

Capital Outlay Summary

	FY 2017 APPROVED
BUILDING RENEWAL	
ADOA Building System	34,212,400
ADOT Building System	4,232,300
ABOR Building System	0
SUBTOTAL	38,444,700
INDIVIDUAL PROJECTS	
ADOA Building System	17,547,900
ADOT Building System ^{1/}	381,724,900
ABOR Building System	0
SUBTOTAL	399,272,800
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations ^{2/}	114,566,400
TOTALS	
ADOA Building System	166,326,700
ADOT Building System	385,957,200
ABOR Building System	0
TOTAL - ALL PROJECTS ^{3/}	552,283,900
FUND SOURCES	
General Fund	219,066,400
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	19,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	4,703,000
Juvenile Corrections Criminal Justice Enhancement Fund	1,100,000
State Aviation Fund	19,312,200
State Highway Fund	280,145,000
State Lottery Fund	118,100
State Parks Revenue Fund	1,500,000
Watercraft Licensing Fund	874,900
SUBTOTAL - Other Appropriated Funds	333,217,500
SUBTOTAL - Appropriated Funds	552,283,900
Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
TOTAL - ALL SOURCES	1,564,884,900

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

^{1/} Of this amount, \$30,000,000 was appropriated by the FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125, Section 9).

^{2/} This amount was appropriated by the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 152, Section 153 and Section 154).

^{3/} Unless otherwise noted, amounts were appropriated by the FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126).

The following amounts are one-time appropriations:

Summary

The budget includes a total of \$552,283,900 from Appropriated Funds in FY 2017. Of the total, \$219,066,400 is from the General Fund and \$333,217,500 is from Other Appropriated Funds. The budget consists of 3 main categories: 1) Building Renewal, 2) Individual Projects, and 3) Lease-Purchase Payments.

Building Renewal

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

The budget includes total funding of \$38,444,700 in FY 2017 for Building Renewal, which consists of \$8,000,000 from the General Fund and \$30,444,700 from Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$27,000,000
General Fund - \$8,000,000	
Capital Outlay Stabilization Fund - \$19,000,000	
@ 67.8% (excludes ADC,	
Game and Fish, DJC, Lottery buildings)	
Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 27.2%	
Game and Fish Department	
Game and Fish Fund @ 59.4%	530,000
Department of Juvenile Corrections	
Criminal Justice Enhancement Fund	
@ 126.7%	1,100,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>118,100</u>
Subtotal - ADOA	\$34,212,400
Arizona Department of Transportation	
State Highway Fund @ 32.6%	\$4,000,000
State Aviation Fund @ 100%	<u>232,300</u>
Subtotal - ADOT	\$4,232,300

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

Individual Projects

The budget includes total funding of \$399,272,800 in FY 2017 for individual capital projects, which consists of \$96,500,000 from the General Fund and \$302,772,800 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The budget includes \$114,566,400 from the General Fund in FY 2017 for payments related to prior year lease-purchase agreements to resolve budget shortfalls and the state's share of the long term financing for the Phoenix Convention Center and the Rio Nuevo Multipurpose Facility District. *(See the Debt and Lease-Purchase Financing write-up for more information.)*

Capital Outlay

Arizona Department of Administration Building System

FY 2017
APPROVED

BUILDING RENEWAL

Department of Administration ^{1/2/3/4/}	27,000,000
Department of Corrections ^{5/}	5,464,300
Game and Fish Department	530,000
Department of Juvenile Corrections	1,100,000
Arizona State Lottery Commission	118,100
SUBTOTAL ^{6/}	34,212,400

INDIVIDUAL PROJECTS ^{7/8/}

Arizona Exposition and State Fair	
Capital Improvements	1,000,000
Game and Fish Department	
Radio Towers	306,000
Boat Structures	874,900
Capital Improvements	3,867,000
Arizona State Parks Board	
Capital Improvements	1,500,000
Department of Veteran Services	
Flagstaff Veterans' Home ^{9/10/11/}	10,000,000
SUBTOTAL	17,547,900

TOTAL - ALL PROJECTS **51,760,300**

FUND SOURCES

General Fund	18,000,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	19,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	4,703,000
Juvenile Corrections Criminal Justice Enhancement Fund	1,100,000
State Lottery Fund	118,100
State Parks Revenue Fund	1,500,000
Watercraft Licensing Fund	874,900
SUBTOTAL - Other Appropriated Funds	33,760,300
SUBTOTAL - Appropriated Funds	51,760,300

TOTAL - ALL SOURCES ^{12/13/14/15/} **51,760,300**

- ^{1/} The Department of Administration shall allocate \$4,200,000 of the appropriation in this subsection for the renovation of the Department of Health Services building at 1740 W. Adams. Before spending the monies allocated for this purpose, the Department of Administration shall submit a report on tenant relocation, including any planned consolidation of state agencies, the current commitment of new tenants and the timeline and estimated costs for relocation for review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{2/} The Department of Administration shall allocate \$120,000 of the appropriation in this subsection to repair the 1938 Works Progress Administration Civic Building on the State Fair grounds. The department may not spend the monies allocated for this purpose unless the department receives matching monies from the City of Phoenix to repair the building and this state maintains control and ownership of the building. (Capital Outlay Appropriation Act footnote)
- ^{3/} The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund. (Capital Outlay Appropriation Act footnote)
- ^{4/} On or before January 31, 2017 and July 31, 2017, the Department of Administration shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)

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 2017 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

Unless otherwise specified, funding for capital projects is appropriated by Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill)

Building Renewal

The budget includes \$34,212,400 from the General Fund and Other Appropriated Funds in FY 2017 for Building Renewal within the ADOA Building System. This amount consists of:

- \$27,000,000 to ADOA, which consists of \$8,000,000 from the General Fund and \$19,000,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 67.8% of the non-Department of Corrections (ADC) building renewal formula. Of this amount, \$120,000 shall be used to repair the Work Progress Administration Civic Building at the State Fair. Funding for the repair is contingent on matching funds from the City of Phoenix and the state maintaining control and ownership of the building. In addition, \$4,200,000 shall be used to renovate the Department of Health Services building at 1740 W.

Adams. Prior to expenditure of funds, ADOA shall submit a report to JCCR on the tenant relocation plans. The FY 2016 appropriation of \$14,000,000 included \$9,000,000 from COSF and \$5,000,000 from the General Fund, which represented 38.8% of the non-ADC formula. *(Please see the Other Issues Section for more information.)*

- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 27.2% of the ADC-only building renewal formula. The FY 2016 appropriation of \$5,464,300 from the ADC Building Renewal Fund represented 31.1% of the ADC-only formula.
- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 59.4% of the agency's building renewal formula. The FY 2016 appropriation of \$530,000 from the Game and Fish Fund represented 69.1% of the agency's formula.
- \$1,100,000 to the Department of Juvenile Corrections from the Criminal Justice Enhancement Fund, which funds 126.7% of the agency's building renewal formula.

- 5/ On or before January 31, 2017 and July 31, 2017, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- 6/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2017 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- 7/ 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 estimate cost of more than \$250,000. (Capital Outlay Appropriation Act footnote)
- 8/ Before spending the appropriation in Subsection A of this section, the agency shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 9/ Before spending the appropriation in Subsection A of this section, the Department of Veterans' Services shall submit the scope, purpose and estimated cost of the veterans' home facility in Flagstaff to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 10/ The appropriation made in Subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Capital Outlay Appropriation Act footnote)
- 11/ The amount appropriated in Subsection A of this section is intended to be this state's share of the costs of a veterans' home facility in Flagstaff. The department may not spend the appropriation for any purpose unless the department receives an irrevocable commitment from the United States government to fund at least sixty-five percent of the total costs of a veterans' home facility in Flagstaff. (Capital Outlay Appropriation Act footnote)
- 12/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 13/ Except as provided in Subsection A of this section and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- 14/ The Department of Administration shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request. (Capital Outlay Appropriation Act footnote)
- 15/ 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, 2016. (Capital Outlay Appropriation Act footnote)

- \$118,100 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the building renewal formula. The FY 2016 appropriation of \$103,600 from the State Lottery Fund also represented 100% of the agency's building renewal formula.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The budget continues the footnote that allows up to \$275,000 and up to 5 FTE Positions be allocated each year from building renewal monies to ADOA for supervision and management of building renewal projects, and a requirement that unused building renewal monies revert on June 30, 2018.

