.S § 45-2624. The Authority will use this funding to provide water for the

Southside Replenishment Bank as part of the Gila River Indian Community Water Settlement Program that was established under the Indian Water Settlement Act. The unencumbered amount as of June 30, 2015 is expected to be \$237,400. This amount would allow the Authority to bank up to 1,324 acre-feet of water at current Central Arizona Project prices.

Additional Legislation

Water Protection Fund Administrative Costs

The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) continues to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2016.

Fee Revenue

The FY 2016 Environment BRB continues to allow the Director to maintain prior year fees in FY 2016. The bill specifies that the fee revenue be deposited in the Water Protection Fund with the intent that the fee increase not exceed \$100,200.

Department of Weights and Measures

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
PROGRAM BUDGET			
General Services	1,611,600	1,805,800	1,728,400
Oxygenated Fuel	837,900	789,700	787,800
Vapor Recovery	587,000	653,500	652,000
AGENCY TOTAL	3,036,500	3,249,000	3,168,200
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	36.4	38.4	38.4
Personal Services	1,436,500	1,519,000	1,519,000
Employee Related Expenditures	683,100	746,100	727,100
Professional and Outside Services	227,200	215,300	215,300
Travel - In State	151,500	151,700	151,700
Travel - Out of State	27,800	14,600	14,600
Other Operating Expenditures	416,700	433,000	439,200
Equipment	93,700	169,300	101,300
AGENCY TOTAL	3,036,500	3,249,000	3,168,200^{1/}
FUND SOURCES			
General Fund	1,281,600	1,475,700	1,399,000
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,424,900	1,443,200	1,439,800
Motor Vehicle Liability Insurance Enforcement Fund	330,000	330,100	329,400
SUBTOTAL - Other Appropriated Funds	1,754,900	1,773,300	1,769,200
SUBTOTAL - Appropriated Funds	3,036,500	3,249,000	3,168,200
TOTAL - ALL SOURCES	3,036,500	3,249,000	3,168,200

AGENCY DESCRIPTION — The department regulates the determination and representation of weight and measurement in the marketplace and maintains 2 environmentally related gasoline inspection programs. All programs investigate consumer complaints. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures are transferred to the Arizona Department of Agriculture and the Department of Transportation.

Operating Budget

The budget includes \$3,168,200 and 38.4 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$1,399,000
Air Quality Fund	1,439,800
Motor Vehicle Liability Insurance Enforcement Fund	329,400

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(68,000) from the General Fund in FY 2016 to eliminate one-time funding, including \$(36,000) for a forklift for the State Metrology Department and \$(32,000) for equipment for new staff for the Vehicle for Hire program.

Statewide Adjustments

The budget includes a decrease of \$(12,800) for statewide adjustments. This amount consists of:

General Fund	\$(8,700)
Air Quality Fund	(3,400)
Motor Vehicle Liability Insurance Enforcement Fund	(700)

(Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Program

Additional Legislation

Agency Consolidation

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department of Agriculture as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the new Division within the Arizona Department of Agriculture, with the exception of responsibilities relating to taxis, limousines and livery vehicles, which are transferred to the Arizona Department of Transportation (ADOT).

Pursuant to A.R.S. § 35-146 and 35-147, all fees currently collected by the Department of the Weights and Measures will continue to be deposited into the General Fund by the successor agencies. All personnel under the state personnel system who are employed by the Department of Weights and Measures are transferred to comparable positions and pay classifications in the Weights and Measures Services Division and ADOT on July 1, 2016.

The bill also requires the Arizona Department of Administration (ADOA) to facilitate the transfer of equipment, records, data and appropriated monies of the Department of Weights and Measures that remain unexpended and unencumbered to the Arizona Department of Agriculture and ADOT by July 1, 2016. The Director of ADOA will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. *(Please see the Arizona Department of Agriculture and the Arizona Department of Transportation for more information.)*

CAPITAL OUTLAY

Capital Outlay Summary

	FY 2016 APPROVED
BUILDING RENEWAL	
ADOA Building System	20,097,900
ADOT Building System	3,396,800
ABOR Building System	0
SUBTOTAL	23,494,700
INDIVIDUAL PROJECTS	
ADOA Building System	2,500,000
ADOT Building System	262,652,800
ABOR Building System	0
SUBTOTAL	265,152,800
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations ^{1/}	114,563,600
TOTALS	
ADOA Building System	137,161,500
ADOT Building System	266,049,600
ABOR Building System	0
TOTAL - ALL PROJECTS	403,211,100
FUND SOURCES	
General Fund	120,763,600
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	530,000
State Aviation Fund	21,996,700
State Highway Fund	242,852,900
State Lottery Fund	103,600
State Parks Revenue Fund	1,500,000
SUBTOTAL - Other Appropriated Funds	282,447,500
SUBTOTAL - Appropriated Funds	403,211,100
Other Non-Appropriated Funds	466,892,000
Federal Funds	670,848,000
TOTAL - ALL SOURCES	1,540,951,100

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 Act but may be made through other bills as well.

^{1/} This amount was appropriated by the FY 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 129, Section 130 and Section 131). All other appropriations appear in the FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9).

The following amounts are one-time appropriations:

Summary

The budget includes a total of \$403,211,100 from Appropriated Funds in FY 2016. Of the total, \$120,763,600 is from the General Fund and \$282,447,500 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 budget includes total funding of \$23,494,700 in FY 2016 for Building Renewal, which consists of \$5,000,000 from the General Fund and \$18,494,700 Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$14,000,000
General Fund/Capital Outlay	
Stabilization Fund	
@ 38.8% (excludes ADC,	
Game and Fish, Lottery buildings)	
Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 31.1%	
Game and Fish Department	
Game and Fish Fund @ 69.1%	530,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>103,600</u>
Subtotal - ADOA	\$20,097,900
Arizona Department of Transportation	
State Highway Fund @ 27.1%	\$ 3,191,900
State Aviation Fund @ 93.2%	<u>204,900</u>
Subtotal - ADOT	\$ 3,396,800

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

Individual Projects

The budget includes total funding of \$265,152,800 in FY 2016 for individual capital projects, which consists of \$1,200,000 from the General Fund and \$263,952,800 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The budget includes \$114,563,600 from the General Fund in FY 2016 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 and the Rio Nuevo Multipurpose Facility District. *(See the Debt and Lease-Purchase Financing write-up for more information.)*

Capital Outlay

Arizona Department of Administration Building System

FY 2016
APPROVED

BUILDING RENEWAL

Department of Administration ^{1/2/}	14,000,000
Department of Corrections ^{3/}	5,464,300
Game and Fish Department	530,000
Arizona Lottery Commission	103,600
SUBTOTAL ^{4/}	20,097,900

INDIVIDUAL PROJECTS ^{5/}

Arizona Exposition and State Fair Board

Capital Improvements 1,000,000

Arizona State Parks Board

Capital Improvements 1,500,000

SUBTOTAL **2,500,000**

TOTAL - ALL PROJECTS ^{6/7/8/9/}

22,597,900

FUND SOURCES

General Fund	5,000,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	530,000
State Lottery Fund	103,600
State Parks Revenue Fund	1,500,000
SUBTOTAL - Other Appropriated Funds	17,597,900
SUBTOTAL - Appropriated Funds	22,597,900

TOTAL - ALL SOURCES

22,597,900

- ^{1/} The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is 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. (Capital Outlay Appropriation Act footnote)
- ^{2/} On or before January 31, 2016 and July 31, 2016, the Department of Administration shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)
- ^{3/} On or before January 31, 2016 and July 31, 2016, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- ^{4/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2016 to 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 may 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. (Capital Outlay Appropriation Act footnote)
- ^{5/} 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. (Capital Outlay Appropriation Act footnote)
- ^{6/} Unless otherwise specified, the monies appropriated in this act may 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. (Capital Outlay Appropriation Act footnote)
- ^{7/} An appropriation made in Section 7 of this act does 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 encumbrance. Except as provided in subsection A of this section and notwithstanding A.R.S § 35-190D, the appropriations made in this act for FY 2016 that are unexpended on June 30, 2017 revert to the fund from which the monies were appropriated from. (Capital Outlay Appropriation Act footnote)

DESCRIPTION — The Arizona Department of Administration (ADOA) Building System is comprised of all state agencies except the Arizona Board of Regents (ABOR) 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 2016 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

Unless otherwise specified, funding for capital projects is appropriated by Laws 2015, Chapter 9 (FY 2016 Capital Outlay Bill).

management of building renewal projects, and a requirement that unused building renewal monies revert on June 30, 2017.

Building Renewal

The budget includes \$20,097,900 from the General Fund and Other Appropriated Funds in FY 2016 for Building Renewal within the ADOA Building System. This amount consists of:

- \$14,000,000 to ADOA, which consists of \$5,000,000 from the General Fund and \$9,000,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 38.8% of the non-Department of Corrections (ADC) building renewal formula. The FY 2015 appropriation of \$18,000,000 included \$9,000,000 from COSF and \$9,000,000 from the General Fund, which represented 53.0% of the non-ADC formula.
- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 31.1% of the ADC-only building renewal formula. The FY 2015 appropriation of \$8,464,300 included \$5,464,300 from the ADC Building Renewal Fund and \$3,000,000 from the General Fund, which represented 51.6% of the ADC-only formula.
- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 69.1% of the agency's building renewal formula. The agency did not receive a building renewal appropriation in FY 2015.
- \$103,600 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the building renewal formula. The FY 2015 budget included \$97,400 from the State Lottery Fund, which also represented 100% of the agency's building renewal formula.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The budget 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

Individual Projects

Arizona Exposition and State Fair Board Capital Improvements

The budget includes \$1,000,000 from the Arizona Exposition and State Fair Fund in FY 2016 for capital improvements.

Arizona State Parks Board Capital Improvements

The budget includes \$1,500,000 from the State Parks Revenue Fund in FY 2016 for capital improvements in the State Park system.

Other Issues

COSF Rental Rate Change & Payment Adjustments

The budget includes no agency adjustments for lease-purchase and rental charges, as all changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels. Excluding the ADOA sale/leaseback, the lease-purchase and rent changes from the *FY 2015 Appropriations Report* are as follows:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 65,600	\$110,500
• PLTO	30,300	252,300
• State Building Rent	<u>22,700</u>	<u>(66,600)</u>
	\$ 118,600	\$296,200

Lease-Purchase

In FY 2016, lease-purchase payments will increase by \$110,500, of which \$65,600 is from the General Fund and \$44,900 from Other Appropriated Funds.

Privatized-Lease-to-Own (PLTO)

In FY 2016, PLTO payments will increase by \$252,300, of which \$30,300 is from the General Fund, \$189,800 is from

8/ The Department of Administration shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request. (Capital Outlay Appropriation Act footnote)

9/ The Department of Administration may allocate FTE Positions authorized for specific projects to other projects in this act if 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, 2015. (Capital Outlay Appropriation Act footnote)

Other Appropriated Funds, and \$32,200 is from Non-Appropriated Funds.

Rent Adjustments

In FY 2016, state building rent payments will decrease by \$(66,600) which consists of: \$22,700 increase from the General Fund, \$(105,000) decrease from Other Appropriated Funds, and \$15,700 increase from Non-Appropriated Funds.

The budget includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates of state building space (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). *(Please see Summary of Rent Charges for additional information.)*

Capital Outlay

Arizona Department of Transportation Building System

FY 2016
APPROVED

BUILDING RENEWAL

ADOT Building Renewal ^{1/}	3,396,800
SUBTOTAL	3,396,800

INDIVIDUAL PROJECTS

Navajo Nation ^{2/}	1,200,000
De-Icer Buildings ^{3/}	2,280,000
Vehicle Wash Systems ^{4/}	2,910,000
Airport Planning and Development ^{5/6/}	21,791,800
Statewide Highway Construction ^{6/7/}	234,471,000
SUBTOTAL	262,652,800

TOTAL - ALL PROJECTS ^{8/9/10/11/}	266,049,600
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FUND SOURCES

Other Appropriated Funds

General Fund	1,200,000
State Aviation Fund	21,996,700
State Highway Fund	242,852,900
SUBTOTAL - Other Appropriated Funds	264,849,600
SUBTOTAL - Appropriated Funds	266,049,600

Other Non-Appropriated Funds	466,892,000
Federal Funds	670,848,000
TOTAL - ALL SOURCES	1,403,789,600

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.

- ^{1/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2016 to 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. (Capital Outlay Appropriation Act footnote)
- ^{2/} The sum of \$1,200,000 is appropriated from the state General Fund in FY 2016 to the Department of Transportation for distribution to the Navajo Nation for transportation projects on reservation land in this state. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{3/} The sum of \$2,280,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2016 to the Department of Transportation for the construction of 5 de-icer buildings. The Department of Transportation shall submit the scope, purpose and estimated cost of the de-icer buildings to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{4/} The sum of \$2,910,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2016 to the Department of Transportation for the construction of 6 vehicle wash systems. The Department of Transportation shall submit the scope, purpose and estimated cost of the vehicle wash systems to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{5/} The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 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. (Capital Outlay Appropriation Act footnote)
- ^{6/} An appropriation made in Section 7 of this act does 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 Appropriation Act footnote)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2015, Chapter 9 (FY 2016 Capital Outlay Bill).

Building Renewal

The budget includes \$3,396,800 in FY 2016 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 27.1% funding of the revised highways building renewal formula and 93.2% funding of the aviation building renewal formula.

Individual Projects

Navajo Nation Transportation Projects

The budget includes \$1,200,000 from the General Fund in FY 2016 for one-time Navajo Nation transportation projects on reservation land in this state.

De-Icer Buildings

The budget includes \$2,280,000 from SHF in FY 2016 for ADOT to construct 5 new buildings that will house de-icer chemicals and bulk sand, used during winter months to de-ice highways after the snow has been plowed. They will be located at different areas throughout the state and will replace existing deteriorated facilities and outside storage. These facilities will help ADOT incorporate environmental enhancements requested by the Arizona Department of Administration's Risk Management Division, minimizing the

potential for environmental incidents. Each de-icer building will cost an estimated \$456,000. In April 2015, the Joint Committee on Capital Review favorably reviewed ADOT's FY 2015 de-icer building project. ADOT's FY 2015 plan allocated \$2,280,000 for 5 de-icer buildings located in Camp Verde, Fredonia, Kayenta, St. John and Three Way. Between FY 2014 and FY 2016, a total of \$6,840,000 has been appropriated for de-icer buildings at 15 sites.

Vehicle Wash Systems

The budget includes \$2,910,000 from SHF in FY 2016 for ADOT to construct new vehicle wash systems at 6 highway maintenance sites statewide. Each vehicle wash system costs \$485,000. A wash system includes a 1,200 square foot metal building, a rack frame for handling de-icer material spreaders, and equipment to contain contaminants such as road tar, lubricants and de-icer salts. The wash systems will help ADOT meet wastewater environmental regulations to protect surface and ground water. ADOT was also appropriated \$3,000,000 in FY 2015 for 6 vehicle wash buildings. Between FY 2014 and FY 2016, a total of \$8,910,000 has been appropriated for vehicle wash systems at 18 sites.

Airport Planning and Development

The budget includes \$21,791,800 from the State Aviation Fund (SAF) in FY 2016 for ADOT's airport construction program. Fund revenues are generated from a flight property tax on commercial airline aircraft, a license tax on non-commercial aircraft, and Grand Canyon Airport operational revenues. A footnote in the FY 2016 Capital Outlay Bill appropriates any additional monies in SAF above the appropriation to ADOT for aviation construction. (*Please see Footnote 5.*)

- 7/ The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 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. (Capital Outlay Appropriation Act footnote)
- 8/ The Department of Transportation shall report on or before November 1, 2015 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. 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. (Capital Outlay Appropriation Act footnote)
- 9/ Unless otherwise specified, the monies appropriated in this act may 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. (Capital Outlay Appropriation Act footnote)
- 10/ On or before November 1, 2015, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2017 and the estimated debt service payment amount for FY 2017 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, Arizona 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*. (Capital Outlay Appropriation Act footnote)
- 11/ On or before November 1, 2015, the Department of Transportation shall report capital outlay information for FY 2015, FY 2016 and FY 2017 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 2015 Appropriations Report*. (Capital Outlay Appropriation Act footnote)

Statewide Highway Construction

The budget includes \$234,471,000 from SHF in FY 2016 for controlled access, debt service on bonds, and new construction. A footnote in the FY 2016 Capital Outlay Bill appropriates any additional monies in SHF above the appropriation to ADOT for highway construction. (Please see Footnote 7.)

Controlled Access Highways

The budget includes an estimated urban freeway controlled access funding level of \$88,663,000 from SHF in FY 2016. Please see Table 5 for the HURF distribution analysis, which shows that after implementing statewide adjustments, \$88,113,000 of net SHF monies will be available for controlled access in FY 2016 rather than \$88,663,000. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service

The budget includes \$115,356,000 from SHF in FY 2016 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,692,405,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2016 debt service payments. (Please see Table 4 for more information on debt service.)

New Construction

The budget includes \$30,452,000 from SHF in FY 2016 for highway construction. Highway construction monies represent the amount that is available for the discretionary SHF to fund the State Transportation Board's 5-year plan after all other allocations have been made. Table 5 displays the HURF distribution analysis, which shows that after implementing statewide adjustments and additional ADOT highway maintenance funding, \$25,830,000 of net SHF monies will be available for statewide highway construction in FY 2016 rather than \$30,452,000. (Please see the Summary of Highway Construction section and Table 5 for additional information.)

Table 1 shows the allocation of the budget related to highway construction:

	Capital Outlay Bill
Controlled Access	\$ 88,663,000
Debt Service	115,356,000
Highway Construction	30,452,000
Total	\$234,471,000

As noted in the HURF distribution table (please see Table 5), an additional amount of \$320,468,000 from unspent FY 2015 State Highway Fund monies and the Statewide Transportation Acceleration Needs Account (STAN) will also be available in FY 2016.

Summary of Non-Appropriated Capital Funds

Table 2 provides a summary of non-appropriated capital expenditures. Non-appropriated capital expenditures are expected to grow from \$988.4 million in FY 2014 to \$1.5 billion in FY 2015, before falling back to \$1.1 billion in FY 2016. Because construction of the South Mountain Freeway will begin in FY 2015, expenditures from the Maricopa Regional Area Road Fund (MRARF) are noticeably higher in FY 2015 than the other years. Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the FY 2016 Baseline Book. The ADOT operating budget section does not include the non-appropriated capital expenditures as those only appear in Table 2.

	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Aviation Federal Funds	\$ 727	\$ 940	\$ 1,100
Federal Grants	669,747	669,748	669,748
Subtotal - Federal Funds	\$670,474	\$ 670,688	\$ 670,848
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	12,500	37,500
Local Agency Deposits Fund	84,484	90,000	85,000
Maricopa Regional Area Road Fund	232,415	706,015	343,392
Subtotal - Other Non- Appropriated Funds	\$317,899	\$ 809,515	\$ 466,892
Total	\$988,373	\$1,480,203	\$1,137,740

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 13, 2014 includes monies from SHF, Federal Funds, MRARF, HURF for controlled access roads, and bond revenues. The highway construction program adopted by the State Transportation Board totals \$814,741,000 for FY 2016. (Please see Table 3 for additional details.)

Table 3**Highway Construction Projects Beginning in FY 2016
(\$ in Thousands)**

	<u>FY 2016</u> ^{1/}
Construction	\$ 111,104
Urban Controlled Access ^{2/}	412,812
Pavement Preservation Maintenance	236,059
Other ^{3/}	<u>54,766</u>
Total	\$814,741

^{1/} Data from ADOT's 2015-2019 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and MRARF.

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

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2016 budget provides \$234,471,000 for highway construction, including \$30,452,000 of net SHF monies for statewide highway construction. In *Table 5*, this amount is adjusted to \$25,830,000 due to statewide adjustments.

Table 4 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2014 through FY 2016 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 2016 by category of construction. *Table 4* also includes monies from the Local Agency Deposits Fund, while *Table 3* does not.

For FY 2014, *Table 4* shows that total FY 2014 cash highway construction expenditures were \$906.8 million while \$288.0 million was spent on debt service. In FY 2015, total estimated cash highway construction expenditures are \$1.5 billion with total debt service of \$307.5 million. The FY 2015 increase is primarily due to MRARF. As previously indicated, ADOT will begin construction of the South Mountain Freeway in FY 2015.

In FY 2016, total estimated cash highway construction expenditures are \$1.5 billion with total debt service of \$338.6 million. While the total cash highway construction program in FY 2016 is comparable to FY 2015, MRARF is projected to decline from \$535.9 million in FY 2015 to \$140.4 million in FY 2016. The SHF portion of the cash highway construction program grows from \$33.8 million in FY 2015 to \$274.1 million in FY 2016.

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 \$129.5 million in FY 2014, \$141.8 million in FY 2015, and \$136.0 million in FY 2016. Of the \$338.6 million total debt service amount in *Table 4*, only \$115.4 million is appropriated.

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 6* explains the formula distribution of HURF monies between state and local governments. *Table 5* presents the overall HURF distribution for FY 2014 through FY 2016. The line in *Table 5* showing Net SHF Available for Statewide Highway Construction, which totals \$25,830,000 for FY 2016, 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.

Total FY 2014 HURF collections of \$1,241,332,000 were 2.6% above FY 2013. As of April 2015, HURF fiscal year-to-date collections were 3.7% higher than the prior year. The Baseline projections used in *Table 5*, however, assume a 2.0% increase in total HURF revenue collections in both FY 2015 and FY 2016. Based on the FY 2015 fiscal year-to-date trend, HURF collections in FY 2015 and FY 2016 are estimated to be \$21.1 million and \$43.4 million above the Baseline amounts, respectively.

The significant and sustained drop in gas prices in FY 2015 has led to increased fuel consumption and increased HURF revenue. So far during FY 2015, gas tax revenue through April 2015 was up by 3.1% compared to the prior year, and use fuel tax (diesel) revenue was up by 4.2% compared to the prior year. The average price per gallon of regular gasoline in Arizona was \$2.67 at the beginning of May, or \$(0.84) per gallon lower than a year ago, according to the American Automobile Association. VLT revenue growth has also contributed to overall HURF growth in FY 2015. VLT revenue has increased by 6.0% during FY 2015.

Table 4

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

<u>Sources</u>	<u>FY 2014</u> <u>Actual</u>	<u>FY 2015</u> <u>Estimate</u>	<u>FY 2016</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 96.8	\$ 111.1	\$ 115.4
HURF - MAG Debt Service	25.2	27.9	30.6
MAG/PAG 15.2% Controlled Access - Construction Expenditures	13.8	30.3	235.3
Net SHF Funds Available for Statewide Highway Construction Expenditures	17.6	-	25.8
Total SHF - Appropriated	\$ 153.4	\$ 169.3	\$ 407.1
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 20.0	\$ 3.5	\$ 13.0
Total SHF - Non-Appropriated	\$ 20.0	\$ 3.5	\$ 13.0
Total SHF Highway Construction Expenditures	\$ 173.4	\$ 172.8	\$ 420.1
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 692.7	\$ 805.0	\$ 805.0
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 67.8	\$ 535.9	\$ 140.4
MRARF Debt Service	103.2	103.6	135.7
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 171.0	\$ 639.5	\$ 276.1
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 39.0	\$ 112.1	\$ 100.0
MRARF - Highway Construction Expenditures	80.0	30.1	220.0
GAN - Highway Construction Expenditures	34.8	13.1	-
Total Bond Proceeds Highway Construction Expenditures	\$ 153.8	\$ 155.3	\$ 320.0
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 3.9	\$ 10.0	\$ 5.0
Total Local Agency Deposits Fund	\$ 3.9	\$ 10.0	\$ 5.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	3.9	10.0	5.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 3.9	\$ 10.0	\$ 5.0
Total Highway Construction Expenditures	\$ 1,194.8	\$ 1,782.6	\$ 1,826.2
Total Debt Service			
SHF	\$ 122.0	\$ 139.0	\$ 146.0
Federal Aid	62.8	64.9	56.9
MRARF	103.2	103.6	135.7
Total Debt Service	\$ 288.0	\$ 307.5	\$ 338.6 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 51.4	\$ 33.8	\$ 274.1
Federal Aid	629.9	740.1	748.1
MRARF	67.8	535.9	140.4
Bond Proceeds	153.8	155.3	320.0
Local Agency Deposits Fund	3.9	10.0	5.0
Total Cash Highway Construction Expenditures	\$ 906.8	\$ 1,475.1	\$ 1,487.6
Total Highway Construction Expenditures	\$ 1,194.8	\$ 1,782.6	\$ 1,826.2

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$145,983,000 for HURF bonds (\$115,356,000 for statewide program and \$30,627,000 MAG program); \$56,903,000 for Grant Anticipation Notes; and \$135,644,000 for MRARF bonds as of June 30, 2014.

Table 5

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

	FY 2014	FY 2015	FY 2016
	Actual	Estimate	Estimate
Total HURF Collections	\$1,241,332	\$1,266,159	\$1,291,482
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	672	652	653
Automation Projects Fund	5	0	0
Dept. of Public Safety Transfer from HURF ^{3/}	119,247	89,255	96,409
Reversions from DPS	(1,656)	0	0
Cities ^{4/}	0	16,003	16,003
Counties ^{4/}	0	9,969	9,969
Controlled Access ^{4/}	<u>0</u>	<u>4,028</u>	<u>4,028</u>
Net HURF Collections	\$1,122,064	\$1,145,252	\$1,163,420
Less: Cities ^{5/}	342,230	349,302	354,843
Counties ^{5/}	213,192	217,598	221,050
VLT Transfer to Parity Compensation Fund ^{6/}	2,616	2,826	2,934
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,205	1,200	1,200
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	3,704	3,700	3,700
Controlled Access ^{9/}	<u>84,986</u>	<u>86,735</u>	<u>88,113</u>
Net SHF (Discretionary)	\$ 474,131	\$ 483,891	\$ 491,580
Plus: Other Income ^{10/}	42,871	43,636	31,103
Less: Operating Budget ^{11/}	331,354	340,870	341,900
Dept of Public Safety Transfer from Highway Fund ^{12/}	6,744	6,744	7,273
Capital Outlay	5,280	5,280	5,190
Building Renewal	2,268	3,192	3,192
Motor Vehicle Third Party Payments ^{13/}	21,822	23,065	23,942
AFIS Replacement	2,348	0	0
Debt Service ^{14/}	<u>112,237</u>	<u>111,075</u>	<u>115,356</u>
Net SHF Available for Statewide Highway Construction	\$ 34,949	\$ 37,301	\$ 25,830
(5-Year Plan) ^{15/}			
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	223,177	270,878	305,434
STAN Account Beginning Balance	<u>38,266</u>	<u>18,534</u>	<u>15,034</u>
Total SHF Available for Statewide Highway Construction	\$ 296,392	\$ 326,713	\$ 346,298

- ^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.
- ^{2/} The FY 2015 amount of \$651,800 includes \$300 for statewide adjustments. The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments.
- ^{3/} The FY 2015 amount of \$89,255,000 includes \$7,900 for statewide adjustments. The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments.
- ^{4/} The FY 2016 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the Department of Public Safety budget.
- ^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.
- ^{6/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.
- ^{7/} 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.
- ^{8/} 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.
- ^{9/} 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.
- ^{10/} Includes interest and rental income, transfers from the Public Roads Fund, deposits from the UST tax, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2014 amount of \$42,871,000 includes \$42,199,000 in miscellaneous revenue and \$672,000 for the Registration Compliance program. The FY 2015 estimate of \$43,636,000 includes \$42,984,200 in miscellaneous revenue and \$651,800 for the Registration Compliance program. The FY 2016 estimate of \$31,102,900 includes \$30,450,200 in miscellaneous revenue and \$652,700 for the Registration Compliance program.
- ^{11/} The FY 2015 amount of \$340,869,900 includes \$3,461,900 for new lane miles and \$84,800 for statewide adjustments. The FY 2016 amount of \$341,899,700 includes \$(1,056,200) for statewide adjustments.
- ^{12/} The FY 2015 amount of \$6,743,900 includes \$100 for statewide adjustments. The FY 2016 amount of \$7,273,200 includes \$(29,500) for statewide adjustments.
- ^{13/} Statutory payments to third parties from VLT collected by third parties.
- ^{14/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.
- ^{15/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Laws 2013, Chapter 244 deposited \$12,419,700 from the Underground Storage Tank (UST) tax into SHF for FY 2014 covering the period from January 2014 to June 30, 2014. For the first 6 months of FY 2015, \$15,317,700 from the UST tax was deposited in SHF. The source of the tax is a 1-cent excise tax on petroleum products and hazardous substances. Previously, these monies supported the Department of Environmental Quality’s program to clean up leaking underground storage tanks.

The FY 2015 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 14) eliminated the deposit of UST tax collections in SHF effective January 1, 2015. Laws 2015, Chapter 247 deposits UST tax revenue in the UST Revolving Fund. *(Please see the Department of Environmental Quality’s narrative for more details.)*

3-Year HURF Distribution to Local Governments

The FY 2015 Revenue BRB required \$30.0 million of HURF revenues in both FY 2015 and FY 2016 and \$60.0 million of HURF revenues in FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The FY 2016 Revenue BRB decreased the distribution in FY 2017 from \$60.0 million to \$30.0 million. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures. *(Please see footnote 4 in Table 5 for the impact of this policy on the HURF distribution.)*

Prior to FY 2015, \$119.2 million of HURF funding had been allocated to the Department of Public Safety (DPS) for highway patrol expenses. By replacing \$30.0 million of HURF with General Fund in the DPS budget, the Legislature made the additional \$30.0 million available to local governments through the HURF distribution in FY 2015, FY 2016, and FY 2017.

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.

Capital Outlay

Arizona Board of Regents Building Systems

FY 2016
APPROVED

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 budget includes no funding for Building Renewal in the ABOR Building System.

Lease-Purchase Projects

In FY 2016, ABOR is projected to have \$716,604,000 in outstanding lease-purchase balances, with an overall debt service payment of \$76,131,300. The FY 2016 General Fund share of the debt service is \$26,508,800. These monies pay for the 2003 Certificates of Participation which were issued in the amount of \$482,500,000 to provide funding for a variety of research infrastructure projects.

Laws 2003, Chapter 267 appropriated \$34,625,000 from the General Fund from FY 2008 through FY 2031 to pay for the Research Infrastructure debt service.

The FY 2016 Research Infrastructure debt service will be \$(8,112,100) below the amount in FY 2015 due to refinancing Certificates of Participation. (See the ABOR operating section for additional information on universitywide refinance savings.)

Bonding

In FY 2016, ABOR is projected to have \$2,259,750,000 in outstanding bond balances, including both system revenue and Lottery bonds. The projected debt service is \$202,573,800. (Please see the ABOR agency section for more information.)

University Lottery Bonds

One component of the \$2.3 billion balance is university lottery revenue bonds (Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9). These statutory provisions authorized ABOR to enter into 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.

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 \$34,773,000 was issued in January 2013, with the remaining \$3,000,000 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 was partially paid in cash, and issued in June 2013.
- Additionally, in August 2013, the Committee favorably reviewed \$33,265,000 for ASU building renewal projects, which was issued in May 2014.

As a result of these actions, \$409,068,000 has been favorably reviewed by JCCR. While the reviewed amount is in excess of the \$408,000,000 statutory allocation for the 3 universities, the actual issuances are within the statutory limit. ASU had projects favorably reviewed in the amount of \$137,653,000, but they have actually issued \$126,380,000, which is within their statutory allotment, with \$9,620,000 remaining. NAU had projects favorably reviewed in the amount of \$136,015,000, which is above its statutory allotment, however, NAU has only issued \$132,350,000, which is within their statutory allotment. UA had projects favorably reviewed totaling \$135,400,000, but have actually issued a total of \$134,950,000, which is within its statutory allotment, with \$1,050,000 remaining. Of the total \$408,000,000 prescribed in statute, \$393,830,000 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. The campus was to be a collaboration between the 3 universities. Subsequent to the March 2010 JCCR meeting, ASU withdrew its partnership altogether from the Phoenix Biomedical Campus and NAU elected for cash financing for this item. As a result:

- Of the \$172,940,000 for Phase I, ASU's \$43,010,000 will not be issued and NAU paid cash instead of bonding for its \$7,685,000 proposed allocation.
- UA issued \$122,245,000 in June 2010 for Phase I.

In addition, the Committee has taken action at 2 subsequent meetings:

- NAU issued \$7,475,000 to build out shell space in June 2013 (reviewed by the Committee in April 2013).
- In September 2014, the Committee favorably reviewed \$136,100,000 for a Bioscience Partnership Building, which will house 245,000 gross square feet and 10-stories of new research space. These bonds were issued by UA in February 2015.

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. Laws 2009, 1st Special Session, Chapter 6, Section 3 would have to be amended in order for ASU and NAU to use the Phoenix Biomedical Campus allocation for other capital projects.

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

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.

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 enacted budget forecast assumes that the \$675,650,000 of total issuances will result in a total debt service payment of \$30,167,000 in FY 2015, with 80% of debt service being paid from Lottery revenues.

University Issuances						
<u>Purpose</u>	<u>University</u>	<u>Statutory Distribution</u>	<u>Reviewed Issuance</u>	<u>Actual Issuance</u>	<u>Remaining Authority</u>	<u>Planned Issuance</u>
Phoenix Biomedical Campus	UA	\$360,960,000	\$258,345,000	\$258,345,000	\$102,615,000	\$ 0
ASU's School of Construction	NAU	15,040,000	8,100,000	7,475,000	7,565,000	0
Building Renewal/ New Construction	ASU	16,000,000	16,000,000	16,000,000	0	0
	ASU	136,000,000	137,653,000 ^{1/}	126,380,000	9,620,000	0
	NAU	136,000,000	136,015,000 ^{1/}	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>135,400,000</u>	<u>134,950,000</u>	<u>1,050,000</u>	<u>0</u>
<i>Subtotal</i>		<i>408,000,000</i>	<i>409,068,000</i>	<i>393,830,000</i>	<i>14,170,000</i>	<i>0</i>
TOTAL		\$800,000,000	\$691,513,000	\$675,650,000	\$124,350,000	\$ 0

^{1/} Actual issuances will not exceed statutory distribution

University Lottery Bonding Projects ^{1/}						
		<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 28,313,700	\$ 37,559,500	\$ 49,020,100	\$ 55,667,400	\$ 65,509,600
Building Renewal Projects						
Lottery Debt Service	80%	\$ 12,887,400	\$ 14,440,900	\$ 25,101,900	\$ 26,376,600	\$ 26,372,100
University Debt Service	20%	<u>3,221,900</u>	<u>3,610,200</u>	<u>6,275,500</u>	<u>6,594,200</u>	<u>6,593,100</u>
Total Debt Service for \$393.8 M		\$ 16,109,300	\$ 18,051,100	\$ 31,377,400	\$ 32,970,800	\$ 32,965,200
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 4,564,200	\$ 9,119,800	\$ 14,715,200	\$ 14,714,600	\$ 14,715,200
University Debt Service	20%	<u>1,141,000</u>	<u>2,280,000</u>	<u>3,678,800</u>	<u>3,678,600</u>	<u>3,678,800</u>
Total Debt Service for \$265.8 M^{3/}		\$ 5,705,200	\$ 11,399,800	\$ 18,394,000	\$ 18,393,200	\$ 18,394,000
ASU School of Construction						
Lottery Debt Service	80%	\$ 121,000	\$ 572,900	\$ 764,900	\$ 767,100	\$ 767,100
University Debt Service	20%	<u>30,200</u>	<u>143,200</u>	<u>191,200</u>	<u>191,800</u>	<u>191,800</u>
Total Debt Service for \$16.0 M		\$ 151,200	\$ 716,100	\$ 956,100	\$ 958,900	\$ 958,900
Total Lottery Share at 80% ^{4/}		\$ 17,572,600	\$ 24,133,600 ^{5/}	\$ 40,582,000 ^{5/}	\$ 41,858,300	\$ 41,854,400
Projected University Cost ^{4/5/6/}		\$ 4,393,100	\$ 6,033,400	\$ 10,145,500	\$ 10,464,600	\$ 10,463,700

^{1/} Represents JCCR reviewed projects and issuances.
^{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/} This amount consists of: 1) \$122,245,000 issued by UA for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU in June 2013 for shell space and 3) \$136,100,000 issued by UA in February 2015 for the Bioscience Partnership Building.
^{4/} 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.
^{5/} ABOR reports that the total lottery share will be \$22,290,900 in FY 2015 and \$38,668,100 in FY 2016. The amounts displayed above reflect estimates made in January 2015 based on available information from ABOR.
^{6/} Represents the 20% university share.

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 \$49,020,100 in FY 2016. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since the maximum 80% Lottery portion of the debt service is assumed to be \$40,582,000 in FY 2016, the enacted budget estimates \$8,438,100 will be deposited to the General Fund. The 20% share of the university payment, which will be paid for with university system revenues, is projected to be \$10,145,500 in FY 2016.

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. These amounts are based on the FY 2016 Baseline forecast (made in January 2015) and ABOR debt service estimates from that time period.

Capital Outlay

Debt and Lease-Purchase Financing

FY 2016
APPROVED

LEASE-PURCHASE PAYMENTS*

Arizona Department of Administration - 2010 Leaseback Financing	84,114,600 ^{1/2/}
Phoenix Convention Center	20,449,000 ^{3/}
Rio Nuevo Distribution	10,000,000 ^{4/}
TOTAL - ALL PROJECTS	114,563,600

* 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 3.)

FUND SOURCES

General Fund	114,563,600
TOTAL - ALL SOURCES	114,563,600

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

2010 Leaseback Financing

The budget includes \$84,114,600 from the General Fund in FY 2016 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%, with an effective yield of approximately 4%. These issuances range up to 20 years in period of time, however, optional prepayment by the state is prohibited by the agreements until FY 2020. (Please see the Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.)

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 agree to either of the following requirements:

- Working Capital Surplus Limitation – Limits the state's total cash reserve to 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. The state's cash reserve is defined as: the General Fund, the Budget Stabilization Fund (BSF), and monies in certain Department of Revenue clearing accounts. During FY 2012 – FY 2014, excess cash balances were to be used to purchase tax-exempt securities on a temporary basis. Beginning with the FY 2015 balance, excess cash balances would be used for mandatory retirement of the tax-exempt financing, which would occur in FY 2017. The mandatory repayment requirements would have superseded the existing FY 2020 prepayment restriction contained in the financing agreements.

- ^{1/} The sum of \$60,104,300 is appropriated from the State General Fund in FY 2016 to the Department of Administration for the purpose of making a debt service payment on the sale and lease-back of state buildings authorized by Laws 2009, 3rd Special Session, Chapter 6. (General Appropriation Act footnote)
- ^{2/} The sum of \$24,010,300 is appropriated from the State General Fund in FY 2016 to the Department of Administration for the purpose of making a debt service payment on the sale and lease-back of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4. (General Appropriation Act footnote)
- ^{3/} Pursuant to A.R.S. § 9-602, \$20,449,000 of General Fund revenue is allocated in FY 2016 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601. (General Appropriation Act footnote)
- ^{4/} Pursuant to A.R.S. § 42-5031, a portion of the state transaction privilege tax revenues will be distributed to a Multipurpose Facility District. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2016. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031. (General Appropriation Act footnote)

- Investment Yield Restriction – Limits the investment return on the state’s operating balance to the interest rate paid on the outstanding tax-exempt financing (approximately 4%). The state would be required to restrict the yield on investments with a value equal to the current level of outstanding financing – which at the end of FY 2016 is expected to be \$1.24 billion. The yield restriction exists for the entire term of the operating financing.

When the financing was originally issued, the state agreed to the Working Capital Surplus limitation. Given concerns about the potential for the mandatory repayment requirements, the Executive opted to convert to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing.

Due to this change, the FY 2016 Budget Procedures BRB (Laws 2015, Chapter 11) repeals the Working Capital Surplus reporting requirement in A.R.S. § 41-707. To replace the Working Capital Surplus Report, Chapter 11 requires the Department of Administration to report to the Joint Legislative Budget Committee (JLBC) and the Governor’s Office of Strategic Planning and Budgeting (OSP) by October 1 of each year on any costs associated with the Investment Yield Restriction, including whether the policy has reduced the yield of investments or required the state to pay any associated penalties to the federal government.

Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the operating financing is not subject to prepayment by the state until FY 2020.

Phoenix Convention Center

The budget includes \$20,449,000 from the General Fund in FY 2016 related to the state participating in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center.

In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs), of which 50% will be repaid by the state. The project was completed in January 2009.

When the financing was originally authorized, Laws 2003, Chapter 266 enacted a debt service schedule related to this issuance, which was later modified by the FY 2012 Revenue BRB (Laws 2011, Chapter 28). Under this schedule, the state’s annual contribution is scheduled to gradually increase from \$20,449,000 in FY 2016 to \$29,998,900 by FY 2044.

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) makes a technical change to conform the Phoenix Convention Center debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified in FY 2012 to conform to the actual debt service payments of the Phoenix Convention Center financing.

Statute requires the Auditor General to estimate annually how amounts of General Fund revenues resulting from the expansion project compare to debt service payments made by the state since the project’s 2009 completion. If the cumulative estimated revenues from the project fail to meet the state’s cumulative debt service, the state is to reduce its payments to the City of Phoenix by the shortfall amount.

The first comparison report was required in 2014. The study found that estimated General Fund revenues exceeded the state’s debt service payments by \$56,900,000 during the 5-year time period between 2009 and 2014. As a result, the state’s payment remained the same. The net increase was largely due to the state’s low introductory debt service payments. In just FY 2014 alone, \$8,800,000 in added revenues from the project was \$(11,649,000) short of the \$20,449,000 in debt payments.

