

Capital Outlay
Summary

	FY 2016 BASELINE
BUILDING RENEWAL	
ADOA Building System	14,567,900
ADOT Building System	3,396,800
ABOR Building System	0
SUBTOTAL	17,964,700
INDIVIDUAL PROJECTS	
ADOA Building System	0
ADOT Building System	261,452,800
ABOR Building System	0
SUBTOTAL	261,452,800
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations <u>1/</u>	114,563,600
TOTALS	
ADOA Building System	129,131,500
ADOT Building System	264,849,600
ABOR Building System	0
TOTAL - ALL PROJECTS	393,981,100
FUND SOURCES	
General Fund	114,563,600
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
State Aviation Fund	21,996,700
State Highway Fund	242,852,900
State Lottery Fund	103,600
SUBTOTAL - Other Appropriated Funds	279,417,500
SUBTOTAL - Appropriated Funds	393,981,100
Other Non-Appropriated Funds	466,892,000
Federal Funds	670,848,000
TOTAL - ALL SOURCES	1,531,721,100

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.

The following amounts are one-time appropriations:

	FY 2016
Capital Outlay	GF \$114,563,600
	OF 279,417,500

The Baseline includes a total of \$393,981,100 from Appropriated Funds in FY 2016. Of the total, \$114,563,600 is from the General Fund and \$279,417,500 is from Other Appropriated Funds. The Baseline consists of 3 main categories: 1) Building Renewal, 2) Individual Projects, and 3) Lease-Purchase Payments.

Building Renewal

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

The Baseline includes total funding of \$17,964,700 in FY 2016 for Building Renewal which is from Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$9,000,000
Capital Outlay Stabilization Fund	
@ 24.9% (non-ADC buildings)	
Department of Corrections	
General Fund/ADC Building	5,464,300
Renewal Fund @ 31.1% (ADC-only buildings)	
State Lottery Fund @ 100%	<u>103,600</u>
Subtotal - ADOA	\$14,567,900
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 Baseline includes total funding of \$261,452,800 in FY 2016 for individual capital projects, which consists of \$261,452,800 from Other Appropriated Funds. (See the individual building systems' write-ups for more information.)

Lease-Purchase Payments

The Baseline 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.)

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FOOTNOTES

Capital Standard Footnotes

Building Renewal

Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 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. ~~Any monies appropriated for building renewal in FY 2016 that are unexpended or unencumbered on June 30, 2017 revert to the fund from which the monies were appropriated.~~

Individual Projects

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

Unless otherwise specified, the monies appropriated in this act 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.

New Footnotes

Excluding appropriations made to the Department of Transportation for highway construction, any appropriations made in this act in FY 2016 that are unexpended on June 30, 2017 shall revert to the fund from which the monies were appropriated. (See Other Issues for Legislative Consideration for further detail.)

Deletion of Prior Year Footnotes

The Baseline would delete the standard capital footnote specifying that Capital Outlay Act appropriations do not lapse unless: the project has been finished or abandoned, or the appropriation stands for a full fiscal year without expenditure or encumbrance. (See Other Issues for Legislative Consideration for further detail.)

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Capital Standard Footnote Changes

The current Capital Outlay Act allows appropriations to remain active as long as the appropriation has some level of expenditure or encumbrance during a given fiscal year. The Executive has interpreted this language as permitting capital appropriations to remain active as long as minimal planning activity is occurring. As a result, the state has a significant number of appropriations that remain active well beyond their original legislative authorization with little to no annual activity.

As of the end of FY 2014, there are 3 General Fund Capital appropriations totaling \$4.2 million which are still active after a period of 2 fiscal years. In addition, there are 2 agencies with a significant amount of Other Fund capital appropriations active after a period of 2 fiscal years: 1) Department of Administration – 8 appropriations with \$5.6 million of remaining funding; and 2) Game and Fish Department – 11 appropriations with \$2.8 million of remaining funding.

To address this issue, the Baseline proposes to require all non-ADOT highway construction capital appropriations to lapse after a period of 2 fiscal years, unless an appropriation is specifically exempted. Preventing future capital appropriations from remaining inactive for a period of several fiscal years will allow the Legislature to better evaluate agency capital expenditures based on agencies' capital needs at a given time. A corresponding portion of the Capital Standard Building Renewal footnote would be deleted (relating to lapsing) as it would be covered under the new proposed footnote.

Capital Outlay

Arizona Department of Administration Building System

FY 2016
BASELINE

BUILDING RENEWAL

Department of Administration	9,000,000
Arizona Lottery Commission	103,600
Department of Corrections	5,464,300
SUBTOTAL	14,567,900

TOTAL - ALL PROJECTS

14,567,900

FUND SOURCES

Other Appropriated Funds

Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
State Lottery Fund	103,600

SUBTOTAL - Other Appropriated Funds **14,567,900**

SUBTOTAL - Appropriated Funds 14,567,900

TOTAL - ALL SOURCES

14,567,900

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.

The following amounts are one-time appropriations:

Building Renewal OF FY 2016 \$14,567,900

The Baseline includes \$14,567,900 from Other Appropriated Funds in FY 2016 for Building Renewal within the ADOA Building System. This amount consists of:

- \$9,000,000 from the Capital Outlay Stabilization Fund (COSF) to ADOA. This continues the COSF amount funded in FY 2015 and represents 24.9% 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.
- \$103,600 from the State Lottery Fund to the Arizona State Lottery Commission, 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.
- \$5,464,300 from the ADC Building Renewal Fund to ADC, 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.

- \$0 from the Game and Fish Fund to the Arizona Game and Fish Department. Since the Game and Fish Department is a non-General Fund agency, the Baseline would typically fund 100% of the agency's building renewal formula for a total of \$767,000. However, as of the end of FY 2013, the agency still has \$76,700 of available building renewal funding from the agency's FY 2013 appropriation, along with \$547,600 allocated in FY 2014. The agency did not receive a building renewal appropriation in FY 2015.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The Baseline continues the footnote that allows up to \$275,000 and up to 5 FTE Positions be allocated each year from building renewal monies to ADOA for supervision and management of building renewal projects, and a requirement that unused building renewal monies revert on June 30, 2017.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

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

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

ON OR BEFORE JANUARY 31, 2016, AND JULY 31, 2016, the State Department of Corrections shall report ~~monthly~~ to the Joint Legislative Budget Committee Staff on the status of ALL BUILDING RENEWAL ~~the~~ projects AND BUILDING RENEWAL EXPENDITURES ~~funded under this section~~. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. *(These changes convert the status reports to semi-annually.)*

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

The Department of Administration may allocate FTE Positions authorized for specific projects to other projects in this act 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.