Individual Projects

Arizona Exposition and State Fair Board Capital Improvements

The budget includes \$1,000,000 from the Arizona Exposition and State Fair Fund in FY 2017 for capital improvements.

Game and Fish Radio Towers

The budget includes \$306,000 from the Game and Fish Fund in FY 2017 for capital improvements to radio towers.

Game and Fish Boat Structures

The budget includes \$874,900 from the Watercraft Licensing Fund in FY 2017 for capital improvements to boat structures.

Game and Fish Capital Improvements

The budget includes \$3,867,000 from the Game and Fish Fund in FY 2017 for capital improvements.

Arizona State Parks Board Capital Improvements

The budget includes \$1,500,000 from the State Parks Revenue Fund in FY 2017 for capital improvements in the State Park system.

Department of Veteran Services Flagstaff Veterans' Home

The budget includes \$10,000,000 from the General fund in FY 2017 for the construction of a new State Veterans' Home in Flagstaff. The amount appropriated reflects 35% of the estimated cost; the federal government will pay the other 65%. *(Please see the Department of Veterans' Services section for more information.)*

Other Issues

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. Currently, the Arizona Medical Board, Arizona Board of Osteopathic Examiners in Medicine and Surgery, and the Arizona State Veterinary Medical Examining Board reside at the Doubletree Road location. If the building is sold, these agencies could be relocated to the renovated 1740 West Adams building.

In addition, the FY 2017 budget appropriates \$576,800 from Other Funds for costs incurred by agencies relocated to the renovated DHS building.

COSF Rental Rate Change & Payment Adjustments

The budget includes no agency adjustments for lease-purchase and rental charges, as all changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels. Excluding the ADOA sale/leaseback, the lease-purchase and rent changes from *FY 2016 Appropriations Report* are as follows:

	General Fund	Total Funds
• Lease-Purchase	\$ 1,639,900	\$9,177,000
• PLTO	(1,244,600)	(10,202,000)
• State Building Rent	<u>(51,000)</u>	<u>(472,900)</u>
	\$ (344,300)	\$(1,497,900)

Lease-Purchase

In FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$1,639,900 is from the General Fund, \$6,414,900 from Other Appropriated Funds, and \$1,122,200 from Non-Appropriated Funds. This increase is largely the result of recently refinanced ADOA and Arizona Department of Environmental Quality (ADEQ) buildings being classified as lease-purchase, while they were previously financed under a privatized lease-to-own (PLTO) agreement. However, the overall net payment for the buildings will decline from the FY 2016 budgeted amount.

Under a traditional lease-purchase, the state issues a Certificate of Participation to generate proceeds to finance capital projects and the state is responsible for maintenance. Under a PLTO agreement, a private entity

constructs a building and leases it to the state. The PLTO agreement usually requires a private entity to maintain the building until the end of the term when the state takes possession of the building. However, the conversion of the ADOA and ADEQ agreements into a traditional lease-purchase included an agreement with a private entity to continue to be responsible for the maintenance of the buildings through the end of original term in 2029.

Privatized Lease-to-Own (PLTO)

In FY 2017, PLTO payments will decrease \$(10,202,000) of which \$(1,224,600) is from the General Fund, \$(7,678,500) is from Other Appropriated Funds, and \$(1,298,900) is from Non-Appropriated Funds. This decrease is the result of recently refinanced ADOA and ADEQ buildings being classified as lease-purchase, while they were previously financed under a PLTO agreement. As a result of the refinanced ADOA and ADEQ buildings, the state currently has no active PLTO agreements.

Rent Adjustments

In FY 2017, state building rent payments will decrease by \$(472,900), which consists of \$(51,000) from the General Fund, \$(111,200) from Other Appropriated Funds, and \$(310,700) from Non-Appropriated Funds. Any change in rental charges would be funded from existing agency appropriations and would have no corresponding change in agency funding levels.

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

Capital Outlay

Arizona Department of Transportation Building System

FY 2017
APPROVED

BUILDING RENEWAL

ADOT Building Renewal ^{1/2/}	4,232,300
SUBTOTAL	4,232,300

INDIVIDUAL PROJECTS

Airport Planning and Development ^{2/3/}	19,079,900
Vehicle Wash Systems ^{2/4/}	5,530,000
Route H60 ^{2/5/}	1,500,000
State Route 189 ^{2/6/}	25,000,000
Interstate 10 ^{2/7/}	30,000,000
Statewide Highway Construction ^{2/8/}	270,615,000
One-Time HURF Distribution ^{9/}	30,000,000
SUBTOTAL	381,724,900
TOTAL - ALL PROJECTS ^{10/11/12/13/}	385,957,200

FUND SOURCES

Other Appropriated Funds

General Fund	86,500,000
State Aviation Fund	19,312,200
State Highway Fund	280,145,000
SUBTOTAL - Other Appropriated Funds	299,457,200
SUBTOTAL - Appropriated Funds	385,957,200

Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
TOTAL - ALL SOURCES	1,398,558,200

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

- ^{1/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2017 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{2/} The appropriations made in sections 8, 9, 10 and 11 of this act do not lapse until the purpose for which the respective appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance. Except as provided in subsection A of this section and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- ^{3/} The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- ^{4/} The sum of \$5,530,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2017 to the Department of Transportation for the construction of 10 vehicle wash systems. Before spending the appropriation in subsection A of this section, the Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{5/} The sum of \$1,500,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for distribution to the Navajo Nation for the Route H60 construction project. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill).

Building Renewal

The budget includes \$4,232,300 in FY 2017 for Building Renewal within ADOT's Building System. This amount consists of \$4,000,000 from the State Highway Fund (SHF) and \$232,300 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 32.6% funding of the revised highways building renewal formula and 100% funding of the aviation building renewal formula.

- 6/ The sum of \$25,000,000 is appropriated from the state General fund in FY 2017 to the Department of Transportation for the acceleration of the State Route 189 construction project from the Mariposa Port of Entry to Interstate 19. Notwithstanding A.R.S. § 41-1252 the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation is unable to use the appropriation made in subsection A of this section to accelerate construction of the State Route 189 project from FY 2021 to at least FY 2019, or if the department is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for the State Route 189 project, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 7/ The sum of \$30,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for Interstate 10 widening projects. These monies shall be combined with funding from the Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant to widen: (1) Interstate 10 from Earley Road to Interstate 8. (2) The Interstate 10 interchange with State Route 87. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 8/ The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 9/ A. The sum of \$30,000,000 is appropriated on a one-time basis from the state General Fund in FY 2017 to the Department of Transportation for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amount appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (Laws 2016, Chapter 125)
- 10/ The Department of Transportation shall report on or before November 1, 2016 to the Joint Committee on Capital Review on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. (Capital Outlay Appropriation Act footnote)
- 11/ On or before November 1, 2016, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2018 and the estimated debt service payment amount for FY 2018 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and Grant Anticipation Notes and is intended to be comparable to the information in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 12/ On or before November 1, 2016, the Department of Transportation shall report capital outlay information for FY 2016, FY 2017 and FY 2018 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This information shall appear in the same format as tables 2, 3 and 5, as found in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 13/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the Inmate Construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)

Individual Projects

Airport Planning and Development

The budget includes \$19,079,900 from the State Aviation Fund (SAF) in FY 2017 for ADOT's airport construction program. Fund revenues are generated from a flight property tax on commercial airline aircraft, a license tax on non-commercial aircraft, and Grand Canyon Airport operational revenues. A footnote in the FY 2017 Capital Outlay Bill appropriates any additional monies in SAF above the appropriation to ADOT for aviation construction. (Please see Footnote 3.)