Rio Nuevo Distribution

The budget includes \$10,000,000 from the General Fund in FY 2016 for debt service payments to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facility District.

In prior years, distributions of monies to the Rio Nuevo district were accounted for as a reduction of state transaction privilege tax (TPT) revenue. Beginning in FY 2016, these payments are being displayed in the budget as a state expenditure instead. This will assure greater transparency and will be consistent with how the distributions of state monies to the Phoenix Convention Center are currently reported. The FY 2016 payments to the Rio Nuevo district are estimated to be \$10,000,000, which is 5.4% above the actual sales tax distributions for the district in FY 2014. The actual amount distributed in FY 2016 will reflect the TPT allocation to the district required by statute.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. This district, which receives a diversion of TPT to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

Laws 1999, Chapter 162 allows the district to retain the state’s share of TPT from sales of secondary businesses that are deemed “necessary or beneficial” to the development of the primary component multipurpose facility. This law also limited the district’s TPT revenues to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state’s tax collections to finance local development projects with the expectation that future tax collections will increase as a result, is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the district’s municipality to spend a matching amount on projects by the district’s expiration date of July 1, 2025, or until the date all authorized debt service payments are completed, in order to receive state TPT revenues.

Through FY 2014, Rio Nuevo has received a total of \$118,376,500 in TPT distributions from the state (see Table 1). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

Table 1

State TPT Payments to the Rio Nuevo District

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2014	\$9,486,100
FY 2013	9,755,752
FY 2012	11,957,943
FY 2011	14,099,949
FY 2010	8,727,318
FY 2009	10,399,336
FY 2008	15,456,187
FY 2007	14,974,923
FY 2006	10,968,178
FY 2005	7,469,632
FY 2004	<u>5,081,197</u>
Total	\$118,376,515

Additional Legislation

State Treasurer Reporting of Debt Issuances

Laws 2015, Chapter 221 requires the State Treasurer, instead of the Department of Revenue (DOR), to record all debt issued by the state or local governments by June 30 of each year.

Chapter 221 requires that, by December 15 of each year, the State Treasurer (instead of DOR) publish a report on the information collected on debt issuances in the prior fiscal year. The report includes an analysis of the outstanding indebtedness of each jurisdiction and compares the outstanding indebtedness to constitutional debt limitations.

Other Issues

State Debt Rating

In May 2015, Moody’s upgraded Arizona’s credit rating from Aa3 with a positive outlook to Aa2 with a stable outlook. Aa2 is the third highest rating out of 10 possible levels. In comparison to other states, 25 states have a higher rating, 9 states have a similar rating, and 15 states have a lower rating or are not rated due to a lack of state level debt. The other major credit rating agency, Standard & Poor’s, has not updated its credit rating for Arizona since November 2013.

In adopting its credit ratings for Arizona, Moody’s listed some of the following concerns: 1) on-going K-12 litigation; 2) extremely narrow budget reserves; 3) absence of authority for mid-year reductions; and 4) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108. While noting these challenges, Moody’s also indicated Arizona’s comparably moderate debt levels, below median pension liabilities, 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 2 provides information on current lease-to-own agreements.

Table 2

Privatized Lease-to-Own Summary

<u>Fund Type</u>	<u>FY 2016 Payment</u>	<u>Lease Completion</u>
General Fund	\$1,224,600	FY 2028
Other Approp.	7,678,500	FY 2028
Non-Approp.	<u>1,298,900</u>	FY 2028
Total	\$10,202,000	N/A

These payments are not included in Table 3’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.

SFB's first proposed refinance under the authority in Chapter 3 received a favorable review from the Joint Committee on Capital Review (JCCR) in October 2013 and reduces SFB's lease-purchase payments by \$(1,445,200) in FY 2014 and \$(3,800,800) in FY 2015.

At its April 10, 2014 meeting, JCCR favorably reviewed a second refinancing agreement, which produced non-recurring savings of \$(9,415,900) in FY 2015. The FY 2016 budget includes a one-time ex-appropriation of these savings for FY 2015.

The FY 2016 K-12 Education BRB (Laws 2015, Chapter 15) allows SFB to enter into a refinancing agreement in FY 2016 that will reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024. SFB's lease-purchase payment reductions may not vary by more than \$1,000,000 in any single fiscal year during that period. Any refinancing agreement would be subject to JCCR review.

In addition, all other lease-purchase payments and PLTO payments are estimated to change by the following amounts in FY 2016: 1) Lease-purchase payments will increase by \$65,600 from the General Fund and \$44,900 from All Other Funds; and 2) PLTO payments will increase by \$30,300 from the General Fund and \$222,000 from All Other Funds. These adjustments will be funded from

existing agency appropriations and will have no corresponding change in agency funding levels. *(Please see the Capital Outlay ADOA Building System narrative for more information.)*

Table 3 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 2016 bond payment will be \$37,501,800. This results in the General Fund receiving \$(37,501,800) less in Lottery revenues in FY 2016.

The federal requirements pertaining to operating financing 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.)*

Table 3

Lease-Purchase and Bonding Summary

	Overall Balance	^{1/} GF Balance	Overall FY 16 Payment	^{2/} FY 16 GF Payment	Retirement FY
Lease-Purchase Summary					
ADOA Building System					
2008A Issuance					
ADC 4000 Prison Beds, Water, and Wastewater	\$ 158,660,000	\$ 158,660,000	\$ 16,061,900	\$ 16,061,900	FY 23 FY 28
DHS Forensic Hospital	20,685,000	20,685,000	3,113,700	3,113,700	FY 23
<i>Subtotal</i>	\$ 179,345,000	\$ 179,345,000	\$ 19,175,600	\$ 19,175,600	
2010 A/B Issuance					
Sale/Leaseback	\$ 886,415,000	\$ 886,415,000	\$ 84,114,600	\$ 84,114,600	FY 30
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 22,345,000	\$ -	\$ 3,098,000	\$ 1,858,800	FY 29
2013 B Issuance					
Refinance - 2002A Health Lab	\$ 13,420,000	\$ -	\$ 2,033,000	\$ -	FY 23
Refinance - 2004B Prisons	11,140,000	11,140,000	3,075,300	3,075,300	FY 19
<i>Subtotal - ADOA</i>	\$ 1,112,665,000	\$ 1,076,900,000	\$ 111,496,500	\$ 108,224,300	
School Facilities Board					
New School Construction - FY 2003 - FY 2005	\$ -	\$ -	\$ 66,228,800	\$ 66,228,800	FY 20
New School Construction - FY 2008 - FY 2009	381,975,000	381,975,000	58,645,700	58,645,700	FY 24
Federal Bonds	60,346,600	60,346,600	9,938,000 ^{3/}	9,938,000 ^{3/}	FY 28
2011 Refinance	58,785,000	58,785,000	2,449,800	2,449,800	FY 20
2013 Refinance	45,125,000	45,125,000	24,780,300	24,780,300	FY 20
2014 Refinance	219,020,000	219,020,000	10,345,500	10,345,500	FY 20
<i>Subtotal - SFB</i>	\$ 765,251,600	\$ 765,251,600	\$ 172,388,100	\$ 172,388,100	
ABOR Building System					
Arizona State University	\$ 289,033,000	\$ 151,905,000	\$ 27,075,300	\$ 11,421,600	FY 19-39
Northern Arizona University	56,945,000	56,945,000	5,700,000	5,493,200	FY 31
University of Arizona	370,626,000	151,570,000	43,356,000	9,594,000	FY 72
<i>Subtotal - ABOR</i>	\$ 716,604,000	\$ 360,420,000	\$ 76,131,300	\$ 26,508,800	
Phoenix Convention Center ^{4/5/}	\$ 260,124,300	\$ 260,124,300	\$ 20,449,000	\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,854,644,900	\$ 2,462,695,900	\$ 380,464,900	\$ 327,570,200	
Bonding Summary					
School Facilities Board					
Deficiencies Correction:					
Proposition 301	\$ 245,885,000	\$ -	\$ 64,147,000	\$ -	FY 20
State Land Trust - FY 2004	46,396,900	-	24,903,500	-	FY 18
<i>Subtotal - SFB</i>	\$ 292,281,900	\$ -	\$ 89,050,500	\$ -	
Department of Transportation ^{6/}	\$ 1,690,780,000	\$ -	\$ 202,886,000 ^{7/}	\$ -	FY 14 - 38
ABOR Building System					
Arizona State University	\$ 772,895,000	\$ -	\$ 78,032,500	\$ -	FY 44
Northern Arizona University	310,210,000	-	25,540,800	-	FY 41
University of Arizona	495,725,000	-	48,372,000	-	FY 48
University Lottery Bond (SPEED)	680,920,000 ^{8/}	-	50,727,500	-	FY 48
<i>Subtotal - ABOR</i>	\$ 2,259,750,000	\$ -	\$ 202,672,800	\$ -	
Lottery Revenue Bond ^{4/}	\$ 353,675,000	\$ 353,675,000	\$ 37,501,800	\$ 37,501,800	FY 29
<i>TOTAL - Bonding</i>	\$ 4,596,486,900	\$ 353,675,000	\$ 532,111,100	\$ 37,501,800	
TOTAL - Lease-Purchase & Bonding	\$ 7,451,131,800	\$ 2,816,370,900	\$ 912,576,000	\$ 365,072,000	

- 1/ Represents principal balances as of June 30, 2016. 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 16 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 2016 this subsidy is expected to be \$3,976,500 of the \$9,938,000 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. Laws 2015, Chapter 10 makes a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.
- 6/ Includes \$1,543,460,000 for Highway User Revenue Fund bonds and \$147,320,000 for Grant Anticipation Notes.
- 7/ Future debt service schedule is: FY 2017 - \$172,259,700; FY 2018 - \$172,014,700; FY 2019 - \$136,540,200.
- 8/ Represents outstanding balance as of the end of FY 2016 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.)*

SUMMARY OF RENT CHARGES 1/ 2/

Fiscal Year 2016 - Appropriations Report				
BUDGET UNITS	General Fund	Other Fund	Non-Approp	Total
Acupuncture Board of Examiners				
1400 W Washington	0	4,500	0	4,500
Administration, AZ Department of				
1400 W Washington	3,400	3,100	0	6,500
1510 W Adams	0	353,600	0	353,600
1520 W Adams	0	184,800	0	184,800
1522 W Jackson	0	41,900	0	41,900
1537 W Jackson	0	89,100	0	89,100
1616 W Adams	0	77,300	0	77,300
1802 W Jackson	0	24,900	61,900	86,800
1840 W Jackson	0	63,600	0	63,600
1850 W Jackson	0	44,500	0	44,500
1700 W Washington	32,600	78,800	0	111,400
1789 W Jefferson (DES West)	0	16,400	0	16,400
1801 W Madison	0	21,500	0	21,500
400 W Congress, Tucson	0	53,500	0	53,500
402 W Congress, Tucson	0	56,200	0	56,200
416 W Congress, Tucson	0	2,700	0	2,700
Subtotal - AZ Dept of Administration	\$36,000	\$1,136,600	\$61,900	\$1,234,500
Administrative Hearings, Office of				
1400 W Washington	71,000	900	131,500	203,400
400 W Congress, Tucson	0	11,400	0	11,400
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800
African American Affairs, Commission on	\$9,300	\$0	\$0	\$9,300
Agriculture, AZ Department of				
1520 W Adams	106,500	0	0	106,500
1688 W Adams	197,700	0	222,800	420,500
400 W Congress, Tucson	32,100	0	4,700	36,800
Subtotal - AZ Dept of Agriculture	\$336,300	\$0	\$227,500	\$563,800
AZ Health Care Cost Containment System				
Kingman Building	6,800	0	6,600	13,400
Arts, AZ Commission on the				
417 W Roosevelt	0	0	49,700	49,700
Attorney General - Department of Law				
1275 W Washington	550,300	315,500	320,200	1,186,000
400 W Congress, Tucson	32,600	25,600	19,100	77,300
402 W Congress, Tucson	137,700	107,900	79,900	325,500
Capitol Center	991,900	348,500	0	1,340,400
Subtotal - Attorney General - Dept of Law	\$1,712,500	\$797,500	\$419,200	\$2,929,200
Automobile Theft Authority				
1400 W Washington	0	34,800	0	34,800
Barbers, Board of				
1400 W Washington	0	12,500	0	12,500
Charter Schools, State Board for				
1616 W Adams	70,500	0	0	70,500
Child Safety, Department of				
1400 W Washington	0	0	42,400	42,400
Kingman Building	18,800	38,500	25,900	83,200
400 W Congress, Tucson	21,200	20,000	9,500	50,900
Capitol Center	117,100	32,500	67,200	216,800
Subtotal - Department of Child Safety	\$157,100	\$91,000	\$145,000	\$393,300
Citizens Clean Election Commission				
1616 W Adams	0	0	54,300	54,300
Contractors, Registrar of				
400 W Congress, Tucson	0	38,000	0	38,000
1700 W Washington	0	418,700	0	418,700
Subtotal - Registrar of Contractors	\$0	\$456,700	\$0	\$456,700

Fiscal Year 2016 - Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
Corporation Commission				
1200 W Washington	0	527,800	0	527,800
1300 W Washington	0	375,500	0	375,500
1400 W Washington	0	153,300	0	153,300
400 W Congress, Tucson	5,500	47,900	3,100	56,500
Subtotal - Corporation Commission	\$5,500	\$1,104,500	\$3,100	\$1,113,100
Corrections, State Department of				
1601 W Jefferson	749,800	0	0	749,800
1645 W Jefferson	668,600	0	0	668,600
1831 W Jefferson	266,300	0	0	266,300
Subtotal - State Dept of Corrections	\$1,684,700	\$0	\$0	\$1,684,700
Deaf and the Hard of Hearing, Commission for the				
1400 W Washington	0	8,400	0	8,400
Economic Security, Department of				
1400 W Washington	0	0	58,000	58,000
1624 W Adams	64,100	29,200	23,400	116,700
1700 W Washington	12,800	5,900	4,700	23,400
1789 W Jefferson (DES West)	1,430,600	356,500	472,900	2,260,000
Kingman Building	31,900	65,500	44,000	141,400
400 W Congress, Tucson	190,600	179,600	86,400	456,600
DES Group Homes	139,200	200,100	0	339,300
Capitol Center	78,600	21,900	45,100	145,600
Subtotal - Department of Economic Security	\$1,947,800	\$858,700	\$734,500	\$3,541,000
Education, Department of				
1535 W Jefferson	311,000	106,300	578,900	996,300
400 W Congress, Tucson	0	12,000	42,500	54,500
416 W Congress, Tucson	0	900	21,100	22,000
Subtotal - Department of Education	\$311,000	\$119,200	\$642,500	\$1,072,800
Environmental Quality, Department of				
400 W Congress, Tucson	0	96,800	0	96,800
Equal Opportunity, Governor's Office of				
1700 W Washington	13,000	0	0	13,000
Equalization, State Board of				
416 W Congress, Tucson	1,400	0	0	1,400
Executive Clemency, Board of				
1645 W Jefferson	86,200	0	0	86,200
Financial Institutions, Department of				
2910 N 44th Street	166,000	32,400	0	198,400
Fire, Building, and Life Safety, Department of				
400 W Congress, Tucson	12,300	0	7,500	19,800
Funeral Directors & Embalmers, State Board of				
1400 W Washington	0	15,000	0	15,000
Gaming, Department of				
400 W Congress, Tucson	0	14,000	0	14,000
Geological Survey, AZ				
402 W Congress, Tucson	17,500	0	0	17,500
416 W Congress, Tucson	147,700	0	0	147,700
Subtotal - AZ Geological Survey	\$165,200	\$0	\$0	\$165,200
Governor, Office of the				
1700 W Washington	571,500	0	134,500	706,000
400 W Congress, Tucson	30,000	0	0	30,000
Subtotal - Office of the Governor	\$601,500	\$0	\$134,500	\$736,000
Gov's Ofc of Strategic Planning & Budgeting				
1700 W Washington	131,200	0	0	131,200
Health Services, Department of				
1740 W Adams	0	1,013,500	0	1,013,500
1818 W Adams	209,600	0	0	209,600
400 W Congress, Tucson	84,100	50,300	0	134,400
402 W Congress, Tucson	0	3,300	0	3,300
416 W Congress, Tucson	0	56,400	0	56,400
Subtotal - Department of Health Services	\$293,700	\$1,123,500	\$0	\$1,417,200

Fiscal Year 2016 - Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
Historical Society, Arizona 1502 W Washington	360,700	0	0	360,700
Homeland Security, AZ Dept of 1700 W Washington	0	0	131,400	131,400
Homeopathic & Integrated Medicine Examiners, 1400 W Washington	0	4,900	0	4,900
Independent Redistricting Commission 1100 W Washington	24,200	0	0	24,200
Indian Affairs, AZ Commission of 1700 W Washington	10,100	0	0	10,100
Insurance, Department of 2910 N 44th Street	323,400	0	107,800	431,200
Judiciary - Court of Appeals 400 W Congress, Tucson	380,700	0	0	380,700
Judiciary - Supreme Court 1501 W Washington	2,859,800	0	0	2,859,800
400 W Congress, Tucson	83,800	0	0	83,800
Subtotal - Supreme Court	\$2,943,600	\$0	\$0	\$2,943,600
Subtotal - Judiciary	\$3,324,300	\$0	\$0	\$3,324,300
Juvenile Corrections, Department of 1624 W Adams	364,700	0	0	364,700
Land Department, State 1616 W Adams	0	779,700	0	779,700
Legislature - Auditor General 1520 W Adams Street	11,800	0	0	11,800
2910 N 44th Street	342,200	0	0	342,200
400 W Congress, Tucson	45,100	0	0	45,100
Subtotal - Legislature - Auditor General	\$399,100	\$0	\$0	\$399,100
Liquor Licenses and Control, Department of 400 W Congress, Tucson	0	21,700	0	21,700
Medical Board, AZ 9500 Doubletree Rd.	0	200,100	0	200,100
Massage Therapy Board 1400 W Washington	0	28,500	0	28,500
Mine Inspector, State 1700 W Washington	84,200	0	0	84,200
Naturopathic Physicians Medical Board 1400 W Washington	0	4,300	0	4,300
Navigable Stream Adjudication Commission, AZ 1700 W Washington	10,100	0	0	10,100
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs. 1400 W Washington	0	23,000	0	23,000
Opticians, State Board of Dispensing 1400 W Washington	0	5,200	0	5,200
Optometry, State Board of 1400 W Washington	0	9,100	0	9,100
Osteopathic Examiners, AZ Board of 9500 Doubletree Rd.	0	34,200	0	34,200
Parks Board, AZ State 1300 W Washington	0	61,700	250,500	312,200
1616 W Adams	0	0	66,000	66,000
Subtotal - AZ State Parks Board	\$0	\$61,700	\$316,500	\$378,200
Personnel Board 1400 W Washington	0	24,800	0	24,800
Pest Management, Office of 1688 W Adams	0	46,300	0	46,300
400 W Congress, Tucson	0	3,900	0	3,900
Subtotal - Office of Pest Management	\$0	\$50,200	\$0	\$50,200
Pharmacy, AZ State Board of 1616 W Adams	0	117,800	0	117,800
Podiatry Examiners, State Board of				

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	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	4,400	0	4,400
Private Postsecondary Education, State Board for				
1400 W Washington	0	13,600	3,300	16,900
Psychologist Examiners, State Board of				
1400 W Washington	0	20,500	0	20,500
Public Safety, Department of				
14 N 18th Avenue	20,100	5,300	5,600	31,000
1700 W Washington	51,000	13,300	14,000	78,300
1937 W Jefferson/Wayland	0	0	0	0
400 W Congress, Tucson	10,900	2,800	2,900	16,600
Subtotal - Department of Public Safety	\$82,000	\$21,400	\$22,500	\$125,900
Real Estate Department, State				
2910 N 44th Street	235,900	0	0	235,900
Subtotal - State Real Estate Department	\$235,900	\$0	\$0	\$235,900
Respiratory Care Examiners, Board of				
1400 W Washington	0	19,800	0	19,800
Revenue, Department of				
402 W Congress, Tucson	116,900	59,500	0	176,400
416 W Congress, Tucson	74,900	38,200	0	113,100
1600 W Monroe	1,377,200	709,400	0	2,086,600
Subtotal - Department of Revenue	\$1,569,000	\$807,100	\$0	\$2,376,100
Rio Nuevo Board				
400 W Congress, Tucson	0	0	11,200	11,200
School Facilities Board				
1700 W Washington	80,500	0	33,000	113,500
Secretary of State - Dept of State				
1100 W Washington	23,500	0	0	23,500
1700 W Washington	193,700	0	0	193,700
400 W Congress, Tucson	6,000	0	0	6,000
Records Management Addition	303,400	0	0	303,400
Polly Rosenbaum Building	1,593,000	0	0	1,593,000
Subtotal - Secretary of State - Dept of State	\$2,119,600	\$0	\$0	\$2,119,600
State Boards' Office				
1400 W Washington	0	43,000	0	43,000
Transportation, Department of				
1275 W Washington <u>3/</u>	0	127,500	0	127,500
Treasurer, State				
1700 W Washington	0	142,000	0	142,000
Veterinary Medical Examining Board, AZ State				
9500 Doubletree Rd.	0	25,300	0	25,300
GRAND TOTAL	\$16,806,800	\$8,508,200	\$3,243,500	\$28,558,800

1/ Reflects the FY 2016 rental rates enacted by Laws 2015, Chapter 11, 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.

LEASE-PURCHASE APPROPRIATIONS ^{1/}
Department of Administration Building System

	Fiscal Year 2016 - Appropriations Report			
	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS				
Administration, AZ Department of				
Sale/Lease-Back	84,114,600			84,114,600
Corrections, Arizona Department of				
4,000 Public Prison Beds	16,061,900			16,061,900
Water and Wastewater Projects	657,000			657,000
1,000 Public Prison Beds - Refinance ^{2/}	3,075,300			3,075,300
Subtotal - AZ Department of Corrections	\$19,794,200	\$0	\$0	\$19,794,200
Health Services, Department of				
Health Services Building - Refinance ^{3/}	1,858,600	1,239,400		3,098,000
Health Lab - Refinance ^{2/}	0	2,033,000		2,033,000
Arizona State Hospital Forensic Unit	3,113,700			3,113,700
Subtotal - Department of Health Services	\$4,972,300	\$3,272,400	\$0	\$8,244,700
GRAND TOTAL	\$108,881,100	\$3,272,400	\$0	\$112,153,500

- ^{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 2016 - Appropriation Report			
	General Fund	Other Fund	Non-Approp	Total
<u>Arizona Department of Administration Building</u>				
Accountancy, State Board of	0	113,200	0	113,200
Administration, Arizona Department of	840,600	2,166,000	226,300	3,232,900
Deaf and Hard of Hearing, Commission for the	0	217,300	0	217,300
Equalization, State Board of	88,600	0	0	88,600
Tax Appeals, State Board of	34,000	0	0	34,000
Subtotal - ADOA Building	963,200	2,496,500	226,300	3,686,000
<u>Arizona Department of Environmental Quality Building</u>				
Criminal Justice Commission, Arizona	0	11,500	178,000	189,500
Environmental Quality, Department of	0	4,054,000	0	4,054,000
Environmental Quality, Department of - WIFA	0	0	114,000	114,000
Fire, Building and Life Safety, Department of	148,400	0	54,800	203,200
Forester, State	113,000	0	0	113,000
Gaming, Department of <u>2/</u>	0	778,800	0	778,800
Housing, Department of	0	30,300	476,000	506,300
Insurance, Department of	0	0	57,700	57,700
Residential Utility Consumer Office	0	120,900	0	120,900
Technical Registration, State Board of	0	186,500	0	186,500
Tourism, Office of	0	0	192,100	192,100
Subtotal - ADEQ Building	\$261,400	\$5,182,000	\$1,072,600	\$6,516,000
GRAND TOTAL	\$1,224,600	\$7,678,500	\$1,298,900	\$10,202,000

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 as part of a refinancing review by JCCR in October 2012.

2/ Includes \$155,600 for the Arizona Department of Racing PLTO agreement. The FY 2016 Agency Consolidation Budget Reconciliation Bill merges the Department of Racing into the Department of Gaming, effective July 3, 2015.

ECONOMIC AND REVENUE FORECAST

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2016 budget assumes total net General Fund revenues of \$9.10 billion. This amount is a decrease of (2.7)% compared to enacted FY 2015 General Fund revenues.

Base revenues represent ongoing General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year. For FY 2016, base revenues are projected to increase 3.8% when compared to forecasted FY 2015 revenues. The detailed enacted budget revenue forecasts appear at the end of this section. *Table 6* compares the enacted FY 2016 forecast to the enacted FY 2015 forecast while *Table 7* compares the FY 2018 revenue planning estimates to the FY 2017 estimates.

General Fund Base Revenue Forecast

FY 2015

The original FY 2015 budget was based on total net revenues of \$9.40 billion. This amount was 0.2% above actual FY 2014 collections.

In the original FY 2015 budget, base revenues were projected to be \$9.47 billion in FY 2015, or 5.3% above the prior fiscal year. In January 2015, the JLBC Baseline reduced the FY 2015 base revenue forecast downward to 4.3%. The JLBC Baseline projection was based on the “4-sector” forecast (*see below for more information on the 4-sector process*). The ongoing base revenue in the January Baseline was \$165 million lower than in the April 2014 enacted budget due to downward revisions in estimates for each of the “Big 3” revenue categories (sales tax, individual income tax, and corporate income tax).

In its 2015 Regular Session revisions to the FY 2015 budget, the Legislature adopted the January 2015 JLBC Baseline base revenue forecast of 4.3% growth. In terms of total revenue, the revised FY 2015 budgeted amount was \$9.35 billion, or (0.4)% below FY 2014.

Subsequent to enactment of the budget, the April 4-sector forecast projected base revenue growth of 4.8% for FY 2015. *Table 1* includes the January and April 2015 4-sector estimates by major categories for FY 2015 through FY 2018.

FY 2016

The January FY 2016 JLBC Baseline forecasted total net revenues of \$8.77 billion for FY 2016. Excluding one-time revenues, Urban Revenue Sharing and statutory changes,

the ongoing base revenues were projected at \$9.49 billion. This amount reflected a base revenue increase of 3.3% compared to FY 2015.

The enacted FY 2016 budget adopted a base revenue forecast of 3.8% compared to FY 2015. FY 2016 revenues are projected to be \$9.10 billion, or (2.7)% below FY 2015. The April 4-sector projected FY 2016 base revenue growth of 3.7%.

Table 2 below summarizes the changing revenue picture in FY 2015 to FY 2018 through the phases of budget development. The growth rates in the table reflect ongoing base revenues.

Long-Term Projections

The FY 2016 budget also incorporated revenue planning estimates for FY 2017 and FY 2018, which are shown in *Table 7*. The January 2015 and April 2015 4-sector consensus estimates for FY 2017 and FY 2018 are shown in *Table 1*.

The growth rates in the FY 2017 and FY 2018 revenue planning estimates are based on the January 4-sector forecast. Under the January 4-sector consensus estimate, base revenue would increase by 4.4% in FY 2017 and 5.1% in FY 2018. In comparison, the April growth rates were 4.1% for FY 2017 and 4.8% for FY 2018.

4-Sector Forecast

The JLBC’s estimated growth rates for the “Big 3” revenue categories of sales, individual income and corporate income taxes are initially developed and revised using a 4-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- The Finance Advisory Committee (FAC) panel forecast. This independent panel consists of 13 public and private sector economists that meet 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund base model. The model is a simultaneous-equation model consisting of over 100 equations that are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

Table 1

**4-Sector Estimates
Forecast Percentages (FY 2015 - FY 2018)
Base Revenue ^{1/}**

	<u>FY 2015</u>					<u>FY 2016</u>				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax ^{2/}</u>										
January	4.5%	2.5%	4.0%	4.0%	3.7%	4.4%	1.1%	4.4%	4.4%	3.6%
April	4.3%	3.7%	4.3%	4.3%	4.2%	4.6%	1.1%	4.6%	4.5%	3.7%
<u>Individual Income Tax ^{2/}</u>										
January	3.7%	1.8%	3.0%	3.6%	3.0%	4.4%	1.0%	3.8%	5.4%	3.7%
April	5.2%	2.9%	3.7%	5.4%	4.3%	5.0%	1.5%	4.4%	5.2%	4.0%
<u>Corporate Income Tax ^{3/}</u>										
January ^{4/}	2.9%	(2.0%)	(1.2%)	15.0%	3.7%	3.1%	(6.6%)	0.7%	3.1%	0.1%
April	9.8%	11.2%	11.2%	15.0%	11.8%	3.3%	0.1%	5.5%	1.2%	2.5%
<u>Overall ^{5/}</u>										
January	4.0%	1.9%	3.2%	4.6%	4.3%	4.3%	0.5%	3.9%	4.7%	3.3%
April	5.1%	3.9%	4.5%	5.5%	4.8%	4.7%	1.2%	4.6%	4.6%	3.7%
	<u>FY 2017</u>					<u>FY 2018</u>				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax ^{2/}</u>										
January	5.0%	3.3%	5.8%	4.8%	4.7%	5.2%	5.4%	6.6%	5.0%	5.6%
April	4.9%	2.2%	5.2%	4.8%	4.3%	4.8%	4.6%	5.9%	5.0%	5.4%
<u>Individual Income Tax ^{2/}</u>										
January	5.0%	3.0%	5.0%	5.9%	4.8%	5.1%	4.7%	6.0%	5.9%	5.4%
April	5.1%	2.6%	4.8%	5.3%	4.5%	5.4%	4.3%	5.5%	5.3%	5.1%
<u>Corporate Income Tax ^{3/}</u>										
January	5.1%	(8.8%)	(0.2%)	3.5%	0.2%	7.3%	(11.7%)	(7.2%)	4.5%	(0.9%)
April	6.0%	(9.1%)	(0.8%)	3.1%	(0.1%)	6.4%	(14.2%)	(9.2%)	3.9%	(2.7%)
<u>Overall ^{5/}</u>										
January	5.0%	2.5%	5.1%	5.2%	4.4%	5.3%	4.4%	5.7%	5.4%	5.1%
April	5.0%	1.8%	4.7%	4.9%	4.1%	5.4%	4.0%	5.3%	5.1%	4.8%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The enacted FY 2016 budget utilized January 4-Sector base revenue estimates.

^{3/} The enacted FY 2016 budget utilized January 4-Sector base revenue estimates for corporate income tax, plus \$52 million for FY 2016 through FY 2018.

^{4/} Given year-to-date actuals, each of the January 4-sector estimates for FY 2015 were adjusted to 15% growth for the January 2015 Baseline.

^{5/} The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other base revenue categories. The enacted FY 2016 budget utilized the January 4-sector rates, but modified the FY 2016 rate from 3.3% to 3.8%.

The estimates for the remaining revenue categories, which constitute about 10% of the total, were based on JLBC Staff estimates.

2015 through FY 2018 (see *Table 4* for a complete list of each of the tax law and revenue changes affecting collections in FY 2015 through FY 2018).

	<u>% Change</u>
<u>FY 2015</u>	
Enacted FY 2015 Budget (April 2014)	5.3%
JLBC Baseline (January 2015)	4.3%
Enacted FY 2016 Budget (March 2015)	4.3%
4-Sector Consensus (April 2015)	4.8%
<u>FY 2016</u>	
4-Sector Consensus (January 2015)	3.3%
Enacted FY 2016 Budget (March 2015)	3.8%
4-Sector Consensus (April 2015)	3.7%
<u>FY 2017</u>	
4-Sector Consensus (January 2015)	4.4%
Enacted FY 2016 Budget (March 2015)	4.4%
4-Sector Consensus (April 2015)	4.1%
<u>FY 2018</u>	
4-Sector Consensus (January 2015)	5.1%
Enacted FY 2016 Budget (March 2015)	5.1%
4-Sector Consensus (April 2015)	4.8%

	<u>FY 2015</u>	<u>%</u>	<u>FY 2016</u>	<u>%</u>
Base Revenue	\$9,185.6 ^{1/}	4.3%	\$9,516.8 ^{2/}	3.8%
Previously Enacted Tax Law Changes	N/A		(111.8)	
Newly Enacted Tax Law Changes	(19.8)		52.4	
Urban Revenue Sharing	(608.9)		(605.6)	
One-Time Financing Sources:				
Balance Forward	577.4		12.0	
Fund Transfers	68.9		220.2	
Rainy Day Transfer	144.3		0.0	
Tax Amnesty	<u>0.0</u>		<u>15.0</u>	
Subtotal	790.6		247.2	
Adjusted Revenue	<u>\$9,347.5</u>	(0.4)%	<u>\$9,099.0</u>	(2.7)%

^{1/} \$(120.6) million in previously enacted tax law and revenue changes are included in the FY 2015 base revenue. The FY 2015 increase of 4.3% shown above excludes these changes.

^{2/} After adjusting for \$(19.8) million in new tax law changes in FY 2015, the FY 2016 base revenue increase is 3.8%.

Revenue Adjustments

Table 3 below provides an overview of base revenue growth rates for FY 2015 and FY 2016 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in *Table 4*) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2016 budget.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that impact the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of *Table 3*, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(120.6) million in FY 2015. As noted above, the FY 2015 base revenue growth of 4.3% excludes these changes. The enacted budget assumes a base revenue growth rate of 3.8% in FY 2016. Actual General Fund revenue, which includes the impact of previously and newly enacted legislation, urban revenue sharing and one-time financing sources is estimated to decline by (2.7)% in FY 2016. The following section provides a detailed description of previously as well as newly enacted legislation with an ongoing revenue impact in FY

As shown in *Table 4*, ongoing budget legislation enacted prior to the 2015 Regular Session is estimated to reduce General Fund revenue by \$(120.6) million in FY 2015, followed by an additional reduction of \$(111.8) million in FY 2016, \$(87.6) million in FY 2017, and \$(86.2) million in FY 2018. All revenue impacts in *Table 4* are stated relative to the prior year.

Newly enacted ongoing legislation in 2015 is estimated to reduce General Fund revenue by \$(19.8) million in FY 2015, followed by a revenue gain of \$52.4 million in FY 2016, after which revenue will decrease by \$(24.1) million in FY 2017, followed by an additional reduction of \$(21.8) million in FY 2018. As shown in *Table 4*, this means that the total combined ongoing revenue impact of all (previously and newly) enacted legislation is \$(140.4) million in FY 2015, followed by additional revenue reductions of \$(59.4) million in FY 2016, \$(111.7) million in FY 2017, and \$(108.0) million in FY 2018.

Each of the previously and recently enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in *Table 5*.

Previously (Pre-2015) Enacted Legislation

1) Corporate School Tuition Tax Credit – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increased the credit cap to \$10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2015, and are currently projected to reach the cap of \$51.6 million in FY 2016, \$61.9 million in FY 2017, and \$74.3 million in FY 2018. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by \$(7.2) million in FY 2015, followed by additional reductions of \$(8.6) million in FY 2016, \$(10.3) million in FY 2017, and \$(12.4) million in FY 2018. The impact of this provision was not included in the FY 2015 budget adopted in April 2014.

2) Elimination of Small Business Capital Gains – Laws 2011, 2nd Special Session, Chapter 1 eliminates capital gains on income derived from small businesses certified by the Arizona Commerce Authority to receive credit-eligible angel investments, beginning in TY 2014. This provision is currently estimated to reduce individual income tax collections by \$(8.6) million, beginning in FY 2015.

3) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. This rate reduction is estimated to reduce corporate income tax collections by \$(42.5) million in FY 2015, followed by additional reductions of \$(41.9) million in FY 2016, \$(37.9) million in FY 2017, and \$(41.2) million in FY 2018. Based on subsequent information, these impacts may need to be revised to reflect corporate tax filing behavior more accurately.

4) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increases the optional sales factor, which is used to calculate the apportionment of taxable income for multi-state corporations, from 80% to 100% over 4 years, beginning in TY 2014. This provision is estimated to reduce corporate income tax collections by \$(29.3) million in FY 2015, followed by additional reductions of \$(26.2) million in FY 2016, \$(23.0) million in FY 2017, and \$(19.3) million in FY 2018. As with the tax rate phase-down, these impacts may need to be revised to reflect corporate tax filing behavior more accurately.

5) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a \$3,000 annual individual and corporate

income tax credit for each net new qualifying job added by an employer in the state. To qualify for the 3-year credit, the new employment position must: (1) be full-time, (2) pay at least the county median wage, and (3) include health insurance paid by the employer. In addition, a business cannot claim the credit unless it meets certain minimum job creation and capital investment requirements. Laws 2012, Chapter 343 removed the 400 maximum job tax credit claims per employer established by Chapter 1. The job tax credit is currently estimated to reduce revenues by \$(4.2) million in FY 2015, followed by additional reductions of \$(4.2) million in FY 2016, and \$(3.1) million in FY 2017.

6) Expansion of Angel Investment Credit – Laws 2011, 2nd Special Session, Chapter 1 provided certain changes to the State's Angel Investment Tax Credit program, beginning in FY 2012. Under this program, qualified "angel" investors are eligible to receive up to a 35% credit over 3 years on investments in small businesses certified by the Arizona Commerce Authority. The credit program is capped at \$20 million. Chapter 1 extended the credit authorization by 4 years, through the end of FY 2016. Additionally, Chapter 1 also increased the asset cap of small businesses qualified to receive credit-eligible angel investments from \$2 million to \$10 million, beginning in FY 2012. This provision is estimated to reduce individual income tax revenue by \$(0.5) million in FY 2015, after which time the \$20 million in allowable credit authorization is assumed to be exhausted.

7) Corporate Sales Factor for Service Providers – Laws 2012, Chapter 2 allows multi-state service-providing companies to reduce their Arizona corporate income tax liability through a change in the calculation of the sales factor. To be eligible for the change, a company is required to derive at least 85% of its sales of services from out-of-state customers. The change in the calculation of the sales factor is phased in over 4 years, beginning in TY 2014. This provision is estimated to reduce corporate income tax collections by \$(3.0) million, beginning in FY 2015.

8) Reduction of Long Term Capital Gains – Laws 2012, Chapter 343 reduces the individual income taxation of long-term capital gains on assets acquired after TY 2011 by 25% over 3 years, beginning in TY 2013. This provision is estimated to reduce individual income tax collections by \$(9.2) million in FY 2015, over and above FY 2014. The provision is projected to reduce revenue by an additional \$(11.3) million in FY 2016, when fully phased in.

9) Income Tax Deduction for Federal Bonus Depreciation – Laws 2012, Chapter 343 allows an individual income deduction equal to 10% of the bonus depreciation claimed on federal returns for assets purchased and placed in service in 2013 and subsequent years. The state

revenue impact of this provision depends on whether the federal government provides bonus depreciation or not. In December 2014, the U.S. Congress extended the 50% bonus depreciation retroactively for TY 2014. On April 9, 2015, the Governor signed into law, SB 1188, the 2015 “Conformity Bill” (Laws 2015, Chapter 227), which conformed state statutes to numerous retroactive federal tax extensions adopted in 2014, including the 50% bonus depreciation provision. As a result, the provision is estimated to reduce individual income tax revenue by \$(1.8) million, beginning in FY 2015.

10) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) \$200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility. The credit is refundable but no single taxpayer can claim more than \$30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of \$70 million, which it shares with the renewable energy credit enacted in 2009. This provision is estimated to reduce revenue by \$(4.0) million in FY 2015, followed by additional revenue reductions of \$(4.0) million in FY 2016, \$(4.0) million in FY 2017, and \$(4.0) million in FY 2018.

11) Data Center TPT Exemption – Laws 2013, 1st Special Session, Chapter 9 provides, effective September 1, 2013, Transaction Privilege Tax (TPT) and Use Tax exemptions, for equipment purchased by owners, operators, or co-location tenants of computer data centers certified by the Arizona Commerce Authority. To qualify for the exemption, newly constructed data centers located in Maricopa and Pima Counties must make a minimum investment of \$50 million over 5 years. The corresponding minimum requirement in other counties is \$25 million. Existing data centers, which made an investment of at least \$250 million during the 6 years immediately preceding the act’s effective date, are eligible for the same exemption with respect to future equipment purchases. The exemption is estimated to reduce General Fund revenue by \$(1.8) million in FY 2015, followed by an additional revenue reduction of \$(1.9) million in FY 2016.

12) Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2014, Chapter 7 exempts the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing

or smelting operations from the state TPT and use tax. The exemption is estimated to reduce General Fund revenue collections by \$(14.6) million in FY 2015 and an additional \$(3.6) million in FY 2016.

13) Renewable Energy Facility Credit – Laws 2014, Chapter 8 created an individual and corporate income tax credit for businesses that invest at least \$300 million in new renewable energy facilities in Arizona that generate energy for self-consumption. At least 90% of the energy produced at each renewable energy facility must be used for self-consumption and primarily for manufacturing operations. Chapter 8 imposed the following credit caps: (1) \$1 million per facility per year, (2) \$5 million per taxpayer per year, and (3) \$10 million in the aggregate per year. The credit is estimated to reduce General Fund revenues by \$(10.0) million, beginning in FY 2016.

Laws 2015, Chapter 6 expanded the credit program to include certified International Operations Centers (IOC). However, the credit requirements are different for an IOC than a manufacturer. To qualify for the credit, an IOC must make minimum capital investments of at least \$100 million per year for 10 years, and use at least 51% of the energy produced for self-consumption by the fifth year of operation. While Chapter 6 increased the annual per facility credit cap from \$1 million to \$5 million, it left the \$10 million statewide aggregate cap unchanged. For this reason, the expansion of the credit program under Chapter 6 does not have any additional fiscal impact.

