

## Department of Environmental Quality

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
<b>OPERATING BUDGET</b>			
<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
<b>OPERATING SUBTOTAL</b>	<b>34,337,300</b>	<b>46,322,300</b>	<b>46,139,900</b>
<b>SPECIAL LINE ITEMS</b>			
Emergency Response Commission (Ch. 208)	0	0	132,800 <sup>1/</sup>
Emissions Control Contractor Payment	21,500,200	21,119,500	21,119,500
Safe Drinking Water Program	0	1,800,000	1,800,000 <sup>2/</sup>
WQARF Priority Site Remediation	7,000,000	7,000,000	7,000,000 <sup>3/4/5/</sup>
<b>AGENCY TOTAL</b>	<b>62,837,500</b>	<b>76,241,800</b>	<b>76,192,200 <sup>6/</sup></b>
<b>FUND SOURCES</b>			
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 <sup>2/</sup>
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 <sup>8/</sup>
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
<b>SUBTOTAL - Appropriated Funds</b>	<b>62,837,500</b>	<b>76,241,800</b>	<b>76,192,200</b>
Other Non-Appropriated Funds	38,428,500	37,822,000	37,822,000
Federal Funds	14,449,400	15,204,200	15,204,200
<b>TOTAL - ALL SOURCES</b>	<b>115,715,400</b>	<b>129,268,000</b>	<b>129,218,400</b>

<sup>1/</sup> 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.

<sup>2/</sup> 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)

<sup>3/</sup> 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.

<sup>4/</sup> 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)

<sup>5/</sup> 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:

	<b>FY 2016</b>
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.

**Table 1**

**WQARF Activity**

	<b>Actual FY 2014</b>	<b>Estimated FY 2015</b>
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>
<b>Total Funds Available</b>	<b>\$20,530,600</b>	<b>\$16,491,800</b>
General Fund Expenditures	\$ 7,000,000	\$ 7,000,000
Other Funds Expended	7,493,000	7,775,000
<b>Funds Transferred</b>		
Dept. of Water Resources	\$ (300,000)	\$ (300,000)
Fund Sweeps	<u>(108,100)</u>	<u>0</u>
<b>Year-End Fund Balance</b>	<b>\$ 5,629,600</b>	<b>\$ 1,416,800</b>

**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.)*