Vehicle Wash Systems

The budget includes \$5,530,000 from SHF in FY 2017 for ADOT to construct new vehicle wash systems at 10 highway maintenance sites statewide. Each vehicle wash system costs \$553,000. A wash system includes a 1,200 square foot metal building, a rack frame for handling de-icer material spreaders, and equipment to contain contaminants such as road tar, lubricants and de-icer salts. The wash systems will help ADOT meet wastewater environmental regulations to protect surface and ground water. ADOT was also appropriated \$2,910,000 in FY 2016 for 6 vehicle wash buildings. Between FY 2014 and FY 2017, a total of \$14,440,000 has been appropriated for vehicle wash systems at 28 sites. (Please see Footnote 4.)

Route H60 Project - One Time

The budget distributes \$1,500,000 from the General Fund in FY 2017 to the Navajo Nation for the Route H60 transportation project. This funds an all-weather gravel surface road. A footnote in the FY 2017 Capital Outlay Bill states that the project is not subject to review by the Joint Committee on Capital Review (JCCR). (Please see footnote 5.)

State Route 189 - One Time

The budget includes \$25,000,000 from the General Fund in FY 2017 for the acceleration of the State Route 189 construction project at the Mariposa Port of Entry. If ADOT is unable to accelerate the State Route 189 project to at least FY 2019, or if ADOT is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for State Route 189, a footnote in the FY 2017 Capital Outlay Bill directs the \$25,000,000 to statewide highway construction. (Please see footnote 6.)

Interstate 10 Projects - One Time

The budget includes \$30,000,000 from the General Fund in FY 2017 to widen (1) Interstate 10 from Earley Road to Interstate 8 and (2) the interstate 10 interchange with State Route 87. If ADOT does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, a footnote in the FY 2017 Capital Outlay Bill directs

the \$30,000,000 to statewide highway construction. (Please see footnote 7.)

Statewide Highway Construction

The budget includes \$270,615,000 from SHF in FY 2017 for controlled access, debt service on bonds, and new construction. A footnote in the FY 2017 Capital Outlay Bill appropriates any additional monies in SHF above the appropriation to ADOT for highway construction. (Please see Footnote 8.)

Controlled Access Highways

The budget includes an estimated urban freeway controlled access funding level of \$94,382,000 from SHF in FY 2017. Please see Table 6 for the HURF distribution analysis, which shows that after implementing statewide adjustments, \$94,413,000 of net SHF monies will be available for controlled access in FY 2017 rather than \$94,382,000. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service

The budget includes \$126,141,000 from SHF in FY 2017 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,626,471,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2017 debt service payments. (Please see Table 5 for more information on debt service.)

New Construction

The budget includes \$50,092,000 from SHF in FY 2017 for highway construction. Highway construction monies represent the amount that is available for the discretionary SHF to fund the State Transportation Board's 5-year plan after all other allocations have been made. Table 6 displays the HURF distribution analysis, which shows that after implementing statewide adjustments and additional ADOT highway maintenance funding, \$37,667,000 of net SHF monies will be available for statewide highway construction in FY 2017 rather than \$50,092,000. (Please see the Summary of Highway Construction section and Table 6 for additional information.)

Table 1

**State Highway Fund
FY 2017 Highway Construction & Debt Service**

	<u>Capital Outlay Bill</u>
Controlled Access	\$ 94,382,000
Debt Service	126,141,000
Highway Construction	<u>50,092,000</u>
Total	\$270,615,000

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

As noted in the HURF distribution table (please see Table 6), an additional amount of \$124,148,000 from unspent FY 2016 State Highway Fund monies and the Statewide Transportation Acceleration Needs Account (STAN) will also be available in FY 2017.

One-Time HURF Distribution

The budget includes \$30,000,000 from the General Fund in FY 2017 for local highway construction. (Please see Footnote 9 and the subsequent Highway Construction Held Harmless from DPS Budget in the Other Issues section.)

Other Issues

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 \$1.1 billion before falling back to \$1.0 billion in FY 2017. Because of the South Mountain Freeway construction schedule, expenditures from the Maricopa Regional Area Road Fund (MRARF) are noticeably higher in FY 2016 than the other years.

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Aviation Federal Funds	\$ 323	\$ 4,000	\$ 4,500
Federal Grants	665,534	665,534	665,534
Subtotal - Federal Funds	\$ 665,857	\$ 669,534	\$ 670,034
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	78,000	0
Local Agency Deposits Fund	121,560	106,000	98,000
Maricopa Regional Area Road Fund	314,621	619,634	243,567
Subtotal - Other Non-Appropriated Funds	\$ 437,181	\$ 804,634	\$ 342,567
Total	\$1,103,038	\$1,474,168	\$1,012,601

Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the FY 2017 Baseline Book. The ADOT operating budget section does not include the non-

appropriated capital expenditures as those only appear in Table 2.

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 19, 2015 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 \$880,091,000 for FY 2017. (Please see Table 3 for additional details.)

Table 3

**State Highway Fund
Highway Construction Projects Beginning in FY 2017
(\$ in Thousands)**

	FY 2017 ^{1/}
Construction	\$ 58,109
Urban Controlled Access ^{2/}	560,991
Pavement Preservation Maintenance	214,019
Other ^{3/}	46,972
Total	\$880,091

^{1/} Data from ADOT's 2016-2020 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and MRARF.

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

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2017 budget provides \$270,615,000 for highway construction, including \$50,092,000 of net SHF monies for statewide highway construction. In Table 6, this amount is adjusted to \$37,667,000 due to statewide adjustments.

Table 5 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2015 through FY 2017 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 2017 by category of construction. Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

Both Tables 3 and 5 exclude the General Fund highway construction projects.

For FY 2015, *Table 5* shows that total FY 2015 cash highway construction expenditures were \$1.0 billion while \$305.4 million was spent on debt service. In FY 2016, total estimated cash highway construction expenditures are \$1.9 billion with total debt service of \$304.7 million. The FY 2016 increase is primarily due to MRARF. As previously indicated, the most expensive phase of South Mountain Freeway construction is expected to occur in FY 2016.

In FY 2017, total estimated cash highway construction expenditures are \$1.4 billion with total debt service of \$315.0 million.

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 5 does not include highway maintenance spending of \$136.7 million in FY 2015, \$147.7 million in FY 2016, and \$140.6 million in FY 2017. Of the \$315.0 million total debt service amount in *Table 5*, only \$126.1 million is appropriated.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver’s license, and others. *Table 4* explains the formula distribution of HURF monies between state and local governments. *Table 6* presents the overall HURF distribution for FY 2015 through FY 2017. The line in *Table 6* showing net SHF Available for Statewide Highway Construction, which totals \$37,667,000 for FY 2017, 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 2015 HURF collections of \$1,290,439,000 were 4.0% above FY 2014. As of April 2016, HURF year-to-date collections were 5.5% higher than the prior year. Based on the FY 2016 year-to-date trend, HURF collections in FY 2016 and FY 2017 would be \$29.7 million and \$61.9 million above the budgeted amounts, respectively.