14) Inflation Indexing of Income Tax Brackets – Laws 2014, Chapter 10 provided a one-time inflation adjustment of the individual income tax rate brackets for TY 2015, which was estimated to result in a one-time revenue loss of \$(6.1) million in FY 2016. Laws 2015, Chapter 91 makes inflation indexing of the tax brackets permanent, beginning in TY 2016. As a result, the original estimate for FY 2016 has been revised from one-time to ongoing. Moreover, the revenue reduction under Chapter 91 is estimated to be an additional \$(9.3) million in FY 2017, followed by another \$(9.3) million reduction in FY 2018.

Table 4

Previously and Newly Enacted Budget Legislation with Ongoing Revenue Impact in FY 2015 through FY 2018
(\$ Millions)^{1/2/}

<u>Previously Enacted Legislation / Description of Provision</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>Laws 2006, Ch. 14 & Ch. 325</u>				
1) Corporate school tuition credit for low-income students	\$(7.2)	\$(8.6)	\$(10.3)	\$(12.4)
<u>Laws 2011, 2nd SS, Ch. 1</u>				
2) Eliminates capital gains on income derived from small businesses	\$(8.6)	\$0.0	\$0.0	\$0.0
3) Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in FY 2015	(42.5)	(41.9)	(37.9)	(41.2)
4) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in FY 2015	(29.3)	(26.2)	(23.0)	(19.3)
5) Creates annual \$3,000 3-year new job tax credit with conditions ^{3/}	(4.2)	(4.2)	(3.1)	0.0
6) Increases small business eligibility for 35% "angel" investment tax credit from \$2 million to \$10 million in assets through FY 2016	(0.5)	4.5	0.0	0.0
<u>Laws 2012, Ch. 2</u>				
7) Provides a change in the calculation of the corporate sales factor for service-providers	(3.0)	0.0	0.0	0.0
<u>Laws 2012, Ch. 343</u>				
8) Phases in (over 3 years) a 25% reduction of long term capital gains on assets purchased after 2011 ^{4/}	(9.2)	(11.3)	0.0	0.0
9) Provides individual income tax deduction for Federal Bonus Depreciation	(1.8)	0.0	0.0	0.0
10) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities ^{4/}	(4.0)	(4.0)	(4.0)	(4.0)
<u>Laws 2013, 1st SS, Ch. 9</u>				
11) Exempts data center equipment from TPT ^{4/}	(1.8)	(1.9)	0.0	0.0
<u>Laws 2014, Ch. 7</u>				
12) Exempts electricity and natural gas purchased by manufacturing and smelting facilities from TPT	(14.6)	(3.6)	0.0	0.0
<u>Laws 2014, Ch. 8</u>				
13) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	0.0	(10.0)	0.0	0.0
<u>Laws 2014, Ch. 10 & Laws 2015, Ch. 91</u>				
14) Adjusts individual income tax rate brackets for inflation annually, beginning in TY 2015	0.0	(6.1)	(9.3)	(9.3)
<u>Laws 2014, Ch. 11</u>				
15) Provides that unexpended capitation payments in the Long-Term Care System Fund are reverted to the General Fund	7.9	0.0	0.0	0.0

<u>Previously Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>Laws 2014, Ch. 68</u>				
16) Requires individual taxpayers claiming the Proposition 301 low-income credit to provide a valid social security number	0.0	1.5	0.0	0.0
<u>Laws 2014, Ch. 127</u>				
17) Shifts fine revenues for operating watercraft while intoxicated from the General Fund to Other Fund	(0.5)	0.0	0.0	0.0
<u>Laws 2014, Ch. 168</u>				
18) Provides that an employer is allowed to claim 2 nd and 3 rd year job tax credits for employees that leave and are replaced within 90 days	(0.9)	0.0	0.0	0.0
<u>Laws 2014, Ch. 228</u>				
19) Exempts the construction of mixed waste processing facilities located on a municipal landfill from TPT	(0.2)	0.0	0.0	0.0
<u>Laws 2014, Ch. 276</u>				
20) Exempts personal property sold to a qualified health sciences educational institution from TPT	<u>(0.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal – Revenue Impact over Prior Year for <u>Previously Enacted Budget Legislation</u>	\$(120.6)	\$(111.8)	\$(87.6)	\$(86.2)
<u>Newly Enacted Legislation / Description of Provision</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>Laws 2015, Ch. 6</u>				
21) Exempts electricity and natural gas purchased by International Operations Centers from TPT	\$0.0	\$0.0	\$(1.3)	\$0.0
<u>Laws 2015, Ch. 8 & Ch. 10</u>				
22) Fraud detection and prevention conducted by the Department of Revenue	0.0	41.9	(13.6)	(13.0)
<u>Laws 2015, Ch. 8</u>				
23) Assumes ongoing Judiciary fund transfers to General Fund	0.0	6.0	0.0	0.0
<u>Laws 2015, Ch. 10</u>				
24) Fraud assessment levied by the Department of Insurance	0.0	0.5	0.0	0.0
<u>Laws 2015, Ch. 14</u>				
25) Increases federal disproportionate share cap	11.0	5.5	(7.9)	(8.6)
<u>Laws 2015, Ch. 184</u>				
26) Exempts retaliatory insurance premium taxes	0.0	(1.5)	0.0	0.0
<u>Laws 2015, Ch. 220</u>				
27) Phases down insurance premium tax rate from 2.0% to 1.7% over 11 years	0.0	0.0	(1.3)	(0.2)
<u>Laws 2015, Ch. 227</u>				
28) Conforms state statutes to the federal Internal Revenue Code	<u>(30.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal – Revenue Impact over Prior Year for <u>Newly Enacted Budget Legislation</u>	\$(19.8)	\$52.4	\$(24.1)	\$(21.8)
Total – Revenue Impact over Prior Year for All (Previously and Newly) Enacted Budget Legislation	\$(140.4)	\$(59.4)	\$(111.7)	\$(108.0)
<u>1/</u> Represents marginal pricing: All revenue impacts are stated relative to the prior year.				
<u>2/</u> Some provisions have been revised since the enactment of the FY 2015 budget in April 2014. For more details, see pages 347 - 353 in the <i>FY 2015 Appropriations Report</i> .				
<u>3/</u> Includes impact of Laws 2012, Chapter 343 provision, which eliminated individual company cap of 400 eligible employees.				
<u>4/</u> Impact began in FY 2014.				

15) Long-Term Care System Fund – Laws 2014, Chapter 11 (Health and Welfare Budget Reconciliation Bill) requires all monies in the Long-Term Care System Fund accrued from capitation payments for developmental disability services that are unexpended and unencumbered at the end of the fiscal year to revert to the General Fund. The transfer amount may be adjusted for reported but unpaid claims as well as estimated incurred but unreported claims, subject to approval by the Arizona Health Care Cost Containment System (AHCCCS). Chapter 11 is currently estimated to increase General Fund revenues by \$7.9 million annually, beginning in FY 2015.

16) Social Security Number (SSN) Requirement – Laws 2014, Chapter 68 requires individual taxpayers to provide the Department of Revenue a valid SSN to claim the Proposition 301 Sales Tax Credit, otherwise known as the Increased Excise Taxes Paid Credit (IETC). An individual income tax filer can claim a \$25 credit to offset the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. For taxpayers filing as single or as married person filing separately, the income requirement for claiming the credit is \$12,500 or less. Individual taxpayers had previously been able to also claim this credit using a federally-issued individual taxpayer identification number. The SSN requirement is effective January 1, 2015 and is projected to reduce the use of the credit, thereby increasing income tax collections by \$1.5 million, beginning in FY 2016.

17) Watercraft Fine Revenue Shift – Laws 2014, Chapter 127 redirects certain fines for operating a watercraft while under the influence from the Public Safety Equipment Fund (PSEF) to the Law Enforcement and Boating Safety Fund (LEBSF). PSEF retains the first \$1,200,000 of certain DUI fee revenues and the remainder is deposited into the General Fund. Prior to Chapter 127, PSEF received \$1,200,000 and the General Fund received \$9,179,400 in FY 2013. After shifting \$500,000 of under the influence fees to LEBSF, PSEF is projected to still receive \$1,200,000. The General Fund deposit, however, will decline by \$(500,000) beginning in FY 2015.

18) Job Tax Credit – Laws 2014, Chapter 168 changes the requirement for the new Job Tax Credit program by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days. The provision, which is effective retroactively from January 1, 2014, is currently estimated to reduce income tax collections by \$(882,000), beginning in FY 2015.

19) Mixed Waste Processing Facility TPT Exemption – Laws 2014, Chapter 228 exempts the gross proceeds from building a mixed waste processing facility from the prime

contracting tax. To qualify for the TPT exemption, the facility must be located on a municipal landfill and constructed for the purpose of recycling solid waste or producing renewable energy from landfill waste. Chapter 228 is estimated to decrease General Fund revenue by \$(183,600), beginning in FY 2015.

20) Health Sciences Institution TPT Exemption – Laws 2014, Chapter 276 exempts personal property that is sold to a qualified health sciences educational institution from state and municipal retail, publication, and job printing TPT and use tax. Chapter 276 is estimated to reduce General Fund revenue by \$(196,400), beginning in FY 2015.

Newly (2015) Enacted Legislation

21) Electricity and Natural Gas Exemption for International Operations Centers – Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an “International Operations Center.” The exemption is estimated to reduce General Fund revenue collections by \$(1.3) million, beginning in FY 2017.

22) DOR TPT Collection and Fraud Detection – Laws 2015, Chapters 8 (FY 2016 General Appropriation Act) appropriates \$3.2 million to the Department of Revenue (DOR) to contract with a vendor to provide tax fraud prevention services designed to detect fraudulently filed individual income tax returns. Additionally, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) allows DOR to authorize contracted collectors to collect TPT accounts receivable. DOR may use up to \$2 million of the revenues collected by the contracted collectors to pay for their services. Combined, these laws are expected to increase General Fund revenue by \$41.9 million in FY 2016. Relative to FY 2016, the programs are expected to generate \$(13.6) million less in revenue in FY 2017. The revenue generating programs are expected to produce \$(13.0) million less in FY 2018 than in FY 2017.

23) Ongoing Judiciary Transfers – The enacted 3-year budget plan assumes the ongoing continuation of fund transfers which will be made in FY 2016 from various Superior Court and Supreme Court funds. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contains the specific transfers to be made during FY 2016 – it does not, however, enact any Judiciary fund transfers for FY 2017 and FY 2018. The transfers will increase General Fund revenue by \$6.0 million annually, beginning in FY 2016. (Please see the Superior Court and Supreme Court agency pages for more information regarding the FY 2016 transfers.)

24) Insurance Fraud Assessment – Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) continues to suspend the statutory requirement that the Department of Insurance (DOI) set fees so that fee revenues are between 95% and 110% of the department’s appropriation for FY 2016. This provision allows DOI to increase the fraud investigation assessment in order to offset a General Fund appropriation for insurance fraud investigators in the department’s Fraud Unit. The provision is expected to increase General Fund revenue by \$516,600 annually, beginning in FY 2016.

25) Disproportionate Share Transfer Increase – Laws 2015, Chapter 14 (FY 2016 Health Budget Reconciliation Bill) increases the maximum Disproportionate Share Hospital payment allocation for the Maricopa Integrated Health System in FY 2015 and FY 2016. The bill provides that any resulting increase in the amount of Federal Funds that the public hospital draws down with the added allocation be deposited to the General Fund. This provision is estimated to increase revenue by \$11.0 million in FY 2015 and an additional \$5.5 million in FY 2016 (for a total of \$16.5 million). The federal Disproportionate Share payment is currently expected to decrease by \$(7.9) million in FY 2017, followed by an additional reduction of \$(8.6) million in FY 2018.

26) Retaliatory Tax Exemption – Laws 2015, Chapter 184 provides an exemption from Arizona’s insurance premium retaliatory tax to out-of-state insurers doing business in Arizona, if the insurer’s home state does not charge retaliatory taxes on Arizona insurers. Retaliatory taxes are owed by out-of-state insurers to the extent that the sum of insurance premium tax an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer’s home state. The exemption is estimated to reduce revenue by \$(1.5) million annually, beginning in FY 2016.

27) Insurance Premium Tax Rate Reduction – Laws 2015, Chapter 220 gradually reduces the insurance premium tax rate from 2.0% in calendar year (CY) 2015 to 1.7% in CY 2026 and subsequent years. The rate reduction applies to life, vehicle, and other property and casualty lines of insurance. The law is estimated to reduce insurance premium tax collections to the General Fund by \$(1.3) million in FY 2017 and an additional \$(0.2) million in FY 2018.

28) IRS Conformity – Laws 2015, Chapter 227 conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 1, 2015, including federal provisions that became effective in 2014, but excluding any change to the IRC after January 1, 2015. In December 2014, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended a number of expiring federal

tax provisions for one more year, through TY 2014. One provision under the act allows individual and corporate taxpayers to take a tax deduction of up to \$500,000 for qualifying investments purchased and placed in service in 2014. Absent the federal tax extension, the business expensing limit would have reverted to \$25,000 for TY 2014.

In the 2013 Regular Session, the Legislature conformed Arizona tax policy to the \$500,000 level in FY 2014 as part of that year’s IRS conformity legislation. Conformity provisions are typically renewed annually.

In the 2014 Regular Session, the Legislature passed HB 2664 to permanently raise the business expensing limit for state income taxes to \$500,000. At the time, the FY 2015 budget had already been enacted and assumed a 1-year continuation of the \$500,000 limit at a cost of \$25 million. The Governor, however, vetoed HB 2664. The Executive used the \$25 million General Fund savings from the veto as a financing source for the cost of establishing the new Department of Child Safety in the May 2014 2nd Special Session. Since the cost of business expensing was redirected elsewhere, the March 2015 budget did not fund its continuation in FY 2016.

The 2015 “Conformity Bill” was signed into law (under Chapter 227) several weeks after the budget was adopted in March 2015. For this reason, Chapter 227 resulted in a General Fund revenue loss of \$(30.8) million in FY 2015 relative to the March enacted budget. (Note that the original \$25 million cost estimate has subsequently been revised to \$30.8 million.)

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and town within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will decrease from \$608.9 million in FY 2015 to \$605.6 million in FY 2016, which will result in a net General Fund revenue gain of \$3.3 million in FY 2016. As shown in *Table 7*, URS distributions are estimated to increase to \$616.8 million in FY 2017 and \$631.3 million in FY 2018, which will result in net General Fund revenue losses of \$(11.2) million and \$(14.5) million in FY 2017 and FY 2018, respectively.

Table 5

FY 2015 through FY 2018 One-Time Financing Sources
(\$ in Millions)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Balance Forward	\$ 577.4	\$12.0	--	--
Budget Legislation				
Rainy Day Fund Transfer	144.3	0.0	0.0	0.0
Tax Amnesty	0.0	15.0	0.0	0.0
Fund Transfers	<u>68.9</u>	<u>220.2</u>	<u>100.0</u>	<u>0.0</u>
Subtotal	213.2	235.2	100.0	0.0
Total One-Time Financing	<u>\$790.6</u>	<u>\$247.2</u>	<u>\$100.0</u>	<u>\$0.0</u>

One-Time Financing

As shown in *Table 5*, one-time financing sources are available in FY 2015, FY 2016, and FY 2017. The following is a discussion of the one-time financing sources. *Table 5* provides the one-time financing detail.

FY 2015

The \$790.6 million in one-time financing sources for FY 2015 includes:

Rainy Day Fund Transfer

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) requires the State Treasurer to transfer an amount equal to the negative ending balance for FY 2015 plus \$12.0 million from the Budget Stabilization ("Rainy Day") Fund to the General Fund. Based on a projected FY 2015 ending balance of \$(132.3) million, the Rainy Day Fund transfer for FY 2015 is estimated to be \$144.3 million.

Fund Transfers

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) transfers \$53.9 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund for the purpose of providing adequate support and maintenance for state agencies. Additionally, the FY 2016 General Appropriation Act requires the Attorney General to transfer a total of \$15.0 million from the \$50.0 million National Mortgage Settlement proceeds to the General Fund to compensate for the costs resulting from the alleged unlawful conduct of defendants.

Balance Forward

The FY 2014 General Fund ending balance carried into FY 2015 was \$577.4 million.

FY 2016

The \$247.2 million in one-time financing sources for FY 2016 includes:

Tax Amnesty

Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) requires the Department of Revenue to establish a tax amnesty program from September 1, 2015 through October 31, 2015. The program, which is estimated to generate a total of \$15.0 million for the General Fund in FY 2016, waives civil penalties and interest on unpaid tax liabilities for any period before January 1, 2014 for annual filers, and February 1, 2015 for all other filers. This estimate includes already identified liabilities.

Fund Transfers

The FY 2016 General Appropriation Act provides for a total of \$220.2 million in agency fund transfers to the General Fund in FY 2016 (*for more detail, see Detailed List of General Fund Changes by Agency Section*).

Balance Forward

As result of the conditional Rainy Day Fund transfer (*see discussion above*) under Chapter 8, the FY 2015 General Fund ending balance carried forward into FY 2016 is expected to be \$12.0 million. Compared to the actual FY 2015 beginning balance of \$577.4 million, the projected FY 2016 beginning balance reflects a loss of \$(565.4) million.

FY 2017Fund Transfers

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) transfers \$100.0 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund in FY 2017 for the purpose of providing adequate support and maintenance for state agencies.

FY 2018

As shown in *Table 8*, no one-time financing sources are currently included for FY 2018.

Table 6

GENERAL FUND REVENUE - FY 2014 - FY 2016

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2014	% CHANGE PRIOR YR	FORECAST FY 2015	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2016	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	3,995,367.7	5.7%	4,127,914.5	3.3%	132,546.9	4,276,292.1	3.6%	148,377.6
Income - Individual ^{1/}	3,487,182.0	2.6%	3,572,756.1	2.5%	85,574.1	3,671,335.7	2.8%	98,579.7
- Corporate	575,180.2	-13.1%	570,375.3	-0.8%	(4,805.0)	622,866.5	9.2%	52,491.3
Property	25,611.2	94.0%	26,000.0	1.5%	388.8	26,500.0	1.9%	500.0
Luxury - Tobacco	25,837.4	5.3%	23,395.2	-9.5%	(2,442.2)	22,920.0	-2.0%	(475.2)
- Liquor	32,901.2	3.9%	32,911.7	0.0%	10.5	33,602.8	2.1%	691.1
Insurance Premium	411,760.7	6.5%	450,600.0	9.4%	38,839.3	475,400.0	5.5%	24,800.0
Other Taxes (Includes MV Tax)	6,937.7	342.6%	6,700.0	-3.4%	(237.7)	6,900.0	3.0%	200.0
Subtotal - Taxes	8,560,778.0	3.2%	8,810,652.8	2.9%	249,874.8	9,135,817.3	3.7%	325,164.5
Other Non-Tax Revenues:								
Lottery	72,881.3	-8.0%	75,566.9	3.7%	2,685.6	70,576.3	-6.6%	(4,990.6)
Licenses, Fees and Permits	29,847.6	1.4%	30,937.9	3.7%	1,090.3	30,437.9	-1.6%	(500.0)
Interest	13,821.4	15.0%	9,100.0	-34.2%	(4,721.4)	6,453.6	-29.1%	(2,646.4)
Sales and Services	37,806.2	2.5%	39,140.0	3.5%	1,333.8	39,140.0	0.0%	0.0
Other Miscellaneous	75,896.9	-19.6%	80,000.0	5.4%	4,103.1	80,000.0	0.0%	0.0
Transfers and Reimbursements	55,259.5	77.8%	63,400.0	14.7%	8,140.5	65,900.0	3.9%	2,500.0
Disproportionate Share Revenue	75,366.2	-3.6%	76,821.9	1.9%	1,455.7	88,444.3	15.1%	11,622.4
Subtotal - Other Non-Tax	360,879.0	-0.1%	374,966.7	3.9%	14,087.7	380,952.1	1.6%	5,985.4
Subtotal On-Going Revenue	8,921,657.1	3.1% ^{1/}	9,185,619.5	3.0% ^{2/}	263,962.4	9,516,769.4	3.6% ^{3/}	331,149.9
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(111,800.0)	N/A	(111,800.0)
Newly Enacted Changes	0.0	N/A	(19,800.0)	N/A	(19,800.0)	52,433.2	N/A	72,233.2
3-Year 1¢ TPT Increase	8,422.9	-99.1%	0.0	-100.0%	(8,422.9)	0.0	N/A	0.0
Subtotal w/Tax Law Changes	8,930,080.0	-7.2%	9,165,819.5	2.6%	235,739.5	9,457,402.6	3.2%	291,583.1
Urban Revenue Sharing (URS)	(561,001.2)	N/A	(608,935.7)	N/A	(47,934.5)	(605,634.3)	N/A	3,301.4
Subtotal w/Tax Law Changes/URS	8,369,078.8	-8.1%	8,556,883.8	2.2%	187,805.0	8,851,768.3	3.4%	294,884.5
One-Time Financing Sources:		N/A						
Fund Transfers	141,541.1	207.7%	68,900.0	-51.3%	(72,641.1)	220,194.5	219.6%	151,294.5
Rainy Day Transfer	0.0	N/A	144,281.2	N/A	144,281.2	0.0	-100.0%	(144,281.2)
Previously Enacted Changes	(24,800.0)	N/A ^{1/}	0.0	N/A	24,800.0	0.0	N/A	0.0
Tax Amnesty	0.0	N/A	0.0	N/A	0.0	15,000.0	N/A	15,000.0
Subtotal - One-Time Financing Sources	116,741.1	106.6%	213,181.2	82.6%	96,440.1	235,194.5	10.3%	22,013.3
Subtotal - Revenues	8,485,819.9	-7.4%	8,770,065.0	3.3%	284,245.0	9,086,962.8	3.6%	316,897.8
Balance Forward	895,475.0	125.6%	577,399.2	-35.5%	(318,075.8)	12,000.0	-97.9%	(565,399.2)
Total - Resources	9,381,294.9	-1.9%	9,347,464.2	-0.4%	(33,830.8)	9,098,962.8	-2.7%	(248,501.4)

^{1/} To reflect the \$24.8 million of business expensing as a one-time cost, the FY 2014 individual income tax actual has been adjusted upward by \$24.8 million. Prior to this adjustment, the FY 2014 on-going revenue increase would be 2.7%. The business expensing provision was subsequently continued for FY 2015.

^{2/} The 3.0% FY 2015 increase includes \$(120.6) million in previously enacted statutory changes. Adjusting for these changes, the base FY 2015 increase is 4.3%.

^{3/} Adjusting for the \$(19.8) million in newly enacted tax law changes in FY 2015, the base FY 2016 increase is 3.8%.

Table 7

GENERAL FUND REVENUE - FY 2017 - FY 2018

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2017	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,507,727.6	5.4%	231,435.5	4,736,283.2	5.1%	228,555.6
Income - Individual	3,843,661.3	4.7%	172,325.6	4,049,038.9	5.3%	205,377.6
- Corporate	528,701.7	-15.1%	(94,164.8)	446,695.1	-15.5%	(82,006.6)
Property	27,030.0	2.0%	530.0	27,570.6	2.0%	540.6
Luxury - Tobacco	22,514.4	-1.8%	(405.7)	22,118.1	-1.8%	(396.3)
- Liquor	34,320.9	2.1%	718.1	35,065.0	2.2%	744.1
Insurance Premium	492,840.1	3.7%	17,440.1	511,225.5	3.7%	18,385.5
Other Taxes (Includes MV Tax)	7,107.0	3.0%	207.0	7,320.2	3.0%	213.2
Subtotal - Taxes	9,463,902.9	3.6%	328,085.7	9,835,316.6	3.9%	371,413.7
Other Non-Tax Revenues:						
Lottery	77,223.6	9.4%	6,647.3	87,066.5	12.7%	9,842.9
Licenses, Fees and Permits	31,351.0	3.0%	913.1	32,291.6	3.0%	940.6
Interest	6,503.7	0.8%	50.1	6,519.2	0.2%	15.5
Sales and Services	40,314.2	3.0%	1,174.2	41,523.6	3.0%	1,209.4
Other Miscellaneous	83,737.3	4.7%	3,737.3	87,631.0	4.7%	3,893.8
Transfers and Reimbursements	74,057.0	12.4%	8,157.0	76,278.7	3.0%	2,221.7
Disproportionate Share Revenue	93,944.3	6.2%	5,500.0	86,044.3	-8.4%	(7,900.0)
Subtotal - Other Non-Tax	407,131.1	6.9%	26,179.0	417,355.0	2.5%	10,223.9
Subtotal On-Going Revenue	9,871,034.0	3.7% 4/	354,264.6	10,252,671.6	3.9% 5/	381,637.6
Previously Enacted Tax Law Changes	(87,600.0)	N/A	24,200.0	(86,200.0)	N/A	1,400.0
Newly Enacted Changes	(24,116.6)	N/A	(76,549.8)	(21,800.0)	N/A	2,316.6
3-Year 1¢ TPT Increase	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal w/Tax Law Changes	9,759,317.4	3.2%	301,914.8	10,144,671.6	3.9%	385,354.2
Urban Revenue Sharing (URS)	(616,849.7)	N/A	(11,215.4)	(631,335.3)	N/A	(14,485.6)
Subtotal w/Tax Law Changes/URS	9,142,467.7	3.3%	290,699.4	9,513,336.3	4.1%	370,868.6
One-Time Financing Sources:						
Fund Transfers	100,000.0	-54.6%	(120,194.5)	0.0	-100.0%	(100,000.0)
Rainy Day Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Previously Enacted Changes	0.0	N/A	0.0	0.0	N/A	0.0
Tax Amnesty	0.0	-100.0%	(15,000.0)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	100,000.0	-57.5%	(135,194.5)	0.0	-100.0%	(100,000.0)
Subtotal - Revenues	9,242,467.7	1.7%	155,504.9	9,513,336.3	2.9%	270,868.6
Balance Forward	0.0	-100.0%	(12,000.0)	0.0	N/A	0.0
Total - Resources	9,242,467.7	1.6%	143,504.9	9,513,336.3	2.9%	270,868.6

4/ Adjusting for the \$(59.4) million in tax law changes in FY 2016, the base FY 2017 increase is 4.4%.

5/ Adjusting for the \$(111.7) million in tax law changes in FY 2017, the base FY 2018 increase is 5.1%.

BUDGET STABILIZATION FUND

Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the “Rainy Day Fund.”

The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January budget documents of the JLBC and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is not made until June 1 of the budget year. The EEC determines the annual growth rate of real adjusted state personal income, its trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of real adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to its 7-year trend growth rate.
- Real adjusted personal income in the BSF formula is defined as Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
- Trend growth rate is defined as the average annual growth rate of real adjusted personal income for the most recent 7 calendar years.

- If the annual growth rate exceeds the trend growth rate, the “excess” percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
- If the annual growth rate of real adjusted personal income is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF's total balance cannot be larger than 7.0% of the current year's General Fund revenues, excluding the beginning balance.
- In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities (A.R.S. § 35-314.02).

Deposits/Withdrawals

FY 2014

In CY 2013, Arizona real adjusted personal income grew by 0.85%, with a trend growth rate of (0.38)%. Since the “excess” growth rate in CY 2013 was 1.23%, the formula recommended a BSF deposit of \$112.2 million in FY 2014. The Legislature, however, did not authorize such deposit.

Laws 2013, 1st Special Session, Chapter 9 deposited \$1.0 million in BSF interest earnings into the Arts Fund (administered by the Arizona Commission on the Arts) in FY 2014. In addition, Chapter 9 authorized the transfer of \$1.0 million in interest earnings into the Arizona State Park's Board's State Parks Revenue Fund in FY 2014.

FY 2015

The University of Arizona's Economic and Business Research Center (EBR) estimates that Arizona real adjusted personal income increased by 2.04% in CY 2014. Since this is 2.43% above the estimated trend growth rate of (0.39)%, the formula is expected to recommend a BSF deposit of \$203.4 million in FY 2015. The budget enacted in March 2015, however, does not include such deposit into the BSF. Instead, Laws 2015, Chapter 8 requires the State Treasurer to transfer an amount equal to the negative ending balance for FY 2015 plus \$12.0 million to the General Fund. Based on a projected FY 2015 ending

Table 1

Budget Stabilization Fund^{1/}				
(\$ in Thousands)				
	Actual FY 2013	Actual FY 2014	Estimate FY 2015	Estimate FY 2016
General Fund Revenues				
Adjusted Revenues	\$9,106,020.7	\$8,369,078.8	\$8,556,883.8	\$8,851,768.3
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	637,421.4	585,835.5	598,981.9	619,623.8
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	1.99%	0.85%	2.04%	1.77%
7-Year Average Income Growth	<u>0.32%</u>	<u>(0.38)%</u>	<u>(0.39)%</u>	<u>0.20%</u>
Annual Difference	1.67%	1.23%	2.43%	1.57%
BSF Transactions				
Beginning BSF Balance	250,062.8	454,101.7	456,736.9	315,505.7
BSF Formula Recommendation	145,576.6	112,163.1	203,368.6	134,343.1
Actual Transfer In				
Actual Appropriation – L'12, Ch. 294 ^{2/}	200,000.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Interest Income – L'13, 1 st SS, Ch. 9 ^{3/}	0.0	(2,000.0)	0.0	0.0
Transfer of BSF Interest Income – L'14, Ch. 9 ^{4/}	0.0	0.0	(1,000.0)	0.0
Conditional Transfer – L'15, Ch. 8 ^{5/}	<u>0.0</u>	<u>0.0</u>	<u>(144,281.2)</u>	<u>0.0</u>
SUBTOTAL	0.0	(2,000.0)	(145,281.2)	0.0
Balance	450,062.8	452,101.7	311,455.7	315,505.7
Interest Earnings & Equity Gains/Losses ^{6/}	4,038.9	4,635.2	4,050.0	3,000.0
Ending BSF Balance	\$ 454,101.7	\$ 456,736.9	\$ 315,505.7	\$ 318,505.7
Percent of Revenues	5.0%	5.5%	3.7%	3.6%

^{1/} BSF history prior to FY 2013 can be found on the JLBC website.

^{2/} Laws 2012, Chapter 294 authorized the transfer of \$250.0 million in FY 2012 and \$200.0 million in FY 2013 from the General Fund to the BSF.

^{3/} Laws 2013, 1st Special Session, Chapter 9 authorized a total transfer of \$2.0 million in BSF interest earnings in FY 2014. Of this amount, \$1.0 million was appropriated for deposit in the Arts Fund administered by the Arizona Commission on the Arts and \$1.0 million to the State Parks Revenue Fund administered by the Arizona State Parks Board.

^{4/} Laws 2014, Chapter 9 appropriates \$1.0 million from BSF interest earnings to the Arizona Commission on the Arts for FY 2015.

^{5/} Laws 2015, Chapter 8 authorizes a transfer equal to the negative ending balance for FY 2015 plus \$12.0 million. Based on a projected FY 2015 General Fund ending balance of \$(132.3) million, the BSF transfer for FY 2015 is estimated to be \$144.3 million.

^{6/} Interest earnings estimates for FY 2015 and FY 2016 were provided by the State Treasurer's Office and JLBC Staff, respectively.

balance of \$(132.3) million, the BSF transfer for FY 2015 is estimated to be \$144.3 million.

Laws 2014, Chapter 9 authorized the transfer of \$1.0 million in BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

FY 2016

EBR currently projects that Arizona real adjusted personal income will grow by 1.77% in CY 2015. Since this is 1.57% above the estimated trend growth rate of 0.20%, the formula is projected to recommend a BSF deposit of \$134.3 million in FY 2016. The enacted FY 2016 budget, however, does not include any deposit into the BSF.

Statutory Changes

Laws 2015, Chapter 11 suspends the requirement that the Legislature appropriates monies to or transfer monies from the Budget Stabilization Fund pursuant to A.R.S. § 35-144 for FY 2016, FY 2017, and FY 2018.

CONSOLIDATED RETIREMENT REPORT

CONSOLIDATED RETIREMENT REPORT

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state's retirement systems, including the state cost, contribution rates, and other related policy and legal issues.

This section includes information on the following:

- FY 2016 Impacts and Total Funding
 - Arizona State Retirement System (ASRS)
 - Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP)
 - Elected Officials' Retirement Plan (EORP) and Elected Officials' Defined Contribution Retirement System (EODC System)
 - University Optional Retirement Plan (UORP)
- 2015 Session Legislation
- Litigation Issues
 - *Fields v. Elected Officials' Retirement Plan*
 - *Hall v. Elected Officials' Retirement Plan*
- Background
 - The Different Systems
 - Enrollment and Funded Status
 - Permanent Benefit Increases
 - Actuarial Cost methods – Projected Unit Credit and Entry Age Normal
 - Long-Term Contribution Rate Estimates

FY 2016 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2016 is \$184.3 million and the Total State Funds cost is \$487.9 million.

The employer contribution rate for the retirement systems may change each year depending on the latest actuarial valuation. Based on the JLBC January Baseline estimates, the FY 2016 employer contribution will increase as follows (*Please see Table 1 for the total costs and see Table 2 for the costs included in the FY 2016 budget*):

- Arizona State Retirement System (ASRS) – A General Fund decrease of \$(768,000) and a Total State Funds decrease of \$(3.1) million as a result of a lower FY 2016 ASRS contribution rate. The FY 2016 budget does not reduce agency budgets to account for these savings.
- Public Safety Personnel Retirement System (PSPRS) – A General Fund increase of \$4.4 million and Total State Funds increase of \$18.0 million. The FY 2016 budget adds \$4.2 million General Fund and \$13.8 million Other Appropriated Funds to cover the contribution rate increase for the Department of Public Safety (DPS). The FY 2016 budget does not provide additional appropriated funding for non-DPS PSPRS agencies. Some of the remaining \$4.3 million in retirement costs may be covered by agencies' non-appropriated funding sources.
- Corrections Officer Retirement Plan (CORP) – A General Fund increase of \$15.7 million and Total State Funds increase of \$15.9 million. The FY 2016 budget adds \$13.5 million General Fund/Other Appropriated Funds to cover the contribution rate increase for the Arizona Department of Corrections (ADC). This lower funding level is based on an Executive Branch cost estimate.
- Elected Officials' Retirement Plan (EORP) and the Elected Officials' Defined Contribution Retirement System (EODC System) – Because elected officials' contribution rates are fixed in statute, there is no change in the FY 2016 employer contribution rate.

Table 1

Arizona Public Retirement FY 2016 System Employer Cost

	FY 2016 Change ^{1/}			FY 2016 Total Cost ^{2/}		
	General Fund	All Other Funds ^{3/}	Total	General Fund	All Other Funds ^{3/}	Total
Arizona State Retirement System	\$ (767,700)	\$ (2,362,700)	\$ (3,130,400)	\$ 67,738,400	\$ 208,462,300	\$ 276,200,700
Public Safety Personnel Ret. System ^{4/}	4,368,000	13,620,300	17,988,300	20,642,200	63,643,100	84,285,300
Corrections Officer Ret. Plan ^{4/}	15,664,600	219,800	15,884,400	69,466,900	930,500	70,397,400
Elected Officials' Retirement Plan	-	-	-	7,955,100	109,900	8,065,000
University Optional Retirement Plan	-	-	-	18,486,000	30,434,100	48,920,100
Grand Total	\$ 19,264,900	\$ 11,477,400	\$ 30,742,300	\$ 184,288,600	\$ 303,579,900	\$ 487,868,500

^{1/} Represents the cost of the change in the employer contribution rate increase for all state agencies. The budget funds only the rate increases for DPS and ADC. (*Please see Table 2 for more details.*)

^{2/} Represents the JLBC estimate of the total cost of the system and does not reflect FY 2016 change in Personal Services costs.

^{3/} Includes both Other Appropriated Funds and Non-Appropriated Funds.

^{4/} Only addresses the *Fields* ruling on restoring current retiree Permanent Benefit Increase (PBI).

- University Optional Retirement System (UORP) – Since the employer contribution rate is fixed at 7%, there is no change in the FY 2016 employer contribution rate.

Table 2

FY 2016 Budgeted Employer Cost Change

<u>Public Safety Personnel Ret. System 1/</u>	
General Fund	4,246,300
Other Appropriated Funds	9,575,500
Subtotal	\$ 13,821,800
<u>Corrections Officer Ret. Plan 2/</u>	
General Fund	13,535,700
Other Appropriated Funds	6,800
Subtotal	\$ 13,542,500
<u>Total</u>	
General Fund	17,782,000
All Other Appropriated Funds	9,582,300
Grand Total	\$ 27,364,300

1/ The FY 2016 budget provides added funding to cover the full contribution rate increase for the Department of Public Safety (DPS). All other non-DPS PSPRS agencies will have to absorb this cost within their existing budgets.

2/ The FY 2016 budget provides added funding to cover the full contribution rate increase for the Arizona Department of Corrections (ADC). All other non-ADC CORP agencies will have to absorb this cost within their existing budgets.

The following sections discuss FY 2016 contribution rates for the state’s retirement systems and the fiscal impacts associated with those rates. Newly-enacted laws and other policy and legal issues that affect the state’s retirement systems are discussed at the end of the CRR.

ASRS

The General Fund cost associated with ASRS in FY 2016 is estimated to be \$67.7 million and the Total State Funds cost is \$276.2 million.

At its December 2015 meeting, the ASRS Board of Trustees reduced the system’s employer contribution rate by (0.13)%, from 11.48% of Personal Services in FY 2015 to 11.35% in FY 2016, which will reduce the General Fund cost by \$(768,000) and the total state cost by \$(3.1) million in FY 2016. The FY 2016 budget does not reduce agency budgets for these savings. In addition, ASRS sets a separate rate for disability insurance. ASRS employers and employees each pay 0.12%, which remains unchanged from FY 2015. (Please see Table 3 for historical ASRS contribution rates, excluding disability.)

ASRS states that contribution rates fell primarily because excess investment returns contributed to further improvement of the system’s funded status from 76% to 77%. Other key factors include the growth in aggregate payroll (which provides additional funding to amortize the existing unfunded liability) and a reduction in future pension costs due to changes in pension benefits. Additionally, ASRS was unaffected by the court decision in *Fields v. Elected Officials’ Retirement Plan*, which is the primary driver behind the contribution rate increases in PSPRS and CORP.

(Please see Table 5 for reasons behind contribution rate changes and *Fields v. Elected Officials’ Retirement Plan* section for more information on the case.)

Table 3

**ASRS Contribution Rates
(Excludes Disability)**

<u>Fiscal Year</u>	<u>Rate 1/</u>	<u>Fiscal Year</u>	<u>Rate 1/</u>
FY 1983	7.00	FY 2000	2.17
FY 1984	7.00	FY 2001	2.17
FY 1985	6.27	FY 2002	2.00
FY 1986	5.67	FY 2003	2.00
FY 1987	5.53	FY 2004	5.20
FY 1988	4.00	FY 2005	5.20
FY 1989 2/	4.78	FY 2006	6.90
FY 1990 2/	1.29	FY 2007	8.60
FY 1991 2/	3.37	FY 2008	9.10
FY 1992 2/	3.17	FY 2009	8.95
FY 1993 2/	3.10	FY 2010	9.00
FY 1994 2/	2.65	FY 2011	9.60
FY 1995 2/	3.26	FY 2012	10.50
FY 1996	3.36	FY 2013	10.90
FY 1997	3.20	FY 2014	11.30
FY 1998	3.05	FY 2015	11.48
FY 1999	2.85	FY 2016	11.35

1/ As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

2/ Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS and CORP

The General Fund cost associated with PSPRS in FY 2016 is estimated to be \$20.6 million and the Total State Funds cost is \$84.3 million. In addition, the General Fund cost associated with CORP is \$69.5 million in FY 2016 and the Total State Funds cost is \$70.4 million.

As a result of the court decision in *Fields v. Elected Officials' Retirement Plan* that overturned portions of the 2011 pension changes (Laws 2011, Chapter 357), the projected FY 2016 employer contribution rates for PSPRS and CORP will increase significantly. The Permanent Benefit Increase (PBI) reinstated by *Fields* is responsible for 7.17% of the total 8.83% increase in PSPRS. CORP also experienced similar effects.

To diminish the immediate fiscal impact of the projected contribution rate increases in PSPRS and CORP, the PSPRS Board of Trustees has adopted a policy allowing employers to choose to pay the full contribution amount immediately (which includes the impact of the *Fields* ruling) or a reduced rate that gradually increases to the actuarial rate by FY 2018. The Executive Branch expects state agencies will pay the full rate immediately.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (see *Table 4*). The aggregate employer rate would increase from 32.54% to 41.37%, or by 8.83%, if all subgroups used the full rather than the reduced contribution. Compared to employers, the aggregate employee contribution rate increases by 0.60% in FY 2016 – from 11.05% to 11.65%. In addition, only employers pay 0.25% for supplemental disability insurance, unchanged from FY 2015.

CORP – As with PSPRS, CORP consists of subgroups. The FY 2016 CORP aggregate rate is 18.21%, an increase of 3.75% from FY 2015. The employee contribution rate remains flat at 8.40%. CORP employers also pay 0.25% for supplemental disability insurance.

(Please see Table 1 for the state costs of contribution rate increases, Table 5 for reasons for change in the contribution rates by system.)

EORP and EODC System

The General Fund cost associated with EORP in FY 2016 is estimated to be \$8.0 million and the Total State Funds cost is \$8.1 million. These amounts exclude court fees used to offset the cost of the system, as those fees are now deposited directly into the EORP Trust Fund.