New Footnotes

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. *(The footnote requires semi-annual reporting.)*

STATUTORY CHANGES

Deleted Provisions

The Baseline would not continue the one-time session law provision that allows ADOA to use monies appropriated for building renewal for building demolition.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

COSF Rental Rate Change & Payment Adjustments

The Baseline 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 are as follows:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 65,600	\$ 110,500
• PLTO	30,300	252,300
• Rent	<u>(201,900)</u>	<u>(739,000)</u>
	\$ (106,000)	\$ (376,200)

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

In FY 2016, PLTO payments will increase by \$252,300 of which \$30,300 is from the General Fund, \$189,800 is from Other Appropriated Funds, and \$32,200 is from Non-Appropriated Funds.

Rent Adjustments

In FY 2016, rent payments will decrease by \$(739,000) of which \$(201,900) is from the General Fund, \$(393,400) is from Other Appropriated Funds, and \$(143,700) is from Non-Appropriated Funds.

The Baseline includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). *(Please see Summary of Rent Charges for additional information.)*

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Administration, AZ Department of Sale/Lease-Back	84,123,700			84,123,700	84,114,600			84,114,600	(9,100)	0	0	(9,100)
Corrections, Arizona Department of 4,000 Public Prison Beds	16,064,400			16,064,400	16,061,900			16,061,900	(2,500)	0	0	(2,500)
Water and Wastewater Projects	657,500			657,500	657,000			657,000	(500)	0	0	(500)
1,000 Public Prison Beds - Refinance 2/	3,074,600			3,074,600	3,075,300			3,075,300	700	0	0	700
Subtotal - AZ Department of Corrections	\$19,796,500	\$0	\$0	\$19,796,500	\$19,794,200	\$0	\$0	\$19,794,200	(\$2,300)	\$0	\$0	(\$2,300)
Health Services, Department of Health Services Building - Refinance 3/	1,793,900	1,196,200		2,990,100	1,858,600	1,239,400		3,098,000	64,700	43,200	0	107,900
Health Lab - Refinance 2/	0	2,031,300		2,031,300	0	2,033,000		2,033,000	0	1,700	0	1,700
Arizona State Hospital Forensic Unit	3,110,500			3,110,500	3,113,700			3,113,700	3,200	0	0	3,200
Subtotal - Department of Health Services	\$4,904,400	\$3,227,500	\$0	\$8,131,900	\$4,972,300	\$3,272,400	\$0	\$8,244,700	\$67,900	\$44,900	\$0	\$112,800
GRAND TOTAL	\$108,824,600	\$3,227,500	\$0	\$112,052,100	\$108,881,100	\$3,272,400	\$0	\$112,153,500	\$56,500	\$44,900	\$0	\$101,400

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 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Arizona Department of Administration Building												
Accountancy, State Board of	0	110,400	0	110,400	0	113,200	0	113,200	0	2,800	0	2,800
Administration, Arizona Department of	819,800	2,112,500	220,700	3,153,000	840,600	2,166,000	226,300	3,232,900	20,800	53,500	5,600	79,900
Deaf and Hard of Hearing, Commission for the	0	211,900	0	211,900	0	217,300	0	217,300	0	5,400	0	5,400
Equalization, State Board of	86,400	0	0	86,400	88,600	0	0	88,600	2,200	0	0	2,200
Tax Appeals, State Board of	33,200	0	0	33,200	34,000	0	0	34,000	800	0	0	800
Subtotal - ADOA Building	\$939,400	\$2,434,800	\$220,700	\$3,594,900	963,200	2,496,500	226,300	3,686,000	\$23,800	\$61,700	\$5,600	\$91,100
Arizona Department of Environmental Quality Building												
Criminal Justice Commission, Arizona	0	11,200	173,600	184,800	0	11,500	178,000	189,500	0	300	4,400	4,700
Environmental Quality, Department of	0	3,953,700	0	3,953,700	0	4,054,000	0	4,054,000	0	100,300	0	100,300
Environmental Quality, Department of - WIFA	0	0	111,200	111,200	0	0	114,000	114,000	0	0	2,800	2,800
Fire, Building and Life Safety, Department of	144,700	0	53,400	198,100	148,400	0	54,800	203,200	3,700	0	1,400	5,100
Forester, State	110,200	0	0	110,200	113,000	0	0	113,000	2,800	0	0	2,800
Gaming, Department of	0	607,800	0	607,800	0	623,200	0	623,200	0	15,400	0	15,400
Housing, Department of	0	29,600	464,200	493,800	0	30,300	476,000	506,300	0	700	11,800	12,500
Insurance, Department of	0	0	56,300	56,300	0	0	57,700	57,700	0	0	1,400	1,400
Racing, Arizona Department of	0	151,800	0	151,800	0	155,600	0	155,600	0	3,800	0	3,800
Residential Utility Consumer Office	0	117,900	0	117,900	0	120,900	0	120,900	0	3,000	0	3,000
Technical Registration, State Board of	0	181,900	0	181,900	0	186,500	0	186,500	0	4,600	0	4,600
Tourism, Office of	0	0	187,300	187,300	0	0	192,100	192,100	0	0	4,800	4,800
Subtotal - ADEQ Building	\$254,900	\$5,053,900	\$1,046,000	\$6,354,800	\$261,400	\$5,182,000	\$1,072,600	\$6,516,000	\$6,500	\$128,100	\$26,600	\$161,200
GRAND TOTAL	\$1,194,300	\$7,488,700	\$1,266,700	\$9,949,700	\$1,224,600	\$7,678,500	\$1,298,900	\$10,202,000	\$30,300	\$189,800	\$32,200	\$252,300

^{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.

SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Acupuncture Board of Examiners												
1400 W Washington	0	4,500	0	4,500	0	4,500	0	4,500	0	0	0	0
Administration, AZ Department of												
1400 W Washington	8,300	7,800	0	16,100	18,900	17,700	0	36,600	10,600	9,900	0	20,500
1510 W Adams	0	353,600	0	353,600	0	124,600	0	124,600	0	(229,000)	0	(229,000)
1520 W Adams	0	147,900	0	147,900	0	196,000	0	196,000	0	48,100	0	48,100
1522 W Jackson	0	41,900	0	41,900	0	41,900	0	41,900	0	0	0	0
1537 W Jackson	0	89,100	0	89,100	0	89,100	0	89,100	0	0	0	0
1616 W Adams	0	77,300	0	77,300	0	77,300	0	77,300	0	0	0	0
1802 W Jackson	0	24,900	61,900	86,800	0	24,900	61,900	86,800	0	0	0	0
1840 W Jackson	0	63,600	0	63,600	0	63,600	0	63,600	0	0	0	0
1850 W Jackson	0	44,500	0	44,500	0	44,500	0	44,500	0	0	0	0
1700 W Washington	25,400	61,300	0	86,700	32,600	78,800	0	111,400	7,200	17,500	0	24,700
1789 W Jefferson (DES West)	0	16,400	0	16,400	0	16,400	0	16,400	0	0	0	0
1937 W Jefferson/CDC	0	114,600	0	114,600	0	0	0	0	0	(114,600)	0	(114,600)
1801 W Madison	0	21,500	0	21,500	0	21,500	0	21,500	0	0	0	0
1805 W Madison	0	24,700	0	24,700	0	24,700	0	24,700	0	0	0	0
400 W Congress, Tucson	0	53,500	0	53,500	0	53,500	0	53,500	0	0	0	0
402 W Congress, Tucson	0	56,200	0	56,200	0	56,200	0	56,200	0	0	0	0
416 W Congress, Tucson	0	2,700	0	2,700	0	2,700	0	2,700	0	0	0	0
Subtotal - AZ Dept of Administration	\$33,700	\$1,201,500	\$61,900	\$1,297,100	\$51,500	\$933,400	\$61,900	\$1,046,800	\$17,800	(\$268,100)	\$0	(\$250,300)
Administrative Hearings, Office of												
1400 W Washington	71,000	900	131,500	203,400	71,000	900	131,500	203,400	0	0	0	0
400 W Congress, Tucson	0	11,400	0	11,400	0	11,400	0	11,400	0	0	0	0
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800	\$71,000	\$12,300	\$131,500	\$214,800	\$0	\$0	\$0	\$0
Agriculture, AZ Department of												
1520 W Adams	106,400	0	0	106,400	106,400	0	0	106,400	0	0	0	0
1688 W Adams	197,700	0	222,800	420,500	197,700	0	222,800	420,500	0	0	0	0
400 W Congress, Tucson	32,100	0	4,700	36,800	32,100	0	4,700	36,800	0	0	0	0
Subtotal - AZ Dept of Agriculture	\$336,200	\$0	\$227,500	\$563,700	\$336,200	\$0	\$227,500	\$563,700	\$0	\$0	\$0	\$0
Appraisal, State Board of												
15 S 15th Ave	0	32,700	0	32,700	0	32,700	0	32,700	0	0	0	0
AZ Health Care Cost Containment System												
Kingman Building	6,800	0	6,600	13,400	6,800	0	6,600	13,400	0	0	0	0
Arts, AZ Commission on the												
417 W Roosevelt	0	0	49,700	49,700	0	0	49,700	49,700	0	0	0	0
Attorney General - Department of Law												
1275 W Washington	550,300	315,500	320,200	1,186,000	550,300	315,500	320,200	1,186,000	0	0	0	0
400 W Congress, Tucson	32,600	25,600	19,100	77,300	32,600	25,600	19,100	77,300	0	0	0	0
402 W Congress, Tucson	137,700	107,900	79,900	325,500	137,700	107,900	79,900	325,500	0	0	0	0
Capitol Center	967,700	340,000	0	1,307,700	967,700	340,000	0	1,307,700	0	0	0	0
Subtotal - Attorney General - Dept of Law	\$1,688,300	\$789,000	\$419,200	\$2,896,500	\$1,688,300	\$789,000	\$419,200	\$2,896,500	\$0	\$0	\$0	\$0
Automobile Theft Authority												
1400 W Washington	0	34,800	0	34,800	0	34,800	0	34,800	0	0	0	0
Barbers, Board of												
1400 W Washington	0	12,500	0	12,500	0	12,500	0	12,500	0	0	0	0
Charter Schools, State Board for												
1616 W Adams	70,500	0	0	70,500	70,500	0	0	70,500	0	0	0	0
1700 W Washington	24,700	0	0	24,700	0	0	0	0	(24,700)	0	0	(24,700)
Subtotal - State Board for Charter Schools	\$95,200	\$0	\$0	\$95,200	\$70,500	\$0	\$0	\$70,500	(\$24,700)	\$0	\$0	(\$24,700)
Child Safety, Department of												
1400 W Washington	0	0	0	0	0	0	100,400	100,400	0	0	100,400	100,400
Kingman Building	0	0	0	0	50,700	104,000	69,900	224,600	50,700	104,000	69,900	224,600
400 W Congress, Tucson	0	0	0	0	211,900	199,600	96,000	507,500	211,900	199,600	96,000	507,500
Capitol Center	0	0	0	0	195,700	54,400	112,300	362,400	195,700	54,400	112,300	362,400
Subtotal - Department of Child Safety	\$0	\$0	\$0	\$0	\$458,300	\$358,000	\$378,600	\$1,194,900	\$458,300	\$358,000	\$378,600	\$1,194,900
Citizens Clean Election Commission												
1616 W Adams	0	0	54,300	54,300	0	0	54,300	54,300	0	0	0	0