The gas tax is the primary source of HURF collections, accounting for 37% of HURF revenue in FY 2015. The steep decline in gas prices was the main driver in gas tax

growth of 3.0% in FY 2015. Gas prices continue to be lower than the prior year with the average price per gallon of regular gasoline in Arizona at \$2.16 in mid-May, or (25) cents per gallon lower than a year ago, according to the American Automobile Association. If this trend of lower gas prices continues, fuel consumption is likely to continue to increase.

Laws 2013, Chapter 244 deposited \$12,419,700 from the Underground Storage Tank (UST) tax into SHF for FY 2014 covering the period from January 2014 to June 30, 2014. For the first 6 months of FY 2015, \$15,317,700 from the UST tax was deposited in SHF. The source of the tax is a 1-cent excise tax on petroleum products and hazardous substances. Previously, these monies supported the Department of Environmental Quality’s program to clean up leaking underground storage tanks.

The FY 2015 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 14) eliminated the deposit of UST tax collections in SHF effective January 1, 2015. Laws 2015, Chapter 247 deposits UST tax revenue in the UST Revolving Fund. (*Please see the Department of Environmental Quality’s narrative for more details.*)

Table 4

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.

Highway Construction Held Harmless from DPS Budget

The FY 2017 budget essentially holds both local and statewide highway construction harmless from the allocation of HURF monies to the Department of Public Safety (DPS) operating budget. Prior to FY 2015, \$119.2 million of HURF funding had been allocated to DPS for highway patrol expenses, thereby causing a loss of \$59.6 million (50% of the DPS allocation) for local highway construction and an identical loss of \$59.6 million (50% of the DPS allocation) for statewide highway construction.

Table 5

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

<u>Sources</u>	<u>FY 2015</u> <u>Actual</u>	<u>FY 2016</u> <u>Estimate</u>	<u>FY 2017</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 109.5	\$ 113.8	\$ 126.1
HURF - MAG Debt Service	27.8	30.6	27.1
MAG/PAG 15.2% Controlled Access - Construction Expenditures	6.4	309.5	26.0
Net SHF Funds Available for Statewide Highway Construction Expenditures	-	-	37.7
Total SHF - Appropriated	\$ 143.7	\$ 453.9	\$ 216.9
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 1.1	\$ 9.7	\$ 7.8
Total SHF - Non-Appropriated	\$ 1.1	\$ 9.7	\$ 7.8
Total SHF Highway Construction Expenditures	\$ 144.8	\$ 463.6	\$ 224.7
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 842.8	\$ 820.0	\$ 815.0
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 129.7	\$ 669.2	\$ 228.9
MRARF Debt Service	103.2	103.4	142.6
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 232.9	\$ 772.6	\$ 371.5
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 61.4	\$ 126.3	\$ 86.4
MRARF - Highway Construction Expenditures	31.7	-	196.8
GAN - Highway Construction Expenditures	13.1	-	-
Total Bond Proceeds Highway Construction Expenditures	\$ 106.2	\$ 126.3	\$ 283.2
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 12.6	\$ 11.0	\$ 8.0
Total Local Agency Deposits Fund	\$ 12.6	\$ 11.0	\$ 8.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	12.6	11.0	8.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 12.6	\$ 11.0	\$ 8.0
Total Highway Construction Expenditures	\$ 1,339.3	\$ 2,193.5	\$ 1,702.4
Total Debt Service			
SHF	\$ 137.3	\$ 144.4	\$ 153.2
Federal Aid	64.9	56.9	19.2
MRARF	103.2	103.4	142.6
Total Debt Service	\$ 305.4	\$ 304.7	\$ 315.0 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 7.5	\$ 319.2	\$ 71.5
Federal Aid	777.9	763.1	795.8
MRARF	129.7	669.2	228.9
Bond Proceeds	106.2	126.3	283.2
Local Agency Deposits Fund	12.6	11.0	8.0
Total Cash Highway Construction Expenditures	\$ 1,033.9	\$ 1,888.8	\$ 1,387.4
Total Highway Construction Expenditures	\$ 1,339.3	\$ 2,193.5	\$ 1,702.4

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$153,138,000 for HURF bonds (\$126,141,000 for statewide program and \$26,997,000 MAG program); \$19,163,000 for Grant Anticipation Notes; and \$142,646,000 for MRARF bonds as of June 30, 2015.

Table 6

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

	FY 2015 <u>Actual</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>
Total HURF Collections	\$1,290,439	\$1,331,733	\$1,374,349
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	652	653	650
Dept. of Public Safety Transfer from HURF ^{3/}	89,255	96,409	96,006
Reversions from DPS	(5,581)	0	0
Cities ^{4/}	16,003	16,003	16,003
Counties ^{4/}	9,969	9,969	9,969
Controlled Access ^{4/}	<u>4,028</u>	<u>4,028</u>	<u>4,028</u>
Net HURF Collections	\$1,175,113	\$1,203,671	\$1,246,693
Less: Cities ^{5/}	358,409	367,120	380,241
Counties ^{5/}	223,271	228,697	236,872
VLT Transfer to Parity Compensation Fund ^{6/}	2,771	2,975	3,142
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,204	1,200	1,200
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	4,279	4,100	4,100
Controlled Access ^{9/}	<u>88,947</u>	<u>91,136</u>	<u>94,413</u>
Net SHF (Discretionary)	\$ 496,232	\$ 508,443	\$ 526,725
Plus: Other Income ^{10/}	43,971	28,153	28,750
Less: Operating Budget ^{11/}	350,539	341,903	348,128
Dept of Public Safety Transfer from Highway Fund ^{12/}	6,744	7,273	7,302
Capital Outlay	3,477	5,190	5,530
Building Renewal	3,192	3,192	4,000
Motor Vehicle Third Party Payments ^{13/}	23,469	25,145	26,557
Miscellaneous	307	150	150
Debt Service ^{14/}	<u>109,716</u>	<u>113,844</u>	<u>126,141</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{15/}	\$ 42,759	\$ 39,899	\$ 37,667
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	270,878	323,903	78,637
STAN Account Beginning Balance	<u>18,533</u>	<u>17,555</u>	<u>7,844</u>
Total SHF Available for Statewide Highway Construction	\$ 332,170	\$ 381,357	\$ 124,148

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

^{2/} The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments. The FY 2017 amount of \$649,700 includes \$(3,000) for statewide adjustments.

^{3/} The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments. The FY 2017 amount of \$96,006,100 includes \$(403,100) for statewide adjustments.

^{4/} The FY 2016 Revenue BRB (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the DPS budget. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues the special \$30 million HURF distribution to local governments and provides a new, one-time \$30 million distribution of General Fund monies to local governments for the same purpose.

^{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 in FY 2015 only, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2015 amount of \$43,970,800 includes \$43,319,000 in miscellaneous revenue and \$651,800 for the Registration Compliance program. The FY 2016 estimate of \$28,152,700 includes \$27,500,000 in miscellaneous revenue and \$652,700 for the Registration Compliance program. The FY 2017 estimate of \$28,749,700 includes \$28,100,000 in miscellaneous revenue and \$649,700 for the Registration Compliance program.

^{11/} The FY 2016 amount of \$341,903,000 includes \$(1,056,200) for statewide adjustments. The FY 2017 amount of \$348,128,300 includes \$(1,281,900) for statewide adjustments.

^{12/} The FY 2016 amount of \$7,273,200 includes \$(29,500) for statewide adjustments. The FY 2017 amount of \$7,301,800 includes \$(29,500) for statewide adjustments.

^{13/} Statutory payments to third parties from VLT collected by third parties.

^{14/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{15/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Beginning in FY 2015, the impact of the DPS shift on highway construction began to be rolled back. First, \$30.0 million from the General Fund of ongoing funding was appropriated to DPS, freeing up \$30.0 million of HURF for a special distribution to local highway construction. Then, via the FY 2017 Revenue BRB, an additional \$30.0 million of General Fund monies was appropriated as a special distribution to local highway construction for a total of \$60.0 million during FY 2017.