As part of closing EORP and establishing the Elected Officials' Defined Contribution Retirement System (EODC System), A.R.S. § 38-810 established a fixed employer contribution rate of 23.5% for members of both systems, effective January 1, 2014. The employer contribution rate for EORP members goes entirely to the EORP Fund whereas only 17.5% of the EODC System employer contribution rate goes to the EORP Fund. The remaining 6% of the EODC System contribution rate is deposited into the individual employees' retirement investment account.

The \$8.0 million General Fund cost consists of both employer contribution rates and an annual General Fund deposit. The fixed 23.5% EORP and EODC System employer contributions to the EORP Fund are scheduled to continue until FY 2044. The \$5 million annual General Fund deposit into the EORP Fund is scheduled to continue until FY 2043.

Given fixed contributions, employer costs will not increase in FY 2016.

EORP Funding Options

These current contributions and deposit amounts do not account for the increase in EORP's total actuarial liability following the outcome of *Fields*. Plan actuaries estimate that given current funding levels, the closed EORP will have sufficient monies to pay member benefits for the next 20 years.

The FY 2016 budget did not enact changes to address the EORP funding shortfall. Given the impact of investment returns and other litigation, the funded status will likely change again in the short term.

To extend the availability of benefits, the plan actuaries earlier provided 4 possible 30-year funding options for EORP. *(Please see the FY 2016 JLBC Baseline for further details of these options.)*

Retirement System	Employer		Employee
	FY 2016		
	FY 2015	(Full Rate)	FY 2016 ^{1/}
Public Safety Personnel Ret. System			
Liquor License Investigators	51.10	69.19	11.65
Department of Public Safety ^{2/}	62.81	81.00	6.65
Northern Arizona University Police	38.79	48.83	11.65
University of Arizona Police	27.79	33.86	11.65
Arizona State University Police	29.75	35.31	11.65
Game and Fish Department	66.78	88.56	11.65
Attorney General Investigators	105.19	70.46	11.65
DEMA Firefighters	23.39	31.34	11.65
Parks Police	32.90	42.85	11.65
Corrections Officer Ret. Plan			
Corrections Officer - ADC	14.47	18.54	8.41
Corrections Officer - DJC	17.00	22.95	8.41
DPS Dispatchers ^{3/}	13.92	17.62	7.96
Probation Officers	16.20	19.95	8.41

^{1/} The Corrections Officer Retirement Plan employee contributions are unchanged from FY 2015. The Public Safety Personnel Retirement Plan employee contributions increased from 11.05% (6.05% for DPS).

^{2/} The displayed rates reflect that 5% of the DPS member contribution is paid by the state.

^{3/} Dispatchers hired after November 24, 2009 are ASRS members.

UORP

The General Fund cost associated with University Optional Retirement Plan (UORP) in FY 2016 is estimated to be \$18.5 million and the Total State Funds cost is \$48.9 million.

While some university employees are members of ASRS, others participate in the optional retirement plan. In this latter plan, employees and their employers each contribute 7% of the employee's gross earnings, which is then invested by the employee. These contribution rates are fixed in statute and do not change in FY 2016.

2015 Session Legislation

The retirement systems were affected by numerous enactments in the 2015 Regular Session.

The FY 2016 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 11) requires annual budget requests for all departments to specify the amount of FTE Positions and expenditures by retirement system and fund source. Additionally, the JLBC Staff is required annually to report on an annual retirement expenses budget by January 31 of each year, delineating the state's spending for the employer contribution.

Retirement costs are currently funded within department operating budgets or line items. They are not separately delineated. Chapter 11 will facilitate the annual JLBC report by requiring agencies to include the relevant information in their budget requests.

ASRS

Community Colleges; Optional Retirement Plans

Laws 2015, Chapter 36 requires existing contributions of a retired ASRS member to remain in ASRS if the retired member becomes employed by a community college district and elects to participate in that district's optional retirement program.

Health Insurance Benefits

Laws 2015, Chapter 37 makes technical changes to ASRS's health insurance/accident premium benefit program to conform to federal Internal Revenue Service rules. If a member who is eligible for the health insurance/accident premium benefits forfeits the interest in the member's account before the termination of the plan, then that interest is to be applied as soon as possible to reduce employer contributions to fund benefits.

ASRS; Purchase of Credited Service

Laws 2011, Chapter 357 originally limited all members of ASRS from purchasing more than 5 years of additional ASRS service credit based on the years of prior service in other non-ASRS public service positions, military service,

or a leave of absence. Prior to Chapter 357, there was no limit on ASRS service credit that could be purchased.

In May 2014, the Arizona Court of Appeals ruled in *Pendergast v. Arizona State Retirement System* that the state could not apply Chapter 357 to members of ASRS with membership dates that preceded the enactment of Chapter 357.

Laws 2015, Chapter 38 codifies the Court's decision by removing the 5-year cap on service credit purchases for ASRS members whose membership date started before July 20, 2011 and requires ASRS members whose membership date is on or after July 1, 2010 to have at least 5 years of service in ASRS before purchasing prior service.

ASRS; Actuarial Cost Method

Laws 2015, Chapter 65 allows the ASRS Board of Trustees to determine the actuarial cost method to use in valuation and contributions calculations and expands the annual employer contributions report to include information on ASRS's funded status and investment returns. (*Please see Actuarial Cost Methods - EAC/PUC for more information.*)

ASRS; Participation Opt Out

Laws 2015, Chapter 148 makes permanent an option for an employee hired by an ASRS participating employer to not participate in ASRS. The employee must be at least 65 years old and not an active, inactive, retired, or disabled ASRS member. Eligible employees must notify ASRS within 30 days of employment.

ASRS reports that the Chapter 148 would have a minimal effect on the contribution rate based on the number of employees who elected not to participate between 2012 and 2014. The normal cost for a new member who is 65 years of age or older is more than the average normal cost, so without those older members in the system, the result is a slightly reduced contribution rate.

ASRS; Disability Program

Laws 2015, Chapter 174 removes the word "total" from the description of an ASRS member's disability for the purposes of being considered eligible for LTD benefits but does not change any eligibility criteria.

ASRS; Rules

Laws 2015, Chapter 175 permits ASRS members to have access to account information in both electronic and written form.

PSPRS/CORP/EORP

Health Insurance Benefits

Laws 2015, Chapters 62, 63 and 64 make technical changes to PSPRS, CORP, and EORP’s health insurance/accident premium benefit program to conform to federal Internal Revenue Service rules. If a member who is eligible for the health insurance/accident premium benefits forfeits the interest in the member’s account before the termination of the plan, then that interest is to be applied as soon as possible to reduce employer contributions to fund benefits.

Litigation Issues

Two recent court cases have a significant impact on PSPRS, CORP, and EORP.

Fields v. Elected Officials’ Retirement Plan

Laws 2011, Chapter 357 made numerous changes to these systems. Among these changes were reducing permanent benefit increases (PBIs) and increasing employee contribution rates. (Please see the Background section for more discussion of PBIs.)

The Arizona Supreme Court, however, ruled in *Fields v. Elected Officials’ Retirement Plan* that the reduction of PBIs for current retirees violated Article 29 of the Arizona Constitution, which specifies that “public retirement system benefits shall not be diminished or impaired.” This ruling also applied to PSPRS and CORP retirees.

PSPRS staff estimates that the *Fields* ruling has increased unfunded liabilities for all systems by \$1.8 billion. (Please see Table 5 below for the impact on annual contribution rate.) The increased liabilities in PSPRS and CORP would be paid off over a fixed period of 22 years through an increase in employer contribution rates. When the EORP

was closed, the fixed General Fund deposit and contribution rate assumed unfunded liabilities would be paid off by 2044. Because of the increased liabilities in EORP, those amounts may need to be adjusted to account for the fiscal impact of the *Fields* ruling.

Hall v. Elected Officials’ Retirement Plan

In addition to *Fields*, there is other ongoing litigation challenging provisions of Chapter 357, which may result in more costs to non-ASRS pension systems. Among other issues, the plaintiffs in *Hall vs. The Elected Officials’ Retirement Plan* are litigating the increased contribution rates for members who were active prior to the enactment of Chapter 357. Chapter 357 raised the contribution rates for active members of CORP, EORP, and PSPRS. In EORP (the defendant in the *Hall* case), the contribution rate gradually increased each year from 7% in FY 2011 to 13% in FY 2015. The pre-Chapter 357 employee contribution rates (7%) were fixed in statute. The plaintiffs argued that those statutory rates reflected a contractual agreement that could not be modified without employee consent.

Because the *Fields* decision regarding PBIs only applies to current retirees, the plaintiffs in *Hall*, who are current employees, are also challenging the Chapter 357 PBI structure. The plaintiffs argue that as active members of EORP prior to the enactment of Chapter 357, their benefits may not be “diminished or impaired.” If the plaintiffs prevail in *Hall*, the additional fiscal impact of the court case would be lower in today’s dollars than *Fields*, mainly because the ruling would reinstate PBIs for some active members who will not retire for many years. PSPRS staff reports that if EORP loses the *Hall* case, then the case would likely apply to all PSPRS systems (PSPRS/CORP/EORP). PSPRS staff estimates that an adverse ruling in the *Hall* case would increase unfunded liabilities for all systems by \$1.3 billion. This additional liability would result in increased employer contribution rates in the fiscal year following the court decision.

In July 2013, the Maricopa County Superior Court ruled against EORP and decided that Chapter 357 applies only to members of EORP who joined the system after the enactment of Chapter 357. The ruling effectively blocks PBI changes from being applied to active members hired before Chapter 357. The ruling was appealed to the Arizona Court of Appeals in March 2015. If appellate courts uphold this ruling, then more active members in other systems (PSPRS and CORP) may also not be subject to Chapter 357.

Table 5

	Reasons for Change in the Employer Contribution Rate ^{1/}		
	ASRS	PSPRS	CORP
FY 2015 Contribution Rate	11.60%	32.54%	14.46%
Permanent Benefit Increase Effect	0.00%	7.17%	3.47%
Asset (Gain)/Loss	(0.13)%	1.30%	0.62%
Other	0.00%	0.36%	(0.34)%
FY 2016 Contribution Rate	11.47%	41.37%	18.21%
Net Change	(0.13)%	8.83%	3.75%

^{1/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group.

Background

The Different Systems

Most public employers in Arizona use 2 retirement systems: ASRS and PSPRS.

- ASRS provides retirement, survivors, health, and disability benefits to employees of most public employers, including public schools, most local and county governments, and the State of Arizona.
- PSPRS provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- In addition, PSPRS staff administers CORP and EORP, which provide the same benefits as PSPRS to specified populations at the state and local levels. The EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014, will be enrolled in the EODC System.

Some university employees are eligible to choose between ASRS or UORP. Unlike ASRS, UORP is a defined contribution plan where the employee and employer each contribute 7% of gross earnings, which is then invested by the employee. The retirement benefits depend on the performance of those chosen investments.

Enrollment and Funded Status

As of June 30, 2014, there were 599,370 active, retired, and Deferred Retirement Option Plan (DROP) members enrolled. Most employees (91%) are enrolled in ASRS. (Please see Table 8 for more information.)

Table 8 also shows each plan's assets and liabilities. To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. Table 8 reflects current market values for assets and not the actuarial value. The funded status, or the amount of actuarial assets relative to the amount liabilities, of each plan is:

- 76.9% for ASRS;
- 57.3% for CORP;
- 49.2% for PSPRS; and
- 39.4% for EORP.

Permanent Benefit Increases

PBIs are increases to a retiree's base benefit. They are dependent on pension performance and a number of other factors. PBIs are not tied to a cost of living index.

The *Fields* ruling reinstated the pre-Chapter 357 PBI mechanism, which requires that whenever the annual investment earnings from the fund exceed 9.0%, then half of those annual excess earnings are transferred to a PBI

reserve account. The ruling applied to any individuals retiring prior to the enactment of Chapter 357. This transfer is not affected by the system's overall funded status.

PSPRS actuaries then determine the present value of the reserve account and the monthly benefit increase that the account balance can fund. The annual PBI is then provided in that amount up to a 4% increase. If after a 4% increase monies remain in the reserve account, then those monies would be available for the following year's PBI calculation.

Chapter 357 modifies the PBI structure for PSPRS, CORP, and EORP for members hired after the enactment of Chapter 357. This law allows for a PBI only if the fund has annual investment earnings in excess of 10.5% and the overall funded status is at least 60%. The amount of the PBI would be between 2% and 4%, depending on the funded status of the plan. Chapter 357 would have limited the PBI to the amount of earnings in the fund that exceed 10.5%. Any excess earning amount that was not used for a PBI in a given year would revert back to the fund balance instead of remaining in a separate account.

Actuarial Cost Methods – PUC/EAN

Pension actuaries use the plan's benefit formula to determine the normal cost of a member. The normal cost is the value of the member's benefit under the plan's formula that accrues each valuation year. The accumulation of the normal cost is called the actuarial accrued liability (AAL). If the AAL is more than the actuarial value of pension assets, then the difference is the unfunded actuarial accrued liability (UAAL).

Pension actuaries use a cost method to allocate both the cost associated with AAL and UAAL over a set period of time. This allocation determines the level of contribution rates employers and employees will pay to ensure that the pension has enough assets over time to cover member benefits.

A.R.S. § 38-711 and A.R.S. § 38-737 had required ASRS to use an actuarial cost method called the Projected Unit Credit Method (PUC) to calculate the contribution rate. Under PUC, the normal cost of an ASRS member is a low percentage of that member's pay at the beginning of membership and gradually increases every year as the member ages and accrues years of service. The longer a member works and/or the older the member is, the greater the normal cost will be.

The revised GASB standards require pensions to report liabilities using a different actuarial cost method: the Entry Age Normal Actuarial Cost Method (EAN). GASB standards do not require pension plans to fund pensions

using this method. Under EAN, actuaries project the value of a member's benefit between the entry age into the pension and exit age and set a fixed percentage of that member's pay to fund the required contribution.

The key difference between PUC and EAN is that EAN fixes the normal cost over the duration of a member's tenure so that the same percentage of payroll is required in every year of employment. PUC allocates the normal cost in a pro-rata fashion: the closer a member gets to the assumed exit age, the greater the normal cost. In the early years of a member's career, the normal cost is higher under EAN than PUC; however, in the later years, the normal cost under PUC is higher than EAN.

Under both methods, the same amount of money is required to fund the normal cost. EAN funds more of the normal cost of a member in the early part of the member's career whereas PUC funds the normal cost later. EAN also stabilizes the contribution rate by setting

it at a fixed percentage of a member's pay whereas PUC increases that share over time.

Chapter 65 would allow the Board of Trustees to convert ASRS's contribution calculation method to EAN. If ASRS uses EAN, the funded status would decline because more normal cost is added to a member's prior service; however, increased liability would be offset by lower normal costs in the future, resulting in a contribution rate reduction of approximately (0.5)%.

Long-Term Contribution Rate Estimates

The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14) requires PSPRS to annually report on estimated contribution rates for the next 10 fiscal years. These estimates are required to include both aggregate rates for PSPRS and CORP, in addition to rates for each state employer group within those systems. *(Please see Table 7 for more information.)*

Table 6

Arizona Public Retirement System Contribution Rate Data 1/

	FY 2015		FY 2016		FY 2017		FY 2018	
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
ASRS 2/	11.60%	11.60%	11.47%	11.47%	11.35%	11.35%	11.19%	11.19%
CORP 3/4/	14.46%	8.40%	18.21%	8.40%	18.16%	8.40%	17.92%	8.40%
EORP 5/	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%
EODC 5/	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%
UORP 6/	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
PSPRS 3/4/	32.54%	11.05%	41.37%	11.65%	41.86%	11.65%	41.77%	11.65%
		Total		Total		Total		Total
		23.20%		22.94%		22.70%		22.38%
		22.86%		26.61%		26.56%		26.32%
		36.50%		36.50%		36.50%		36.50%
		14.00%		14.00%		14.00%		14.00%
		14.00%		14.00%		14.00%		14.00%
		43.59%		53.02%		53.51%		53.42%

1/ This table represents the full FY 2016 contribution rate and does not reflect the phase-in option for CORP and PSPRS. Each year's rate is based on the valuation data from 2 years' prior.

2/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

3/ The contribution rates for PSPRS and CORP are aggregated. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group. (Please see Table 4 for individual state employer groups.)

4/ The employer contribution rates displayed for years FY 2017 and FY 2018 exclude the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%). Additionally, the employer contribution rates displayed exclude the contribution rate associated with supplemental long term disability insurance (in FY 2016, that rate is 0.25%).

5/ Laws 2013, Chapter 217 established a fixed employer contribution rate for EORP and EODC System members of 23.5% that began January 1, 2014. Of the contribution rate for EODC System members, 6% is retained by the defined contribution system as an employer contribution to the member account and the remaining 17.5% is paid to the EORP Fund.

6/ A.R.S. § 15-1628 fixes the employer and employee contribution rates at 7%.

Table 7

Arizona Public Retirement System Contribution Rate Historical and Trend Data (Full Rate)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
ASRS																
Employer	9.40%	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.35%	11.19%	11.12%	11.05%	10.44%	9.89%	9.55%	9.15%	9.06%
Employee	9.40%	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.35%	11.19%	11.12%	11.05%	10.44%	9.89%	9.55%	9.15%	9.06%
Total 1/	18.80%	19.70%	21.48%	22.28%	23.08%	23.20%	22.94%	22.70%	22.38%	22.24%	22.09%	20.87%	19.78%	19.10%	18.29%	18.12%
PSPRS																
Employer 2/3/	20.77%	20.89%	22.68%	27.18%	30.44%	32.54%	41.37%	41.86%	41.77%	41.70%	41.80%	41.54%	41.33%	41.25%	41.13%	40.98%
Employee	7.65%	7.65%	8.65%	9.55%	10.35%	11.05%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%
Total	28.42%	28.54%	31.33%	36.73%	40.79%	43.59%	53.02%	53.51%	53.42%	53.35%	53.45%	53.19%	52.98%	52.90%	52.78%	52.63%
CORP																
Employer 2/3/	7.49%	8.57%	9.50%	11.31%	13.68%	14.46%	18.21%	18.16%	17.92%	17.73%	17.65%	17.41%	17.20%	17.08%	16.97%	16.87%
Employee	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%
Total	15.89%	16.97%	17.90%	19.71%	22.08%	22.86%	26.61%	26.56%	26.32%	26.13%	26.05%	25.81%	25.60%	25.48%	25.37%	25.27%
EORP																
Employer	14.25%	17.42%	17.96%	20.87%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%
Employee	7.00%	7.00%	11.50%	11.50%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Total	21.25%	24.42%	29.46%	32.37%	36.50%											

1/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

2/ The employer contribution rate displayed for years FY 2017 through FY 2025 excludes the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%).

3/ The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance (in FY 2016, that rate is 0.25%).

Arizona Public Retirement System Valuation Data as of June 30											
Membership	ASRS			PSPRS			CORP			EORP	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	
Active (working and contributing)	202,693	203,201	18,436	18,526	14,580	14,595	839	843			
State Active Members	25,267	26,457	1,270	1,348	8,786	8,699	117	114			
Other Active Members ^{1/}	177,426	176,744	17,166	17,178	5,794	5,896	722	729			
Inactive	213,058	215,325	1,442	1,563	1,463	1,687	160	149			
Retired Members and Survivor Beneficiaries	120,875	126,255	10,159	10,524	3,810	4,090	1,057	1,053			
Deferred Retirement Option Plan	N/A	N/A	1,482	1,559	N/A	N/A	N/A	N/A			
Total	536,626	544,781	31,519	32,172	19,853	20,372	2,056	2,045			
Funding Status (dollar values in millions) ^{2/}											
Market Value of Assets	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
Total Actuarial Liability	\$30,299	\$35,159	\$5,306	\$5,936	\$1,331	\$1,497	\$293	\$314			
Unfunded Actuarial Liability ^{3/}	\$41,397	\$42,826	\$10,544	\$12,233	\$2,237	\$2,638	\$621	\$796			
Funded Status ^{3/}	\$9,961	\$9,904	\$4,359	\$6,214	\$677	\$1,126	\$270	\$483			
	75.9%	76.9%	58.7%	49.2%	69.7%	57.3%	56.5%	39.4%			

^{1/} Includes city, county, political subdivision, higher education and other education active members.

^{2/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the funded status may vary for each employer group.

^{3/} Calculated on actuarial, not market, value of assets.

**GENERAL PROVISIONS OF THE
GENERAL APPROPRIATION ACT
AND OTHER OVERALL ISSUES**

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GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the General Appropriation Act (Laws 2015, Chapter 8) provides direction with regard to several general provisions.

General Provisions

Statewide Adjustments — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency. The adjustments are as follows:

Section 144 of the General Appropriation Act makes statewide adjustments totaling \$(14,300,000) from the General Fund and \$(2,893,700) from Other Appropriated Funds in FY 2015 for changes in 2 areas:

- Arizona Financial Information System Collections: \$1,900,000 General Fund and \$5,667,800 Other Appropriated Funds for adjustments in agency Arizona Financial Information System (AFIS) charges. *(Please see the ADOA narrative for more details on AFIS charges.)*
- Employer Health Insurance Contribution Reduction: \$(16,200,000) General Fund and \$(8,561,500) Other Appropriated Funds for a reduction in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*

Expenditure Reporting — Section 146 continues to state that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in the expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

FTE Position Reporting — Section 147 continues to state that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act sections are subject to appropriation. The section directs the Director of ADOA to account for the utilization of all appropriated and non-appropriated FTE Positions, excluding FTE Positions in the Department of Economic Security (DES), Universities, and Department of Environmental Quality (DEQ). The Director

shall submit the FY 2016 report by October 1, 2016 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. DES, Universities, and DEQ shall report to the JLBC Director in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 148 continues to state that by October 1, 2015 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2015.

Transfer Authority — Section 149 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 150 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2015 General Fund ending balance by September 15, 2015. Based on this information, JLBC Staff shall report to JLBC by October 15, 2015 as to whether FY 2016's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Excluding the beginning balance and including one-time revenues, Section 150 states the revenues are forecasted to be \$9,347,000,000 for FY 2015 and \$9,126,000,000 for FY 2016.

Section 150 also provides revenue and expenditure estimates for FY 2017 and FY 2018 pursuant to A.R.S. § 35-125, which requires the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. *(Please see the Budget Highlights section for more details on FY 2017 and FY 2018 estimates.)*

Expenditure Authority — Section 152 continues to state that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are

Table 1

**Health Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2015**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 40.00	\$ 550.00
Employee Plus One Adult	119.00	1,113.00
Employee Plus One Child	101.00	1,078.00
Family	221.00	1,405.00
<u>Preferred Provider Organization (PPO)</u>		
Employee	155.00	741.00
Employee Plus One Adult	350.00	1,506.00
Employee Plus One Child	331.00	1,447.00
Family	486.00	1,929.00
<u>Health Spending Account (HSA) Option</u>		
Employee	26.00	563.00 ^{1/}
Employee Plus One Adult	102.00	1,130.00 ^{1/}
Employee Plus One Child	81.00	1,097.00 ^{1/}
Family	193.00	1,385.00 ^{1/}

^{1/} Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.

continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 153 continues to state that for purposes of the General Appropriation Act, “review by the Joint Legislative Budget Committee” means a review by a vote of a majority of a quorum of the members.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2016 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the FY 2016 General Appropriation Act. Statewide adjustment amounts are mentioned in any relevant agency narrative, but do not have additional discussion.

Employee Related Expenditures

Health Insurance — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays the health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO), a Preferred Provider Organization (PPO) and a Health Savings Account (HSA). Additional information on the current plan design can be found on page 481 of the *FY 2010 Appropriations Report*.

Employee and employer premiums for the CY 2015 plan year are shown in *Table 1* above. The FY 2016 budget included a total appropriated funds reduction of \$(24,761,500) for reduced employer premiums for the plan year starting January 1, 2016. Rates for the upcoming plan year have not yet been released.

Beyond the FY 2016 budget changes, the JLBC Staff estimates that annualization of the January 1, 2016 rates will require a further General Fund reduction of \$(16,200,000) in FY 2017 below FY 2016.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for the CY 2015 plan year are shown in *Table 2*. The FY 2016 budget assumed employer premiums for the plan year starting January 1, 2016 would remain the same; however, rates for the upcoming plan year have not yet been released.

(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)

Table 2

**Dental Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2015**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$4.03	\$4.96
Employee + 1 Adult	7.59	9.92
Employee + 1 Child	8.06	9.92
Family	13.27	13.70
<u>PPO</u>		
Employee	30.98	4.96
Employee + 1 Adult	50.56	9.92
Employee + 1 Child	65.71	9.92
Family	104.56	13.70

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — *Table 3* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2016. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these rates are calculated as a percent of Personal Services. Except as noted, the budget does not include funding for the changes in rates.

Life Insurance - \$18.00 per employee per year, a decrease of \$(5.40) from the \$23.40 rate assumed in the FY 2015 budget and effective through December 31, 2014. The new \$18.00 rate went into effect on January 1, 2015. The budget does not adjust funding for this change.

Unemployment Insurance - 0.10% of Personal Services for each agency, a decrease of (0.05)% from the 0.15% rate assumed in the FY 2015 budget. The rate was lowered by ADOA to 0.10% on July 1, 2014. The budget does not adjust agency budgets for this change.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2015 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind

Table 3

FY 2016 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$18.00
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (Arizona State Retirement System)	0.12%
Disability (Non-State Retirement System)	0.25%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$118,500)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
<u>1/</u> See Consolidated Retirement Report section for contribution rates.	

- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)
- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees the employer pays 0.12% of Personal Services for disability insurance, unchanged from the FY 2015 rate of 0.12%. The employee rate will also remain at 0.12%.

For non-ASRS employees the employer-only rate is 0.25% of Personal Services, unchanged from the FY 2015 rate.

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2015 rate. The government information technology review function in ADOA's budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2015 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Attorney General Pro Rata - Section 145 outlines \$1,809,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2015

amount. *(Please see the Attorney General narrative for details.)*

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2015 workers' compensation rates. ADOA estimates the average statewide rate would decrease from 1.00% in FY 2015 to 0.79% in FY 2016. The budget does not adjust agency budgets for this change. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses.

Federal Insurance Contributions Act (FICA) - Social Security taxes are paid at a rate of 6.20% up to \$118,500 of an employee's salary beginning January 1, 2014, an increase from the current maximum of \$117,000; the rate is unchanged from FY 2015. The FY 2016 budget does not adjust agency budgets for this change.

In addition, Medicare taxes are applied at a rate of 1.45% on the full level of an employee's salary. This rate is unchanged from FY 2015. Effective January 1, 2013, the federal Affordable Care Act imposed an additional 0.9% Medicare withholding on employees for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

State Retirement Systems - There are 4 state employee retirement systems -- ASRS, the Public Safety Personnel Retirement System (PSPRS), the Corrections Officers Retirement Plan (CORP), and the Elected Officials Retirement Plan (EORP). In addition, the Universities operate their own defined contribution plan. FY 2016 rates as determined by the state's retirement systems have changed from the FY 2015 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2015 budget adds a total of \$27,364,300 in appropriated funding for increased costs in non-ASRS employer retirement contributions in 2 agencies:

- \$13,535,700 GF and \$6,800 OF for the Arizona Department of Corrections (ADC), appropriated within the ADC budget
- \$4,246,300 GF and \$9,575,500 OF for the Department of Public Safety (DPS), appropriated within the DPS budget

(Please see the ADC and DPS narratives for more detail on these increases. Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.)

Other Operating Expenditures

The following items are included in agency's Other Operating Expenditures.

Risk Management — Individual agency budgets' Other Operating Expenditures include the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and have changed from the budgeted FY 2015 rates. The rate changes would reduce total revenue into the Risk Management Fund statewide from all fund sources by \$(179,400). The budget does not adjust agency budgets for this rate change. *(Please see the Risk Management Charges table following this section for more details.)*

Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state.

Section 112 of the General Appropriation Act includes a FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Fund and \$8,302,800 from the Health Insurance Trust Fund to refund a portion of certain fund balances to the federal government. In prior fiscal years, the state had transferred the balances of certain funds to the General Fund. If federal monies had been deposited into these funds, the federal government requires that they receive their own proportional share of fund transfers. The \$10,642,100 is intended to cover the state's obligation for transfers associated with excess retained earnings, disallowed costs, and other issues prior to FY 2015. The \$8,302,800 is intended to cover the state's obligation for a FY 2014 Health Insurance Trust Fund transfer. *(Please see the ADOA narrative for more details.)*

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges, lease-purchase payments, and privatized lease-to-own (PLTO) payments for certain buildings.

Rent charges in state-owned office space will remain at \$13.08/square foot, with the charge for state-owned storage space remaining at \$4.74/square foot.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please refer to Statewide Adjustments above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay section for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will expend \$70,000,000 in FY 2016 for FY 2015 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2015 but for which the state was unbilled until FY 2016. An agency’s administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$70,000,000 is a decrease of \$(10,000,000) from the estimated FY 2015 total of \$80,000,000. The FY 2016 amount is 88% of prior-year reversionments, higher than the historical average of around 65%. Administrative adjustments as a percentage of prior year’s reversionments vary widely from year to year, however, from below 30% to above 70%. The percentage is higher for FY 2016 because the FY 2015 reversionment figure has been reduced to account for the ex-appropriation of \$(48.5) million from the AHCCCS budget for caseload surpluses.

The revised FY 2015 estimate of \$80,000,000 is a \$28,519,300 increase from the originally-budgeted administrative adjustment total of \$51,480,700 for FY 2015. This amount is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies’ historical trends.

Reversionments — The budget assumes that state agencies will revert \$(111,380,700) of FY 2016 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is an increase of \$31,380,700 from the FY 2015 total of \$(80,000,000). The FY 2015 amount reflects 1.2% of total spending, a percentage based on historical averages.

The revised FY 2015 estimate of \$(80,000,000) compares to the originally-budgeted FY 2015 reversionment total of \$(116,000,000). At \$(80,000,000), this revised reversionment estimate is approximately 0.9% of FY 2014 estimated spending. As noted above, the change is primarily due to \$48.5 million of anticipated AHCCCS surpluses being ex-appropriated from AHCCCS’ FY 2015 budget, thereby reducing reversionment estimates by an equivalent amount.

Budget Format — The format governs how an agency’s appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum — The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and

subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items — The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are permitted to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review, though footnotes may place additional restrictions or notifications upon the agency prior to or associated with transfers between special line items or to or from the operating budget.

90/10 Agencies — The following 29 regulatory agencies are called “90/10” agencies for the fact that these agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
Board of Athletic Training
Board of Barbers
Board of Behavioral Health Examiners
State Board of Chiropractic Examiners
Registrar of Contractors
Board of Cosmetology
State Board of Dental Examiners
State Board of Funeral Directors and Embalmers
Board of Homeopathic and Integrated Medicine Examiners
Board of Massage Therapy
Arizona Medical Board
Naturopathic Physicians Medical Board
State Board of Nursing
Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
Board of Occupational Therapy Examiners
State Board of Dispensing Opticians
State Board of Optometry
Arizona Board of Osteopathic Examiners
Office of Pest Management
Arizona State Board of Pharmacy
Board of Physical Therapy
State Board of Podiatry Examiners
State Board for Private Postsecondary Education
State Board of Psychologist Examiners
Board of Respiratory Care Examiners
State Board of Technical Registration
Arizona State Veterinary Medical Examining Board

In the FY 2016 budget, the Board of Appraisal was eliminated and its functions were transferred to the Department of Financial Institutions.

**SALARY ADJUSTMENTS FOR STATE EMPLOYEES SINCE FY 2006
(Shown in Nominal General Fund Dollars)**

Fiscal Year	General Salary Adjustments					Additional Increases for Selected Classes		
	Dollars Appropriated	Effective Date	Annual Cost	% Salary Adjustment	% Performance Adjustment	Dollars Appropriated	Effective Date	Annual Cost
FY 2006	\$26,992,200	July 2	\$26,992,200	1.7%	-0-	\$15,633,100	July 2	\$15,633,100 <u>1/2/</u>
FY 2007	\$129,686,700 <u>3/</u>	July 1	\$129,686,700 <u>4/</u>	\$1,650/FTE <u>5/</u>	2.50%	\$31,761,600	July 1	\$31,761,600 <u>6/2/</u>
FY 2008	\$68,755,000	July 1	\$68,755,000 <u>8/</u>	3.0%	0.25%	\$9,149,200	July 1	\$9,149,200 <u>9/</u>
FY 2009	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2010	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2011	\$(33,464,400) <u>10/</u>	July 1	\$(33,464,400)	-2.30% <u>11/</u>	-2.75% <u>11/</u>	\$0	NA	\$0
FY 2012	\$(3,390,700) <u>12/</u>	July 1	\$(3,390,700)	-0- <u>12/</u>	-0-	\$0	NA	\$0
FY 2013	\$16,633,400 <u>13/</u>	Sept 29	\$23,500,000	5.00% <u>13/</u>	-0-	\$0	NA	\$0
FY 2014	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0
FY 2015	\$0	NA	\$0	0.00%	-0-	\$3,300,000	July 1	\$3,300,000 <u>14/</u>
FY 2016	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0

- 1/ Funds additional adjustments above 1.7% for sworn officers in DPS and Assistant Attorneys General.
- 2/ Funds \$1,410 adjustment for correctional officers in the Arizona Department of Corrections (ADC) and the Arizona Department of Juvenile Corrections (DJC) in lieu of the 1.7% general salary adjustment.
- 3/ Salary Adjustment went into effect on March 11, 2006. \$39,854,000 was appropriated for the FY 2006 adjustments.
- 4/ Laws 2006, Chapter 1 originally appropriated \$130,241,800 for the salary adjustments. Laws 2006, Chapter 261 reduced the appropriation by \$(555,100).
- 5/ Equates to approximately 3.8%.
- 6/ Funds additional adjustments above the \$1,650 per FTE and 2.5% performance adjustment for the Auditor General's Office, state-employed nurses and corrections officers in ADC and DJC.
- 7/ Includes \$17 million that was reallocated from the ADC's Overtime Special Line Item for Salary Adjustments.
- 8/ Provides funding for the equivalent of a 3.0% adjustment to the Personal Services Base in the FY 2008 JLBC Baseline.
- 9/ Funds additional adjustments above the 3.0% pay adjustment and 0.25% performance adjustment for the General Accounting Office, Assistant Attorney Generals, supervisor correctional officers at ADC, security officers at the Arizona State Hospital, officers at DJC, and sworn officers at DPS.
- 10/ Represents General Fund savings from the pay reduction that were budgeted in FY 2011, along with uncaptured furlough savings realized in FY 2011 during the FY 2012 budget process.

- 11/ Represents 6 furlough days (2.3%) except for certain exempted positions and a (2.75)% pay reduction. Where possible, the (2.75)% reduction was intended to eliminate the FY 2007 and FY 2008 Performance Adjustments. The furlough was originally authorized for FY 2011 and FY 2012 only, while the salary reduction was permanent.
- 12/ Represents General Fund savings from the prior enacted mandatory 6 day furlough, less additional funding to restore the furlough for several smaller agencies. The FY 2011 General Appropriation Act assumed a fixed level of General Fund savings associated with the furlough - savings were actually \$3.5 million greater and were reflected in the FY 2012 budget. Laws 2011, Chapter 26 eliminated one of the 6 mandatory furlough days in FY 2011 and all furlough days in FY 2012, but the budget did not restore any of the associated funding except for \$158,800 from the General Fund to several smaller agencies in FY 2012.
- 13/ Originally represented a one-time critical retention payment to state employees in FY 2013. The payments were made to non-university state employees who were uncovered on the effective date of September 29, 2012, and were equal to 5% of an employee's annual salary level prorated for the remainder of the fiscal year, increasing an employee's annual salary by an effective rate of 3.75%. This adjustment included payments to employees who converted from covered to uncovered status as a result of the 2012 omnibus personnel bill (Laws 2012, Chapter 321). The FY 2014 budget subsequently made the 5% adjustment permanent.
- 14/ Funds a 2.0% pay increase for all employees at the Arizona Department of Public Safety (DPS).

**STATE OF ARIZONA
ELECTED OFFICIALS' SALARIES**

	Jan. 1, 2001	Jan. 1, 2002	Jan. 1, 2007 *	Jan. 1, 2009 *
Governor	\$ 95,000	\$ 95,000	\$ 95,000	\$ 95,000
Secretary of State	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Treasurer	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Attorney General	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Superintendent of Public Instruction	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000
Corporation Commissioners	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500
Mine Inspector	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Supreme Court Chief Justice	\$ 129,150	\$ 129,150	\$ 145,294	\$ 160,000
Other Supreme Court Justices	\$ 126,525	\$ 126,525	\$ 142,341	\$ 155,000
Appellate Judges	\$ 123,900	\$ 123,900	\$ 139,388	\$ 150,000
Superior Court Judges	\$ 120,750	\$ 120,750	\$ 135,844	\$ 145,000
Legislators	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000

* There were no changes in elected officials' salaries between January 1, 2002 and January 1, 2007, January 1, 2007 and January 1, 2009, or January 1, 2009 and the present.