	Fiscal Year 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Contractors, Registrar of												
400 W Congress, Tucson	0	38,000	0	38,000	0	38,000	0	38,000	0	0	0	0
1700 W Washington	0	448,800	0	448,800	0	418,700	0	418,700	0	(30,100)	0	(30,100)
Subtotal - Registrar of Contractors	\$0	\$486,800	\$0	\$486,800	\$0	\$456,700	\$0	\$456,700	\$0	(\$30,100)	\$0	(\$30,100)
Corporation Commission												
1200 W Washington	0	527,800	0	527,800	0	527,800	0	527,800	0	0	0	0
1300 W Washington	0	382,400	0	382,400	0	382,400	0	382,400	0	0	0	0
1400 W Washington	0	154,200	0	154,200	0	154,200	0	154,200	0	0	0	0
400 W Congress, Tucson	5,500	47,900	3,100	56,500	5,500	47,900	3,100	56,500	0	0	0	0
Subtotal - Corporation Commission	\$5,500	\$1,112,300	\$3,100	\$1,120,900	\$5,500	\$1,112,300	\$3,100	\$1,120,900	\$0	\$0	\$0	\$0
Corrections, State Department of												
1601 W Jefferson	749,800	0	0	749,800	749,800	0	0	749,800	0	0	0	0
1645 W Jefferson	671,000	0	0	671,000	668,600	0	0	668,600	(2,400)	0	0	(2,400)
1831 W Jefferson	266,300	0	0	266,300	266,300	0	0	266,300	0	0	0	0
Subtotal - State Dept of Corrections	\$1,687,100	\$0	\$0	\$1,687,100	\$1,684,700	\$0	\$0	\$1,684,700	(\$2,400)	\$0	\$0	(\$2,400)
Deaf and the Hard of Hearing, Commission for the												
1400 W Washington	0	8,400	0	8,400	0	8,400	0	8,400	0	0	0	0
Economic Security, Department of												
1400 W Washington	0	0	100,400	100,400	0	0	58,000	58,000	0	0	(42,400)	(42,400)
1624 W Adams	64,100	29,200	23,400	116,700	64,100	29,200	23,400	116,700	0	0	0	0
1700 W Washington	15,500	7,100	5,700	28,300	12,800	5,900	4,700	23,400	(2,700)	(1,200)	(1,000)	(4,900)
1789 W Jefferson (DES West)	1,430,600	356,500	472,900	2,260,000	1,430,600	356,500	472,900	2,260,000	0	0	0	0
Kingman Building	50,700	104,000	69,900	224,600	31,900	65,500	44,000	141,400	(18,800)	(38,500)	(25,900)	(83,200)
400 W Congress, Tucson	211,900	199,600	96,000	507,500	190,600	179,600	86,400	456,600	(21,300)	(20,000)	(9,600)	(50,900)
DES Group Homes	139,200	200,100	0	339,300	139,200	200,100	0	339,300	0	0	0	0
Capitol Center	195,700	54,400	112,300	362,400	78,600	21,900	45,100	145,600	(117,100)	(32,500)	(67,200)	(216,800)
Subtotal - Department of Economic Security	\$2,107,700	\$950,900	\$880,600	\$3,939,200	\$1,947,800	\$858,700	\$734,500	\$3,541,000	(\$159,900)	(\$92,200)	(\$146,100)	(\$398,200)
Education, Department of												
1535 W Jefferson	310,900	106,300	578,800	996,100	311,000	106,300	578,900	996,300	100	0	100	200
400 W Congress, Tucson	0	12,000	42,500	54,500	0	12,000	42,500	54,500	0	0	0	0
416 W Congress, Tucson	0	900	21,100	22,000	0	900	21,100	22,000	0	0	0	0
Subtotal - Department of Education	\$310,900	\$119,200	\$642,400	\$1,072,600	\$311,000	\$119,200	\$642,500	\$1,072,800	\$100	\$0	\$100	\$200
Environmental Quality, Department of												
400 W Congress, Tucson	0	96,800	0	96,800	0	96,800	0	96,800	0	0	0	0
Equal Opportunity, Governor's Office of												
1700 W Washington	13,000	0	0	13,000	13,000	0	0	13,000	0	0	0	0
Equalization, State Board of												
416 W Congress, Tucson	1,400	0	0	1,400	1,400	0	0	1,400	0	0	0	0
Executive Clemency, Board of												
1645 W Jefferson	83,700	0	0	83,700	86,200	0	0	86,200	2,500	0	0	2,500
Financial Institutions, Department of												
2910 N 44th Street	166,000	32,400	0	198,400	166,000	32,400	0	198,400	0	0	0	0
Fire, Building, and Life Safety, Department of												
400 W Congress, Tucson	12,300	0	7,500	19,800	12,300	0	7,500	19,800	0	0	0	0
Funeral Directors & Embalmers, State Board of												
1400 W Washington	0	15,000	0	15,000	0	15,000	0	15,000	0	0	0	0
Gaming, Department of												
400 W Congress, Tucson	0	14,000	0	14,000	0	14,000	0	14,000	0	0	0	0
Geological Survey, AZ												
402 W Congress, Tucson	17,500	0	0	17,500	17,500	0	0	17,500	0	0	0	0
416 W Congress, Tucson	147,700	0	0	147,700	147,700	0	0	147,700	0	0	0	0
1520 W Adams	48,100	0	0	48,100	0	0	0	0	(48,100)	0	0	(48,100)
Subtotal - AZ Geological Survey	\$213,300	\$0	\$0	\$213,300	\$165,200	\$0	\$0	\$165,200	(\$48,100)	\$0	\$0	(\$48,100)
Governor, Office of the												
1700 W Washington	552,700	0	130,100	682,800	579,000	0	136,300	715,300	26,300	0	6,200	32,500
400 W Congress, Tucson	30,000	0	0	30,000	30,000	0	0	30,000	0	0	0	0
Subtotal - Office of the Governor	\$582,700	\$0	\$130,100	\$712,800	\$609,000	\$0	\$136,300	\$745,300	\$26,300	\$0	\$6,200	\$32,500
Gov's Ofc of Strategic Planning & Budgeting												
1700 W Washington	131,100	0	0	131,100	131,200	0	0	131,200	100	0	0	100