In addition, the FY 2017 Capital Outlay Bill appropriated \$55.0 million from the General Fund for statewide highway construction, including the Interstate 10 and State Route 189 projects.

When all these highway construction policies are combined, the total impact is \$115.0 million, essentially negating the impact of the existing DPS HURF distribution on local and statewide highway construction.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2017
 APPROVED

BUILDING RENEWAL

Arizona Board of Regents
TOTAL - ALL PROJECTS

0
 0^{1/2/}

FUND SOURCES

General Fund
TOTAL - ALL SOURCES

0
 0

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

Legal Structure

Pursuant to A.R.S. § 15-1682, the Arizona Board of Regents (ABOR) has the authority to lease, own, operate, and secure financing for building facilities for each of the 3 universities under its jurisdiction.

ABOR is the university system’s sole legal entity created under the State Constitution. Pursuant to A.R.S. § 15-1601, ABOR maintains Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). While ABOR delegates the authority to sign contracts to the presidents of each university, all contracts are legally established under ABOR, and all properties are legally held by ABOR, not the individual universities.

When debt is issued for a university project, only revenues from the respective university are pledged for the project’s debt service payments. As a result, financing terms are dependent upon each university’s individual credit rating, but all debt is formally issued by ABOR.

Building Renewal

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

One-Time Funding

Section 149 of the FY 2017 General Appropriation Act appropriates \$19,000,000 to the universities from the General Fund in FY 2017 for one-time operating expenditures or capital improvements. Of this amount, \$8,000,000 is appropriated to UA, \$7,000,000 to ASU, and \$4,000,000 to NAU.

A General Appropriation Act footnote requires the universities to report the intended use of the monies to the Joint Legislative Budget Committee by August 1, 2016. The footnote also requires review by the Joint Committee on Capital Review for any of these monies that are used for capital projects.

These monies are included in the General Fund budget of each university’s individual agency section. *(Please see the individual university sections for more information.)*

Lease-Purchase Projects

In FY 2017, ABOR is projected to have \$700,263,100 in outstanding lease-purchase balances, with an overall debt service payment of \$82,887,300. The FY 2017 General Fund share of the debt service is \$29,415,500. These monies pay for the 2003 Certificates of Participation (COPs) which were issued in the amount of \$482,500,000 to provide funding for a variety of research infrastructure projects.

1/ The sum of \$19,000,000 is appropriated from the state General Fund in FY 2017 to the Arizona Board of Regents for distribution for capital improvements or operating expenditures in the following amounts: Arizona State University \$7,000,000, Northern Arizona University \$4,000,000, University of Arizona \$8,000,000. On or before August 1, 2016, the Universities shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section (Section 149) for capital improvements, the Universities shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

2/ The one-time appropriation for operating expenditure or capital improvement projects has been included in the universities’ individual agency sections.

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.

In FY 2013, ABOR refinanced the COPs for the 2003 research infrastructure appropriation, resulting in total savings across all 3 universities. Most of the savings were taken in the first 3 years of the refinance (FY 2015 - FY 2017). Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations to reflect the new debt service obligations in FY 2015 to FY 2017, resulting in total savings across all 3 universities of \$(5.6) million in FY 2015, \$(8.1) million in FY 2016 and \$(4.3) million in FY 2017.

In 2015, ABOR subsequently refinanced the research infrastructure financing again. In the spring of 2016, ABOR provided updated debt service schedules reflecting this second refinancing of the lease-purchase payments for ASU and NAU. These schedules further reduced the universities' total payment obligations through FY 2031 by \$(17.8) million, including an additional \$(951,900) decrease in ASU's FY 2017 payments. As a result, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amends the FY 2015 General Appropriation Act to increase savings across all 3 universities to \$(5.2) million, rather than \$(4.3) million, in FY 2017.

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect the exact debt service payments as a result of the 2 lease-purchase refinancings.

After both refinancings are taken into account, the research infrastructure debt service appropriation will increase by \$2,902,600 in FY 2017. This is allocated as follows: \$(235,800) for ASU, \$(1,246,400) for NAU, and \$4,384,800 for UA.

In FY 2018, the research infrastructure debt service appropriation will increase by \$4,211,300, allocated as follows: \$2,290,700 for ASU, \$1,649,700 for NAU, and \$270,900 for UA.

For FY 2019, the research infrastructure debt service appropriation will decrease by \$(900), allocated as follows: \$(2,300) for ASU, \$(300) for NAU, and \$1,700 for UA.

(Please see Arizona Board of Regents section for additional information.)

Bonding

In FY 2017, ABOR is projected to have \$2,417,990,000 in outstanding bond balances, including both system revenue and lottery bonds. The projected debt service is \$197,372,500. *(Please see the ABOR agency section for more information.)*

University Lottery Bonds

One component of the \$2.4 billion balance is university lottery revenue bonds (Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9). These statutory provisions authorized ABOR to enter into bond transactions up to a maximum of \$800,000,000 to pay facilities. The bonds are to be paid with 80% Lottery monies and 20% university system revenues.

ABOR is required to allocate \$376,000,000 of the \$800,000,000 for the Phoenix Biomedical Campus. ABOR also decided to allocate \$16,000,000 to Arizona State University's (ASU) School of Construction. With the Phoenix Biomedical Campus and School of Construction set-asides, \$408,000,000 remained to be allocated. ABOR then initially split this amount evenly to each of the 3 universities (\$136,000,000 each) for building renewal, deferred maintenance, and new construction projects.

\$408,000,000 Allocation

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

- \$167,700,000 for building renewal bond projects in November 2008 and February 2009, which were issued in April, June, and August 2010, as well as in May 2011. To date, \$163,430,000 of the favorably reviewed \$167,700,000 has been issued.
- \$32,388,000 in September 2011 for ASU building renewal projects, of which \$30,915,000 was issued in November 2011.
- \$71,265,000 in October and December 2012 and August of 2013 for ASU building renewal projects, of which \$63,100,000 was issued in April 2014.
- \$66,500,000 in December 2012 and \$9,650,000 in October 2014 for the University of Arizona (UA) new construction, of which \$61,525,000 of the first review was issued in April 2013 and \$8,485,000 of the second review was issued in December 2014.
- \$71,215,000 in April 2013 for NAU for a new construction project at its Flagstaff campus, which was partially paid in cash. Of the reviewed amount, NAU issued \$67,715,000 in June 2013.

As a result of these actions, JCCR has favorably reviewed \$418,718,000. While the reviewed amount is in excess of

the \$408,000,000 statutory allocation for the 3 universities, the actual issuances are within the statutory limit. ASU had projects favorably reviewed in the amount of \$137,653,000, but it actually issued \$127,835,000, which is within ASU's statutory allotment, with \$8,165,000 remaining. NAU had projects favorably reviewed in the amount of \$136,015,000, but it has actually issued \$132,500,000, which is within NAU's statutory allotment, with \$3,500,000 remaining. UA had projects favorably reviewed totaling \$145,050,000, but it has actually issued a total of \$134,835,000, which is within UA's statutory allotment, with \$1,165,000 remaining. Of the total \$408,000,000 prescribed in statute, \$395,170,000 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 among the 3 universities. Subsequent to the March 2010 JCCR meeting, ASU withdrew its partnership altogether from the Phoenix Biomedical Campus and NAU elected for cash financing for this item. As a result:

- Of the \$172,940,000 for Phase I, ASU's \$43,010,000 will not be issued and NAU paid cash instead of bonding for its \$7,685,000 proposed allocation. Those reviewed amounts are not included in the Reviewed Issuance column in *Table 1*.
- UA issued \$122,245,000 in June 2010 for Phase I.