AGENCY DETAIL AND ALLOCATIONS

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline <u>1/</u> Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
OPERATING SPENDING CHANGES						
DOA - Arizona Department of Administration	11,193,000		11,377,600			10,377,300
DOA - Statewide Adjustments					(36,500)	
DOA - Increased Accounting System Costs						
DOA - GAO Cost Shift					(566,000)	
DOA - Eliminate Southwest Defense Contracts						
DOA - Transformation Office					1,000,000	
DOA - Eliminate Employer Sanctions Funding					(1,213,200)	
DOA - Named Claimants (Laws 2015, Ch. 34)		184,600				
APF - Automation Projects Fund/ADOA	35,500,000		35,500,000			7,783,000
APF - Remove One-Time ADE Automation				(5,000,000)		
APF - Remove One-Time DCS Automation				(5,000,000)		
APF - Reduce One-Time ADOA Automation/Cost Shift				(9,198,000)	(6,819,000)	
APF - Remove DOR Automation Funding					(1,700,000)	
DOA/DCS - Department of Child Safety/ADOA	25,000,000		19,500,000			0
DOA/DCS - Remove One-Time Funding in FY 16				(25,000,000)		
OAH - Office of Administrative Hearings	862,500		862,500			861,700
OAH - Statewide Adjustments					(800)	
AAM - Commission of African-American Affairs	125,000		125,000			125,000
AGR - Department of Agriculture	8,323,000		8,323,000			8,287,400
AGR - Statewide Adjustments					(35,600)	
AGR - NEMF Change (Laws 2015, Ch. 132)				(198,400)	198,400	
AXS - AHCCCS	1,274,403,200		1,225,882,700			1,205,162,300
AXS - Statewide Adjustments					(35,600)	
AXS - Formula Adjustments		(48,520,500)		(1,976,000)	(35,097,400)	
AXS - Statutory Adjustment				(98,500)		
AXS - Provider Rate Reduction					(25,700,000)	
AXS - Shift Dispro Share Pool 1 Match					(2,610,700)	
AXS - Ambulance Rate Reduction					(2,400,000)	
AXS - Inspector General - Fraud Prevention					(1,322,700)	
ATT - Attorney General	23,465,100		23,465,100			23,623,700
ATT - Statewide Adjustments					(41,400)	
ATT - Child Safety Realignment				(1,000,000)		
ATT - Southern AZ Drug Enforcement Unit					1,200,000	
CHA - State Board for Charter Schools	994,700		994,700			1,200,900
CHA - Statewide Adjustments					(8,300)	
CHA - Remove One-time Equipment Funding					(4,500)	
CHA - Charter Renewal Funding					219,000	
DCS - Department of Child Safety	361,005,400		361,005,400			356,448,200
DCS - Statewide Adjustments					(684,400)	
DCS - Remove One-Time Funding				(12,143,600)		
DCS - Technical Payment Deferral				(3,000,000)		
DCS - Annualize FY 15 Staff Increase				270,800		
DCS - Additional Preventive Services				4,000,000		
DCS - Attorney General Realignment				1,000,000		
DCS - Permanency Caseload Growth					8,000,000	
DCS - Foster Care Shift					(2,000,000)	
ACA - Arizona Commerce Authority	31,800,000		31,800,000			26,800,000
ACA - Mexico City Funding				(300,000)	300,000	
ACA - Reduce Competes Fund Deposit					(5,000,000)	
CCO - Arizona Community Colleges	71,906,400		71,906,400			55,045,300
CCO - Formula Changes				(1,271,800)		
CCO - State Aid Reduction (Maricopa/Pima/Pinal)					(15,589,300)	
COR - Corporation Commission	610,500		610,500			614,200
COR - Statewide Adjustments					4,300	
COR - Remove One-Time Funding				(600)		

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline 1/ Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
ADC - Department of Corrections	996,845,600		996,845,600			1,029,900,600
ADC - Statewide Adjustments					(5,523,000)	
ADC - Annualize Maximum Security Beds				343,900		
ADC - Annualize Medium Security Beds				7,197,300		
ADC - Health Care Litigation					6,572,000	
ADC - Health Care Changes					5,000,000	
ADC - Non-Health Care Population Growth					1,643,000	
ADC - Health Care Population Growth					3,657,000	
ADC - Retirement Adjustment					13,535,700	
ADC - Expand Transition Program 300 Inmates					(300,000)	
ADC - Leap Year					929,100	
CF - County Funding	7,650,500		7,650,500			6,000,500
CF - Restore Graham Funding				(500,000)	500,000	
CF - Eliminate Funding for Pinal/Yavapai/Mohave					(1,650,000)	
SDB - Arizona State Schools for the Deaf and the Blind	22,497,900		22,497,900			21,596,400
SDB - Statewide Adjustments					(205,700)	
SDB - Remove One-Time Funding				(695,800)		
DES - Department of Economic Security	479,290,300		482,542,300			496,181,900
DES - Statewide Adjustments					(13,600)	
DES - Remove One-Time Funding				(500,000)		
DES - DD Medicaid Formula Adjustments		7,852,000		22,828,000		
DES - Eliminate Rural Autism Parenting		(300,000)			(300,000)	
DES - Eliminate LTC Assisted Living		(300,000)			(300,000)	
DES - Shift Child Care to Federal Fund		(4,000,000)			(4,000,000)	
DES - Adult Protective Services Staff (11 FTE)					1,177,200	
DES - Lump Sum Reduction					(2,000,000)	
BOE - State Board of Education	0		0			1,325,200
BOE - Shift From ADE For New Budget Unit					1,325,200	
ADE - Arizona Department of Education	3,808,392,700		3,835,253,800			3,889,519,500
ADE - Statewide Adjustments					(49,900)	
ADE - Formula Changes		26,861,100		181,166,200	(5,000,000)	
ADE - Extra Base Level Increase					74,394,000	
ADE - District Non-Classroom Reduction					(113,457,200)	
ADE - Charter Additional Assistance Reduction					(3,000,000)	
ADE - Reduce IT Certification Funding					(1,000,000)	
ADE - JTED Soft Capital					1,000,000	
ADE - Shift to State Board of Ed.					(1,325,200)	
ADE - District Sponsored Charter Phase-Out					(1,181,400)	
ADE - Repeal Student Success Funding					(22,400,000)	
ADE - 1% Property Tax Cap Limitations					(20,219,700)	
ADE - Alternative Teacher Development Program					500,000	
ADE - Achievement Test Costs					(1,800,000)	
ADE - Multi-Site Charters Small School Weight					(6,500,000)	
EMA - Department of Emergency & Military Affairs	13,044,400		13,044,400			11,102,700
EMA - Statewide Adjustments					6,900	
EMA - NEMF Change (Laws 2015, Ch. 132)				(1,375,400)	1,385,900	
EMA - Remove One-Time Military Airport Funding				(2,500,000)		
EMA - Emergency Management Federal Match					1,540,900	
EMA - Navajo Camp Fund Shift					(1,000,000)	
DEQ - Department of Environmental Quality	7,000,000		7,000,000			7,000,000
OEO - Governor's Office of Equal Opportunity	188,600		188,600			189,000
OEO - Statewide Adjustments					400	
EQU - State Board of Equalization	641,800		641,800			642,800
EQU - Statewide Adjustments					1,000	
EXE - Board of Executive Clemency	958,600		958,600			956,000
EXE - Statewide Adjustments					(2,600)	
DFI - Dept of Financial Institutions	3,020,200		3,020,200			3,008,000
DFI - Statewide Adjustments					(12,200)	
BFS - Department of Fire, Building & Life Safety	2,205,300		2,205,300			2,202,000
BFS - Statewide Adjustments					(3,300)	

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline 1/ Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
FOR - State Forester	9,103,800		9,103,800			9,012,300
FOR - Statewide Adjustments					(9,500)	
FOR - Remove One-Time Funding				(157,000)		
FOR - Environmental County Grants					75,000	
GAM - Department of Gaming	0		0			1,779,500
GAM - Consolidate With Racing (Laws 2015, Ch. 19)					1,779,500	
GEO - Arizona Geological Survey	941,700		941,700			941,000
GEO - Statewide Adjustments					(700)	
GOV - Office of the Governor	6,920,100		6,920,100			6,889,000
GOV - Statewide Adjustments					(31,100)	
OSP - Gov's Ofc of Strategic Planning & Budgeting	1,994,000		1,994,000			1,994,000
DHS - Department of Health Services	613,362,100		619,489,200			602,738,300
DHS - Statewide Adjustments					(315,200)	
DHS - Formula Adjustments		6,127,100		10,161,400	(8,470,000)	
DHS - Remove One-Time Alzheimer's Funding				(1,250,000)		
DHS - Provider Rate Reduction					(11,400,000)	
DHS - ASH Increase					1,200,000	
DHS - Eliminate School Based Prevention Education					(300,000)	
DHS - Eliminate Mental Health First Aid					(250,000)	
AZH - Arizona Historical Society	3,156,000		3,156,000			3,157,200
AZH - Statewide Adjustments					1,200	
PAZ - Prescott Historical Society	826,300		826,300			825,800
PAZ - Statewide Adjustments					(500)	
IND - Independent Redistricting Commission	1,115,300		1,115,300			1,115,300
CIA - Arizona Commission of Indian Affairs	56,900		56,900			57,400
CIA - Statewide Adjustments					500	
INS - Department of Insurance	5,366,700		5,366,700			5,867,400
INS - Statewide Adjustments					(15,900)	
INS - Insurance Fraud Investigations					516,600	
SPA - Judiciary - Supreme Court	16,012,900		16,012,900			17,951,100
SPA - Statewide Adjustments					(162,400)	
SPA - Automation Centralization from Superior Court				2,880,600		
SPA - Eliminate General Fund Automation Funding					(3,590,500)	
SPA - Laws 2015, Ch. 276 Reallocation					2,810,500	
COA - Judiciary - Court of Appeals	14,380,200		14,380,200			14,315,500
COA - Statewide Adjustments - Division I					(51,100)	
COA - Statewide Adjustments - Division II					(13,600)	
SUP - Judiciary - Superior Court	80,102,500		80,102,500			73,911,400
SUP - Shift Automation to Supreme Court				(2,880,600)		
SUP - Laws 2015, Ch. 276 Reallocation					(2,810,500)	
SUP - Eliminate One-Time Funding				(500,000)		
DJC - Department of Juvenile Corrections	44,165,900		44,165,900			26,984,600
DJC - Statewide Adjustments					(279,900)	
DJC - Local Cost Sharing					(12,000,000)	
DJC - One-Time Shift from State Charitable Fund					(901,400)	
DJC - Admission Changes					(4,000,000)	
LAN - State Land Department	12,509,800		12,574,000			12,520,500
LAN - Statewide Adjustments					(53,500)	
LAN - CAP Rate Adjustment		64,200		64,200		
Legislature						
AUD - Auditor General	18,246,400		18,246,400			17,933,300
AUD - Statewide Adjustments					(63,100)	
AUD - Remove One-Time Funding				(250,000)		
HOU - House of Representatives	13,372,200		13,372,200			13,289,500

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline 1/ Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
HOU - Statewide Adjustments					(82,700)	
JLBC - Joint Legislative Budget Committee	2,493,000		2,493,000			2,490,900
JLBC - Statewide Adjustments					(2,100)	
LEG - Legislative Council	8,248,900		8,248,900			8,233,300
LEG - Statewide Adjustments					(15,600)	
SEN - Senate	8,283,800		8,283,800			8,223,900
SEN - Statewide Adjustments					(59,900)	
MIN - State Mine Inspector	1,215,600		1,215,600			1,215,200
MIN - Statewide Adjustments					(400)	
NAV - Arizona Navigable Steam Adjudication Comm.	129,200		129,200			126,600
NAV - Statewide Adjustments					(2,600)	
NUR - State Board of Nursing	150,000		150,000			0
NUR - Fund Shift				(150,000)		
SPB - Arizona State Parks Board	500,000		500,000			0
SPB - Remove One-Time Funding				(500,000)		
PIO - Arizona Pioneers' Home	1,603,400		1,603,400			0
PIO - Fund Shift to State Charitable Fund					(1,603,400)	
POS - Commission for Postsecondary Education	1,396,800		1,396,800			1,396,800
DPS - Department of Public Safety	89,324,900		89,324,900			93,374,800
DPS - Statewide Adjustments					(196,400)	
DPS - Maintain ACTIC Funding				(750,000)	750,000	
DPS - Retirement Contribution Rate Increase					4,246,300	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000			6,000,000
RAC - Arizona Department of Racing	2,029,500		2,029,500			0
RAC - Eliminate Breeder's Award					(250,000)	
RAC - Consolidate With Gaming (Laws 2015, Ch. 19)					(1,779,500)	
RAD - Radiation Regulatory Agency	1,468,900		1,468,900			1,595,000
RAD - Statewide Adjustments					1,700	
RAD - NEMF Change (Laws 2015, Ch. 132)				(695,300)	819,700	
REA - State Real Estate Department	2,989,700		2,989,700			2,985,200
REA - Statewide Adjustments					(4,500)	
REV - Department of Revenue	48,139,400		48,139,400			30,338,600
REV - Statewide Adjustments					(195,000)	
REV - Fraud Prevention Contract					3,150,000	
REV - Local Cost Sharing					(20,755,800)	
SFB - School Facilities Board	189,358,400		179,942,500			216,878,100
SFB - Statewide Adjustments					(4,600)	
SFB - New School Construction				(91,600)	1,483,000	
SFB - Lease-Purchase Changes				2,232,900		
SFB - Access Our Best Public Schools Fund					23,900,000	
SFB - Refinancing Agreement		(9,415,900)				
SOS - Secretary of State	15,027,800		15,027,800			15,006,500
SOS - Statewide Adjustments					(21,300)	
TAX - State Board of Tax Appeals	265,600		265,600			266,400
TAX - Statewide Adjustments					800	
TOU - Office of Tourism	9,103,700		9,103,700			7,110,400
TOU - Statewide Adjustments					6,700	
TOU - Remove One-Time Funding				(2,000,000)		
DOT - Department of Transportation	50,400		50,400			50,400
TRE - State Treasurer	1,205,100		1,205,100			1,205,100

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline 1/ Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
UNI - Universities						
UNI - Arizona Board of Regents	21,928,400		21,928,400			21,928,400
UNI - ASU - Tempe/DPC	290,104,300		290,104,300			239,189,400
UNI - Statewide Adjustments					(3,172,200)	
UNI - Refinance Savings				(2,523,300)		
UNI - Funding Reduction					(45,219,400)	
UNI - ASU - East Campus	25,853,400		25,853,400			22,162,700
UNI - Statewide Adjustments					(93,400)	
UNI - Funding Reduction					(3,597,300)	
UNI - ASU - West Campus	33,328,100		33,328,100			28,754,100
UNI - Statewide Adjustments					(136,600)	
UNI - Funding Reduction					(4,437,400)	
UNI - Northern Arizona University	118,281,200		118,281,200			100,917,600
UNI - Statewide Adjustments					(61,800)	
UNI - Refinance Adjustment				1,700		
UNI - Funding Reduction					(17,303,500)	
UNI - UA - Main Campus	209,341,200		209,341,200			179,499,400
UNI - Statewide Adjustments					(1,901,100)	
UNI - Refinance Adjustment				400		
UNI - Funding Reduction					(27,941,100)	
UNI - UA - Health Sciences Center	69,585,300		69,585,300			68,393,500
UNI - Statewide Adjustments					(690,500)	
UNI - Funding Reduction					(501,300)	
VSC - Department of Veterans' Services	5,438,300		5,438,300			6,077,800
VSC - Statewide Adjustments					(14,300)	
VSC - New Cemetery Operating Cost				207,100	446,700	
WIFA - Water Infrastructure Finance Authority	1,000,000		0			0
WIFA - Remove One-Time Deposit		(1,000,000)		(1,000,000)		
WAT - Department of Water Resources	13,330,300		13,330,300			12,803,100
WAT - Statewide Adjustments					(27,200)	
WAT - Water Banking Fund Shift					(500,000)	
WEI - Department of Weights & Measures	1,475,700		1,475,700			1,399,000
WEI - Statewide Adjustments					(8,700)	
WEI - Remove One-Time Funding				(68,000)		
OTH - Other						
OTH - FY 15 Supplemental/Ex-Appropriation	(6,996,800)	6,996,800	0	6,996,800		0
OTH - Debt Service Payments	84,123,700		84,123,700	(9,100)		84,114,600
OTH - Civic Center Debt Service	20,449,000		20,449,000	0		20,449,000
OTH - Unallocated HITF Rate Reduction	0		0	0	(600)	(600)
OTH - Unallocated AFIS Cost Charges	0		0	0	17,400	17,400
OTH - Rio Nuevo Distribution	10,000,000		10,000,000	0		10,000,000
OTH - Administrative Adjustments	80,000,000		80,000,000	(20,000,000)	10,000,000	70,000,000
OTH - Revertments	(80,000,000)		(80,000,000)	(5,000,000)	(26,380,700)	(111,380,700)
TOTAL - OPERATING SPENDING CHANGES	9,314,783,700	(20,950,600)	9,293,833,100	131,768,300	(318,493,400)	9,128,058,600
CAPITAL SPENDING						
ADOA - 500 Maximum Security ADC Beds (Enacted)	17,431,100		17,431,100	(17,431,100)		0
ADOA Building Renewal	9,000,000		9,000,000	(9,000,000)	5,000,000	5,000,000
ABOR Building Renewal	3,000,000		3,000,000	(3,000,000)		0
ADC Building Renewal	3,000,000		3,000,000	(3,000,000)		0
Navajo Nation Highway Construction	0		0	0	1,200,000	1,200,000
Veterans' Services - Yuma Facility	9,200,000		9,200,000	(9,200,000)		0
TOTAL - CAPITAL SPENDING	41,631,100	0	41,631,100	(41,631,100)	6,200,000	6,200,000
TOTAL - ALL SPENDING	9,356,414,800	(20,950,600)	9,335,464,200	90,137,200	(312,293,400)	9,134,258,600
REVENUE CHANGES						

	FY 2015 GF Baseline	FY 2015 Changes	FY 2015 GF Revised	FY 16 Baseline <u>1/</u> Above FY 15	FY 2016 Changes	FY 2016 GF Enacted Budget
Ongoing Revenue						
REV - Ongoing Revenue	8,576,683,800		8,576,683,800	197,593,600	50,957,700	8,825,235,100
REV - IRS Conformity		(30,800,000)	(30,800,000)		(30,800,000)	(30,800,000)
REV - Inflation Indexing			0		(6,100,000)	(6,100,000)
REV - Judiciary Transfers			0		6,000,000	6,000,000
REV - Increase DSH Cap		11,000,000	11,000,000		16,500,000	16,500,000
REV - Fraud Detection			0		41,916,600	41,916,600
REV - Insurance Fraud Assessment			0		516,600	516,600
REV - Insurance Retaliatory Taxes			0		(1,500,000)	(1,500,000)
One-Time Revenue						
REV - One-Time Revenue	53,900,000		53,900,000	(60,000,000)	6,100,000	0
REV - Beginning Balance	577,399,200		577,399,200	(577,399,200)	12,000,000	12,000,000
REV - Tax Amnesty			0		15,000,000	15,000,000
REV - Budget Stabilization Fund Transfer		144,281,200	144,281,200			0
Fund Transfers						
REV - ADOA - Health Insurance Trust Fund	0		0		FY 17	0
REV - AHCCCS - Healthcare Group Fund			0		7,252,800	7,252,800
REV - Attorney General - Consumer Restitution Fund			0		5,400,000	5,400,000
REV - Attorney General - Mortgage Settlement	0	15,000,000	15,000,000			0
REV - Attorney General - S&P Settlement	0		0		16,000,000	16,000,000
REV - Commerce Authority - Competes Fund			0		75,000,000	75,000,000
REV - Commerce Authority - Job Training Fund			0		25,000,000	25,000,000
REV - Corp Comm. - Utility Regulation Fund			0		2,000,000	2,000,000
REV - Corrections - Special Services Fund	0		0		2,000,000	2,000,000
REV - Corrections - Inmate Store Proceeds Fund			0		2,500,000	2,500,000
REV - Corrections - Corrections Fund			0		1,250,000	1,250,000
REV - Corrections - Alcohol Abuse Treatment Fund			0		250,000	250,000
REV - Corrections - Building Renewal Fund			0		1,500,000	1,500,000
REV - Corrections - Correctional Industries Fund			0		500,000	500,000
REV - Corrections - Corrections Fund			0		1,072,000	1,072,000
REV - DES - Special Administration Fund			0		4,000,000	4,000,000
REV - ADE - State Facilities Fund			0		4,000,000	4,000,000
REV - ADE - Student Success Fund			0		2,400,000	2,400,000
REV - DEQ - Voluntary Vehicle Repair Fund	0		0		2,000,000	2,000,000
REV - DEQ - Air Quality Fund			0		5,500,000	5,500,000
REV - DEQ - Recycling Fund			0		2,493,700	2,493,700
REV - Housing - Housing Program Fund			0		5,000,000	5,000,000
REV - Parks - Off-Highway Vehicle Fund			0		4,000,000	4,000,000
REV - DPS - Highway Patrol Fund			0		5,168,200	5,168,200
REV - DPS - Fingerprint Clearance Fund			0		4,347,800	4,347,800
REV - ADOT - Economic Strength Fund	0		0		4,560,000	4,560,000
REV - ADOT - HELP Fund	0		0		20,000,000	20,000,000
REV - ADOT - State Aviation Fund	0		0		15,000,000	15,000,000
REV - ADOT - Motor Vehicle Liability Fund			0		2,000,000	2,000,000
TOTAL - REVENUE CHANGES <u>2/</u>	9,207,983,000	139,481,200	9,347,464,200	(439,805,600)	330,785,400	9,098,962,800
ENDING BALANCE	(148,431,800)	160,431,800	12,000,000	(529,942,800)	643,078,800	(35,295,800)

1/ Represents FY 2016 Baseline cost above FY 2015 Baseline estimate.

2/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
OPERATING SPENDING CHANGES						
SBA - State Board of Accountancy	1,936,800		1,936,800			1,939,100
SBA - Statewide Adjustments					2,300	
ACU - Acupuncture Board of Examiners	154,700		154,700			159,100
ACU - Rulemaking					3,000	
ACU - Statewide Adjustments					1,400	
DOA - Arizona Department of Administration	174,142,200		193,467,100			183,628,300
DOA - Statewide Adjustments					(88,800)	
DOA - Automation Operations Fund					2,007,100	
DOA - Federal Reimbursement (FY 14 Claims)		18,764,900				
DOA - State Surplus Materials Fund		560,000				
DOA - New Accounting System Fund					7,567,800	
APF - Automation Projects Fund/ADDOA	70,034,700		70,034,700			24,794,400
APF - Statewide Adjustments						
APF - Remove One-Time ADE Automation				(5,000,000)		
APF - Remove One-Time DCS Automation				(5,000,000)		
APF - Reduce ADDO Accounting Automation				(17,331,000)	(6,819,000)	
APF - Remove One-Time ADDO ASET Funding				(9,001,700)	7,325,000	
APF - Retain ASET Program Staff				2,150,000		
APF - Remove One-Time DEQ Automation				(6,800,000)	5,000,000	
APF - Remove One-Time DOR Automation				(1,000,000)		
APF - Remove One-Time ADC Automation				(8,000,000)		
APF - Remove One-Time DOR Tax Data					(1,700,000)	
APF - DES IT Security Project					936,400	
OAH - Office of Administrative Hearings	12,300		12,300			12,300
AXS - AHCCCS	141,450,400		141,450,400			143,447,500
AXS - Statewide Adjustments					33,900	
AXS - Formula Adjustments				3,102,700	(1,139,500)	
APP - State Board of Appraisal	861,800		861,800			0
APP - Statewide Adjustments					(400)	
APP - Remove One-Time Funding				(40,000)		
APP - Consolidate DFI (Laws 2015, Ch. 19)					(821,400)	
ART - Arizona Commission on the Arts	1,000,000		1,000,000			0
ART - Remove One-Time Funding (BSF)				(1,000,000)		
BAT - Board of Athletic Training	118,200		118,200			118,900
BAT - Statewide Adjustments					700	
ATT - Attorney General	43,358,900		43,358,900			43,054,000
ATT - Statewide Adjustments					(104,900)	
ATT - Federalism Unit					1,000,000	
ATT - Southern Arizona Drug Enforcement to GF					(1,200,000)	
ATA - Automobile Theft Authority	5,297,800		5,297,800			5,297,500
ATA - Statewide Adjustments					(300)	
BAR - Board of Barbers	333,900		333,900			335,400
BAR - Statewide Adjustments					1,500	
BHE - Board of Behavioral Health Examiners	1,758,600		1,758,600			1,760,500
BHE - Statewide Adjustments					1,900	
DCS - Department of Child Safety	160,667,200		160,667,200			160,667,600
DCS - Statewide Adjustments					400	
BCE - State Board of Chiropractic Examiners	450,600		450,600			451,400
BCE - Statewide Adjustments					800	
ROC - Registrar of Contractors	12,196,700		12,196,700			12,187,500

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
ROC - Statewide Adjustments					(9,200)	
COR - Corporation Commission	27,179,000		27,179,000			26,364,100
COR - Statewide Adjustments					(109,900)	
COR - Remove One-Time Funding (PAF/SREF)				(705,000)		
ADC - Department of Corrections	44,911,900		44,911,900			46,876,200
ADC - Statewide Adjustments					3,700	
ADC - Realign Education \$ due to Caseload				153,800		
ADC - CORP Adjustment					6,800	
ADC - Health Care Litigation					1,500,000	
ADC - Transition Program Adjustment					300,000	
COS - Board of Cosmetology	1,785,000		1,785,000			1,807,700
COS - Statewide Adjustments					800	
COS - Full-time Investigator					21,900	
JUS - Arizona Criminal Justice Commission	5,955,100		5,955,100			5,956,200
JUS - Statewide Adjustments					1,100	
SDB - AZ State Schools for the Deaf and the Blind	12,590,200		12,590,200			11,561,400
SDB - Statewide Adjustments					(28,800)	
SDB - Realign ASDB Expenditures with Revenue				(1,000,000)		
HEA - Comm for the Deaf & the Hard of Hearing	4,021,200		4,276,700			4,312,800
HEA - Statewide Adjustments					600	
HEA - One-Time IT Funding				(220,000)		
HEA - Arizona Relay Service Contract		255,500			511,000	
DEN - Board of Dental Examiners	1,215,100		1,215,100			1,215,500
DEN - Statewide Adjustments					400	
DES - Department of Economic Security	302,942,400		306,942,400			306,981,800
DES - Statewide Adjustments					(80,600)	
DES - Shift Child Care to Federal Fund		4,000,000			4,000,000	
DES - DD Services (Laws 2015, Ch. 169)					120,000	
BOE - State Board of Education	0		0			379,800
BOE - Shift Funding from ADE					379,800	
ADE - Arizona Department of Education	77,836,100		77,836,100			56,977,100
ADE - Statewide Adjustments					(10,000)	
ADE - Tech Based Language Fund				(53,200)		
ADE - Endowment Earnings				884,000		
ADE - Student Success Fund Repeal					(21,500,000)	
ADE - Shift Funding to Board of Ed.					(379,800)	
ADE - ESA Administration					200,000	
EMA - Department of Emergency & Military Affairs	132,700		132,700			0
EMA - Statewide Adjustments					100	
EMA - Shift Emergency Response to DEQ (Laws 2015, Ch. 208)					(132,800)	
DEQ - Department of Environmental Quality	69,241,800		69,241,800			69,192,200
DEQ - Statewide Adjustments					(182,400)	
DEQ - VEI Safe Drinking Water				(1,800,000)	1,800,000	
DEQ - Shift Emergency Response from DEMA (Laws 2015, Ch. 208)					132,800	
COL - Arizona Exposition and State Fair Board	11,620,800		11,620,800			11,616,100
COL - Statewide Adjustments					(4,700)	
DFI - Dept of Financial Institutions	1,247,400		1,247,400			2,279,100
DFI - Statewide Adjustments					(3,000)	
DFI - Remove One-Time Funding				(10,000)		
DFI - Board of Appraisal (Laws 2015, Ch. 19)					821,400	
DFI - New Licensing System - Ongoing					223,300	
EMB - Board of Funeral Directors and Embalmers	353,700		353,700			352,200
EMB - Statewide Adjustments					(1,500)	

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
FIS - Arizona Game and Fish Department	40,474,200		40,474,200			41,845,400
FIS - Statewide Adjustments					(65,000)	
FIS - Equipment					936,200	
FIS - Sport Fish Habitat					500,000	
GAM - Department of Gaming	13,516,200		13,516,200			16,367,000
GAM - Statewide Adjustments					(43,400)	
GAM - Consolidate With Racing (Laws 2015, Ch. 19)					2,894,200	
DHS - Department of Health Services	87,851,000		87,851,000			88,098,200
DHS - Statewide Adjustments					(52,800)	
DHS - Nursing Care Special Projects				(50,000)	100,000	
DHS - Emergency Medical Local Grants					250,000	
HOM - Board of Homeopathic & Integrated Medicine Examiners	102,100		102,100			102,800
HOM - Statewide Adjustments					700	
DOH - Department of Housing	314,600		314,600			318,500
DOH - Statewide Adjustments					3,900	
IND - Industrial Commission	19,994,800		19,994,800			19,940,300
IND - Statewide Adjustments					(54,500)	
SPA - Judiciary - Supreme Court	27,575,800		27,575,800			28,952,200
SPA - Statewide Adjustments					23,000	
SPA - Automation Centralization from Superior Court				1,353,400		
SUP - Judiciary - Superior Court	13,531,600		13,531,600			12,066,600
SUP - Statewide Adjustments					(111,600)	
SUP - Shift Automation to Supreme Court				(1,353,400)		
DJC - Department of Juvenile Corrections	3,942,900		3,942,900			16,132,100
DJC - Statewide Adjustments					(11,100)	
DJC - Realign Education \$ due to Caseload				(701,100)		
DJC - Local Cost Sharing					12,000,000	
DJC - One-Time Shift					901,400	
LAN - State Land Department	5,622,500		5,622,500			4,525,400
LAN - Statewide Adjustments					2,900	
LAN - Automation Funding				(1,200,000)	100,000	
LIQ - Department of Liquor Licenses & Control	3,589,200		3,589,200			3,355,300
LIQ - Statewide Adjustments					(7,200)	
LIQ - Automation Funding				(626,700)	400,000	
LOT - Arizona State Lottery Commission	103,731,300		103,731,300			108,854,600
LOT - Statewide Adjustments					(32,200)	
LOT - Sales Adjustment				5,155,500		
MAS - Board of Massage Therapy	438,700		438,700			455,800
MAS - Statewide Adjustments					2,100	
MAS - On-Line Licensing					15,000	
MED - Arizona Medical Board	5,740,300		5,940,300			6,426,000
MED - Statewide Adjustments					1,300	
MED - Background Fee Refund (Laws 2015, Ch. 2)		200,000				
MED - Backlog & Verification Staffing					684,400	
MIN - State Mine Inspector	112,500		112,500			112,800
MIN - Statewide Adjustments					300	
NAT - Naturopathic Physicians Medical Board	177,600		177,600			179,700
NAT - Statewide Adjustments					2,100	
NAV - Navigable Stream Adjudication Commission	0		359,300			200,000
NAV - Court-Related Hearings		359,300			200,000	
NUR - State Board of Nursing	4,272,100		4,272,100			4,802,600
NUR - Statewide Adjustments					(6,200)	

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
NUR - Fund Shift				150,000		
NUR - Certified Nursing Assistant Backfill					386,700	
NCI - Nursing Care Inst. Administrators Board	420,300		420,300			422,100
NCI - Statewide Adjustments					1,800	
OCC - Board of Occupational Therapy Examiners	184,200		184,200			172,000
OCC - Statewide Adjustments					(600)	
OCC - Remove One-Time Funding				(11,600)		
DIS - State Board of Dispensing Opticians	135,800		135,800			136,800
DIS - Statewide Adjustments					1,000	
OPT - State Board of Optometry	206,100		206,100			230,200
OPT - Statewide Adjustments					300	
OPT - Database and Payment Portal System Upgrade					23,800	
OST - Arizona Board of Osteopathic Examiners	801,700		801,700			803,700
OST - Statewide Adjustments					2,000	
SPB - Arizona State Parks Board	12,842,100		12,842,100			12,854,800
SPB - Statewide Adjustments					12,700	
PER - Personnel Board	375,000		375,000			375,700
PER - Statewide Adjustments					700	
PES - Office of Pest Management	1,700,500		1,700,500			1,699,500
PES - Statewide Adjustments					(1,000)	
PHA - Arizona State Board of Pharmacy	2,053,900		2,053,900			2,020,500
PHA - Statewide Adjustments					2,900	
PHA - Remove One-time Leave Payout				(36,300)		
PHY - Board of Physical Therapy Examiners	408,000		408,000			480,400
PHY - Statewide Adjustments					(1,200)	
PHY - Attorney General Services					35,000	
PHY - Upgrade Database Interface					23,600	
PHY - Replace Multifunction Printer					15,000	
PIO - Arizona Pioneers' Home	4,658,100		4,658,100			6,204,900
PIO - Statewide Adjustments					(27,100)	
PIO - Remove One-Time Funding (Miners' Fund)				(29,500)		
PIO - Shift to State Charitable Fund					1,603,400	
POD - State Board of Podiatry Examiners	147,300		147,300			148,200
POD - Statewide Adjustments					900	
POS - Commission for Postsecondary Education	1,535,400		1,535,400			1,534,800
POS - Statewide Adjustments					(600)	
PRI - Board for Private Postsecondary Education	395,700		395,700			996,300
PRI - Statewide Adjustments					600	
PRI - Transfer to Student Tuition Recovery Fund					600,000	
PSY - State Board of Psychologist Examiners	413,600		413,600			448,500
PSY - Statewide Adjustments					300	
PSY - Remove One-Time Funding				(23,800)	10,300	
PSY - Restore Board Member Compensation					15,000	
PSY - Rulemaking					12,000	
PSY - Full-Time Administrative Assistant					21,100	
DPS - Department of Public Safety	155,232,300		155,232,300			164,164,700
DPS - Statewide Adjustments					(643,100)	
DPS - PSPRS Retirement Cost Increase					9,575,500	
RAC - Arizona Department of Racing	2,900,700		2,900,700			0
RAC - Statewide Adjustments					(6,500)	
RAC - Consolidate With Gaming (Laws 2015, Ch. 19)					(2,894,200)	

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
RAD - Radiation Regulatory Agency	853,200		853,200			851,200
RAD - Statewide Adjustments					(2,000)	
RUC - Residential Utility Consumer Office	1,337,800		1,337,800			1,335,000
RUC - Statewide Adjustments					(2,800)	
RES - Board of Respiratory Care Examiners	297,200		297,200			300,100
RES - Statewide Adjustments					2,900	
RET - Arizona State Retirement System	29,294,700		29,294,700			27,981,600
RET - Statewide Adjustments					(58,800)	
RET - Remove One-Time Funding				(2,214,500)		
RET - Internal Audit					89,400	
RET - IT Security					870,800	
REV - Department of Revenue	25,513,600		25,513,600			47,484,400
REV - Statewide Adjustments					(15,700)	
REV - TPT IT Changes (One-Time)					1,230,700	
REV - Local Government Funding					20,755,800	
SFB - School Facilities Board	0		0			23,900,000
SFB - Access Our Best Public Schools Fund					23,900,000	
SOS - Secretary of State	3,682,400		3,682,400			3,683,500
SOS - Statewide Adjustments					1,100	
SBO - State Boards' Office	231,100		231,100			215,800
SBO - Statewide Adjustments					(15,300)	
TEC - State Board of Technical Registration	2,124,600		2,124,600			2,122,600
TEC - Statewide Adjustments					(2,000)	
DOT - Department of Transportation	366,314,700		366,314,700			367,364,400
DOT - Statewide Adjustments					(1,036,300)	
DOT - Highway Maintenance Workload					2,086,000	
TRE - State Treasurer	5,005,700		5,005,700			5,044,000
TRE - Statewide Adjustments					(13,800)	
TRE - ESA Administration					40,000	
TRE - Border Security Fund					12,100	
UNI - ASU - Tempe/DPC	516,830,500		516,830,500			516,159,000
UNI - Statewide Adjustments					(671,500)	
UNI - ASU - East Campus	31,509,500		31,509,500			31,466,500
UNI - Statewide Adjustments					(43,000)	
UNI - ASU - West Campus	42,575,500		42,575,500			42,517,600
UNI - Statewide Adjustments					(57,900)	
UNI - Northern Arizona University	132,857,500		132,857,500			132,857,500
UNI - Statewide Adjustments						
UNI - UA - Main Campus	301,560,300		301,560,300			300,783,000
UNI - Statewide Adjustments					(777,300)	
UNI - UA - Health Sciences Center	43,434,900		43,434,900			43,315,600
UNI - Statewide Adjustments					(119,300)	
VSC - Department of Veterans' Services	32,001,600		32,001,600			31,889,500
VSC - Statewide Adjustments					(112,100)	
VME - Veterinary Medical Examining Board	577,300		577,300			545,200
VME - Statewide Adjustments					(1,600)	
VME - Remove One-Time Funding				(30,500)		
WAT - Department of Water Resources	906,900		906,900			2,356,300
WAT - Statewide Adjustments					2,300	
WAT - Add 4 Staff Plus Consultants					488,300	

	FY 2015 OF 1/ Baseline	FY 2015 Changes	FY 2015 OF 1/ Revised	FY 16 Baseline 2/ Above FY 15	FY 2016 Changes	FY 2016 OF Enacted Budget
WAT - Southside Replenishment (Laws 2015, Ch. 149)					237,400	
WAT - Contractual Rent Increase					221,400	
WAT - Water Banking Fund Shift					500,000	
WEI - Department of Weights & Measures	1,773,300		1,773,300			1,769,200
WEI - Statewide Adjustments					(4,100)	
OTH - Other						
OTH - Unallocated ASRS Retirement	314,700		314,700	(314,700)		0
OTH - Unallocated AFIS Cost Charges	0		0		4,565,200	4,565,200
OTH - Unallocated HITF Rate Reduction	0		0		(2,952,200)	(2,952,200)
TOTAL - OPERATING SPENDING CHANGES	\$3,229,202,300	24,139,700	\$3,253,342,000	(\$50,603,600)	\$76,110,400	\$3,254,709,100
CAPITAL SPENDING CHANGES						
Building Renewal						
Arizona Department of Administration	9,000,000		9,000,000			9,000,000
ADC Building Renewal	5,464,300		5,464,300			5,464,300
Game & Fish Department	0		0		530,000	530,000
Arizona Lottery Commission	97,400		97,400	6,200		103,600
Arizona Department of Transportation	3,396,800		3,396,800			3,396,800
New Projects						
ADOT Statewide Highway Construction	13,398,000		13,398,000	22,244,000	(5,190,000)	30,452,000
ADOT Controlled Access	84,426,000		84,426,000	4,237,000		88,663,000
ADOT Debt Service	111,075,000		111,075,000	4,281,000		115,356,000
ADOT Airport Planning	20,012,300		20,012,300	1,779,500		21,791,800
ADOT De-Icer Storage	2,280,000		2,280,000	(2,280,000)	2,280,000	2,280,000
ADOT Vehicle Wash Systems	3,000,000		3,000,000	(3,000,000)	2,910,000	2,910,000
Arizona Exposition and State Fair	1,000,000		1,000,000	(1,000,000)	1,000,000	1,000,000
Parks	1,500,000		1,500,000	(1,500,000)	1,500,000	1,500,000
DPS - Microwave Towers	2,000,000		2,000,000	(2,000,000)		0
TOTAL - CAPITAL SPENDING CHANGES	\$256,649,800	0	\$256,649,800	\$22,767,700	\$3,030,000	\$282,447,500
TOTAL - OPERATING & CAPITAL SPENDING	\$3,485,852,100	24,139,700	\$3,509,991,800	(\$27,835,900)	\$79,140,400	\$3,537,156,600
FUND TRANSFERS						
APF/DOA - Automation Projects Fund/ Arizona Department of Administration						
APF/DOA - Automation Operations	9,057,300		9,057,300	(9,057,300)	5,700,000	5,700,000
APF/DOA - State Web Portal	0		0	2,150,000	1,625,000	3,775,000
APF/DOA - AHCCCS Medicaid	1,000,000		1,000,000			0
APF/DOA - ELAS Fund	1,600,000		1,600,000			1,600,000
APF/DOA - Emission Fund from DEQ	6,800,000		6,800,000	(6,800,000)	5,000,000	5,000,000
APF/DOA - Prison Construction Fund	5,500,000		5,500,000	(5,500,000)		0
APF/DOA - Corrections Fund from ADC	2,500,000		2,500,000	(2,500,000)		0
APF/DOA - Special Admin Fund from DES	0		0		936,400	936,400
Other Transfers	0		0			
ADOT - Motor Vehicle to SETIF	0		0		710,000	710,000
TOTAL - FUND TRANSFERS	\$26,457,300	0	\$26,457,300	(\$21,707,300)	\$13,971,400	\$17,721,400

1/ Represents original FY 2015 appropriations adjusted for technical revisions.

2/ Represents FY 2016 Baseline cost above FY 2015 Baseline estimate.

**CROSSWALK OF FY 2016 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
GENERAL FUND 1/**

	General Appropriation Act - Individual Agency <u>2/</u>	AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	FY 2016 Additional Appropriations <u>5/</u>	Prior Year Statutory Appropriations <u>6/</u>	FY 2016 Approp Rpt Total
<u>BUDGET UNITS</u>						
Administration, Arizona Department of	\$10,413,800	\$10,100	(\$46,600)			\$10,377,300
Administration, Arizona Department of Automation Projects Fund	5,400,000 <u>7/</u>	0	0		\$2,383,000 <u>8/</u>	7,783,000
Administrative Hearings, Office of	862,500	500	(1,300)			861,700
African-American Affairs, Arizona Commission of	125,000	0	0			125,000
Agriculture, Arizona Department of	8,124,600	14,000	(49,600)	198,400		8,287,400
AHCCCS	1,205,197,900	137,100	(172,700)			1,205,162,300
Attorney General - Department of Law	23,580,100	86,500	(127,900)		85,000	23,623,700
Charter Schools, State Board for	1,209,200	800	(9,100)			1,200,900
Child Safety, Department of	346,132,600	0	(684,400)		11,000,000	356,448,200
Commerce Authority, Arizona	26,800,000 <u>9/</u>	0	0			26,800,000
Community Colleges, Arizona	49,224,800	0	0		5,820,500 <u>10/</u>	55,045,300
Corporation Commission	609,900	9,100	(4,800)			614,200
Corrections, State Department of	1,035,423,600	463,100	(5,986,100)			1,029,900,600
County Funding	6,000,500 <u>11/</u>	0	0			6,000,500
Deaf and the Blind, Schools for the	21,802,100	16,700	(222,400)			21,596,400
Economic Security, Department of	475,195,500	542,900	(556,500)		21,000,000	496,181,900
Education, State Board of	1,325,200	0	0			1,325,200
Education, Department of	2,958,841,700	23,000	(72,900)		930,727,700	3,889,519,500
Emergency and Military Affairs, Department of	5,619,900	18,000	(11,100)	1,385,900	4,090,000	11,102,700
Environmental Quality, Department of	0	0	0		7,000,000	7,000,000
Equal Opportunity, Governor's Office of	188,600	400	0			189,000
Equalization, State Board of	641,800	1,000	0			642,800
Executive Clemency, Board of	958,600	1,000	(3,600)			956,000
Financial Institutions, State Department of	3,020,200	6,600	(18,800)			3,008,000
Fire, Building and Life Safety, Department of	2,205,300	5,200	(8,500)			2,202,000
Forester, State	6,021,800	13,800	(23,300)		3,000,000	9,012,300
Gaming, Department of	0	0	0	1,779,500 <u>12/</u>		1,779,500
Geological Survey, Arizona	941,700	2,900	(3,600)			941,000
Governor, Office of the	6,920,100	10,600	(41,700)			6,889,000
Gov's Office of Strategic Planning and Budgeting	1,994,000	0	0			1,994,000
Health Services, Department of	603,053,500	105,000	(420,200)			602,738,300
Historical Society, Arizona	3,156,000	9,500	(8,300)			3,157,200
Historical Society, Prescott	826,300	1,000	(1,500)			825,800
Independent Redistricting Commission	1,115,300	0	0			1,115,300
Indian Affairs, Arizona Commission of	56,900	500	0			57,400
Insurance, Department of	5,883,300	20,900	(36,800)			5,867,400
Judiciary						
Supreme Court	15,303,000	37,700	(200,100)	2,810,500 <u>13/</u>		17,951,100

	Appropriation Act - Individual Agency ^{2/}	AFIS Collections Adjustment ^{3/}	Insurance Reduction Adjustment ^{4/}	FY 2016 Additional Appropriations ^{5/}	Prior Year Statutory Appropriations ^{6/}	FY 2016 Approp Rpt Total
Court of Appeals	14,380,200	3,000	(67,700)			14,315,500
Superior Court	76,721,900	0	0	(2,810,500) ^{13/}		73,911,400
SUBTOTAL - Judiciary	106,405,100	40,700	(267,800)	0	0	106,178,000
Juvenile Corrections, Department of	27,264,500	32,100	(312,000)			26,984,600
Land Department, State	12,574,000	10,200	(63,700)			12,520,500
Legislature						
Auditor General	17,996,400	4,900	(68,000)			17,933,300
House of Representatives	13,372,200	7,000	(89,700)			13,289,500
Joint Legislative Budget Committee	2,493,000	600	(2,700)			2,490,900
Legislative Council	8,248,900	3,100	(18,700)			8,233,300
Senate	8,283,800	7,300	(67,200)			8,223,900
SUBTOTAL - Legislature	50,394,300	22,900	(246,300)	0	0	50,170,900
Mine Inspector, State	1,215,600	3,100	(3,500)			1,215,200
Navigable Stream Adjudication Commission	129,200	0	(2,600)			126,600
Postsecondary Education, Commission for	1,396,800	0	0			1,396,800
Public Safety, Department of	93,571,200	7,700	(204,100)			93,374,800
Public Safety Personnel Retirement System	0	0	0		6,000,000	6,000,000
Racing, Arizona Department of	1,779,500	0	0	(1,779,500) ^{12/}		0
Radiation Regulatory Agency	773,600	4,700	(3,000)	819,700		1,595,000
Real Estate Department, State	2,989,700	6,100	(10,600)			2,985,200
Revenue, Department of	30,533,600	192,000	(387,000)			30,338,600
School Facilities Board	216,882,700	1,600	(6,200)			216,878,100
Secretary of State	15,027,800	21,200	(42,500)			15,006,500
Tax Appeals, State Board of	265,600	800	0			266,400
Tourism, Office of	7,103,700	6,700	0			7,110,400
Transportation, Department of	50,400	0	0			50,400
Treasurer, State	1,205,100	0	0			1,205,100
Universities						
Board of Regents	21,928,400	0	0			21,928,400
Arizona State University - Tempe/DPC	155,092,100	0	(3,172,200)		87,269,500	239,189,400
Arizona State University - East Campus	15,588,900	0	(93,400)		6,667,200	22,162,700
Arizona State University - West Campus	18,825,900	0	(136,600)		10,064,800	28,754,100
Northern Arizona University	61,491,400	0	(61,800)		39,488,000	100,917,600
University of Arizona - Main Campus	107,653,800	0	(1,901,100)		73,746,700	179,499,400
University of Arizona - Health Sciences Center	52,307,300	0	(690,500)		16,776,700	68,393,500
SUBTOTAL - Universities	432,887,800	0	(6,055,600)	0	234,012,900	660,845,100
Veterans' Services, Department of	6,092,100	12,400	(26,700)			6,077,800
Water Infrastructure Finance Authority	0	0	0			0
Water Resources, Department of	12,830,300	17,600	(44,800)			12,803,100
Weights and Measures, Department of	1,407,700	2,600	(11,300)			1,399,000
OPERATING BUDGET TOTAL	7,841,652,600	\$1,882,600	(\$16,199,400)	2,404,000	\$1,225,119,100	\$9,054,858,900
Capital Outlay Projects	6,200,000	0	0	0	0	6,200,000
Debt Service Payments	84,114,600 ^{14/}	0	0	0	0	84,114,600
Civic Center Debt Service	20,449,000 ^{15/}	0	0	0	0	20,449,000
Rio Nuevo Distribution	10,000,000 ^{16/}	0	0	0	0	10,000,000
HITF Employer Rate Reduction	(16,200,000)	0	16,199,400	0	0	(600)

	Appropriation Act - Individual Agency ^{2/}	AFIS Collections Adjustment ^{3/}	Insurance Reduction Adjustment ^{4/}	FY 2016 Additional Appropriations ^{5/}	Prior Year Statutory Appropriations ^{6/}	FY 2016 Approp Rpt Total
AFIS Cost Charges	1,900,000	(1,882,600)	0	0	0	17,400
Administrative Adjustments	70,000,000	0	0	0	0	70,000,000
Revertments	(111,380,700)	0	0	0	0	(111,380,700)
GRAND TOTAL	\$7,906,735,500	\$0	\$0	2,404,000	\$1,225,119,100	\$9,134,258,600

^{1/} This chart provides a crosswalk between an agency's appropriation in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8) and the individual agency amount as it appears in the *FY 2016 Appropriations Report*.