	Fiscal Year 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Health Services, Department of												
1740 W Adams	0	1,013,500	0	1,013,500	0	1,013,500	0	1,013,500	0	0	0	0
1818 W Adams	209,600	0	0	209,600	209,600	0	0	209,600	0	0	0	0
400 W Congress, Tucson	84,100	50,300	0	134,400	84,100	50,300	0	134,400	0	0	0	0
402 W Congress, Tucson	0	3,300	0	3,300	0	3,300	0	3,300	0	0	0	0
416 W Congress, Tucson	0	56,400	0	56,400	0	56,400	0	56,400	0	0	0	0
Subtotal - Department of Health Services	\$293,700	\$1,123,500	\$0	\$1,417,200	\$293,700	\$1,123,500	\$0	\$1,417,200	\$0	\$0	\$0	\$0
Historical Society, Arizona												
1502 W Washington	360,700	0	0	360,700	360,700	0	0	360,700	0	0	0	0
Homeland Security, AZ Dept of												
1700 W Washington	0	0	131,300	131,300	0	0	131,400	131,400	0	0	100	100
Homeopathic & Integrated Medicine Examiners, State Board of												
1400 W Washington	0	4,900	0	4,900	0	4,900	0	4,900	0	0	0	0
Independent Redistricting Commission												
1100 W Washington	24,200	0	0	24,200	24,200	0	0	24,200	0	0	0	0
Indian Affairs, AZ Commission of												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Insurance, Department of												
2910 N 44th Street	323,400	0	107,800	431,200	323,400	0	107,800	431,200	0	0	0	0
Judiciary - Court of Appeals												
400 W Congress, Tucson	380,700	0	0	380,700	380,700	0	0	380,700	0	0	0	0
Judiciary - Supreme Court												
1501 W Washington	2,859,800	0	0	2,859,800	2,859,800	0	0	2,859,800	0	0	0	0
400 W Congress, Tucson	83,800	0	0	83,800	83,800	0	0	83,800	0	0	0	0
Subtotal - Supreme Court	\$2,943,600	\$0	\$0	\$2,943,600	\$2,943,600	\$0	\$0	\$2,943,600	\$0	\$0	\$0	\$0
Subtotal - Judiciary	\$3,324,300	\$0	\$0	\$3,324,300	\$3,324,300	\$0	\$0	\$3,324,300	\$0	\$0	\$0	\$0
Juvenile Corrections, Department of												
1624 W Adams	364,700	0	0	364,700	364,700	0	0	364,700	0	0	0	0
Land Department, State												
1616 W Adams	0	779,700	0	779,700	0	779,700	0	779,700	0	0	0	0
Legislature - Auditor General												
1400 W Washington	0	0	0	0	16,900	0	0	16,900	16,900	0	0	16,900
2910 N 44th Street	342,200	0	0	342,200	342,200	0	0	342,200	0	0	0	0
400 W Congress, Tucson	45,100	0	0	45,100	45,100	0	0	45,100	0	0	0	0
Subtotal - Legislature - Auditor General	\$387,300	\$0	\$0	\$387,300	\$404,200	\$0	\$0	\$404,200	\$16,900	\$0	\$0	\$16,900
Liquor Licenses and Control, Department of												
400 W Congress, Tucson	0	21,700	0	21,700	0	21,700	0	21,700	0	0	0	0
Medical Board, AZ												
9500 Doubletree Rd.	0	200,100	0	200,100	0	200,100	0	200,100	0	0	0	0
Massage Therapy Board												
1400 W Washington	0	9,900	0	9,900	0	28,500	0	28,500	0	18,600	0	18,600
Mine Inspector, State												
1700 W Washington	84,200	0	0	84,200	84,200	0	0	84,200	0	0	0	0
Naturopathic Physicians Medical Board												
1400 W Washington	0	22,900	0	22,900	0	4,200	0	4,200	0	(18,700)	0	(18,700)
Navigable Stream Adjudication Commission, AZ												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.												
1400 W Washington	0	23,000	0	23,000	0	23,000	0	23,000	0	0	0	0
Opticians, State Board of Dispensing												
1400 W Washington	0	5,200	0	5,200	0	5,200	0	5,200	0	0	0	0
Optometry, State Board of												
1400 W Washington	0	9,100	0	9,100	0	9,100	0	9,100	0	0	0	0
Osteopathic Examiners, AZ Board of												
9500 Doubletree Rd.	0	34,200	0	34,200	0	34,200	0	34,200	0	0	0	0
Parks Board, AZ State												
1300 W Washington	0	61,300	249,000	310,300	0	61,300	249,000	310,300	0	0	0	0
1616 W Adams	0	0	51,500	51,500	0	0	51,500	51,500	0	0	0	0
Subtotal - AZ State Parks Board	\$0	\$61,300	\$300,500	\$361,800	\$0	\$61,300	\$300,500	\$361,800	\$0	\$0	\$0	\$0