In addition, the Committee has favorably reviewed:

- \$17,900,000 in April 2013 for NAU and UA to build out shell space for medical simulation rooms, administrative support space, and classrooms at the Phoenix Biomedical Campus. Of that amount, NAU issued \$7,475,000 in June 2013 and UA issued \$8,600,000 in May 2013.
- \$136,100,000 in September 2014 for UA's construction of a Bioscience Partnership Building, which will house 245,000 gross square feet and 10 stories of new research space. Of the reviewed amount, UA issued \$120,700,000 in February 2015.

If any of the ASU and NAU portions are not being spent for their originally reviewed purposes, the new uses of those monies would need further JCCR review before issuance. Laws 2009, 1st Special Session, Chapter 6, Section 3 would have to be amended in order for ASU and NAU to use the Phoenix Biomedical Campus allocation for other capital projects.

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

School of Construction

The Committee also favorably reviewed \$16,000,000 for the ASU School of Construction in October 2012. Of that amount, \$14,520,000 was issued in April 2014, with \$1,480,000 in remaining authority.

Summary

Including the Phoenix Biomedical Campus, the ASU School of Construction and other projects, \$710,963,000 of the Chapter 287 authority has been reviewed (*see Table 1*). Of that amount, \$668,710,000 has been issued, which will result in a total debt service payment of \$49,910,300 in FY 2017, with 80% of debt service being paid from lottery revenues. At this time a total of \$131,290,000 in remaining authority is available for university lottery bonding projects, including \$116,980,000 for Phoenix Biomedical Campus expansion. (*Please see Table 1 for the statutory distribution amounts, the reviewed and planned issuances, and the remaining bonding authority by university.*)

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 \$50,927,100 in FY 2017. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since the maximum 80% lottery portion of the debt service is assumed to be \$39,928,200 in FY 2017, the budget assumes the remaining \$10,998,900 will be deposited to the General Fund. The 20% share of the university payment, which will be paid for with university system revenues, is projected to be \$9,982,100 in FY 2017.

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

Table 2 shows the current projections for UCI Fund revenues and a summary of the payment schedule for the Phoenix Biomedical Campus, ASU School of Construction

and building renewal projects if the maximum of 80% of the debt service was paid from Lottery funds. These amounts are based on the FY 2017 enacted budget and ABOR debt service estimates from January 2016.

Table 1

University Issuances

<u>Purpose</u>	<u>University</u>	<u>Statutory Distribution</u>	<u>Reviewed Issuance</u>	<u>Actual Issuance</u>	<u>Remaining Authority</u>	<u>Planned Issuance</u>
Phoenix Biomedical Campus	UA	\$360,960,000	\$268,045,000	\$251,545,000	\$109,415,000	\$ 0
ASU's School of Construction	NAU	15,040,000	8,200,000	7,475,000	7,565,000	0
Building Renewal/ New Construction	ASU	16,000,000	16,000,000	14,520,000	1,480,000	0
	ASU	136,000,000	137,653,000 ^{1/}	127,835,000	8,165,000	0
	NAU	136,000,000	136,015,000 ^{1/}	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>145,050,000^{1/}</u>	<u>134,835,000</u>	<u>1,165,000</u>	<u>0</u>
<i>Subtotal</i>		<i>408,000,000</i>	<i>418,718,000</i>	<i>395,170,000</i>	<i>12,830,000</i>	<i>0</i>
TOTAL		\$800,000,000	\$710,963,000	\$668,710,000	\$131,290,000	\$ 0

^{1/} Actual issuances will not exceed statutory distribution

Table 2

University Lottery Bonding Projects^{1/}

		<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 22,273,200	\$ 42,130,100	\$ 50,927,100	\$ 60,404,000	\$ 70,360,600
Building Renewal Projects						
Lottery Debt Service	80%	\$ 14,019,300	\$ 24,669,500	\$ 25,703,100	\$ 25,701,400	\$ 25,698,200
University Debt Service	20%	<u>3,517,900</u>	<u>6,167,400</u>	<u>6,425,800</u>	<u>6,425,300</u>	<u>6,424,500</u>
Total Debt Service for \$395.2 M		\$ 17,537,200	\$ 30,836,900	\$ 32,128,900	\$ 32,126,700	\$ 32,122,700
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 7,681,400	\$ 13,218,600	\$ 13,458,000	\$ 13,455,800	\$ 13,451,700
University Debt Service	20%	<u>1,927,600</u>	<u>3,304,600</u>	<u>3,364,500</u>	<u>3,363,900</u>	<u>3,362,900</u>
Total Debt Service for \$259.0 M^{3/}		\$ 9,609,000	\$ 16,523,200	\$ 16,822,500	\$ 16,819,700	\$ 16,814,600
ASU School of Construction						
Lottery Debt Service	80%	\$ 572,500	\$ 764,900	\$ 767,100	\$ 767,100	\$ 766,800
University Debt Service	20%	<u>143,600</u>	<u>191,200</u>	<u>191,800</u>	<u>191,800</u>	<u>191,700</u>
Total Debt Service for \$14.5 M		\$ 716,100	\$ 956,100	\$ 958,900	\$ 958,900	\$ 958,500
Total Lottery Share at 80% ^{4/}		\$ 22,273,200	\$ 38,653,000 ^{5/}	\$ 39,928,200 ^{5/}	\$ 39,924,300	\$ 39,916,700
Projected University Cost ^{4/5/6/}		\$ 5,589,100	\$ 9,663,200	\$ 9,982,100	\$ 9,981,000	\$ 9,979,100

^{1/} Represents JCCR reviewed projects and issuances.

^{2/} Revenue estimates are based on a 8.2% annual increase in Lottery revenues in FY 2016, followed by a 5.0% increase in FY 2017 and thereafter. Represents that maximum amount of revenue available to the UCI Fund. UCI Fund revenues would not exceed the actual total lottery share of debt service in a given year. (See Total Lottery share at 80% line.)

^{3/} This amount consists of: 1) \$122,245,000 issued by UA in 2010 for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU and \$8,600,000 by UA in 2013 for shell space and 3) \$120,700,000 issued by UA in 2014 for the Bioscience Partnership Building.

^{4/} The sum of Total Lottery Share at 80% and Projected University Cost represents the total debt service for the bond issuances. (See the Capital Debt and Lease-Purchase section for more information.)

^{5/} ABOR reports that the total lottery share will be \$38,653,000 in FY 2016 and \$39,928,200 in FY 2017. The amounts displayed above reflect estimates made in January 2016 based on available information from ABOR.

^{6/} Represents the 20% university share.

Capital Outlay

Debt and Lease-Purchase Financing

FY 2017
APPROVED

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing	84,117,400 ^{1/2/}
Phoenix Convention Center	20,449,000 ^{3/}
Rio Nuevo Distribution	10,000,000 ^{4/}
TOTAL - ALL PROJECTS	114,566,400

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

FUND SOURCES

General Fund	114,566,400
TOTAL - ALL SOURCES	114,566,400

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

2010 Leaseback Financing

The budget includes \$84,117,400 from the General Fund in FY 2017 for lease-purchase payments related to the \$1,035,419,300 state building sale/leaseback agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 6) and Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/leaseback 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/leaseback 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 required 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

^{1/} The sum of \$60,105,600 is appropriated from the State General Fund in FY 2017 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2009, 3rd Special Session, Chapter 6, Section 32. (General Appropriation Act footnote)

^{2/} The sum of \$24,011,800 is appropriated from the State General Fund in FY 2017 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4, Section 2. (General Appropriation Act footnote)

^{3/} Pursuant to A.R.S. § 9-602, \$20,449,000 of General Fund revenue is allocated in FY 2017 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601. (General Appropriation Act footnote)

^{4/} Pursuant to A.R.S. § 42-5031, a portion of the state transaction privilege tax revenues will be distributed to a Multipurpose Facility District. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2017. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031. (General Appropriation Act footnote)

restrict the yield on investments with a value equal to the current level of outstanding financing – which at the end of FY 2017 is expected to be \$1.14 billion. The yield restriction exists for the entire term of the operating financing.