^{2/} Represents individual agency section of the FY 2016 General Appropriation Act.

^{3/} Section 144 of the FY 2016 General Appropriation Act appropriates \$1,900,000 from the General Fund and \$5,667,800 from Other Appropriated Funds for Arizona Financial Information System (AFIS) collections. Section 144 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

^{4/} Section 144 of the FY 2016 General Appropriation Act ex-appropriates (reduces) \$(16,200,000) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2016 for reduced employer health insurance contributions. Section 144 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

^{5/} Appropriations separate from the FY 2016 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.

^{6/} Represents ongoing statutory appropriations or appropriations enacted prior to the 52nd Legislature, 1st Regular Session.

^{7/} Section 135 of the FY 2016 General Appropriation Act.

^{8/} Section 1 of the FY 2016 General Appropriation Act decreased the amounts appropriated in Laws 2012, Chapter 294, Section 124, as amended by Laws 2013, 1st Special Session, Chapter 1, Section 1 from the General Fund to the Automation Projects Fund by \$(6,819,000) in FY 2016 - from \$9,202,000 to \$2,383,000 for the replacement of the state's accounting and financial system, known as AFIS.

^{9/} Includes \$26,500,000 from Section 127 and \$300,000 from Section 128 of the FY 2016 General Appropriation Act.

^{10/} Includes \$3,195,500 for rural county reimbursement, which represents an estimated cost.

^{11/} Includes \$5,500,500 and \$500,000 from Section 125 of the FY 2016 General Appropriation Act.

^{12/} The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming effective July 3, 2015.

^{13/} Laws 2015, Chapter 276 (HB 2088) amended the Supreme Court's and Superior Court's FY 2016 budget in the FY 2016 General Appropriation Act.

^{14/} Section 129 of the FY 2016 General Appropriation Act.

^{15/} Section 130 of the FY 2016 General Appropriation Act.

^{16/} Section 131 of the FY 2016 General Appropriation Act.

**CROSSWALK OF FY 2016 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
OTHER FUNDS 1/**

	General Appropriation Act - Individual Agency <u>2/</u>	AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	FY 2016 Additional Appropriations <u>5/</u>	Prior Year Statutory Appropriations <u>6/</u>	FY 2016 Approp Rpt Total
<u>BUDGET UNITS</u>						
Accountancy, State Board of						
Board of Accountancy Fund	\$1,936,800	\$5,800	(\$3,500)			\$1,939,100
Acupuncture Board of Examiners						
Acupuncture Board of Examiners Fund	157,700	1,400	0			159,100
Administration, Arizona Department of						
Air Quality Fund	927,100	200	0			927,300
Automation Operations Fund	24,027,800	(32,600)	(31,100)			23,964,100
Capital Outlay Stabilization Fund	18,080,400	20,600	(18,200)			18,082,800
Corrections Fund	574,100	(1,800)	(1,100)			571,200
Federal Surplus Materials Revolving Fund	464,100	800	(300)			464,600
Information Technology Fund	2,945,300	3,800	(7,000)			2,942,100
Motor Vehicle Pool Revolving Fund	10,156,100	(4,500)	(2,800)			10,148,800
Personnel Division Fund	12,914,000	(600)	(28,300)			12,885,100
Risk Management Revolving Fund	91,995,400	47,400	(19,900)			92,022,900
Special Employee Health Insurance Trust Fund	5,267,400	4,600	(9,700)			5,262,300
State Surplus Materials Revolving Fund	2,399,800	(100)	(1,800)			2,397,900
State Web Portal Fund	4,542,800	1,100	(900)			4,543,000
Telecommunications Fund	1,855,000	(2,900)	(3,700)			1,848,400
AFIS Collections Fund	7,567,800	0	0			7,567,800
Total - Arizona Department of Administration	<u>183,717,100</u>	<u>36,000</u>	<u>(124,800)</u>	<u>0</u>	<u>0</u>	<u>183,628,300</u>
Administration, Arizona Department of - Automation Projects Fund	\$22,411,400 <u>7/</u>	0	0		2,383,000 <u>8/</u>	24,794,400
Administrative Hearings, Office of Healthcare Group Fund	12,300	0	0			12,300
AHCCCS						
Budget Neutrality Compliance Fund	3,482,900	0	0			3,482,900
Children's Health Insurance Program Fund	7,641,200	40,300	(7,100)			7,674,400
Prescription Drug Rebate Fund - State	83,778,100	800	(100)			83,778,800
Tobacco Products Tax Fund Emergency Health Services Account	17,331,400	0	0			17,331,400
Tobacco Tax and Health Care Fund Medically Needy Account	31,180,000	0	0			31,180,000
Total - AHCCCS	<u>143,413,600</u>	<u>41,100</u>	<u>(7,200)</u>	<u>0</u>	<u>0</u>	<u>143,447,500</u>
Appraisal, State Board of Board of Appraisal Fund	821,800	2,200	(2,600)	(821,400) <u>9/</u>		0
Athletic Training, Board of Athletic Training Fund	118,200	700	0			118,900
Attorney General - Department of Law Antitrust Enforcement Revolving Fund	244,300	1,300	(800)			244,800

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,087,600	7,400	(8,200)			2,086,800
Collection Enforcement Revolving Fund	6,888,200	7,900	(26,400)			6,869,700
Consumer Protection-Consumer Fraud Rev. Fund	5,106,800	7,300	(20,100)			5,094,000
Interagency Service Agreements Fund	14,830,300	9,500	(66,800)			14,773,000
Risk Management Revolving Fund	9,443,000	5,400	(21,500)			9,426,900
State Aid to Indigent Defense Fund	800,100	900	(1,600)			799,400
Victims' Rights Fund	3,758,600	1,700	(900)			3,759,400
Total - Attorney General - Department of Law	43,158,900	41,400	(146,300)	0	0	43,054,000
Automobile Theft Authority						
Automobile Theft Authority Fund	5,297,800	2,200	(2,500)			5,297,500
Barbers, Board of						
Board of Barbers Fund	333,900	1,500	0			335,400
Behavioral Health Examiners, Board of						
Board of Behavioral Health Examiners Fund	1,758,600	4,900	(3,000)			1,760,500
Child Safety, Department of						
Child Abuse Prevention Fund	1,459,100	200	0			1,459,300
Children and Family Services Training Program Fund	207,700	1,300	(1,100)			207,900
Federal Child Care and Development Fund Block Grant	27,000,000	0	0			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	132,000,400	0	0			132,000,400
Total - Department of Child Safety	160,667,200	1,500	(1,100)	0	0	160,667,600
Chiropractic Examiners, State Board of						
Board of Chiropractic Examiners Fund	450,600	1,400	(600)			451,400
Contractors, Registrar of						
Registrar of Contractors Fund	12,196,700	19,800	(29,000)			12,187,500
Corporation Commission						
Arizona Arts Trust Fund	50,100	200	(200)			50,100
Investment Management Regulatory and Enforcement Fund	715,700	800	(3,900)			712,600
Public Access Fund	6,567,200	3,000	(28,800)			6,541,400
Securities Regulatory and Enforcement Fund	4,919,200	1,400	(21,900)			4,898,700
Utility Regulation Revolving Fund	14,221,800	5,100	(65,600)			14,161,300
Total - Corporation Commission	26,474,000	10,500	(120,400)	0	0	26,364,100
Corrections, State Department of						
Alcohol Abuse Treatment Fund	554,400	900	0			555,300
Corrections Fund	27,517,600	200	0			27,517,800
Penitentiary Land Fund	979,200	0	0			979,200
Prison Construction and Operations Fund	13,684,400	1,600	0			13,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,860,000	1,200	0			1,861,200
State Education Fund for Correctional Education	676,900	500	(4,000)			673,400
Transition Program Fund	1,600,000	3,300	0			1,603,300
Total - State Department of Corrections	46,872,500	7,700	(4,000)	0	0	46,876,200
Cosmetology, Board of						

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Board of Cosmetology Fund	1,806,900	5,200	(4,400)			1,807,700
Criminal Justice Commission, Arizona						
Criminal Justice Enhancement Fund	650,100	2,100	(3,400)			648,800
Drug and Gang Prevention Resource Center Fund	238,900	800	(600)			239,100
State Aid to County Attorneys Fund	973,600	0	0			973,600
Victim Compensation and Assistance Fund	4,092,500	2,800	(600)			4,094,700
Total - Arizona Criminal Justice Commission	5,955,100	5,700	(4,600)	0	0	5,956,200
Deaf and the Blind, Arizona Schools for the						
Schools for the Deaf and the Blind Fund	11,590,200	1,000	(29,800)			11,561,400
Deaf and the Hard of Hearing, Comm. for the						
Telecommunication Fund for the Deaf	4,312,200	5,100	(4,500)			4,312,800
Dental Examiners, State Board of						
Dental Board Fund	1,215,100	2,600	(2,200)			1,215,500
Economic Security, Department of						
Child Support Enforcement Administration						
Fund	16,802,200	5,800	(88,400)			16,719,600
Domestic Violence Shelter Fund	2,220,000	0	0			2,220,000
Federal Child Care and Development Fund						
Block Grant	107,773,600	0	0			107,773,600
Federal Temporary Assistance for Needy						
Families Block Grant	86,727,700	0	0			86,727,700
Department Long Term Care System Fund	31,225,400	26,800	(900)			31,251,300
Public Assistance Collections Fund	427,200	100	(2,700)			424,600
Special Administration Fund	2,830,600	100	(11,000)	120,000	10/	2,939,700
Spinal and Head Injuries Trust Fund	1,874,900	1,300	(1,400)			1,874,800
Statewide Cost Allocation Plan Fund	1,000,000	0	0			1,000,000
Workforce Investment Act Grant	56,060,800	0	(10,300)			56,050,500
Total - Department of Economic Security	306,942,400	34,100	(114,700)	120,000	0	306,981,800
Education, State Board of						
Teacher Certification Fund	379,800	0	0			379,800
Education, Department of						
Department of Education Empowerment						
Scholarship Account Fund	400,100	0	(1,100)			399,000
Permanent State School Fund	47,359,500	0	0			47,359,500
Proposition 301 Fund	7,000,000	0	0			7,000,000
Technology-Based Language Development						
and Literacy Intervention Fund	0	0	0		246,800	11/
Teacher Certification Fund	1,980,700	0	(8,900)			1,971,800
Total - Department of Education	56,740,300	0	(10,000)	0	246,800	56,977,100
Emergency and Military Affairs, Department of						
Emergency Response Fund	132,700	100	0	(132,800)	12/	0
Environmental Quality, Department of						
Air Permits Administration Fund	7,145,300	24,900	(15,600)			7,154,600
Air Quality Fund	5,377,200	15,200	(7,900)			5,384,500
Emergency Response Fund	0	0	0	132,800	12/	132,800
Emissions Inspection Fund	28,392,900	18,700	(11,200)			28,400,400
Hazardous Waste Management Fund	1,743,000	12,500	(4,200)			1,751,300

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Indirect Cost Recovery Fund	13,410,100	(180,000)	(36,400)			13,193,700
Recycling Fund	1,359,700	5,000	(3,400)			1,361,300
Solid Waste Fee Fund	1,243,000	0	(2,000)			1,241,000
Underground Storage Tank Fund Revolving Fund	22,000	0	0			22,000
Water Quality Fee Fund	10,548,600	22,600	(20,600)			10,550,600
Total - Department of Environmental Quality Exposition and State Fair Board, Arizona	69,241,800	(81,100)	(101,300)	132,800	0	69,192,200
Arizona Exposition and State Fair Fund	11,620,800	1,000	(5,700)			11,616,100
Financial Institutions, Department of Board of Appraisal Fund	0	0	0	821,400	9/	821,400
Financial Services Fund	1,460,700	2,200	(5,200)			1,457,700
Total - Department of Financial Institutions Funeral Directors and Embalmers, Board of	1,460,700	2,200	(5,200)	821,400	0	2,279,100
Board of Funeral Directors' and Embalmers' Fund	353,700	1,800	(3,300)			352,200
Game and Fish Department, Arizona Capital Improvement Fund	999,700	1,200	0			1,000,900
Game and Fish Fund	35,419,600	28,800	(100,700)			35,347,700
Game, Nongame, Fish and Endangered Species Fund	346,800	500	(800)			346,500
Watercraft Licensing Fund	5,128,300	14,000	(8,200)			5,134,100
Wildlife Endowment Fund	16,000	200	0			16,200
Total - Arizona Game and Fish Department	41,910,400	44,700	(109,700)	0	0	41,845,400
Gaming, Department of Tribal-State Compact Fund	2,104,900	(5,800)	(9,200)			2,089,900
Racing Regulation Fund	0	0	0	2,894,200	9/	2,894,200
State Lottery Fund	300,000	0	0			300,000
Arizona Benefits Fund	11,111,300	4,800	(33,200)			11,082,900
Total - Department of Gaming	13,516,200	(1,000)	(42,400)	2,894,200	0	16,367,000
Health Services, Department of Arizona State Hospital Fund	9,588,600	0	(13,300)			9,575,300
ASH Land Earnings Fund	650,000	0	0			650,000
Capital Outlay Stabilization Fund	1,559,800	100	0			1,559,900
Child Fatality Review Fund	94,800	600	(400)			95,000
Emergency Medical Services Operating Fund	5,372,400	9,600	(13,200)			5,368,800
Environmental Laboratory Licensure Revolving Fund	927,100	2,000	(2,700)			926,400
Federal Child Care and Development Fund Block Grant	879,400	700	(4,000)			876,100
Health Services Licensing Fund	9,275,100	27,800	(38,700)			9,264,200
Indirect Cost Fund	8,573,500	0	(13,700)			8,559,800
Newborn Screening Program Fund	6,739,600	9,100	(10,400)			6,738,300
Nursing Care Institution Resident Protection Revolving Fund	138,200	0	0			138,200
Substance Abuse Services Fund	2,250,000	200	0			2,250,200
Tobacco Tax and Health Care Fund Health Research Account	1,000,000	0	0		2,000,000	13/ 3,000,000
Tobacco Tax and Health Care Fund						

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Medically Needy Account	35,467,000	0	0			35,467,000
Vital Records Electronic Systems Fund	3,635,500	4,000	(10,500)			3,629,000
Total - Department of Health Services	86,151,000	54,100	(106,900)	0	2,000,000	88,098,200
Homeopathic and Integrated Medicine Examiners, Board of Board of Homeopathic and Integrated Medicine Examiners' Fund	102,100	700	0			102,800
Housing, Department of Housing Trust Fund	314,600	5,100	(1,200)			318,500
Industrial Commission of AZ Administrative Fund	19,994,800	13,000	(67,500)			19,940,300
Judiciary - Supreme Court Confidential Intermediary and Fiduciary Fund	488,200	200	0			488,400
Court Appointed Special Advocate Fund	2,941,100	1,700	0			2,942,800
Criminal Justice Enhancement Fund	4,358,200	5,600	0			4,363,800
Defensive Driving School Fund	4,194,700	2,600	0			4,197,300
Judicial Collection Enhancement Fund	14,002,400	12,500	0			14,014,900
State Aid to the Courts Fund	2,944,600	400	0			2,945,000
Total - Judiciary - Supreme Court	28,929,200	23,000	0	0	0	28,952,200
Judiciary - Superior Court Criminal Justice Enhancement Fund	5,648,800	0	(106,800)			5,542,000
Judicial Collection Enhancement Fund	6,029,200	0	(7,000)			6,022,200
Drug Treatment and Education Fund	500,200	2,200	0			502,400
Total - Judiciary - Superior Court	12,178,200	2,200	(113,800)	0	0	12,066,600
SUBTOTAL - Judiciary	41,107,400	25,200	(113,800)	0	0	41,018,800
Juvenile Corrections, Department of Criminal Justice Enhancement Fund	530,600	700	0			531,300
Department of Juvenile Corrections Local Cost Sharing Fund	12,000,000	0	0			12,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,000	100	0			2,000,100
State Education Fund for Committed Youth	1,612,600	800	(12,700)			1,600,700
Total - Department of Juvenile Corrections	16,143,200	1,600	(12,700)	0	0	16,132,100
Land Department, State Due Diligence Fund	500,000	0	0			500,000
Environmental Special Plate Fund	260,000	500	0			260,500
Trust Land Management Fund	3,762,500	3,700	(1,300)			3,764,900
Total - State Land Department	4,522,500	4,200	(1,300)	0	0	4,525,400
Liquor Licenses and Control, Department of Liquor Licenses Fund	3,362,500	4,000	(11,200)			3,355,300
Lottery Commission, Arizona State State Lottery Fund	108,886,800	7,300	(39,500)			108,854,600
Massage Therapy, Board of Board of Massage Therapy Fund	453,700	2,300	(200)			455,800
Medical Board, Arizona Arizona Medical Board Fund	6,424,700	19,400	(18,100)			6,426,000
Mine Inspector, State						

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Aggregate Mining Reclamation Fund	112,500	300	0			112,800
Naturopathic Physicians Medical Board						
Naturopathic Physicians Medical Board Fund	177,600	2,100	0			179,700
Navigable Stream Adjudication Commission						
Arizona Water Banking Fund	200,000	0	0			200,000
Nursing, State Board of						
Board of Nursing Fund	4,808,800	16,200	(22,400)			4,802,600
Nursing Care Institution Administrators Board						
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	420,300	3,300	(1,500)			422,100
Occupational Therapy Examiners, Board of						
Occupational Therapy Fund	172,600	900	(1,500)			172,000
Opticians, State Board of Dispensing						
Board of Dispensing Opticians Fund	135,800	1,000	0			136,800
Optometry, State Board of						
Board of Optometry Fund	229,900	2,100	(1,800)			230,200
Osteopathic Examiners, Arizona Board of						
Board of Osteopathic Examiners Fund	801,700	4,200	(2,200)			803,700
Parks Board, Arizona State						
State Parks Revenue Fund	12,842,100	40,400	(27,700)			12,854,800
Personnel Board, State						
Personnel Board Subaccount of the Personnel Division Fund	375,000	1,400	(700)			375,700
Pest Management, Office of						
Pest Management Fund	1,700,500	4,000	(5,000)			1,699,500
Pharmacy, Arizona State Board of						
Arizona State Board of Pharmacy Fund	2,017,600	11,400	(8,500)			2,020,500
Physical Therapy, Board of						
Board of Physical Therapy Fund	481,600	2,100	(3,300)			480,400
Pioneers' Home, Arizona						
Miners' Hospital Fund	2,050,600	600	(11,200)			2,040,000
State Charitable Fund	4,181,400	4,300	(20,800)			4,164,900
Total - Arizona Pioneers' Home	6,232,000	4,900	(32,000)	0	0	6,204,900
Podiatry Examiners, State Board of						
Podiatry Fund	147,300	900	0			148,200
Postsecondary Education, Commission for						
Postsecondary Education Fund	1,535,400	700	(1,300)			1,534,800
Private Postsecondary Education, Board for						
Board for Private Postsecondary Education Fund	995,700	1,000	(400)			996,300
Psychologist Examiners, State Board of						
Board of Psychologist Examiners Fund	448,200	1,800	(1,500)			448,500
Public Safety, Department of						
Arizona Deoxyribonucleic Acid Identification System Fund	6,323,200	2,400	(28,300)			6,297,300
Arizona Highway Patrol Fund	20,480,200	2,700	(85,800)			20,397,100

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
AZ Automated Fingerprint Identification System Fund	2,909,700	1,500	(700)			2,910,500
Concealed Weapons Permit Fund	1,396,300	0	(4,900)			1,391,400
Crime Laboratory Assessment Fund	872,400	100	(2,200)			870,300
Crime Laboratory Operations Fund	14,723,800	100	(63,300)			14,660,600
Criminal Justice Enhancement Fund	2,876,500	100	(12,200)			2,864,400
GIITEM Border Security and Law Enforcement Subaccount	2,390,000	0	0			2,390,000
Highway User Revenue Fund	96,812,300	0	(403,100)			96,409,200
Motorcycle Safety Fund	205,000	0				205,000
Parity Compensation Fund	2,125,700	100	(10,300)			2,115,500
Public Safety Equipment Fund	2,890,000	3,000	0			2,893,000
Risk Management Revolving Fund	1,233,700	0	(5,600)			1,228,100
Safety Enforcement and Transportation Infrastructure Fund	1,566,300	100	(7,300)			1,559,100
State Aid to Indigent Defense Fund	700,000	0	0			700,000
State Highway Fund	7,302,700	0	(29,500)			7,273,200
Total - Department of Public Safety	164,807,800	10,100	(653,200)	0	0	164,164,700
Racing, Arizona Department of Racing Regulation Fund	2,900,700	2,200	(8,700)	(2,894,200) 9/		0
Radiation Regulatory Agency State Radiologic Technologist Certification Fund	273,400	0	(900)			272,500
Radiation Regulatory Fee Fund	579,800	1,500	(2,600)			578,700
Total - Radiation Regulatory Agency	853,200	1,500	(3,500)	0	0	851,200
Residential Utility Consumer Office Residential Utility Consumer Office Revolving Fund	1,337,800	1,100	(3,900)			1,335,000
Respiratory Care Examiners, Board of Board of Respiratory Care Examiners Fund	297,200	3,600	(700)			300,100
Retirement System, Arizona State Long-Term Disability Trust Fund Administration Account	2,800,000	0	0			2,800,000
Arizona State Retirement System Administration Account	25,240,400	32,700	(91,500)			25,181,600
Total - Arizona State Retirement System	28,040,400	32,700	(91,500)	0	0	27,981,600
Revenue, Department of Department of Revenue Administrative Fund	46,423,300	3,000	(18,800)			46,407,500
Liability Setoff Revolving Fund	397,300	1,000	(300)			398,000
Tobacco Tax and Health Care Fund	679,500	0	(600)			678,900
Total - Department of Revenue	47,500,100	4,000	(19,700)	0	0	47,484,400
School Facilities Board Access Our Best Public Schools Fund	23,900,000	0	0			23,900,000
Secretary of State Election Systems Improvement Fund	2,941,100	1,000	(600)			2,941,500
Records Services Fund	741,300	3,100	(2,400)			742,000
Total - Secretary of State	3,682,400	4,100	(3,000)	0	0	3,683,500
State Boards' Office						

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Special Services Revolving Fund	231,100	(15,300)	0			215,800
Technical Registration, State Board of Technical Registration Fund	2,124,600	6,200	(8,200)			2,122,600
Transportation, Department of						
Air Quality Fund	74,500	300	(600)			74,200
Driving Under the Influence Abatement Fund	153,900	400	(1,100)			153,200
Highway User Revenue Fund	651,800	5,100	(4,200)			652,700
Motor Vehicle Liability Insurance Enforcement Fund	1,087,100	1,900	(6,400)			1,082,600
Safety Enforcement and Transportation Infrastructure Fund	1,881,000	2,300	(7,800)			1,875,500
State Aviation Fund	1,624,900	6,700	(8,700)			1,622,900
State Highway Fund	342,955,900	430,700	(1,486,900)			341,899,700
Transportation Department Equipment Fund	18,507,000	144,500	(106,000)			18,545,500
Vehicle Inspection and Title Enforcement Fund	1,464,600	1,800	(8,300)			1,458,100
Total - Department of Transportation	368,400,700	593,700	(1,630,000)	0	0	367,364,400
Treasurer, State						
Border Security Trust Fund	0	0	0	12,100	14/	12,100
Law Enforcement and Boating Safety Fund	2,183,800	0	0			2,183,800
State Treasurer Empowerment Scholarship Account Fund	80,000	0	(300)			79,700
State Treasurer's Operating Fund	2,584,300	0	(12,500)			2,571,800
State Treasurer's Management Fund	197,600	0	(1,000)			196,600
Total - State Treasurer	5,045,700	0	(13,800)	12,100	0	5,044,000
Universities						
Arizona State University - Tempe/DPC						
University Collections Fund	516,830,500	0	(671,500)			516,159,000
Arizona State University - East Campus						
University Collections Fund	29,509,500	0	(43,000)			29,466,500
Technology and Research Initiative Fund	2,000,000	0	0			2,000,000
Total - Arizona State University - East Campus	31,509,500	0	(43,000)	0	0	31,466,500
Arizona State University - West Campus						
University Collections Fund	40,975,500	0	(57,900)			40,917,600
Technology and Research Initiative Fund	1,600,000	0	0			1,600,000
Total - Arizona State University - West Campus	42,575,500	0	(57,900)	0	0	42,517,600
Northern Arizona University						
University Collections Fund	132,857,500	0	0			132,857,500
University of Arizona - Main Campus						
University Collections Fund	301,560,300	0	(777,300)			300,783,000
University of Arizona - Health Sciences Center						
University Collections Fund	43,434,900	0	(119,300)			43,315,600
SUBTOTAL - Universities	1,068,768,200	0	(1,669,000)	0	0	1,067,099,200
Veterans' Services, Department of						
State Veterans' Conservatorship Fund	906,600	500	(4,200)			902,900
State Home for Veterans' Trust Fund	31,095,000	14,700	(123,100)			30,986,600
Total - Department of Veterans' Services	32,001,600	15,200	(127,300)	0	0	31,889,500
Veterinary Medical Examining Board						

	Appropriation Act - Individual Agency	2/ AFIS Collections Adjustment	3/ Insurance Reduction Adjustment	4/ FY 2016 Additional Appropriations	5/ Prior Year Statutory Appropriations	6/ FY 2016 Approp Rpt Total
Veterinary Medical Examining Board Fund	546,800	2,100	(3,700)			545,200
Water Resources, Department of						
Assured and Adequate Water Supply Admin Fund	266,500	500	(400)			266,600
Water Resources Fund	640,400	800	0			641,200
Water Banking Fund	1,209,700	1,400	0	237,400	15/	1,448,500
Total - Department of Water Resources	2,116,600	2,700	(400)	237,400	0	2,356,300
Weights and Measures, Department of						
Air Quality Fund	1,443,200	2,600	(6,000)			1,439,800
Motor Vehicle Liability Insurance Enf. Fund	330,100	1,000	(1,700)			329,400
Total - Department of Weights and Measures	1,773,300	3,600	(7,700)	0	0	1,769,200
OPERATING BUDGET TOTAL	\$3,252,603,500	1,102,600	(5,609,300)	369,500	4,629,800	3,253,096,100
AFIS Cost Charges	\$5,667,800	(1,102,600)	0			4,565,200
Health Insurance Contribution	(\$8,561,500)	0	5,609,300			(2,952,200)
Capital	\$282,447,500	0	0			282,447,500
GRAND TOTAL	3,532,157,300	\$0	\$0	\$369,500	\$4,629,800	\$3,537,156,600

CROSSWALK OF FY 2016 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS EXPENDITURE AUTHORITY

AHCCCS	\$7,142,377,900	\$0	(\$218,700)	\$0		\$7,142,159,200
Child Safety, Department of	\$330,937,200	0	(537,200)	0		330,400,000
Economic Security, Department of	858,608,500	75,900	(617,300)	0		858,067,100
Health Services, Department of	1,239,968,100	0	(11,000)	0		1,239,957,100
GRAND TOTAL	\$9,571,891,700	\$75,900	(\$1,384,200)	\$0	\$0	\$9,570,583,400

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8) and the individual agency amount as it appears in the FY 2016 Appropriations Report.

2/ Represents individual agency section of FY 2016 General Appropriation Act.

3/ Section 144 of the FY 2016 General Appropriation Act appropriates \$1,900,000 from the General Fund and \$5,667,800 from Other Appropriated Funds for the Arizona Financial Information System (AFIS) collections. Section 144 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

4/ Section 144 of the FY 2016 General Appropriation Act ex-appropriates (reduces) \$(16,200,000) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2016 for reduced employer health insurance contributions. Section 144 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

5/ Appropriations separate from the FY 2016 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.

6/ Represents ongoing statutory appropriations or appropriations enacted prior to the 52nd Legislature, 1st Regular Session.

7/ Section 126 of the FY 2016 General Appropriation Act.

Appropriation Act - Individual Agency	2/	AFIS Collections Adjustment	3/	Insurance Reduction Adjustment	4/	FY 2016 Additional Appropriations	5/	Prior Year Statutory Appropriations	6/	FY 2016 Approp Rpt Total
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8/ Section 2 of the FY 2016 General Appropriation Act decreased the amounts appropriated in Laws 2013, 1st Special Session, Chapter 1, Section 115 from the Automations Projects Fund by \$(6,819,000) in FY 2016 - from \$9,202,000 to \$2,383,000 for the replacement of the state's accounting and financial system, known as AFIS.

9/ The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming and merges the Board of Appraisal into the Department of Financial Institutions, effective July 3, 2015.

10/ Appropriated by Laws 2015, Chapter 169. (CES Rate)

11/ Includes \$300,000 in FY 2015 and FY 2016 from Section 19 of the FY 2015 K-12 Budget Reconciliation Bill (Laws 2014, Chapter 17). Chapter 17 also required the Department of Education to transfer \$53,200 in state General Fund funding from its Accountability and Achievement Testing program to the Technology-Based Language Development and Literacy Intervention Fund by August 1, 2014, which would have provided \$600,000 in total funding for the 2-year pilot. The Governor, however, vetoed the latter provision. As a result the program has \$(53,200) less in funding available for its second year (FY 2016) than the \$300,000 amount appropriated and available to it in FY 2015.

12/ Laws 2015, Chapter 208 transfers the administration of the Emergency Response Fund from the Department of Emergency Affairs to the Department of Environmental Quality in FY 2016.

13/ Section 128 of the FY 2016 General Appropriation Act. (Non-profit Medical Research)

14/ Appropriated by Laws 2015, Chapter 231.

15/ Appropriated by Laws 2015, Chapter 149.

SUMMARY OF RISK MANAGEMENT CHARGES 1/

Agency	FY 2016 Charge
Accountancy, Arizona State Board of	\$3,000
Acupuncture Board of Examiners	1,000
Administration, Arizona Department of	1,543,300
Administrative Hearings, Office of	3,900
African-American Affairs, Arizona Commission of	1,000
Agriculture, Arizona Department of	116,800
AHCCCS	226,500
Arts, Arizona Commission on the	5,000
Athletic Training, Board of	1,000
Attorney General - Department of Law	398,900
Automobile Theft Authority	2,200
Barbers, Board of	1,200
Behavioral Health Examiners, Board of	5,200
Charter Schools, State Board for	16,400
Child Safety, Department of	2,278,000
Chiropractic Examiners, State Board of	4,300
Citizens Clean Election Commission	1,700
Commerce Authority, Arizona	16,100
Constable Ethics Standards and Training Board	1,000
Contractors, Registrar of	22,400
Corporation Commission	194,600
Corrections, State Department of	7,929,700
Cosmetology, Board of	4,700
Criminal Justice Commission, AZ	8,000
Deaf & the Blind, AZ State Schools for the	320,900
Deaf and the Hard of Hearing, Commission for the	4,200
Dental Examiners, State Board of	3,200
Early Childhood Development & Health, AZ	70,600
Economic Security, Department of	2,256,700
Education, Department of	142,300
Emergency and Military Affairs, Department of	546,300
Environmental Quality, Department of	197,000
Equal Opportunity, Governor's Office of	1,000
Equalization, State Board of	4,400
Executive Clemency, Board of	3,200
Exposition & State Fair Board, AZ	270,700
Financial Institutions, Department of	12,700
Fire, Building, and Life Safety, Department of	17,000
Forester, State	478,200
Funeral Directors & Embalmers, State Board of	1,200
Game and Fish Department, Arizona	683,100
Gaming, Department of	42,100
Geological Survey, Arizona	9,700
Governor, Office of the	50,200
Governor's Office of Strategic Planning & Budgeting	4,000
Health Services, Department of	884,700
Historical Society, Arizona	115,100
Historical Society of AZ, Prescott	13,200
Homeland Security, AZ Department of	6,900
Homeopathic and Integrated Medicine Examiners, Board of	1,000
Housing, Arizona Department of	14,200
Independent Redistricting Commission	1,000
Indian Affairs, AZ Commission of	1,000
Industrial Commission of Arizona	97,000
Insurance, Department of	26,900
Judiciary - Supreme Court	186,100
Judiciary - Court of Appeals, Division I	20,300
Judiciary - Court of Appeals, Division II	7,500
Judiciary - Superior Court	1,481,200
Juvenile Corrections, Department of	242,600
Land Department, State	972,700
Legislature - Auditor General	41,900
Legislature - House of Representatives	72,100
Legislature - Joint Legislative Budget Committee	7,400
Legislature - Legislative Council	25,200

<u>Agency</u>	<u>FY 2016 Charge</u>
Legislature - Senate	63,500
Liquor Licenses & Control, Department of	12,600
Lottery Commission, Arizona State	32,800
Massage Therapy, Board of	1,300
Medical Board, Arizona	21,700
Mine Inspector, State	9,800
Naturopathic Physicians Medical Board	1,800
Navigable Stream Adjudication Commission, AZ	1,000
Nursing, State Board of	14,200
Nursing Care Institution of Administrators and Assisted Living Facility Managers, Board of Examiners of	2,300
Occupational Therapy Examiners, Board of	1,800
Opticians, State Board of Dispensing	1,000
Optometry, State Board of	1,000
Osteopathic Examiners, AZ Board of	1,800
Parks Board, Arizona State	275,700
Personnel Board, State	1,000
Pest Management, Office of	7,000
Pharmacy, AZ State Board of	11,200
Physical Therapy, Board of	1,500
Pioneers' Home, AZ	38,500
Podiatry Examiners, State Board of	1,000
Postsecondary Education, Commission for	3,800
Power Authority, Arizona	22,000
Private Postsecondary Education, State Board for	2,000
Psychologist Examiners, State Board of	1,500
Public Safety, Department of	3,259,500
Public Safety Personnel Retirement System	9,600
Radiation Regulatory Agency	12,200
Real Estate Department, State	10,400
Residential Utility Consumer Office	2,200
Respiratory Care Examiners, Board of	1,300
Retirement System, Arizona State	180,000
Revenue, Department of	188,400
School Facilities Board	9,800
Secretary of State, Department of State	146,000
Tax Appeals, State Board of	1,000
Technical Registration, State Board of	5,400
Tourism, Office of	7,300
Transportation, Department of ^{2/}	16,773,800
Treasurer, State	6,000
Universities - Regents, Arizona Board of	5,900
University - Arizona State University - Tempe/DPC	8,419,000
University - Arizona State University - East Campus	485,400
University - Arizona State University - West Campus	677,500
University - Northern Arizona University	2,710,800
University - University of Arizona - Main Campus	9,395,300
University - University of Arizona - Health Sciences Center	2,453,500
Veterans' Services, Department of	317,600
Veterinary Medical Examining Board, AZ. State	1,700
Water Infrastructure Financing Agency	5,600
Water Resources, Department of	31,900
Weights and Measures, Department of	11,500
<i>Other Agencies</i>	
Boyce Thompson Arboretum	10,000
Central Arizona Water Conservation District	5,700
Uniform State Laws, Commission on	1,000
GRAND TOTAL	\$67,799,700

^{1/} Total charges reflect Arizona Department of Administration billed amounts with the exception of the Arizona Department of Transportation (ADOT). Charges have changed from FY 2015.

^{2/} A General Appropriation Act footnote requires ADOT to pay risk management charges of \$16,773,800.

**BUDGET RECONCILIATION BILLS
AND MAJOR FOOTNOTE CHANGES**

FY 2016 BUDGET RECONCILIATION BILLS (BRBs) AND MAJOR FOOTNOTE CHANGES*

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Budget Procedures BRB - Chapter 11 (SB 1472)	455
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Major Footnote Changes	465

*Chapter numbers refer to 1st Regular Session.