	Fiscal Year 2015 - Appropriations Report				Fiscal Year 2016 - Baseline				FY 2016 - FY 2015 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Personnel Board												
1400 W Washington	0	24,800	0	24,800	0	24,800	0	24,800	0	0	0	0
Pest Management, Office of												
1688 W Adams	0	46,300	0	46,300	0	46,300	0	46,300	0	0	0	0
400 W Congress, Tucson	0	3,900	0	3,900	0	3,900	0	3,900	0	0	0	0
Subtotal - Office of Pest Management	\$0	\$50,200	\$0	\$50,200	\$0	\$50,200	\$0	\$50,200	\$0	\$0	\$0	\$0
Pharmacy, AZ State Board of												
1616 W Adams	0	117,800	0	117,800	0	117,800	0	117,800	0	0	0	0
Podiatry Examiners, State Board of												
1400 W Washington	0	4,400	0	4,400	0	4,400	0	4,400	0	0	0	0
Private Postsecondary Education, State Board for												
1400 W Washington	0	13,600	3,300	16,900	0	13,600	3,300	16,900	0	0	0	0
Psychologist Examiners, State Board of												
1400 W Washington	0	20,600	0	20,600	0	20,500	0	20,500	0	(100)	0	(100)
Public Safety, Department of												
14 N 18th Avenue	20,100	5,300	5,600	31,000	20,100	5,300	5,600	31,000	0	0	0	0
1700 W Washington	50,900	13,300	14,000	78,200	51,000	13,300	14,000	78,300	100	0	0	100
1937 W Jefferson/Wayland	14,600	3,900	4,200	22,700	0	0	0	0	(14,600)	(3,900)	(4,200)	(22,700)
400 W Congress, Tucson	10,900	2,800	2,900	16,600	10,900	2,800	2,900	16,600	0	0	0	0
Subtotal - Department of Public Safety	\$96,500	\$25,300	\$26,700	\$148,500	\$82,000	\$21,400	\$22,500	\$125,900	(\$14,500)	(\$3,900)	(\$4,200)	(\$22,600)
Real Estate Department, State												
2910 N 44th Street	235,900	0	0	235,900	235,900	0	0	235,900	0	0	0	0
Respiratory Care Examiners, Board of												
1400 W Washington	0	19,800	0	19,800	0	19,800	0	19,800	0	0	0	0
Revenue, Department of												
402 W Congress, Tucson	116,900	59,500	0	176,400	116,900	59,500	0	176,400	0	0	0	0
416 W Congress, Tucson	74,900	38,200	0	113,100	74,900	38,200	0	113,100	0	0	0	0
1600 W Monroe	1,377,200	709,400	0	2,086,600	1,377,200	709,400	0	2,086,600	0	0	0	0
Subtotal - Department of Revenue	\$1,569,000	\$807,100	\$0	\$2,376,100	\$1,569,000	\$807,100	\$0	\$2,376,100	\$0	\$0	\$0	\$0
Rio Nuevo Board												
400 W Congress, Tucson	0	0	11,200	11,200	0	0	11,200	11,200	0	0	0	0
School Facilities Board												
1700 W Washington	79,900	0	32,800	112,700	80,500	0	33,000	113,500	600	0	200	800
Secretary of State - Dept of State												
1100 W Washington	23,500	0	0	23,500	23,500	0	0	23,500	0	0	0	0
1700 W Washington	193,400	0	0	193,400	193,700	0	0	193,700	300	0	0	300
400 W Congress, Tucson	6,000	0	0	6,000	6,000	0	0	6,000	0	0	0	0
Records Management Addition	303,400	0	0	303,400	303,400	0	0	303,400	0	0	0	0
Polly Rosenbaum Building	1,593,000	0	0	1,593,000	1,593,000	0	0	1,593,000	0	0	0	0
Subtotal - Secretary of State - Dept of State	\$2,119,300	\$0	\$0	\$2,119,300	\$2,119,600	\$0	\$0	\$2,119,600	\$300	\$0	\$0	\$300
State Boards' Office												
1400 W Washington	0	19,300	0	19,300	0	19,300	0	19,300	0	0	0	0
Transportation, Department of												
1275 W Washington ^{2/}	0	127,500	0	127,500	0	127,500	0	127,500	0	0	0	0
Treasurer, State												
1700 W Washington	0	140,900	0	140,900	0	142,000	0	142,000	0	1,100	0	1,100
Veterinary Medical Examining Board, AZ State												
9500 Doubletree Rd.	0	23,300	0	23,300	0	23,300	0	23,300	0	0	0	0
GRAND TOTAL	\$16,784,100	\$8,613,200	\$3,228,000	\$28,625,400	\$16,582,200	\$8,219,800	\$3,084,300	\$27,886,400	(\$201,900)	(\$393,400)	(\$143,700)	(\$739,000)

^{1/} Continues to reflect the FY 2015 rental rates enacted by Laws 2014, Chapter 14, Section 7, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

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

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

Capital Outlay

Arizona Department of Transportation Building System

FY 2016
BASELINE

BUILDING RENEWAL

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

INDIVIDUAL PROJECTS

Airport Planning and Development	21,791,800
Controlled Access Highways	88,663,000
Debt Service	115,356,000
Statewide Highway Construction	35,642,000
SUBTOTAL	261,452,800

TOTAL - ALL PROJECTS

264,849,600

FUND SOURCES

Other Appropriated Funds

State Aviation Fund	21,996,700
State Highway Fund	242,852,900
SUBTOTAL - Other Appropriated Funds	264,849,600
SUBTOTAL - Appropriated Funds	264,849,600

Other Non-Appropriated Funds	466,892,000
Federal Funds	670,848,000
TOTAL - ALL SOURCES	1,402,589,600

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.

The following reflects one-time appropriations:

FY 2016

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

The Baseline 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.

Airport Planning and Development OF **21,791,800**

The Baseline 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, aircraft lieu tax, and revenues from the operations of the Grand Canyon Airport.

Controlled Access Highways OF **88,663,000**

The Baseline includes \$88,663,000 from SHF in FY 2016 for the Highway User Revenue Fund (HURF) formula dedicated to the construction of urban freeways. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service OF **115,356,000**

The Baseline 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.*)

Statewide Highway Construction OF **35,642,000**

The Baseline includes \$35,642,000 from SHF in FY 2016 for highway construction. Please see *Table 6* for the HURF distribution analysis, which shows that \$35,642,000 of net SHF monies will be available for statewide highway construction in FY 2016 from the FY 2016 HURF revenue cash flow. Only a small portion of the state's total

\$1,836,000,000 highway construction funding is appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. (See the Total Highway Construction Funding discussion and Table 4 in Other Issues for Legislative Consideration for additional information.)

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

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

Table 1	
FY 2016 Highway Construction & Debt Service	
	<u>Capital Outlay Bill</u>
Controlled Access	\$ 88,663,000
Debt Service	115,356,000
Highway Construction	<u>35,642,000</u>
Total	\$239,661,000

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

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

Individual Projects

The amount is appropriated from the State Aviation Fund 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.

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.

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 must be in the same format as in the prior year unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting.

On or before November 1, 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 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 2016 Appropriations Report.

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 must appear in the same format as tables 2, 3 and 6, as found in the FY 2015 Appropriations Report.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Summary of Non-Appropriated Capital Funds

Table 2 provides a summary of non-appropriated capital expenditures. Non-appropriated capital expenditures are expected to grow to \$1.5 billion from \$988.4 million 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.

Table 2

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

	FY 2014	FY 2015	FY 2016
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Aviation Federal Funds	\$ 727	\$ 940	\$ 1,100
Federal Grants	<u>669,747</u>	<u>669,748</u>	<u>669,748</u>
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.)

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The Baseline provides \$239,661,000 for highway construction, including \$35,642,000 of net SHF monies for statewide highway construction.

Table 4 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 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.

Table 3

Highway Construction Projects Beginning in FY 2016
(\$ in Thousands)

	FY 2016 ^{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.

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 \$283.9 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.