When the financing was originally issued, the state agreed to the Working Capital Surplus limitation. Given concerns about the potential for the mandatory repayment requirements, the Executive opted to convert to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing.

Due to this change, the FY 2016 Budget Procedures BRB (Laws 2015, Chapter 11) repealed the Working Capital Surplus reporting requirement in A.R.S. § 41-707. To replace the Working Capital Surplus Report, Chapter 11 requires the Department of Administration to report to the Joint Legislative Budget Committee (JLBC) and the Governor’s Office of Strategic Planning and Budgeting (OSPB) 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.

In December 2015, ADOA reported that there were no costs associated with meeting the Investment Yield Restriction requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government.

Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the operating financing is not subject to repayment by the state until FY 2020.

Phoenix Convention Center

The budget includes \$20,449,000 from the General Fund in FY 2017 related to the state participating in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center.

In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs), of which 50% will be repaid by the state. The project was completed in January 2009.

When the financing was originally authorized, Laws 2003, Chapter 266 enacted a debt service schedule related to this issuance, which was later modified by the FY 2012 Revenue BRB (Laws 2011, Chapter 28). Under this schedule, the state’s annual contribution is scheduled to

gradually increase from \$20,449,000 in FY 2017 to \$29,998,900 by FY 2044.

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) made a technical change to conform the Phoenix Convention Center debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified in FY 2012 to conform to the actual debt service payments of the Phoenix Convention Center financing.

Statute requires the Auditor General to estimate annually how amounts of General Fund revenues resulting from the expansion project compare to debt service payments made by the state since the project’s 2009 completion. If the cumulative estimated revenues from the project fail to meet the state’s cumulative debt service, the state is to reduce its payments to the City of Phoenix by the shortfall amount.

The first comparison report was required in 2014 and annually thereafter. The latest study found that estimated General Fund revenues exceeded the state’s debt service payments by \$52,343,000 during the time period from 2009 to 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 calendar year 2015, \$15,397,000 in added revenues from the project was \$(5,102,000) short of the \$20,449,000 in debt payments.

Rio Nuevo Distribution

The budget includes an estimated \$10,000,000 from the General Fund in FY 2017 for debt service payments to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facility District.

In prior years, distributions of monies to the Rio Nuevo district were accounted for as a reduction of state transaction privilege tax (TPT) revenue. Beginning in FY 2016, these payments are being displayed in the budget as a state expenditure instead. This assures greater transparency and is consistent with how the distributions of state monies to the Phoenix Convention Center are currently reported. The FY 2017 payments to the Rio Nuevo district are estimated to be \$10,000,000. Actual payments to the district decreased from \$9.5 million in FY 2014 to \$7.0 million in FY 2015. The actual amount distributed in FY 2017 will reflect the TPT allocation to the district required by statute.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. This district, which

receives a diversion of TPT to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

Laws 1999, Chapter 162 allows the district to retain the state’s share of TPT from sales of secondary businesses that are deemed “necessary or beneficial” to the development of the primary component multipurpose facility. This law also limited the district’s TPT revenues to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state’s tax collections to finance local development projects with the expectation that future tax collections will increase as a result, is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the district’s municipality to spend a matching amount on projects by the district’s expiration date of July 1, 2025, or until the date all authorized debt service payments are completed, in order to receive state TPT revenues.

Through FY 2015, Rio Nuevo has received a total of \$125,334,537 in TPT distributions from the state (see Table 1). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

Table 1

State TPT Payments to the Rio Nuevo District

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2015	\$6,958,022
FY 2014	9,486,100
FY 2013	9,755,752
FY 2012	11,957,943
FY 2011	14,099,949
FY 2010	8,727,318
FY 2009	10,399,336
FY 2008	15,456,187
FY 2007	14,974,923
FY 2006	10,968,178
FY 2005	7,469,632
FY 2004	<u>5,081,197</u>
Total	\$125,334,537

Other Issues

State Debt Rating

In May 2015, both major credit rating agencies upgraded Arizona’s credit rating. Standard & Poor’s upgraded Arizona from AA- to AA, while Moody’s upgraded Arizona from Aa3 to Aa2. Both ratings represent the agencies’

third highest rating out of 10 possible levels. In comparison to other states, 30 states have a higher rating, 11 states have a similar rating, and 8 states have a lower rating or are not rated due to a lack of state level debt. Along with an overall rating, credit agencies also provide an outlook in terms of the future direction of rating changes. As of May 2015, both major agencies have a stable outlook for Arizona.

In adopting its credit ratings for Arizona, the credit agencies listed some of the following concerns: 1) ongoing K-12 litigation (now resolved); 2) narrow budget reserves; 3) absence of authority for mid-year reductions; and 4) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108. While noting these challenges, the agencies also indicated Arizona’s comparably moderate debt levels, below median pension liabilities, and stabilized financial position as positive trends.

In May 2016, Arizona voters approved Proposition 124, modifying the State Constitution to allow certain changes to permanent benefit increases (PBIs) for public safety employee pensions. Moody’s said in a credit outlook report that approval of the amendment is credit positive for Arizona and its local governments, because it will replace PBIs, which were unfunded benefit increases, with more predictable cost-of-living adjustments (COLAs) that will be funded as part of ongoing plan costs. (Please see the Consolidated Retirement Report for more information.)

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 had PLTO agreements with private entities for 2 office buildings on the Capitol Mall. The 2 buildings house ADOA and the Department of Environmental Quality. In FY 2016, those PLTO agreements were refinanced and converted to lease-purchase agreements.

These payments are now included in Table 2’s Lease-Purchase and Bonding Summary since the debt is now 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 for the construction of new schools in FY 2003 - FY 2005 and FY 2008 - FY 2010.

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

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

SFB's first proposed refinance under the authority in Chapter 3 received a favorable review from the Joint Committee on Capital Review (JCCR) in October 2013 and reduced SFB's lease-purchase payments by \$(1,445,200) in FY 2014 and \$(3,800,800) in FY 2015.

At its April 10, 2014 meeting, JCCR favorably reviewed a second refinancing agreement, which produced non-recurring savings of \$(9,415,900) in FY 2015. The FY 2016 budget included a one-time ex-appropriation of these savings for FY 2015.

The FY 2016 K-12 Education BRB authorized SFB to enter into a refinancing agreement provided that the agreement must: 1) reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024; and 2) not vary lease-purchase payment reduction by more than \$1,000,000 in any single fiscal year during that period. At its June 2015 meeting, the JCCR favorably reviewed a refinancing agreement, which reduced SFB's lease-purchase payments by a combined total of \$15,088,700 in FY 2016 through FY 2024.

In addition, in FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$1,639,900 is from the General Fund, \$6,414,900 is from Other Appropriated

Funds, and \$1,122,200 is from Non-Appropriated Funds. PLTO payments will decrease by \$(10,202,000), of which \$(1,224,600) is from the General Fund, \$(7,678,500) is from Other Appropriated Funds, and \$(1,298,900) is from Non-Appropriated Funds. Lease-purchase payments are increasing while PLTO payments are decreasing, because the state's only remaining PLTO agreements were refinanced and converted to lease-purchase agreements in FY 2016. These adjustments will have no corresponding change in agency funding levels. *(Please see the Capital Outlay ADOA Building System narrative for more information.)*

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

Bonding Summary

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

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

Laws 2010, 6th Special Session, Chapter 4 authorized ADOA to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. Payments started in FY 2011 and have been made from the Lottery revenues that would have otherwise been deposited into the General Fund. The FY 2017 bond payment will be \$37,501,500. This results in the General Fund receiving \$(37,501,500) less in Lottery revenues in FY 2017.