FY 2016 BUDGET RECONCILIATION BILL PROVISIONS

BUDGET PROCEDURES - CHAPTER 11 (SB 1472)

Section

Statewide

1. As session law, notwithstanding A.R.S. § 35-111 to permit the Governor to submit an annual budget for FY 2017. 8
2. As session law, notwithstanding A.R.S. § 35-113 to permit the head of each department to submit an annual budget for FY 2017. 8
3. As session law, notwithstanding A.R.S. § 35-121 to permit annual appropriations for all agencies for FY 2016 through FY 2018. 8
4. As session law, continue to set the FY 2016 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space. 7
5. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services. 6
6. As permanent law, require annual budget requests for all departments to specify the amount of FTE Positions and Personal Services by retirement system and fund source. 1
7. As permanent law, require the Joint Legislative Budget Committee (JLBC) Staff to report on an annual retirement expenses budget, delineating the state's spending for the employer contribution. Departments would be required to submit the necessary information to the JLBC. 5

Arizona Department of Administration

8. As permanent law, eliminate the annual electronic transaction reporting requirement pursuant to A.R.S. § 35-142. 2
9. As permanent law, repeal the Working Capital Surplus Limitation associated with 2010 state buildings sale and lease-back. Require ADOA, in response to the Investment Yield Restriction, to report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) on the investment yield amount and whether the department reduced the yield of investments or modified investments to meet the terms of the restriction. 3
10. As permanent law, allow the department to collect a usage fee to recover the costs of operating the Arizona Financial Information System (AFIS), the state's accounting system; and create an appropriated AFIS Cost Allocation Fund to receive those fees, which are based on a per transaction charge for which any change must be reviewed by JLBC prior to implementation. 4

Revenues

11. As session law, notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund for FY 2016 through FY 2018. 9

AGENCY CONSOLIDATION - CHAPTER 19 (SB 1480)

AHCCCS/Department of Health Services

12. As session law, transfer responsibility for behavioral health services, excluding the Arizona State Hospital, from the Department of Health Services (DHS) to Arizona Health Care Cost Containment System (AHCCCS), effective July 1, 2016. As session law, direct Legislative Council to draft legislation conforming A.R.S. to these provisions. Laws 2015, Chapter 195 conforms A.R.S. to the provisions of Chapter 19. 9, 12

Department of Gaming/Arizona Department of Racing

13. As permanent law, merge the Department of Gaming with the Department of Racing, effective July 1, 2015 or the effective date of the act, whichever is later. As session law, direct Legislative Council to draft legislation conforming A.R.S. to these provisions. 1-4, 10, 12-13

Department of Financial Institutions/State Board of Appraisal

14. As permanent law, merge the State Board of Appraisal with the Department of Financial Institutions, effective July 3, 2015. As session law, direct Legislative Council to draft legislation conforming A.R.S. to these provisions. 5-8, 11-13

CRIMINAL JUSTICE - CHAPTER 17 (SB 1478)

Attorney General - Department of Law

15. As session law, continue to permit the Attorney General to use State Aid to Indigent Defense Fund for capital postconviction prosecution activities in FY 2016. 10

State Department of Corrections

16. As session law, repeal earlier authorization of 1,000 beds from 2,000-bed Request for Proposals issued by the department on February 2, 2012, require new Requests for Proposals for up to a total of 2,000 male medium security contracted beds, and require award of contract for up to 1,000 beds to open on July 1, 2016, with the other 1,000 beds subject to legislative authorization. 5, 11, 12
17. As session law, continue to require the department to report actual FY 2015, estimated FY 2016, and requested FY 2017 expenditures as delineated in the prior year when the department submits its FY 2017 budget request pursuant to A.R.S. § 35-113. 6
18. As permanent law, allow the department to offset invoices of its health care provider for claims paid on behalf of eligible inmates without regard to dates of service. 2

Judiciary

19. As session law, continue to suspend county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and require the counties to report on reductions in county funding as a result of the elimination of the non-supplanting provisions. 9

Department of Juvenile Corrections

20. As permanent law, establish a Department of Juvenile Corrections (DJC) Local Cost Sharing Fund and require each Arizona county to annually pay an assessed amount to the fund. As session law, it is the intent of the Legislature that each county pay an assessed amount determined by the county's proportional share by population of \$12,000,000. 4, 13
21. As permanent law, prohibit youth under the age of 14 and youth who have not committed a felony from being sentenced to secure care at the department. Individuals with a seriously mentally ill diagnosis may still be admitted to DJC. 1, 3, 14

Department of Public Safety

22. As session law, continue to require the Department of Public Safety (DPS) to receive JLBC review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2016 appropriation prior to its expenditure. 8
23. As session law, continue to suspend the schedule established by A.R.S. § 28-6537 governing the level of Highway User Revenue Fund (HURF) revenues available to fund DPS' Highway Patrol costs. 7
24. As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses. 10

ENVIRONMENT - CHAPTER 13 (SB 1474)

Department of Environmental Quality

25. As session law, continue to allow the department to utilize up to \$6,531,000 from a combination of the Underground Storage Tank (UST) Fund and the Regulated Substance Fund (RSF) in FY 2016 for department administrative expenses. Laws 2015, Chapter 247 modifies this provision by eliminating the RSF. 6

26. As session law, continue to decrease the General Fund appropriation to the Water Quality Assurance Revolving Fund from \$15,000,000 to \$7,000,000.	8
27. As session law, allow \$1,800,000 of the department's Emission Inspection Fund monies to be spent on the Safe Drinking Water Program.	9
State Land Department	
28. As permanent law, allow permanent land trust earnings to be used to fund the department's administrative expenses, contingent upon voter approval of related 2016 ballot measure.	1, 2, 11
Arizona Navigable Stream Adjudication Commission	
29. As session law, allow use of Water Banking Fund for the commission's unpaid legal obligations, retroactive to July 1, 2014.	7
Arizona State Parks Board	
30. As session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs.	5
31. As permanent law, clarify that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design, and construct the Yarnell Hill Memorial.	3
Department of Water Resources	
32. As session law, continue to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2016.	4
33. As session law, continue to allow the department non-municipality special fee authority, including an intent clause that limits additional revenue up to \$100,200, and exempt department from rulemaking for this purpose.	10

LAND TRUST BALLOT REFERRAL - SCR 1018

State Land Department	
34. As session law, refer to the 2016 General Election ballot a proposition to amend the Arizona Constitution to allow the State Land Department to use a portion of Trust Land receipts for management and operation of the Trust.	1

GOVERNMENT - CHAPTER 12 (SB 1473)

Arizona Commission of African-American Affairs/State Treasurer	
35. As permanent law, transfer the administration of the African-American Commission Fund from the State Treasurer to the Arizona Commission of African-American Affairs.	3
Arizona Commerce Authority	
36. As permanent law, reduce annual Competes Fund deposit from \$21,500,000 to \$16,500,000 in FY 2016 and \$11,500,000 in FY 2017 and future years.	6
Department of Emergency and Military Affairs	
37. As permanent law, expand the use of the Navajo Camp Fund to allow remaining monies in the fund after all expenses for Camp Navajo are paid to be used for other Army National Guard training sites.	2
Arizona Historical Society	
38. As permanent law, eliminate the Journal of Arizona History Magazine Fund.	5
Department of State - Secretary of State	
39. As permanent law, repeal the portion of Laws 2012, Chapter 361 which increased the reimbursement	1

rate to counties for Presidential Preference Elections from \$1.25/voter to 100% of incurred costs.

Department of Veterans' Services

- 40. As permanent law, change the name of the Southern Arizona Veterans' Cemetery Trust Fund to the Arizona State Veterans' Cemetery Trust Fund. Monies deposited into this fund would be used to operate and maintain all 3 cemeteries in the state. 4

HEALTH - CHAPTER 14 (SB 1475)

AHCCCS

Rates and Services

- 41. As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction on funding for all managed care organizations administrative funding levels. 15
- 42. As session law, place "hard cap" limiting capitation rate increase to 1.5% in FY 2017 and FY 2018. 26
- 43. As permanent law, change the reimbursement to providers for ground ambulance services from 80% of the rates established by DHS, as scheduled to go into effect October 1, 2015, to 68.59%. 3
- 44. As session law, authorize agency to reduce provider rates by a cumulative total of up to (5)%; would exclude nursing facility, developmental disability, and home and community based services rates. Permit agency to reduce provider rate reduction if capitation rate increase in FY 2016 is less than 3.0%. 16
- 45. As session law, require AHCCCS to apply for waivers from the federal government to impose the following statutory changes: 1) require adult Medicaid enrollees up to 133% of the Federal Poverty Limit (FPL) to pay a premium of 2% of their income, 2) allow providers to charge co-pays of up to \$25 for non-emergency use of the emergency room, and 3) eliminate payment for non-emergency medical transportation from October 1, 2015 through September 30, 2016 for adults at 100% - 133% FPL. 19

Counties

- 46. As session law, set FY 2016 county Arizona Long Term Care System (ALTCs) contributions at \$249,234,600. 7
- 47. As session law, set the County Acute Care contribution at \$47,233,500. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328. 12
- 48. As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations. 13
- 49. As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations. 14
- 50. As session law, require AHCCCS to transfer any excess monies back to the counties by December 31, 2016 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal ACA. 11

Hospitals

- 51. As session law, establish FY 2016 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. Increase DSH distribution to \$105,945,500 for FY 2015 and \$113,818,500 for FY 2016. Require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Reduce specific Pool 1 and 2 distributions to private qualifying disproportionate share hospitals and Yuma Regional Medical Center to \$5,000 each. As session law, permit local jurisdictions to provide additional local match for Pool 5 distributions. 6, 10, 28
- 52. As session law, require agency to report to JLBC and OSPB on any supplemental hospital payments paid to Critical Access Hospitals (CAH) in FY 2016. As permanent law, allow political subdivisions, tribal governments or universities to provide the state match contribution for federal CAH funding. 4,18

Erroneous Payments

- 53. As session law, continue to permit AHCCCS to recover erroneous Medicare payments made due to errors by the federal Social Security Administration. Subject to legislative appropriation, any credits 20

received may be used to pay for the AHCCCS program in the year they are received.

Available Funding

54. As session law, continue to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation. 25

Reports

55. As session law, continue to require AHCCCS to submit a report by December 1, 2015 on utilization of emergency departments for non-emergency use by AHCCCS enrollees. 22
56. As session law, continue to require AHCCCS and DHS to submit a joint report by January 1, 2016 on hospital costs and charges. 23

Department of Health Services

57. As session law, revise language regarding counties' cost of care of Sexually Violent Persons (SVP) at the Arizona State Hospital to clarify that all counties are required to pay 31% of their total SVP costs in FY 2016, which is comparable to the FY 2015 cost-sharing. Require counties to pay SVP costs throughout the entire commitment process, including pre-adjudication proceedings. 8
58. As session law, continue to require all cities and counties to pay 100% of cost of Restoration to Competency treatment in FY 2016. Allow counties to use any source of county revenue to make the transfers. 9
59. As session law, continue to notwithstanding A.R.S. § 36-773 to permit DHS to use Tobacco Tax and Health Care Fund - Health Research Account for Alzheimer's disease research. 21
60. As permanent law, establish 4 separate funds that DHS must use for intergovernmental/interagency service agreements. 2
61. As permanent law, delete a DHS homeland security allocation and reporting requirement pursuant to A.R.S. § 41-4255. 5
62. As session law, place "hard cap" limiting capitation rate increases to 1.5% and FY 2017 in FY 2018. 27
63. As session law, authorize agency to reduce provider rates by a cumulative total of up to (5)%; would exclude nursing facility, developmental disability, and home and community based services rates. Permit agency to reduce provider rate reduction if capitation rate increase in FY 2016 is less than 3.0%. 17
64. As session law, require the department to report to JLBC and OSPB Directors on efforts to increase third-party liability payments for behavioral health services. 24

NOTE: See Consolidation BRB for Behavioral Health transfer to AHCCCS

HIGHER EDUCATION - CHAPTER 16 (SB 1477)

Arizona Community Colleges

65. As permanent law, eliminate Maricopa and Pima districts' operating and Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs funding. 3, 4
66. As session law, continue to suspend STEM and Workforce Programs funding formula for FY 2016 and specify the funding in the General Appropriation Act. 9
67. As permanent law, permit a qualifying Indian tribe to enter into a compact with the state by September 1, 2017 to receive a share of Transaction Privilege Tax revenues for tribal community and technical colleges. 7

Department of Education

68. As permanent law, establish the Tribal College Dual Enrollment Program Fund, which is subject to legislative appropriation. 2

Commission for Postsecondary Education

69. As permanent law, permit use of private contractors to collect outstanding Postsecondary Education Grant (PEG) debt. 6
70. As permanent law, permit use of Postsecondary Education Voucher Fund monies in the administration of the PEG program. 5

Arizona State Lottery Commission

71. As permanent law, transmit 15%, but not to exceed \$160,000, annually of unclaimed Lottery prize money to the Tribal College Dual Enrollment Program Fund. 1

Universities

72. As session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into Arizona Financial Aid Trust (AFAT). 8

HUMAN SERVICES - CHAPTER 18 (SB 1479)

Department of Child Safety

73. As session law, continue to require the department to report with the Early Childhood Development and Health Board on collaborative efforts on child welfare issues. 7

74. As session law, require the Auditor General to evaluate the department’s removal processes, the department’s permanency practices, and the effectiveness of a differential response system. 6

Department of Economic Security

75. As session law, continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if the Department of Economic Security (DES) has reasonable cause to believe that the recipient uses illegal drugs. 5

76. As session law, continue to permit DES to reduce income eligibility levels for all child care programs. Require DES to report to the JLBC within 15 days of any change in levels. 4

77. As permanent law, require DES to transfer any FY 2015 equity balance from capitated payments in the Long Term Care System Fund to the General Fund by June 30, 2016. Require DES to report the transfer amount to JLBC. 2

78. As permanent law, reduce cumulative TANF participation eligibility from 24 to 12 months, effective July 1, 2016. 3

79. As permanent law, allow DES to contract with new private intermediate care facilities to serve the developmentally disabled population. 1

K-12 EDUCATION - CHAPTER 15 (SB 1476)

Department of Education

JTEDs

80. As session law, continue to fund state aid for Joint Technical Education Districts (JTEDs) with more than 2,000 Average Daily Membership (ADM) students at 95.5% of the formula requirement and reduce budget limits accordingly. These JTEDs would receive 95.5% of 92.5% of Base Support Level (BSL) funding starting in FY 2017 (*see next provision*). 15

81. As permanent law, require the district and charter BSL for students who attend JTEDs to be funded at 92.5%, effective July 1, 2016, except that districts and charters sending students to a JTED centralized campus will still receive full BSL funding for them. 3

82. As permanent law, do not allow a school district to prohibit or discourage students from attending a JTED. 3

83. As permanent law, allow a school district or charter school that experiences a funding loss due to the 92.5% BSL funding factor for JTED students to use a portion of their JTED satellite funding to offset the loss, up to the amount of the loss. 3

Formula Requirements

84. As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school “Additional Assistance” amounts (A.R.S. § 15-185B4) by 1.59% for standard inflation. 1, 4, 6

Funding Formula Changes

85. As session law, reduce school districts’ Additional Assistance state aid by \$352,442,700 (\$238,985,500 continuing and \$113,457,200 new) and reduce budget limits accordingly. As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2016 by the amount that would be reduced if they did qualify for state aid for FY 2016 11

and reduce budget limits accordingly.	
86. As session law, require all school districts to hold a public meeting to discuss or present their plans for reductions pertaining to District Additional Assistance funding. Require a “C”, “D” or “F” school to allow the community to submit comments or recommendations on the reductions within 30 days of the meeting and require the governing board to consider the comments or recommendations at a subsequent public meeting. Require the governing board of all school districts to include the percentage of classroom spending in the school district’s adopted budget on the page of the budget that governing board members sign.	11
87. As session law, state that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.	11
88. As session law, reduce Charter Additional Assistance by \$18,656,000 (\$15,656,000 continuing and \$3,000,000 new).	13
89. As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid by the amount that would be reduced under the \$18,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.	13
90. As permanent law, make multi-site charters with more than 600 combined K-8 or high school ADM ineligible for charter small school weight funding, phased-out over 3 years.	1
91. As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.	12
92. As permanent law, phase out pre-2014 district-sponsored charter schools over 2 years. Funding for district-sponsored charter schools started after FY 2013 continues to be eliminated in FY 2016, as specified under current law.	17
93. As permanent law, cap the state’s share of the 1% cap, or the amount of homeowners’ primary property taxes from all taxing jurisdictions exceeding 1% of the full cash value of their home, at \$1,000,000 per county. Require Property Tax Oversight Commission to compute amounts of foregone state funding to be provided by taxing jurisdictions to school districts.	7
94. As permanent law, eliminate the “hold harmless” for school districts with declining enrollments starting in FY 2017.	4
95. As session law, require ADE to notify school districts by December 15, 2015 how it plans to implement current year Average Daily Membership funding in FY 2017 and report the estimated fiscal impact by district.	18
<i>Other</i>	
96. As session law, continue to require community colleges and universities to transfer \$6 per pupil to ADE by December 1, 2015 for deposit into the Education Learning and Accountability Fund.	10
97. As session law, continue to stipulate that \$100,000 of the \$3,646,400 School Safety Program appropriation for FY 2016 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.	14
98. As permanent law, repeal the Student Success Fund.	5
School Facilities Board	
99. As permanent law, require the board to report annually to the JLBC by December 31 on all Class B bond approvals by school districts in that year, and require school districts to report their information to SFB by December 1.	8
100. As session law, allow the School Facilities Board to refinance existing lease-purchase debt.	16
101. As permanent law, transfer from ADE to the School Facilities Board a requirement to annually publish a list of vacant and unused buildings that may be suitable for operation of a charter school and require the list to be submitted to the Governor, President of the Senate, Speaker of the House, and Secretary of State.	2
102. As permanent law, establish the Access Our Best Public Schools Fund, which is subject to legislative appropriation, except that grants, gifts and donations are continuously appropriated.	9

REVENUE - CHAPTER 10 (SB 1471)

Arizona Department of Agriculture

103.As session law, continue fee raising authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2016. The bill continues an intent clause that limits additional revenues to \$357,000. 14

Arizona Commerce Authority

104.As permanent law, repeal the Job Training tax as of January 1, 2016. 2-4, 10, 22

Counties and Cities & Towns

105.As session law, continue to allow counties with a population below 200,000 in the 2010 decennial census to use any source of county revenue to meet a county fiscal obligation for FY 2016. Requires counties using this authority to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2015. Laws 2015, Chapter 323 modifies this provision by extending the flexibility to counties with populations between 200,000 and 900,000, and limiting the total amount for those counties to \$1,000,000 of county revenue each. 18

106.As permanent law, conform the Phoenix Convention Center debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified to conform to the actual debt service payments of the Phoenix Convention Center financing. 6

107.As session law, modify the JLBC's reporting requirements relating to the fiscal impact of government property excise tax (GPLET) rates by requiring counties to provide the JLBC Staff with the information necessary to complete the report, eliminating a report section pertaining to the determination of the property tax levy per square foot, and permitting the JLBC Staff to sample leases to produce the report. 9

108.As permanent law, add the JLBC Staff to the list of recipients of GPLET payment information produced by counties and currently reported to the Department of Revenue. 8

Department of Financial Institutions

109.As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department. 17

110.As session law, extend the permission for the agency to spend up to \$850,000 from the Receivership Revolving Fund in FY 2015 for information technology upgrades into FY 2016. This permission was originally extended from FY 2014 into FY 2015. 11

Department of Insurance

111.As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department's appropriation. 15

112.As permanent law, require the Department of Insurance to report Insurance Premium Tax credit information for a given fiscal year within 3 months of the end of a fiscal year. 1

Department of Liquor Licenses and Control

113.As session law, extend the permission for the agency to spend its FY 2015 appropriation of \$626,700 for its licensing and imaging system upgrade through FY 2016. 16

Department of Public Safety

114.As session law, reduce the FY 2017 shift of Highway Patrol costs from HURF to the General Fund from \$60,000,000 to \$30,000,000. 12

Radiation Regulatory Agency

115.As session law, continue fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2016. The bill continues an intent clause that limits additional revenues to \$561,000. 13

Department of Revenue

- 116.As permanent law, require the department to charge a fee in FY 2016 to non-program cities to cover costs associated with capturing sales tax data with sufficient specificity in order to program that capability into the Taxpayer Accounting System. The monies would be deposited into the department’s IGA and ISA Fund. Permits cities to meet their obligation from any source of city revenue and excludes contributions from expenditure limits. States legislative intent that fees be equal to \$0.76 multiplied by the city’s population. 5, 7, 21
- 117.As session law, permit the department to use up to \$2,000,000 of sales tax collected by private contracted collectors to pay for services of the contracted collectors. 20
- 118.As permanent law, require the department to charge a fee to local governments to recover a portion of costs incurred in providing administrative and collection services to local governments. The monies would be deposited into the Department of Revenue Administrative Fund. Permits local governments to meet their obligation from any source of revenue and excludes contributions from expenditure limits. States legislative intent that fees not exceed \$20,755,835 and be allocated between cities and towns and counties based on the prorated share of all revenues distributed to them (excluding Highway Urban Revenue Fund money). Laws 2015, Chapter 323 modifies this provision by adding the Maricopa Association of Governments and the Pima Association of Governments to the group of local governments that pay the fee charged by the department. 5, 7, 21
- 119.As session law, implement a tax amnesty program from September 1, 2015 through October 31, 2015 for unpaid individual income, corporate income, and transaction privilege tax liabilities. This applies to annual taxpayers’ tax years ending before January 1, 2014 and February 1, 2015 for all others. 19

GENERAL APPROPRIATION ACT PROVISIONS - CHAPTER 8 (SB 1469)

These provisions are in addition to the individual agency appropriations.

Arizona Department of Administration

- 120.As session law, provide ADOA the FY 2016 appropriation authority to spend certain Automation Projects Fund remaining balances as of June 30, 2015 for the same respective purposes specified in FY 2015 after a report to JLBC. Provide ADOA the FY 2016 appropriation authority to spend the remaining balance from the FY 2014 appropriation for replacing the Department of Corrections inmate management system. 126
- 121.As session law, reduce the FY 2015 \$25,000,000 General Fund appropriation to the department for costs associated with the establishment of the Department of Child Safety and the relocation of the DES data center by \$5,500,000 and make non-lapsing through FY 2016. 4
- 122.As session law, permit the department to use Risk Management funds to settle FY 2014 federal financial participation claims. Permit department to use the Health Insurance Trust Fund for its FY 2014 claims. 112

AHCCCS/Department of Health Services

- 123.As session law, permit AHCCCS to transfer up to \$10,000,000 of its FY 2015 appropriation to DHS for Medicaid behavioral health services upon prior review by JLBC. 114

Department of Child Safety

- 124.As session law, continue the \$11,000,000 payment deferral to providers from FY 2016 to FY 2017. Appropriate \$11,000,000 in FY 2017 for these deferred payments. 140

Arizona Commerce Authority

- 125.As session law, in accordance with statute (A.R.S. § 43-409), allocate \$26,500,000 of General Fund withholding tax revenue to the Authority in FY 2016. Permanent law language reducing distribution from \$31,500,000 found in Government BRB. 127

Corporation Commission	
126.As session law, extend the permission for the agency to spend its \$750,000 FY 2015 Securities Regulatory and Enforcement Fund appropriation for a database upgrade in FY 2016.	115
Counties and Cities & Towns	
127.As session law, to appropriate \$550,000 to all counties with populations under 200,000 people according to the 2010 Census. This is a reduction from the 900,000 person threshold in the FY 2015 budget. As session law, continue to appropriate \$500,000 to Graham County.	125
128.As session law, in accordance with statute (A.R.S. § 9-601), continue to appropriate \$20,449,000 from the General Fund for the Phoenix Convention Center.	130
129.As session law, provide an estimate of \$10,000,000 for the amount of sales tax revenues that will be distributed to the Rio Nuevo Multipurpose Facility District-in accordance with statute (A.R.S. § 42-5031).	131
Commission for the Deaf and the Hard of Hearing	
130.As session law, extend the permission for the agency to spend up to \$220,000 from the Telecommunication Fund for the Deaf in FY 2015 for information technology upgrades into FY 2016.	116
Department of Economic Security	
131.As session law, continue the \$21,000,000 payment deferral to providers from FY 2016 to FY 2017. Appropriate \$21,000,000 in FY 2017 for these deferred payments.	141
Department of Education	
132.As session law, continue to defer \$930,727,700 in Basic State Aid payments from FY 2016 to FY 2017. Appropriate \$930,727,700 in FY 2017 for these deferred payments. Continue to exempt school districts with less than 600 students from the K-12 rollover. Allow the Department of Education to make the rollover payment no later than July 12, 2016.	142
133.As session law, continue to require school districts to include in the FY 2016 revenue estimates that they use for computing their FY 2016 tax rates the rollover monies that they will receive for FY 2016 in July 2016.	142
Independent Redistricting Commission	
134.As session law, extend the permission for the agency to spend its \$1,462,701 FY 2014 General Fund appropriation into FY 2016.	120
Universities	
135.As session law, continue the \$200,000,000 universitywide payment deferral to the universities from FY 2016 to FY 2017. Appropriate \$200,000,000 in FY 2017 for these deferred payments.	143
Water Infrastructure Finance Authority	
136.As session law, repeal the \$1,000,000 FY 2015 General Fund appropriation to the Water Supply Development Revolving Fund.	5
Debt Service	
137.As session law, appropriate \$84,114,600 from the General Fund to the Arizona Department of Administration in FY 2016 for a debt service payment on the 2010 sale and lease-back of state buildings.	129
Revenues	
138.As session law, continue to specify revenue and expenditure estimates for FY 2015, FY 2016, FY 2017, and FY 2018.	150
139.As session law, continue to require the Executive Branch to provide JLBC preliminary estimates of FY 2015 ending balances by September 15, 2015. Require JLBC Staff to report to JLBC by October 15, 2015 as to whether FY 2016 revenues and ending balance are expected to change by more than \$50,000,000 from budgeted projections.	150

Statewide

- 140.As session law, appropriate \$1,900,000 from the General Fund and \$5,667,800 from Other Appropriated Funds in FY 2016 for AFIS collections. The JLBC Staff shall determine and ADOA shall allocate these adjustments to individual agencies to permit them to pay the charge. 144
- 141.As session law, ex-appropriate \$(16,200,000) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2016 for an employer health insurance contribution reduction. The JLBC Staff shall determine and ADOA shall allocate these adjustments to individual agencies to reflect the reduced contribution amount. 144
- 142.As session law, continue to specify FY 2016 individual agency charges totaling \$1,809,500 for general agency counsel provided by the Attorney General. 145
- 143.As session law, continue to state legislative intent that all budget units receiving appropriations continue to report actual, estimated and requested expenditures in a format similar to prior years. 146
- 144.As session law, continue to require ADOA to compile a report on Full-Time Equivalent (FTE) Position usage in FY 2016 in all agencies and provide it to the JLBC Director by October 1, 2016. The Department of Economic Security, Universities, and Department of Environmental Quality are exempt from the report but are required to report separately. 147
- 145.As session law, continue to require each agency to submit a report to the JLBC Director by October 1, 2015 on the number of filled appropriated and non-appropriated FTE Positions by fund source as of September 1, 2015. 148
- 146.As session law, continue to require ADOA to report monthly to the JLBC Director on agency transfers of spending authority from one expenditure class to another or between programs. 149

General

- 147.As session law, continue to define “*” as designating an appropriation exempt from lapsing. 151
- 148.As session law, continue to define “expenditure authority” as continuously appropriated monies included in individual line items of appropriations. 152
- 149.As session law, continue to define “review by the Joint Legislative Budget Committee” as a review by a vote of a majority of a quorum of the members. 153

MAJOR FOOTNOTE CHANGES - CHAPTER 8 (SB 1469)

The budget plan includes the following major modification of footnotes. This list does not include footnotes pertaining to one-time reports or appropriations.

Department of Child Safety

- 150.Laws 2015, Chapter 257 reestablishes a FY 2015 footnote requiring the department to issue a Request for Information on using private entities to address the backlog of nonactive cases and report the results to JLBC by October 1, 2015.

State Department of Corrections

- 151.Adds footnote that any changes in per diem rates for the inmate health care contracted services shall be reviewed by the JLBC. 26

Department of Economic Security

- 152.Adds footnote requiring agency to report to JLBC before transferring money into or out of Case Management and new DDD Operating Lump Sum line items. 32

Arizona Department of Education

- 153.Laws 2015, Chapter 310 reestablishes a footnote regarding the use of K-3 reading monies, but modifies the prior footnote to allow the Department of Education rather than the State Board of Education to use up to \$500,000 of the K-3 reading appropriation (previously \$1,500,000) for technical and state level administration of the program.

Judiciary	
154.Adds footnotes requiring all centralized service payments for counties, probation expenses, and automation costs to be funded solely from those particular line items.	59
Department of Revenue	
155.As session law, require the department to issue a Request for Proposals prior to awarding funding for a fraud prevention contract.	93
156.Adds footnote requiring the Department of Revenue to report to JLBC and OSPB on the amounts of individual income tax credits claimed in FY 2015.	93
School Facilities Board	
157.Adds footnote depositing \$23,900,000 into the Access Our Best Public Schools Fund and appropriating monies in the fund for use in establishing an Arizona public schools achievement district and the mechanisms by which it would operate. Requires JLBC review of expenditure plan prior to spending. Requires the Executive Branch to recommend proposed legislation to codify the mechanisms developed.	94
158.Adds footnote depositing \$1,000,000 from the Building Renewal Grants line item in FY 2015 into the Emergency Deficiencies Correction Fund. Requires any school district receiving monies from the fund in FY 2015 to report to the School Facilities Board a plan to improve the district’s preventative maintenance of building systems.	124
Universities	
159.Deletes footnotes in Arizona State University - Tempe/Downtown Phoenix Campus, Arizona State University - East Campus, and Northern Arizona University budgets concerning parity funding since the FY 2015 budget concluded the parity initiative.	--
Capital Outlay Bill	
160.Deletes footnote exempting capital appropriations from lapsing unless the project has been finished, abandoned, or without expenditure or encumbrance for a full fiscal year. Replaces it with new footnote reverting any remaining monies from non-ADOT highway construction capital appropriations to fund of origin on June 30, 2017.	10

**FY 2015
GENERAL FUND ADJUSTMENTS**

FY 2015 General Fund Adjustments

	<u>FY 2014 Actual</u>	<u>FY 2015 ^{1/} Original</u>	<u>Baseline ^{2/} Adjustments</u>	<u>FY 2015 JLBC Baseline</u>	<u>Session Changes</u>	<u>FY 2015 Enacted</u>
REVENUES						
Ongoing Revenues	\$8,921,657,100	9,470,966,700	(\$285,347,200)	\$9,185,619,500		\$9,185,619,500
Previously Enacted Changes		(108,662,000)	108,662,000 ^{3/}			
Newly Enacted Changes					(19,800,000)	(19,800,000)
Urban Revenue Sharing	(561,001,200)	(608,935,700)		(608,935,700)		(608,935,700)
Net On-going Revenues	<u>\$8,360,655,900</u>	<u>\$8,753,369,000</u>	<u>(\$176,685,200)</u>	<u>\$8,576,683,800</u>	<u>(\$19,800,000)</u>	<u>\$8,556,883,800</u>
One-time Financing Sources						
Balance Forward	\$895,475,000	\$595,520,600	(18,121,400)	\$577,399,200		577,399,200
Previously Enacted Changes	(24,800,000)	(1,800,000)	1,800,000 ^{3/}			
Budget Stabilization Fund Transfer					144,281,200	144,281,200
1¢ Sales Tax	8,422,900					
Fund Transfers	141,541,100	53,900,000		53,900,000	15,000,000	68,900,000
Subtotal One-time Revenues	<u>\$1,020,639,000</u>	<u>\$647,620,600</u>	<u>(\$16,321,400)</u>	<u>\$631,299,200</u>	<u>\$159,281,200</u>	<u>\$790,580,400</u>
Total Revenues	\$9,381,294,900	\$9,400,989,600	(\$193,006,600)	\$9,207,983,000	\$139,481,200	\$9,347,464,200
EXPENDITURES						
Operating Budget Appropriations	\$8,825,981,500	\$9,311,780,500	\$10,000,000	\$9,321,780,500		\$9,321,780,500
Supplementals	2,736,300		(6,996,800)	(6,996,800)	(20,950,600)	(27,947,400)
Administrative Adjustments	81,440,600	51,480,700	28,519,300	80,000,000		80,000,000
Reversions	(138,774,400)	(116,000,000)	36,000,000	(80,000,000)		(80,000,000)
Subtotal Ongoing Expenditures	<u>\$8,771,384,000</u>	<u>\$9,247,261,200</u>	<u>\$67,522,500</u>	<u>\$9,314,783,700</u>	<u>(\$20,950,600)</u>	<u>\$9,293,833,100</u>
One-time Expenditures						
Capital Outlay	\$32,511,700	\$24,200,000	\$17,431,100	\$41,631,100		\$41,631,100
Subtotal One-time Expenditures	<u>\$32,511,700</u>	<u>\$24,200,000</u>	<u>\$17,431,100</u>	<u>\$41,631,100</u>	<u>\$0</u>	<u>\$41,631,100</u>
Total Expenditures	\$8,803,895,700	\$9,271,461,200	\$84,953,600	\$9,356,414,800	(\$20,950,600)	\$9,335,464,200
Ending Balance ^{4/}	\$577,399,200	\$129,528,400	(\$277,960,200)	(\$148,431,800)	\$160,431,800	\$12,000,000
Structural Balance ^{5/}	(\$410,728,100)	(\$493,892,200)	(\$244,207,700)	(\$738,099,900)	\$1,150,600	(\$736,949,300)

^{1/} Reflects the FY 2015 budget as published in the FY 2015 Appropriations Report.

^{2/} Reflects forecast adjustments to revenue and other technical adjustments in January 2015 as part of the FY 2016 JLBC Baseline. The Baseline adjustments move previously enacted changes into ongoing revenue.

^{3/} These items reflect previously enacted changes, as estimated in the original FY 2015 budget, being moved into the ongoing revenues line.

^{4/} This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

^{5/} This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

FY 2015 GENERAL FUND ADJUSTMENTS

FY 2015 Budget Revision — The preceding chart illustrates the changes to the FY 2015 budget from the publication of the *FY 2015 Appropriations Report* in June 2014 (incorporating changes through the 51st Legislature, 2nd Regular Session and 2nd Special Session) to the current estimate in this *FY 2016 Appropriations Report*. The chart includes the projected FY 2015 mid-year budget shortfall and the changes from the passage of bills in the 1st Regular Session of the 52nd Legislature addressing the FY 2015 budget.

Original Budget Estimate — At the time of the publication of the *FY 2015 Appropriations Report* in June 2014, the FY 2015 budget was anticipated to have a \$130 million balance.

Mid-Year Shortfall — As estimated in January 2015, lower-than-expected revenues together with other changes led to the state’s projected FY 2015 ending balance of \$130 million becoming a \$(148) million shortfall. The components of this \$(278) million shift were as follows:

	<u>(\$ in M)</u>
• Decreased FY 2014 Carry-Forward	(18)
• Decrease in FY 2015 Revenues	(175)
• Supplemental Ex-Appropriations	7
• Technical Spending Re-estimates	<u>(92)</u>
Total	\$(278)

As enacted in April and May 2014, the original FY 2015 budget included \$596 million in revenues from a FY 2014 carry-forward balance. The FY 2014 revenue growth at the end of the year, however, was slower than originally budgeted, partially offset by lower-than-anticipated expenditures, producing a FY 2014 ending balance of \$577 million, or \$(18) million less than budgeted.

This slower revenue growth was estimated to continue into FY 2015. The enacted FY 2015 budget’s 5.3% base revenue increase was revised down to 4.3% in the January 2015 estimates. Combined with the lower FY 2014 revenue base, that produced \$(175) million of reduced FY 2014 collections.

The Baseline estimated the need for a \$27 million increase for K-12 formula spending along with a net \$(25) million reduction for Medicaid formula spending and \$(9) million in School Facilities Board (SFB) debt refinance savings, for a total \$7 million in potential net ex-appropriations.

The \$(92) million in technical spending reestimates include a total of \$(65) million in revised administrative

adjustments and reduced revertment estimates, \$(17) million from reflecting delayed spending of capital outlay expenditures, and \$(10) million from reflecting Rio Nuevo expenditures as an expenditure instead of a revenue offset.

2015 Legislative Session — Laws 2015, Chapter 8, the General Appropriation Act, as well as other bills in the 1st Regular Session, made a series of changes in the FY 2015 budget. These adjustments changed the projected ending shortfall of \$(148) million to a \$12 million surplus.

The change in the projected ending balance is the result of an estimated \$160 million in post-Baseline changes: \$21 million in ex-appropriations, \$(5) million of net revenue reductions, and \$144 million of a Budget Stabilization Fund transfer.

The budget includes \$(21) million in reduced FY 2015 spending below the Baseline. This amount includes the following ex-appropriations:

- \$(10) million net from the AHCCCS and DHS budgets for caseload changes.
- \$(5.5) million from one-time transition spending for the Department of Child Safety.
- \$(4.6) million from the Department of Economic Security
- \$(1) million from a Water Infrastructure Financing Authority appropriation.

(Please see those agency narratives and FY 2015 General Fund Crosswalk for further details.)

The budget includes \$(5) million of net revenue reductions, consisting of:

- \$11 million in Disproportionate Share revenue.
- \$15 million transfer from the state’s share of the 2012 National Mortgage Settlement.
- \$(31) million decrease from a change to the business expensing deduction in Laws 2015, Chapter 227.

(Please see the General Fund Revenue section for further details.)

The FY 2015 budget included a requirement that the ending balance be at least \$12 million; if the ending balance would otherwise be less, the difference was to be transferred from the Budget Stabilization Fund. After the other changes above, the budget was estimated to have a \$(132) million shortfall. As a result, this provision was assumed to require a \$144 million transfer.

With an estimated January FY 2015 ending shortfall of \$(148) million and \$160 million in subsequent net changes, the FY 2015 budget is estimated to have an ending balance of \$12 million.

Other Fund Adjustments — The FY 2015 revisions included \$24 million in Other Fund supplementals. The 2 largest supplementals were \$18.8 million for the Arizona Department of Administration to refund a portion of certain fund balances to the federal government and \$4.0 million for a fund shift to Other Appropriated Funds associated with a corresponding \$(4.0) million General Fund decrease in the Department of Economic Security.

FY 2015 GENERAL FUND CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals <u>2/</u>	Enacted FY 2015
<u>BUDGET UNITS</u>				
Administration, Arizona Department of	\$11,193,000		\$184,600 <u>3/</u>	\$11,377,600
Administration, Arizona Department of Automation Projects Fund	35,500,000			35,500,000
Administration, Arizona Department of - Department of Child Safety	25,000,000		(5,500,000) <u>4/</u>	19,500,000
Administrative Hearings, Office of	862,500			862,500
African-American Affairs, Arizona Commission of	125,000			125,000
Agriculture, Arizona Department of	8,323,000			8,323,000
AHCCCS	1,274,403,200		(48,520,500) <u>5/</u>	1,225,882,700
Attorney General - Department of Law	23,465,100			23,465,100
Charter Schools, State Board for	994,700			994,700
Child Safety, Department of	361,005,400			361,005,400
Commerce Authority, Arizona	31,800,000			31,800,000
Community Colleges, Arizona	71,906,400			71,906,400
Corporation Commission	610,500			610,500
Corrections, State Department of	996,845,600			996,845,600
County Funding	7,650,500			7,650,500
Deaf and the Blind, Schools for the	22,497,900			22,497,900
Economic Security, Department of	479,290,300		3,252,000 <u>6/</u>	482,542,300
Education, Department of	3,808,392,700		26,861,100 <u>7/</u>	3,835,253,800
Emergency and Military Affairs, Department of	13,044,400			13,044,400
Environmental Quality, Department of	7,000,000			7,000,000
Equal Opportunity, Governor's Office of	188,600			188,600
Equalization, State Board of	641,800			641,800
Executive Clemency, Board of	958,600			958,600
Financial Institutions, State Department of	3,020,200			3,020,200
Fire, Building and Life Safety, Department of	2,205,300			2,205,300
Forester, State	9,103,800			9,103,800
Geological Survey, Arizona	941,700			941,700
Governor, Office of the	6,920,100			6,920,100
Gov's Office of Strategic Planning and Budgeting	1,994,000			1,994,000
Health Services, Department of	613,362,100		6,127,100 <u>8/</u>	619,489,200
Historical Society, Arizona	3,156,000			3,156,000
Historical Society, Prescott	826,300			826,300
Independent Redistricting Commission	1,115,300			1,115,300
Indian Affairs, Arizona Commission of	56,900			56,900
Insurance, Department of	5,366,700			5,366,700
Judiciary				
Supreme Court	16,012,900			16,012,900
Court of Appeals	14,380,200			14,380,200
Superior Court	80,102,500			80,102,500
SUBTOTAL - Judiciary	<u>110,495,600</u>	<u>0</u>	<u>0</u>	<u>110,495,600</u>

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Juvenile Corrections, Department of	44,165,900			44,165,900
Land Department, State	12,509,800		64,200	12,574,000
Legislature				
Auditor General	18,246,400			18,246,400
House of Representatives	13,372,200			13,372,200
Joint Legislative Budget Committee	2,493,000			2,493,000
Legislative Council	8,248,900			8,248,900
Senate	8,283,800			8,283,800
SUBTOTAL - Legislature	50,644,300	0	0	50,644,300
Mine Inspector, State	1,215,600			1,215,600
Navigable Stream Adjudication Commission	129,200			129,200
Nursing, State Board of	150,000			150,000
Occupational Safety and Health Review Board	0			0
Parks Board, Arizona State	500,000			500,000
Pioneers' Home, Arizona	1,603,400			1,603,400
Postsecondary Education, Commission for	1,396,800			1,396,800
Public Safety, Department of	89,324,900			89,324,900
Public Safety Personnel Retirement System	6,000,000			6,000,000
Racing, Arizona Department of	2,029,500			2,029,500
Radiation Regulatory Agency	1,468,900			1,468,900
Real Estate Department, State	2,989,700			2,989,700
Revenue, Department of	48,139,400			48,139,400
School Facilities Board	189,358,400		(9,415,900)	179,942,500
Secretary of State	15,027,800			15,027,800
Tax Appeals, State Board of	265,600			265,600
Tourism, Office of	9,103,700			9,103,700
Transportation, Department of	50,400			50,400
Treasurer, State	1,205,100			1,205,100
Uniform State Laws, Commission on	0			0
Universities				
Board of Regents	21,928,400			21,928,400
Arizona State University - Tempe/DPC	290,104,300			290,104,300
Arizona State University - East Campus	25,853,400			25,853,400
Arizona State University - West Campus	33,328,100			33,328,100
Northern Arizona University	118,281,200			118,281,200
University of Arizona - Main Campus	209,341,200			209,341,200
University of Arizona - Health Sciences Center	69,585,300			69,585,300
SUBTOTAL - Universities	768,421,900	0	0	768,421,900
Veterans' Services, Department of	5,438,300			5,438,300
Water Infrastructure Finance Authority	1,000,000		(1,000,000)	0
Water Resources, Department of	13,330,300			13,330,300
Weights and Measures, Department of	1,475,700			1,475,700
OPERATING BUDGET TOTAL	\$9,207,207,800	\$0	(\$27,947,400)	\$9,179,260,400
Capital Outlay Projects	24,200,000	17,431,100		41,631,100
Debt Service Payments	84,123,700			84,123,700
Civic Center Debt Service	20,449,000			20,449,000

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Rio Nuevo Distribution	0	10,000,000	13/	10,000,000
Administrative Adjustments	51,480,700	28,519,300		80,000,000
Revertments	(116,000,000)	36,000,000		(80,000,000)
GRAND TOTAL	\$9,271,461,200	\$91,950,400	(\$27,947,400)	\$9,335,464,200

1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2015 Appropriations Report* and its final FY 2015 appropriation, excluding capital appropriations.

2/ Reflects changes enacted in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8) and additional appropriations.

3/ Appropriated by Laws 2015, Chapter 34.