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)			
<i>Appropriated</i>			
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	-	35.6
Total SHF - Appropriated	\$ 153.4	\$ 169.3	\$ 416.9
<i>Non-Appropriated</i>			
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	\$ 429.9
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	\$ 1,836.0
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	\$ 283.9
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	\$ 1,497.4
Total Highway Construction Expenditures	\$ 1,194.8	\$ 1,782.6	\$ 1,836.0

^{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.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver’s license, and others. *Table 5* explains the formula distribution of HURF monies between state and local governments. *Table 6* presents the overall HURF distribution for FY 2014 through FY 2016. The line in *Table 6* showing Net SHF Available for Statewide Highway Construction, which totals \$35,642,000 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 November 2014, HURF year-to-date collections were 2.7% higher than the prior year. The Baseline projects HURF revenue to grow by 2.0% in both FY 2015 and FY 2016.

Gas prices have dropped significantly in the last few months. The average price per gallon of regular gasoline in Arizona was \$2.45 in mid-December, or (69) cents per gallon lower than a year ago, according to the American Automobile Association. If this trend of dramatically lower gas prices continues, fuel consumption could increase. In that circumstance, HURF revenue growth in FY 2015 and FY 2016 will likely outpace the Baseline forecast.

Despite a (0.5)% drop in use fuel tax (diesel) revenue in FY 2014, growth in all the other major HURF revenue categories led to overall HURF growth in FY 2014. VLT revenue increased by the largest percentage, growing by 6.7% over the prior year. VLT revenue growth was followed by motor carrier fee revenue growth of 4.1%, registration fee revenue growth of 3.7%, and gas tax revenue growth of 0.8%.

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. The source of the tax is a 1-cent excise tax on petroleum products and hazardous substances. Prior to the FY 2014 SHF transfer, these monies were deposited in the Regulated Substance Fund. As of October 2014, \$9,774,200 had been deposited in SHF from the UST tax for FY 2015.

The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14) eliminates the deposit of UST tax collections in SHF effective January 1, 2015. After that date, revenues will be deposited into the Department of Environmental Quality’s UST Assurance Account.

In FY 2014, UST tax collections were \$29.0 million. Assuming similar collections in FY 2015, SHF would receive UST tax collections equaling \$14.5 million for the first half of FY 2015. *(Please see the Department of Environmental Quality’s narrative for more details.)*

3-Year HURF Distribution to Local Governments

The FY 2015 Revenue Budget Reconciliation Bill (BRB) requires \$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 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 6 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. Consistent with the FY 2015 Revenue BRB, the FY 2016 Baseline continues the \$30.0 million local HURF allocation in FY 2016 and increases it to \$60.0 million in FY 2017.

As seen in *Table 5*, approximately 50% of HURF funding is distributed to local governments. When \$119.2 million of HURF was used for highway patrol expenses, local governments effectively lost \$60.0 million of their HURF monies. If the full \$60.0 million in FY 2017 is distributed solely to local governments, they will essentially be held harmless from the impact of the DPS funding shift.

Table 5

Percentage Distribution of HURF Monies

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

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

Table 6

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

	FY 2014 Actual	FY 2015 Estimate	FY 2016 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	652
Automation Projects Fund	5	0	0
Dept. of Public Safety Transfer from HURF ^{3/}	119,247	89,255	89,255
Reversions from DPS	(1,656)	0	0
Cities ^{4/}	0	16,003	16,003
Counties ^{4/}	0	9,969	9,969
Controlled Access ^{4/}	0	4,028	4,028
Net HURF Collections	\$1,122,064	\$1,145,252	\$1,170,575
Less: Cities ^{5/}	342,230	349,302	357,025
Counties ^{5/}	213,192	217,598	222,409
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/}	84,986	86,735	88,663
Net SHF (Discretionary)	\$ 474,131	\$ 483,891	\$ 494,644
Plus: Other Income ^{10/}	42,871	43,636	31,102
Less: Operating Budget ^{11/}	331,354	340,870	340,870
Dept of Public Safety Transfer from Highway Fund ^{12/}	6,744	6,744	6,744
Capital Outlay	5,280	5,280	0
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/}	112,237	111,075	115,356
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{15/}	\$ 34,949	\$ 37,301	\$ 35,642
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	223,177	270,878	305,434
STAN Account Beginning Balance	38,266	18,534	15,034
Total SHF Available for Statewide Highway Construction	\$ 296,392	\$ 326,713	\$ 356,110

^{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.

^{3/} The FY 2014 amount of \$119,247,100 includes \$719,800 for statewide adjustments and \$5,900 for the retention payment. The FY 2015 amount of \$89,255,000 includes \$7,900 for statewide adjustments.

^{4/} The FY 2015 Revenue Budget Reconciliation Bill (Laws 2014, Chapter 9) requires, as session law, \$30 million of HURF revenues in both FY 2015 and FY 2016 and \$60 million of HURF revenues in 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 \$31,102,000 includes \$30,450,200 in miscellaneous revenue and \$651,800 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.

^{12/} The FY 2014 amount of \$6,743,800 includes \$(36,200) in statewide adjustments. The FY 2015 amount of \$6,743,900 includes \$100 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.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2016
 BASELINE

BUILDING RENEWAL

Arizona Board of Regents
TOTAL

0
 0

FUND SOURCES

General Fund
TOTAL - ALL SOURCES

0
 0

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

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review (JCCR). The formula takes into account the replacement value, age, and life cycle of a building. The Baseline includes no funding for Building Renewal in the ABOR Building System.

\$202,573,800. (*See Capital Outlay - Debt and Lease-Purchase Financing for more information.*)

University Lottery Bonds

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

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 Participations which were issued in the amount of \$482,500,000 to provide funding for a variety of research infrastructure projects.

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.

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.

\$408,000,000 Allocation

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

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.*)

- \$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.

According to ABOR, savings from this refinancing is estimated to result in excess appropriations of \$(25,984,500), of which a significant portion will occur in FY 2015 - FY 2017. (*See Capital Outlay - Debt and Lease-Purchase Financing for more information.*)

Bonding

In FY 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

- 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 were issued May 2014.

As a result of these actions, \$409,068,000 has been favorably reviewed by JCCR. ASU has 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 has had projects favorably reviewed in the amount of \$136,015,000, but have actually issued its statutory allotment of \$136,000,000. 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. As a result:

- ASU's \$43,010,000 portion of the \$172,940,000 will not be issued.
- UA issued \$122,245,000 in June 2010.
- 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.

If any of the ASU and NAU portions are not being spent for their originally reviewed purposes, the new uses of those monies would need further JCCR review before issuance.