4/ Section 4 of the FY 2016 General Appropriation Act decreases the amounts appropriated in Laws 2014, Chapter 18, Section 118, as amended by Laws 2014, 2nd Special Session, Chapter 2, Section 3 by \$(5,500,000) in FY 2015 - from \$25,000,000 to \$19,500,000 to the Department of Administration - Department of Child Safety for costs associated with the establishment of the Department of Child Safety and the relocation of the Department of Economic Security (DES) Data Center.

5/ Section 113 of the FY 2016 General Appropriation Act.

6/ Section 117 of the FY 2016 General Appropriation Act.

7/ Section 118 of the FY 2016 General Appropriation Act.

8/ Section 119 of the FY 2016 General Appropriation Act.

9/ Section 121 of the FY 2016 General Appropriation Act.

10/ Section 123 of the FY 2016 General Appropriation Act.

11/ Section 5 of the FY 2016 General Appropriation Act repeals Laws 2014, Chapter 18, Section 135, removing the \$(1,000,000) General Fund appropriation for the Water Infrastructure Finance Authority.

12/ Includes \$17,431,100 in FY 2015 for the Department of Administration for 500 maximum-security Department of Corrections beds. This amount is from the \$50,000,000 total originally appropriated to the Department of Corrections in FY 2013 and FY 2014, as Laws 2012, Chapter 295 made this amount available until completion of the project.

13/ In prior years, distributions of monies to the Rio Nuevo Multipurpose Facility District were accounted for as a reduction of state Transaction Privilege Tax revenue. Beginning with FY 2015, these payments will instead be displayed as a state expenditure.

FY 2015 OTHER FUNDS CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals <u>2/</u>	Enacted FY 2015
<u>BUDGET UNITS</u>				
Accountancy, State Board of				
Board of Accountancy Fund	\$1,936,800			\$1,936,800
Acupuncture Board of Examiners				
Acupuncture Board of Examiners Fund	154,700			154,700
Administration, Arizona Department of				
Air Quality Fund	927,100			927,100
Automation Operations Fund	19,120,700	2,900,000 <u>3/</u>		22,020,700
Capital Outlay Stabilization Fund	18,080,400			18,080,400
Corrections Fund	574,100			574,100
Federal Surplus Materials Revolving Fund	464,100			464,100
Information Technology Fund	3,238,100			3,238,100
Motor Vehicle Pool Revolving Fund	10,156,100			10,156,100
Personnel Division Fund	12,914,000			12,914,000
Risk Management Revolving Fund	91,995,400		10,462,100 <u>4/</u>	102,457,500
Special Employee Health Insurance Trust Fund	5,267,400		8,302,800 <u>4/</u>	13,570,200
State Surplus Materials Revolving Fund	2,399,800	560,000 <u>5/</u>		2,959,800
State Web Portal Fund	4,250,000			4,250,000
Telecommunications Fund	1,855,000			1,855,000
Total - Arizona Department of Administration	171,242,200	3,460,000	18,764,900	193,467,100
Administration, Arizona Department of -				
Automation Projects Fund	70,034,700			70,034,700
Administrative Hearings, Office of				
Healthcare Group Fund	12,300			12,300
AHCCCS				
Budget Neutrality Compliance Fund	3,384,400			3,384,400
Children's Health Insurance Program Fund	6,649,800			6,649,800
Prescription Drug Rebate Fund - State	79,035,000			79,035,000
Tobacco Products Tax Fund				
Emergency Health Services Account	18,202,400			18,202,400
Tobacco Tax and Health Care Fund				
Medically Needy Account	34,178,800			34,178,800
Total - AHCCCS	141,450,400	0	0	141,450,400
Appraisal, State Board of				
Board of Appraisal Fund	861,800			861,800
Arts, Arizona Commission on the				
Budget Stabilization Fund	1,000,000			1,000,000
Athletic Training, Board of				
Athletic Training Fund	118,200			118,200
Attorney General - Department of Law				
Antitrust Enforcement Revolving Fund	244,300			244,300
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,087,600			2,087,600

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Collection Enforcement Revolving Fund	6,888,200			6,888,200
Consumer Protection-Consumer Fraud Rev. Fund	5,306,800			5,306,800
Interagency Service Agreements Fund	14,830,300			14,830,300
Risk Management Revolving Fund	9,443,000			9,443,000
State Aid to Indigent Defense Fund	800,100			800,100
Victims' Rights Fund	3,758,600			3,758,600
Total - Attorney General - Department of Law	<u>43,358,900</u>	<u>0</u>	<u>0</u>	<u>43,358,900</u>
Automobile Theft Authority				
Automobile Theft Authority Fund	5,297,800			5,297,800
Barbers, Board of				
Board of Barbers Fund	333,900			333,900
Behavioral Health Examiners, Board of				
Board of Behavioral Health Examiners Fund	1,758,600			1,758,600
Child Safety, Department of				
Child Abuse Prevention Fund	1,459,100			1,459,100
Children and Family Services Training Program Fund	207,700			207,700
Federal Child Care and Development Fund Block Grant	27,000,000			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	<u>132,000,400</u>			<u>132,000,400</u>
Total - Department of Child Safety	<u>160,667,200</u>	<u>0</u>	<u>0</u>	<u>160,667,200</u>
Chiropractic Examiners, State Board of				
Board of Chiropractic Examiners Fund	450,600			450,600
Contractors, Registrar of				
Registrar of Contractors Fund	12,196,700			12,196,700
Corporation Commission				
Arizona Arts Trust Fund	50,100			50,100
Investment Management Regulatory and Enforcement Fund	715,700			715,700
Public Access Fund	6,622,200			6,622,200
Securities Regulatory and Enforcement Fund	5,569,200			5,569,200
Utility Regulation Revolving Fund	<u>14,221,800</u>			<u>14,221,800</u>
Total - Corporation Commission	<u>27,179,000</u>	<u>0</u>	<u>0</u>	<u>27,179,000</u>
Corrections, State Department of				
Alcohol Abuse Treatment Fund	554,400			554,400
Corrections Fund	27,517,600			27,517,600
Penitentiary Land Fund	979,200			979,200
Prison Construction and Operations Fund	13,684,400			13,684,400
State Charitable, Penal and Reformatory Institutions Land Fund	360,000			360,000
State Education Fund for Correctional Education	516,300			516,300
Transition Program Fund	<u>1,300,000</u>			<u>1,300,000</u>
Total - State Department of Corrections	<u>44,911,900</u>	<u>0</u>	<u>0</u>	<u>44,911,900</u>
Cosmetology, Board of				
Board of Cosmetology Fund	1,785,000			1,785,000

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals 2/	Enacted FY 2015
Criminal Justice Commission, Arizona				
Criminal Justice Enhancement Fund	650,100			650,100
Drug and Gang Prevention Resource Center Fund	238,900			238,900
State Aid to County Attorneys Fund	973,600			973,600
Victim Compensation and Assistance Fund	4,092,500			4,092,500
Total - Arizona Criminal Justice Commission	<u>5,955,100</u>	<u>0</u>	<u>0</u>	<u>5,955,100</u>
Deaf and the Blind, Arizona Schools for the Schools for the Deaf and the Blind Fund	12,590,200			12,590,200
Deaf and the Hard of Hearing, Comm. for the Telecommunication Fund for the Deaf	4,021,200		255,500 6/	4,276,700
Dental Examiners, State Board of Dental Board Fund	1,215,100			1,215,100
Economic Security, Department of				
Child Support Enforcement Administration Fund	16,802,200			16,802,200
Domestic Violence Shelter Fund	2,220,000			2,220,000
Federal Child Care and Development Fund Block Grant	103,773,600		4,000,000 7/	107,773,600
Federal Temporary Assistance for Needy Families Block Grant	86,727,700			86,727,700
Department Long Term Care System Fund	31,225,400			31,225,400
Public Assistance Collections Fund	427,200			427,200
Special Administration Fund	2,830,600			2,830,600
Spinal and Head Injuries Trust Fund	1,874,900			1,874,900
Statewide Cost Allocation Plan Fund	1,000,000			1,000,000
Workforce Investment Act Grant	56,060,800			56,060,800
Total - Department of Economic Security	<u>302,942,400</u>	<u>0</u>	<u>4,000,000</u>	<u>306,942,400</u>
Education, Department of				
Department of Education Empowerment Scholarship Account Fund	200,100			200,100
Permanent State School Fund	46,475,500			46,475,500
Proposition 301 Fund	7,000,000			7,000,000
Student Success Fund	21,500,000			21,500,000
Technology-Based Language Development and Literacy Intervention Fund	300,000			300,000
Teacher Certification Fund	2,360,500			2,360,500
Total - Department of Education	<u>77,836,100</u>	<u>0</u>	<u>0</u>	<u>77,836,100</u>
Emergency and Military Affairs, Department of Emergency Response Fund	132,700			132,700
Environmental Quality, Department of				
Air Permits Administration Fund	7,145,300			7,145,300
Air Quality Fund	5,377,200			5,377,200
Emissions Inspection Fund	28,392,900			28,392,900
Hazardous Waste Management Fund	1,743,000			1,743,000
Indirect Cost Recovery Fund	13,410,100			13,410,100
Recycling Fund	1,359,700			1,359,700
Solid Waste Fee Fund	1,243,000			1,243,000

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Underground Storage Tank Fund Revolving Fund	22,000			22,000
Water Quality Fee Fund	10,548,600			10,548,600
Total - Department of Environmental Quality	69,241,800	0	0	69,241,800
Exposition and State Fair Board, Arizona				
Arizona Exposition and State Fair Fund	11,620,800			11,620,800
Financial Institutions, Department of				
Financial Services Fund	1,247,400			1,247,400
Total - Department of Financial Institutions	1,247,400	0	0	1,247,400
Funeral Directors and Embalmers, Board of				
Board of Funeral Directors' and Embalmers' Fund	353,700			353,700
Game and Fish Department, Arizona				
Capital Improvement Fund	999,700			999,700
Game and Fish Fund	34,545,900			34,545,900
Game, Nongame, Fish and Endangered				
Species Fund	346,800			346,800
Watercraft Licensing Fund	4,565,800			4,565,800
Wildlife Endowment Fund	16,000			16,000
Total - Arizona Game and Fish Department	40,474,200	0	0	40,474,200
Gaming, Department of				
Tribal-State Compact Fund	2,104,900			2,104,900
State Lottery Fund	300,000			300,000
Arizona Benefits Fund	11,111,300			11,111,300
Total - Department of Gaming	13,516,200	0	0	13,516,200
Health Services, Department of				
Arizona State Hospital Fund	9,588,600			9,588,600
ASH Land Earnings Fund	650,000			650,000
Capital Outlay Stabilization Fund	1,559,800			1,559,800
Child Fatality Review Fund	94,800			94,800
Emergency Medical Services Operating Fund	5,122,400			5,122,400
Environmental Laboratory Licensure				
Revolving Fund	927,100			927,100
Federal Child Care and Development Fund				
Block Grant	879,400			879,400
Health Services Licensing Fund	9,275,100			9,275,100
Indirect Cost Fund	8,573,500			8,573,500
Newborn Screening Program Fund	6,739,600			6,739,600
Nursing Care Institution Resident Protection				
Revolving Fund	88,200			88,200
Substance Abuse Services Fund	2,250,000			2,250,000
Tobacco Tax and Health Care Fund				
Health Research Account	3,000,000			3,000,000
Tobacco Tax and Health Care Fund				
Medically Needy Account	35,467,000			35,467,000
Vital Records Electronic Systems Fund	3,635,500			3,635,500
Total - Department of Health Services	87,851,000	0	0	87,851,000
Homeopathic and Integrated Medicine				
Examiners, Board of				

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals 2/	Enacted FY 2015
Board of Homeopathic and Integrated Medicine				
Examiners' Fund	102,100			102,100
Housing, Department of				
Housing Trust Fund	314,600			314,600
Industrial Commission of AZ				
Administrative Fund	19,994,800			19,994,800
Judiciary - Supreme Court				
Confidential Intermediary and Fiduciary Fund	488,200			488,200
Court Appointed Special Advocate Fund	2,941,100			2,941,100
Criminal Justice Enhancement Fund	3,004,800			3,004,800
Defensive Driving School Fund	4,194,700			4,194,700
Judicial Collection Enhancement Fund	14,002,400			14,002,400
State Aid to the Courts Fund	2,944,600			2,944,600
Total - Judiciary - Supreme Court	27,575,800	0	0	27,575,800
Judiciary - Superior Court				
Criminal Justice Enhancement Fund	7,002,200			7,002,200
Judicial Collection Enhancement Fund	6,029,200			6,029,200
Drug Treatment and Education Fund	500,200			500,200
Total - Judiciary - Superior Court	13,531,600	0	0	13,531,600
SUBTOTAL - Judiciary	41,107,400	0	0	41,107,400
Juvenile Corrections, Department of				
Criminal Justice Enhancement Fund	530,600			530,600
State Charitable, Penal and Reformatory				
Institutions Land Fund	1,098,600			1,098,600
State Education Fund for Committed Youth	2,313,700			2,313,700
Total - Department of Juvenile Corrections	3,942,900	0	0	3,942,900
Land Department, State				
Due Diligence Fund	500,000			500,000
Environmental Special Plate Fund	260,000			260,000
Trust Land Management Fund	4,862,500			4,862,500
Total - State Land Department	5,622,500	0	0	5,622,500
Liquor Licenses and Control, Department of				
Liquor Licenses Fund	3,589,200			3,589,200
Lottery Commission, Arizona State				
State Lottery Fund	104,042,800	(311,500) 8/		103,731,300
Massage Therapy, Board of				
Board of Massage Therapy Fund	438,700			438,700
Medical Board, Arizona				
Arizona Medical Board Fund	5,740,300		200,000 9/	5,940,300
Mine Inspector, State				
Aggregate Mining Reclamation Fund	112,500			112,500
Naturopathic Physicians Medical Board				
Naturopathic Physicians Medical Board Fund	177,600			177,600
Navigable Stream Adjudication Commission				
Arizona Water Banking Fund	0		359,300 10/	359,300
Nursing, State Board of				
Board of Nursing Fund	4,272,100			4,272,100

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Nursing Care Institution Administrators Board				
Nursing Care Institution Administrators'				
Licensing and Assisted Living Facility				
Managers' Certification Fund	420,300			420,300
Occupational Therapy Examiners, Board of				
Occupational Therapy Fund	184,200			184,200
Opticians, State Board of Dispensing				
Board of Dispensing Opticians Fund	135,800			135,800
Optometry, State Board of				
Board of Optometry Fund	206,100			206,100
Osteopathic Examiners, Arizona Board of				
Board of Osteopathic Examiners Fund	801,700			801,700
Parks Board, Arizona State				
State Parks Revenue Fund	12,842,100			12,842,100
Personnel Board, State				
Personnel Board Subaccount of the				
Personnel Division Fund	375,000			375,000
Pest Management, Office of				
Pest Management Fund	1,700,500			1,700,500
Pharmacy, Arizona State Board of				
Arizona State Board of Pharmacy Fund	2,053,900			2,053,900
Physical Therapy, Board of				
Board of Physical Therapy Fund	408,000			408,000
Pioneers' Home, Arizona				
Miners' Hospital Fund	2,080,100			2,080,100
State Charitable Fund	2,578,000			2,578,000
Total - Arizona Pioneers' Home	4,658,100	0	0	4,658,100
Podiatry Examiners, State Board of				
Podiatry Fund	147,300			147,300
Postsecondary Education, Commission for				
Postsecondary Education Fund	1,535,400			1,535,400
Private Postsecondary Education, Board for				
Board for Private Postsecondary Education				
Fund	395,700			395,700
Psychologist Examiners, State Board of				
Board of Psychologist Examiners Fund	413,600			413,600
Public Safety, Department of				
Arizona Deoxyribonucleic Acid Identification				
System Fund	6,323,200			6,323,200
Arizona Highway Patrol Fund	19,024,300			19,024,300
AZ Automated Fingerprint Identification System Fund	2,909,700			2,909,700
Automation Operations Fund	296,200			296,200
Concealed Weapons Permit Fund	1,276,400			1,276,400
Crime Laboratory Assessment Fund	871,300			871,300
Crime Laboratory Operations Fund	14,723,800			14,723,800
Criminal Justice Enhancement Fund	2,873,400			2,873,400
GIITEM Border Security and Law				

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals	2/ Enacted FY 2015
Enforcement Subaccount	2,390,000			2,390,000
Highway User Revenue Fund	89,255,000			89,255,000
Motorcycle Safety Fund	205,000			205,000
Parity Compensation Fund	1,950,100			1,950,100
Public Safety Equipment Fund	2,890,000			2,890,000
Risk Management Revolving Fund	1,233,700			1,233,700
Safety Enforcement and Transportation Infrastructure Fund	1,566,300			1,566,300
State Aid to Indigent Defense Fund	700,000			700,000
State Highway Fund	6,743,900			6,743,900
Total - Department of Public Safety	155,232,300	0	0	155,232,300
Racing, Arizona Department of Racing Regulation Fund	2,900,700			2,900,700
Radiation Regulatory Agency State Radiologic Technologist Certification Fund	273,400			273,400
Radiation Regulatory Fee Fund	579,800			579,800
Total - Radiation Regulatory Agency	853,200	0	0	853,200
Residential Utility Consumer Office Residential Utility Consumer Office Revolving Fund	1,337,800			1,337,800
Respiratory Care Examiners, Board of Board of Respiratory Care Examiners Fund	297,200			297,200
Retirement System, Arizona State Long-Term Disability Trust Fund Administration Account	2,800,000			2,800,000
Arizona State Retirement System Administration Account	26,494,700			26,494,700
Total - Arizona State Retirement System	29,294,700	0	0	29,294,700
Revenue, Department of Department of Revenue Administrative Fund	24,436,800			24,436,800
Liability Setoff Revolving Fund	397,300			397,300
Tobacco Tax and Health Care Fund	679,500			679,500
Total - Department of Revenue	25,513,600	0	0	25,513,600
Secretary of State Election Systems Improvement Fund	2,941,100			2,941,100
Records Services Fund	741,300			741,300
Total - Secretary of State	3,682,400	0	0	3,682,400
State Boards' Office Special Services Revolving Fund	231,100			231,100
Technical Registration, State Board of Technical Registration Fund	2,124,600			2,124,600
Transportation, Department of Air Quality Fund	74,500			74,500
Driving Under the Influence Abatement Fund	153,900			153,900
Highway User Revenue Fund	651,800			651,800
Motor Vehicle Liability Insurance				

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals 2/	Enacted FY 2015
Enforcement Fund	1,087,100			1,087,100
Safety Enforcement and Transportation				
Infrastructure Fund	1,881,000			1,881,000
State Aviation Fund	1,624,900			1,624,900
State Highway Fund	340,869,900			340,869,900
Transportation Department Equipment Fund	18,507,000			18,507,000
Vehicle Inspection and Title Enforcement Fund	1,464,600			1,464,600
Total - Department of Transportation	366,314,700	0	0	366,314,700
Treasurer, State				
Law Enforcement and Boating Safety Fund	2,183,800			2,183,800
State Treasurer Empowerment Scholarship				
Account Fund	40,000			40,000
State Treasurer's Operating Fund	2,584,300			2,584,300
State Treasurer's Management Fund	197,600			197,600
Total - State Treasurer	5,005,700	0	0	5,005,700
Universities				
Arizona State University - Tempe/DPC				
University Collections Fund	453,068,700	63,761,800 11/		516,830,500
Arizona State University - East Campus				
University Collections Fund	33,691,700	(4,182,200) 11/		29,509,500
Technology and Research Initiative Fund	2,000,000			2,000,000
Total - Arizona State University - East Campus	35,691,700	(4,182,200)	0	31,509,500
Arizona State University - West Campus				
University Collections Fund	39,380,300	1,595,200 11/		40,975,500
Technology and Research Initiative Fund	1,600,000			1,600,000
Total - Arizona State University - West Campus	40,980,300	1,595,200	0	42,575,500
Northern Arizona University				
University Collections Fund	120,281,100	12,576,400 11/		132,857,500
University of Arizona - Main Campus				
University Collections Fund	271,507,700	30,052,600 11/		301,560,300
University of Arizona - Health Sciences Center				
University Collections Fund	41,117,000	2,317,900 11/		43,434,900
SUBTOTAL - Universities	962,646,500	106,121,700	0	1,068,768,200
Veterans' Services, Department of				
State Veterans' Conservatorship Fund	906,600			906,600
State Home for Veterans' Trust Fund	31,095,000			31,095,000
Total - Department of Veterans' Services	32,001,600	0	0	32,001,600
Veterinary Medical Examining Board				
Veterinary Medical Examining Board Fund	577,300			577,300
Water Resources, Department of				
Assured and Adequate Water Supply Admin Fund	266,500			266,500
Water Resources Fund	640,400			640,400
Total - Department of Water Resources	906,900	0	0	906,900
Weights and Measures, Department of				
Air Quality Fund	1,443,200			1,443,200
Motor Vehicle Liability Insurance Enf. Fund	330,100			330,100
Total - Department of Weights and Measures	1,773,300	0	0	1,773,300

	FY 2015 Approp Rpt July 2014	Adjustments	FY 2015 Supplementals ^{2/}	Enacted FY 2015
OPERATING BUDGET TOTAL	3,120,177,400	109,270,200	\$23,579,700	\$3,253,027,300
Unallocated ASRS Retirement Adjustment	314,700			314,700
Capital	256,649,800			256,649,800
GRAND TOTAL	3,377,141,900	109,270,200	\$23,579,700	\$3,509,991,800

FY 2015 EXPENDITURE AUTHORITY CROSSWALK - ORIGINAL TO FINAL ESTIMATES

AHCCCS	\$6,672,102,500	\$119,902,100 ^{12/}	\$268,809,500 ^{13/}	\$7,060,814,100
Child Safety, Department of	326,301,700	0	0	326,301,700
Economic Security, Department of	786,448,100	0	21,082,900 ^{14/}	807,531,000
Health Services, Department of	1,206,172,700	0	0	1,206,172,700
GRAND TOTAL	\$8,991,025,000	\$119,902,100	\$289,892,400	\$9,400,819,500

^{1/} This chart provides a crosswalk between an agency's original appropriation in the *FY 2015 Appropriations Report* and its final FY 2015 appropriation, excluding capital appropriations.

^{2/} Reflects changes enacted in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8) and additional appropriations.

^{3/} Pursuant to a FY 2015 General Appropriation Act footnote, ADOA reported to the JLBC in September 2014 the Automation Operations Fund revenues in excess of \$19,108,000. ADOA reported increasing the appropriation authority for the Automation Operations Fund by \$2.9 million in FY 2015 for a total of \$22.0 million.

^{4/} Section 112 of the FY 2016 General Appropriation Act.

^{5/} Pursuant to a FY 2015 General Appropriation Act footnote, ADOA reported to the JLBC in March 2015 the State Surplus Materials Revolving Fund revenues in excess of \$2,399,800. ADOA reported increased expenditures of \$560,000 to reimburse agencies for the sale of surplus materials.

^{6/} Section 116 of the FY 2016 General Appropriation Act.

^{7/} Section 117 of the FY 2016 General Appropriation Act.

^{8/} Revised Lottery forecast.

^{9/} Appropriated by Laws 2015, Chapter 2.

^{10/} Section 122 of the FY 2016 General Appropriation Act.

^{11/} Reflects tuition collections receipts above the amount appropriated by the Legislature for FY 2015. A footnote in the FY 2015 General Appropriation Act appropriated any tuition collections receipts above the appropriated amount to the university.

^{12/} Pursuant to footnotes in the FY 2015 General Appropriation Act, appropriations of FY 2015 Expenditure Authority were increased to reflect excess payments made in the DSH Payments - Voluntary Match, Graduation Medical Education and Safety Net Care Pool line items and the Nursing Facility Assessment program.

^{13/} Section 113 of the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).

^{14/} Section 117 of the FY 2016 General Appropriation Act.

**JLBC STAFF
AND
AGENCY DIRECTORY LISTINGS**

JOINT LEGISLATIVE BUDGET COMMITTEE

The Joint Legislative Budget Committee was established in 1966, pursuant to Laws 1966, Chapter 96. The primary powers and duties of the JLBC relate to ascertaining facts and making recommendations to the Legislature regarding all facets of the state budget, state revenues and expenditures, future fiscal needs, and the organization and functions of state government. The following members serve on the Committee during the 52nd Legislature:

Representative Justin Olson Chairman 2015	Senator Don Shooter Chairman 2016
Representative Lela Alston	Senator Olivia Cajero Bedford
Representative Russell "Rusty" Bowers	Senator Steve Farley
Representative Stefanie Mach	Senator Gail Griffin
Representative Darin Mitchell	Senator Katie Hobbs
Representative Steve Montenegro	Senator John Kavanagh
Representative David Stevens	Senator Debbie Lesko
Representative Michelle Ugenti	Senator Steven B. Yarbrough

The objectives and major products of the staff of the JLBC are:

- Analysis and recommendations for the state budget, which is presented in January of each year.
- Technical, analytical, and preparatory support in the development of appropriations bills considered by the Legislature.
- Periodic economic and state revenue forecasts.
- Preparation of fiscal notes on legislation and ballot propositions that have a fiscal impact on the state or any of its political subdivisions.
- An annual *Appropriations Report*, which is published shortly after the budget is completed and provides detail on the budget along with an explanation of legislative intent.
- Support to the JLBC with respect to recommendations on business items placed on the committee's agenda such as transfers of appropriations pursuant to A.R.S. § 35-173.
- Support to the Joint Committee on Capital Review (JCCR) with respect to all capital outlay issues including land acquisition, new construction, and building renewal projects.
- Analyze the state tax structure, tax burdens on individuals and businesses and tax incentives for businesses pursuant to A.R.S. § 41-1272A4.

Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007
Phone: (602) 926-5491
Email: jlbcwebmaster@azleg.gov
JLBC Website: <http://www.azleg.gov/jlbc.htm>

JOINT COMMITTEE ON CAPITAL REVIEW

The Joint Committee on Capital Review (JCCR) was first established on April 11, 1986, pursuant to Laws 1986, Chapter 85. The primary powers and duties of the Joint Committee on Capital Review relate to ascertaining facts and making recommendations to the Legislature regarding state expenditures for land, buildings and improvements. This portion of the state budget is known as “capital outlay.” The following members serve on the Committee during the 52nd Legislature:

Senator Don Shooter Chairman 2015	Representative Justin Olson Chairman 2016
Senator Olivia Cajero Bedford	Representative Lela Alston
Senator Steve Farley	Representative Rick Gray
Senator Gail Griffin	Representative Eric Meyer, M.D.
Senator Katie Hobbs	Representative Steve Montenegro
Senator John Kavanagh	Representative Andrew C. Sherwood
Senator Steven B. Yarbrough	Representative David Stevens

The JCCR is staffed by the JLBC Staff. The objectives and major products of the JCCR are:

- Recommend capital appropriations to the Legislature.
- Approve capital transfers within a budget unit.
- Review the scope, purpose and cost of projects before releasing appropriations.
- Develop “Building Renewal Formula.”
- Approve the use of Renewal funds for infrastructure repair.
- Approve lease-purchase agreements, and the acquisition of certain real property and buildings.
- Approve corrections facilities expenditures from the Corrections Fund.
- Review the issuance of revenue bonds by the Board of Regents.
- Approve Arizona Department of Administration land and building purchases and condemnations.
- Review “Capital Improvement Plans.”
- Determine rental rates for buildings owned by or leased to the state.
- Review Community College District revenue bond projects.
- Review School Facilities Board assumptions for new school construction.
- Review School Facilities Board lease-to-own agreements.

APPROPRIATIONS COMMITTEE MEMBERS
Fifty-second Legislature
First Regular Session

SENATE

Don Shooter, Chairman
 John Kavanagh, Vice-Chairman
 Sylvia Allen
 Olivia Cajero Bedford
 Steve Farley
 Katie Hobbs
 Debbie Lesko
 Kelli Ward

HOUSE

Justin Olson, Chairman
 Vince Leach, Vice-Chairman
 John Allen
 Lela Alston
 Russell Bowers
 Mark Cardenas
 Rick Gray
 Stefanie Mach
 Eric Meyer
 Warren Petersen
 Anthony Rivero
 Andrew Sherwood
 David Stevens
 Michelle Ugenti

STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE

- Director..... Richard Stavneak
- Office Manager Linda Monsanto
- Deputy Directors Steve Schimpp
 Stefan Shepherd
- Assistant Director Jack Brown
- Principal Economist Tim Everill
- Chief Economist..... Hans Olofsson
- Principal Fiscal Analysts..... Eric Billings
 Bob Hull
 Art Smith
- Senior Fiscal Analysts..... Ben Beutler
 Steve Grunig
 Jon Stall
- Fiscal Analysts..... Henry Furtick
 Matt Gress
 Jeremy Gunderson
 Josh Hope
 Micaela Larkin
 Krista MacGahan
 Rebecca Perrera
 Tom Ritland
- Administrative Assistant/JLBC & JCCR Clerk..... Kristy Paddack

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of May 15, 2015)**

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Accountancy, Arizona State Board of	Steve Grunig	Monica Petersen [Executive Director]	602-364-0870
Acupuncture Board of Examiners	Steve Grunig	Pete Gonzalez [Director]	602-542-3095
Administration, Arizona Department of	Rebecca Perrera	Kevin Donnellan [Acting Director]	602-542-1500
Administrative Hearings, Office of	Bob Hull	Greg Hanchett [Acting Director]	602-542-9830
African-American Affairs, Arizona Commission of	Rebecca Perrera	--	--
Agriculture, Arizona Department of	Henry Furtick	Mark Killian [Director]	602-542-5729
Arizona Health Care Cost Containment System	Jon Stall/Matt Gress	Thomas J. Betlach [Director]	602-417-4111
Appraisal, State Board of	Steve Grunig	Debra J. Rudd [Executive Director]	602-542-1593
Arizona State University	Art Smith	Michael Crow, Ph.D. [President]	480-965-8972
Arts, Arizona Commission on the	Krista MacGahan	Robert Booker [Executive Director]	602-771-6501
Athletic Training, Board of	Henry Furtick	J. Randy Frost [Executive Director]	602-589-6337
Attorney General - Department of Law	Matt Gress	Honorable Mark Brnovich [Attorney General]	602-542-5025
Auditor General	Steve Grunig	Debra K. Davenport [Auditor General]	602-553-0333
Automobile Theft Authority	Eric Billings	Frederick Zumbo [Executive Director]	602-364-2888
Barbers, Board of	Steve Grunig	Sam LaBarbera [Executive Director]	602-542-4498
Behavioral Health Examiners, Board of	Steve Grunig	Tobi Zavala [Executive Director]	602-542-1884
Charter Schools, State Board for	Rebecca Perrera	Whitney Chapa [Executive Director]	602-364-3080
Child Safety, Department of	Ben Beutler	Greg McKay [Director]	602-542-5844
Chiropractic Examiners, State Board of	Steve Grunig	Pamela Paschal [Executive Director]	602-864-5088
Citizens Clean Elections Commission	Krista MacGahan	Thomas M. Collins [Executive Director]	602-364-3477
Commerce Authority, Arizona	Eric Billings	Sandra Watson [President and CEO]	602-845-1252
Community Colleges, Arizona	Tom Ritland	--	--
Constable Ethics Standards and Training Board	Steve Grunig	Ron Myers [Chairman]	602-252-6563
Contractors, Registrar of	Bob Hull	Jeffrey Fleetham [Director]	602-771-6700
Corporation Commission	Jeremy Gunderson	Honorable Susan Bitter Smith [Chairman]	602-542-3625
Corrections, State Department of	Micaela Larkin	Charles L. Ryan [Director]	602-542-5225
Cosmetology, Board of	Steve Grunig	Donna Aune [Director]	480-784-4539
Court of Appeals, Division I	Eric Billings	Honorable Diane Johnson [Chief Judge]	602-542-1432
Court of Appeals, Division II	Eric Billings	Honorable Peter Eckerstrom [Chief Judge]	520-628-6950
Criminal Justice Commission, Arizona	Krista MacGahan	John Blackburn, Jr. [Executive Director]	602-364-1146
Deaf and the Blind, Arizona State Schools for the	Tom Ritland	Marv Lamer [Interim Superintendent]	520-770-3704
Deaf and the Hard of Hearing, Commission for the	Rebecca Perrera	Sherri L. Collins [Executive Director]	602-542-3383
Dental Examiners, State Board of	Bob Hull	Elaine Hugunin [Executive Director]	602-542-4451
Early Childhood Development and Health Board, Arizona	Ben Beutler	Sam Leyvas [Executive Director]	602-771-5100
Economic Security, Department of	Tom Ritland	Tim Jeffries [Director]	602-542-5678
Education, State Board of	Steve Schimpp	Christine M. Thompson [Executive Director]	602-542-5057
Education, Department of	Steve Schimpp	Honorable Diane Douglas [Superintendent of Public Instruction]	602-542-5460
Emergency and Military Affairs, Department of	Eric Billings	Michael McGuire [Adjutant General]	602-267-2710
Environmental Quality, Department of	Josh Hope	Henry Darwin [Director]	602-771-2204
Equal Opportunity, Governor's Office of	Bob Hull	Carolyn Pitre Wright [Director]	602-542-1337
Equalization, State Board of	Jeremy Gunderson	George R. Shook [Interim Chairman]	602-364-1611
Executive Clemency, Board of	Krista MacGahan	Ellen Kirschbaum [Chairman]	602-542-5656
Exposition and State Fair Board, Arizona	Steve Grunig	Wanell Costello [Executive Director]	602-252-6771
Financial Institutions, Department of	Jeremy Gunderson	Lauren W. Kingry [Superintendent]	602-771-2800
Fire, Building and Life Safety, Department of	Henry Furtick	Gene Palma [Director]	602-364-1003
Forester, State	Krista MacGahan	Jeff Whitney [State Forester]	602-771-1400
Funeral Directors & Embalmers, State Board of	Steve Grunig	Rodolfo R. Thomas [Executive Director]	602-542-8152
Game and Fish Department, Arizona	Krista MacGahan	Larry Voyles [Director]	602-942-3000
Gaming, Department of	Henry Furtick	Daniel Bergin [Director]	602-771-4263
Geological Survey, Arizona	Krista MacGahan	M. Lee Allison, Ph.D. [Director and State Geologist]	520-770-3500

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Governor, Office of the Governor's Office of Strategic Planning & Budgeting Health Services, Department of Historical Society, Arizona Historical Society of Arizona, Prescott	Bob Hull Bob Hull Matt Gress Josh Hope Josh Hope	Honorable Doug Ducey [Governor] Lorenzo Romero [Director] Dr. Cara Christ [Director] Anne I. Woosley [Executive Director] Fred Veil [Executive Director]	602-542-4331 602-542-5381 602-542-1025 520-628-5774 928-445-3122
Homeland Security, Arizona Department of Homeopathic and Integrated Medicine Examiners, Board of House of Representatives Housing, Arizona Department of Independent Redistricting Commission	Krista MacGahan Steve Grunig Bob Hull Henry Furtick Krista MacGahan	Gilbert M. Orrantia [Director] Christine Springer [Executive Director] Honorable David Gowan [Speaker of the House] Michael Traylor [Director] Ray Bladine [Executive Director]	602-542-7013 602-542-3095 602-926-3312 602-771-1000 602-542-5221
Indian Affairs, Arizona Commission of Industrial Commission of Arizona Insurance, Department of Joint Legislative Budget Committee Juvenile Corrections, Department of	Bob Hull Bob Hull Jeremy Gunderson Bob Hull Eric Billings	Kristine FireThunder [Executive Director] Laura L. McGrovy [Director] Germaine Marks [Director] Richard Stavneak [Director] Dona Marie Markley [Assistant Director]	602-542-4421 602-542-4411 602-364-3471 602-926-5491 602-364-4051
Land Department, State Legislative Council Liquor Licenses & Control, Department of Lottery Commission, Arizona State Massage Therapy, Board of	Henry Furtick Bob Hull Jeremy Gunderson Jon Stall Steve Grunig	Lisa Atkins [Land Commissioner] Mike E. Braun [Executive Director] John Cocca [Director] Tony Bouie [Executive Director] Kathleen Phillips [Executive Director]	602-542-4631 602-926-4236 602-542-9020 480-921-4505 602-542-8804
Medical Board, Arizona Mine Inspector, State Naturopathic Physicians Medical Board Navigable Stream Adjudication Commission, Arizona Northern Arizona University	Bob Hull Krista MacGahan Steve Grunig Henry Furtick Art Smith	C. Lloyd Vest, II [Executive Director] Honorable Joe Hart [State Mine Inspector] Gail Anthony [Director] George Mehnert [Executive Director] Rita Cheng, Ph.D. [President]	480-551-2791 602-542-5971 602-542-8242 602-542-9214 928-523-3232
Nursing, State Board of Nursing Care Institution Administrators & Assisted Living Facility Managers, Board of Examiners of Occupational Safety & Health Review Board Occupational Therapy Examiners, Board of Opticians, State Board of Dispensing	Bob Hull Steve Grunig Bob Hull Steve Grunig Steve Grunig	Jo Elizabeth Ridenour [Executive Director] Allen Imig [Executive Director] Gary Lasham [Chairman] J. Randy Frost [Executive Director] Lori D. Scott [Executive Director]	602-771-7800 602-542-8156 602-542-4411 602-589-8352 602-542-8158
Optometry, State Board of Osteopathic Examiners, Arizona Board of Parents Commission on Drug Education and Prevention, AZ Parks Board, Arizona State Personnel Board, State	Steve Grunig Jeremy Gunderson Bob Hull Art Smith Bob Hull	Margaret Whelan [Executive Director] Jenna Jones [Executive Director] Tonya Hamilton [Program Administrator] Sue Black [Executive Director] Laurie Barcelona [Executive Director]	602-542-8155 480-657-7703 602-542-1760 602-542-4174 602-542-3888
Pest Management, Office of Pharmacy, Arizona State Board of Physical Therapy, Board of Pioneers' Home, Arizona Podiatry Examiners, State Board of	Henry Furtick Henry Furtick Steve Grunig Rebecca Perrera Steve Grunig	Mark Killian [Director] Hal Wand [Executive Director] Charles Brown [Executive Director] Ted Ihrman [Superintendent] Sarah Penttinen [Executive Director]	602-542-5729 602-771-2727 602-542-8157 928-445-2181 602-542-8151
Postsecondary Education, Commission for Power Authority, Arizona Private Postsecondary Education, State Board for Psychologist Examiners, State Board of Public Safety, Department of	Rebecca Perrera Krista MacGahan Rebecca Perrera Steve Grunig Eric Billings	April L. Osborn [Executive Director] Michael A. Gazda [Acting Executive Director] Teri R. Stanfill [Executive Director] Cindy Olvey [Director] Frank Milstead [Director]	602-258-2435 602-368-4265 602-542-2399 602-542-8162 602-223-2359
Public Safety Personnel Retirement System Racing, Arizona Department of Radiation Regulatory Agency Real Estate Department, State Regents, Arizona Board of	Matt Gress Henry Furtick Henry Furtick Steve Grunig Micaela Larkin	Jared Smout [Acting Administrator] Rudy Casillas [Acting Director] Aubrey V. Godwin [Director] Judy Lowe [Commissioner] Eileen Klein [President]	602-255-5575 602-364-1700 602-255-4845 602-771-7799 602-229-2500
Residential Utility Consumer Office Respiratory Care Examiners, Board of Retirement System, Arizona State Revenue, Department of School Facilities Board	Jeremy Gunderson Steve Grunig Matt Gress Jeremy Gunderson Josh Hope	David Tenney [Director] Jack Confer [Director] Paul Matson [Director] David Raber [Director] Phil Williams [Interim Director]	602-364-4835 602-542-5995 602-240-2000 602-716-6090 602-542-4457

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Secretary of State, Department of State Senate State Boards' Office Superior Court Supreme Court	Krista MacGahan Bob Hull Steve Grunig Eric Billings Eric Billings	Honorable Michele Reagan [Secretary of State] Honorable Andy Biggs [President of the Senate] Megan Darian [Office Manager] David K. Byers [Director] Scott Bales [Chief Justice]	602-542-4285 602-926-4371 602-542-3095 602-452-3301 602-452-3534
Tax Appeals, State Board of Technical Registration, State Board of Tourism, Office of Transportation, Department of Treasurer, State	Jeremy Gunderson Henry Furtick Henry Furtick Ben Beutler Eric Billings	Karen Rice-Brogdon [Chairperson] Melissa Cornelius [Executive Director] Sherry Henry [Director] John Halikowski [Director] Honorable Jeff DeWit [State Treasurer]	602-364-1102 602-364-4930 602-364-3717 602-712-7227 602-604-7800
Uniform State Laws, Commission on University of Arizona Veterans' Services, Department of Veterinary Medical Examining Board, Arizona State Water Infrastructure Finance Authority	Krista MacGahan Micaela Larkin Rebecca Perrera Steve Grunig Josh Hope	Timothy Berg [Commissioner] Ann Weaver Hart, Ph.D. [President] Colonel Wanda Wright [Director] Victoria Whitmore [Executive Director] Sandy Sutton [Executive Director]	602-916-5151 520-621-5511 602-255-3373 602-542-8150 602-364-1310
Water Resources, Department of Weights & Measures, Department of	Krista MacGahan Henry Furtick	Thomas Buschatzke [Director] Andy Tobin [Director]	602-771-8426 602-771-4920
<u>OTHER ASSIGNMENTS</u>			
Capital Review Economic & Revenue Forecast	Jack Brown Tim Everill Hans Olofsson Jack Brown Ben Beutler Jeremy Gunderson Jon Stall		
Federal/Non-Appropriated Funds Fiscal Note Manager	Stefan Shepherd Stefan Shepherd		

[] Denotes Title for Information Purposes