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

School of Construction

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

Summary

Between the Phoenix Biomedical Campus, the ASU School of Construction and other projects, \$700,613,000 of the Chapter 287 authority has been reviewed (*see Table 1*). Of that amount, \$539,550,000 has been issued. At this time, a total of \$260,450,000 in remaining authority is available for university lottery bonding projects, including \$136,100,000 for Phoenix Biomedical Campus expansion. (*See Table 1 for the statutory distribution amounts, the reviewed and planned issuances, and the remaining bonding authority by university.*)

Under Chapter 287, the annual debt service payments were designed to be paid from the University Capital Improvement Lease-to-Own and Bond (UCI) Fund and would be comprised of up to 80% Lottery revenues and at least 20% state university system revenues, as required by Chapter 287. The \$539,550,000 of total issuances will result in a total debt service payment of \$30,167,000 in FY 2015.

After all Lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$49,020,100 in FY 2016. Since the maximum 80% Lottery portion of the debt service is expected to be \$40,582,000 in FY 2016, the remaining \$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 \$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.

University Issuances						
Purpose	University	Statutory Distribution	Reviewed Issuance	Actual Issuance	Remaining Authority	Planned Issuance ^{1/}
Phoenix Biomedical Campus	UA	\$360,960,000	\$267,445,000	\$122,245,000	\$238,715,000	\$136,100,000
	NAU	15,040,000	8,100,000	7,475,000	7,565,000	0
ASU's School of Construction	ASU	16,000,000	16,000,000	16,000,000	0	0
Building Renewal/ New Construction	ASU	136,000,000	137,653,000 ^{2/}	126,380,000	9,620,000	0
	NAU	136,000,000	136,015,000 ^{2/}	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	\$700,613,000	\$539,550,000	\$260,450,000	\$ 136,100,000

^{1/} Planned issuances by end of FY 2016.
^{2/} Actual issuances will not exceed statutory distribution.

University Lottery Bonding Projects ^{1/}						
		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
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 \$380.0 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 \$268.1 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	\$ 40,582,000	\$ 41,858,300	\$ 41,854,400
Projected University Cost ^{4/5/}		\$ 4,393,100	\$ 6,033,400	\$ 10,145,500	\$ 10,464,600	\$ 10,463,700

^{1/} Represents JCCR reviewed projects and planned FY 2015 and FY 2016 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/} UA has already issued its \$122,245,000 share, NAU will be paying cash for its \$7,685,000 share, and ASU's \$43,235,000 share will not be issued as a result of the withdrawal of their partnership from the Phoenix Biomedical Campus.
^{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/} Represents the 20% university share.

Capital Outlay
Debt and Lease-Purchase Financing

FY 2016
 BASELINE

LEASE-PURCHASE PAYMENTS*

Arizona Department of Administration - 2010 Leaseback Financing	84,114,600
Phoenix Convention Center	20,449,000
Rio Nuevo Distribution	10,000,000
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.

Debt Financed Projects

FY 2016
2010 Leaseback Financing GF \$84,114,600

The Baseline 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. This amount is a decrease of \$(9,100) from the FY 2015 payment.

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.

- 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. The Baseline removes the Working Capital Surplus reporting requirement from statute and adds a reporting requirement for the Investment Yield Restriction limitation.

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 GF 20,449,000

The Baseline 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. For FY 2016, the payment of \$20,449,000 is unchanged from FY 2015.

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). The Baseline includes a technical statutory change to conform other existing provisions to this permanent debt service schedule. Under this schedule, the state’s annual contribution is scheduled to gradually increase from \$20,449,000 in FY 2016 to \$30,000,000 by FY 2044.

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 GF 10,000,000

The Baseline 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 will be displayed in the Baseline 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. This amount will be adjusted to reflect actual TPT distributions to the district in FY 2016.

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).

<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	\$5,081,197
Total	\$118,376,515

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes

In accordance with A.R.S. § 9-602, \$20,449,000 of state General Fund revenue is allocated in FY 2016 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601.

New Footnotes

In accordance with A.R.S. § 42-5031B, a portion of TPT revenues are to be distributed to a multipurpose facility district. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2016, but the actual amount will be distributed in compliance with A.R.S. § 42-5031B.

STATUTORY CHANGES

The Baseline would:

- 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.
- As permanent law, repeal the Working Capital Surplus reporting requirement in A.R.S. § 41-707.
- As permanent law, require the Department of Administration to report 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.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

State Debt Rating

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

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

Long Term Financing Summary

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

Privatized Lease-to-Own Facilities

Under a privatized lease-to-own (PLTO) agreement, a private entity finances and constructs a building and leases it to the state. At the end of the lease term, the state takes possession of the building.

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

<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	NA

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 Baseline 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 Baseline includes a one-time ex-appropriation of these savings for FY 2015.

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 would be funded from existing agency appropriations and would 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.)

	Overall Balance	GF Balance	Overall FY 16 Payment	FY 16 GF Payment	Retirement FY
Lease-Purchase Summary					
<u>ADOA Building System</u>					
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	
<u>School Facilities Board</u>					
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	
<u>ABOR Building System</u>					
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	(Continued)

Table 3 (Continued)

Bonding Summary	Overall Balance	<u>1/</u>	GF Balance	<u>1/</u>	Overall FY 16 Payment	<u>2/</u>	FY 16 GF Payment	<u>2/</u>	Retirement FY
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>	<u>\$ 292,281,900</u>		<u>\$ -</u>		<u>\$ 89,050,500</u>		<u>\$ -</u>		
Department of Transportation <u>6/</u>	\$ 1,690,780,000		\$ -		\$ 202,886,000 <u>7/</u>		\$ -		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 <u>8/</u>		-		50,727,500		-		FY 48
<i>Subtotal - ABOR</i>	<u>\$ 2,259,750,000</u>		<u>\$ -</u>		<u>\$ 202,672,800</u>		<u>\$ -</u>		
Lottery Revenue Bond <u>4/</u>	\$ 353,675,000		\$ 353,675,000		\$ 37,501,800		\$ 37,501,800		FY 29
<i>TOTAL - Bonding</i>	<u>\$ 4,596,486,900</u>		<u>\$ 353,675,000</u>		<u>\$ 532,111,100</u>		<u>\$ 37,501,800</u>		
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. The FY 2016 payment amount reflects the changes to the payment schedule enacted by Laws 2011, Chapter 28.

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.*)