The federal requirements pertaining to operating financing also apply to the Lottery Revenue Bonds. *(Please see the 2010 Leaseback Financing section in the earlier part of this narrative for more information on these requirements.)*

Table 2

Lease-Purchase and Bonding Summary

<u>Lease-Purchase Summary</u>	<u>Overall Balance</u>	<u>GF Balance</u>	<u>Overall FY 17 Payment</u>	<u>FY 17 GF Payment</u>	<u>Retirement FY</u>
<u>ADOA Building System</u>					
2008 A Issuance					
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$ 43,360,000	\$ 43,360,000	\$ 14,212,200	\$ 14,212,200	FY 28
2010 A/B Issuance					
Sale/Leaseback	\$ 802,100,000	\$ 802,100,000	\$ 84,117,400	\$ 84,117,400	FY 30
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 20,445,000	\$ -	\$ 3,201,200	\$ 1,920,500	FY 29
2013 B Issuance					
Refinance - 2002A Health Lab	\$ 9,870,000	\$ -	\$ 2,033,400	\$ -	FY 23
Refinance - 2004B Prisons	6,525,000	6,525,000	3,075,800	3,075,800	FY 19
2015 Issuance					
Refinance - 2008A ADC and DHS	\$ 107,515,000	\$ 107,515,000	\$ 5,304,900	\$ 5,304,900	FY 28
2015 A Issuance					
PLTO Refinance - Capitol Mall	\$ 50,560,000	\$ 50,560,000	\$ 9,388,400	\$ 1,893,000	FY 28
<i>Subtotal - ADOA</i>	\$ 1,040,375,000	\$ 1,010,060,000	\$ 121,333,300	\$ 110,523,800	
<u>School Facilities Board</u>					
New School Construction - FY 2008 - FY 2009	\$ 85,190,000	\$ 85,190,000	\$ 44,926,800	\$ 44,926,800	FY 19
Federal Bonds	55,317,700	55,317,700	9,938,100 ^{3/}	9,938,100 ^{3/}	FY 28
2011 Refinance	58,785,000	58,785,000	2,449,700	2,449,700	FY 20
2013 Refinance	21,905,000	21,905,000	24,779,700	24,779,700	FY 20
2014 Refinance	145,455,000	145,455,000	76,446,500	76,446,500	FY 20
2015 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 624,487,700	\$ 624,487,700	\$ 170,006,600	\$ 170,006,600	
<u>ABOR Building System</u>					
Arizona State University	\$ 308,264,100	\$ 146,435,000	\$ 29,322,800	\$ 11,190,300	FY 39
Northern Arizona University	53,040,000	52,845,000	4,445,500	4,246,800	FY 31
University of Arizona	338,959,000	144,580,000	49,119,000	13,978,400	FY 72
<i>Subtotal - ABOR</i>	\$ 700,263,100	\$ 343,860,000	\$ 82,887,300	\$ 29,415,500	
Phoenix Convention Center ^{4/5/}	\$ 260,124,300	\$ 260,124,300	\$ 20,449,000	\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,625,250,100	\$ 2,238,532,000	\$ 394,676,200	\$ 330,394,900	
<u>Bonding Summary</u>					
<u>School Facilities Board</u>					
Deficiencies Correction:					
Proposition 301	\$ 185,595,000	\$ -	\$ 64,142,500	\$ -	FY 20
State Land Trust - FY 2004	23,728,500	-	24,904,500	-	FY 18
<i>Subtotal - SFB</i>	\$ 209,323,500	\$ -	\$ 89,047,000	\$ -	
Department of Transportation ^{6/}	\$ 1,705,089,000	\$ -	\$ 172,301,000 ^{7/}	\$ -	FY 14 - 38
<u>ABOR Building System</u>					
Arizona State University	\$ 929,375,000	\$ -	\$ 73,405,600	\$ -	FY 47
Northern Arizona University	301,160,000	-	25,523,600	-	FY 44
University of Arizona	549,900,000	-	48,533,000	-	FY 48
University Lottery Bond (SPEED)	637,555,000 ^{8/}	-	49,910,300	-	FY 48
<i>Subtotal - ABOR</i>	\$ 2,417,990,000	\$ -	\$ 197,372,500	\$ -	
Lottery Revenue Bond ^{4/}	\$ 333,610,000	\$ 333,610,000	\$ 37,501,500	\$ 37,501,500	FY 29
<i>TOTAL - Bonding</i>	\$ 4,666,012,500	\$ 333,610,000	\$ 496,222,000	\$ 37,501,500	
TOTAL - Lease-Purchase & Bonding	\$ 7,291,262,600	\$ 2,572,142,000	\$ 890,898,200	\$ 367,896,400	

- 1/ Represents principal balances as of June 30, 2017. 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 17 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 2017 this subsidy is expected to be \$3,976,500 of the \$9,938,100 payment.
- 4/ These obligations will be repaid with foregone General Fund revenues.
- 5/ The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the the city to pay this portion of the lease-purchase payment. Laws 2015, Chapter 10 made a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.
- 6/ Includes \$1,569,539,000 for Highway User Revenue Fund bonds and \$135,550,000 for Grant Anticipation Notes.
- 7/ Future debt service schedule is: FY 2018 - \$172,751,000; FY 2019 - \$186,669,000; FY 2020 - \$191,897,000.
- 8/ Represents outstanding balance as of the end of FY 2017 from projects counted under the \$800,000,000 University Lottery bonding authority, otherwise known as SPEED. SPEED was originally authorized by Laws 2008, Chapter 287. *(Please see the Capital Outlay Arizona Board of Regents Building System narrative for more information.)*

SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2017 Appropriation Report			
	General Fund	Other Fund	Non-Approp	Total
<u>BUDGET UNITS</u>				
Acupuncture Board of Examiners				
1400 W Washington	\$0	\$4,600	\$0	\$4,600
Administration, AZ Department of				
1400 W Washington	3,400	46,100	0	49,500
1510 W Adams	0	353,600	0	353,600
1501 W Adams	0	41,900	0	41,900
1520 W Adams	0	196,700	0	196,700
1537 W Jackson	0	89,100	0	89,100
1616 W Adams	0	77,300	0	77,300
1802 W Jackson	0	17,800	44,200	62,000
1840 W Jackson	0	63,600	0	63,600
1850 W Jackson	0	44,500	0	44,500
1700 W Washington	34,000	82,000	0	116,000
1801 W Madison	0	21,500	0	21,500
1805 W Madison	0	24,700	0	24,700
400 W Congress, Tucson	0	47,600	0	47,600
402 W Congress, Tucson	0	56,200	0	56,200
416 W Congress, Tucson	0	2,700	0	2,700
Subtotal - AZ Dept of Administration	\$37,400	\$1,165,300	\$44,200	\$1,246,900
Administrative Hearings, Office of				
1400 W Washington	71,000	900	131,500	203,400
400 W Congress, Tucson	0	11,400	0	11,400
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800
African American Affairs, Commission on				
1700 W Washington	\$8,500	\$0	\$0	8,500
Agriculture, AZ Department of				
1520 W Adams	106,500	0	0	106,500
1688 W Adams	197,700	46,300	222,700	466,700
400 W Congress, Tucson	32,100	3,900	4,700	40,700
Subtotal - AZ Dept of Agriculture	\$336,300	\$50,200	\$227,400	\$613,900
AZ Health Care Cost Containment System				
Kingman Building	6,800	0	6,600	13,400
Arts, AZ Commission on the				
417 W Roosevelt	0	0	49,700	49,700
Attorney General - Department of Law				
1275 W Washington	550,300	315,500	320,300	1,186,100
400 W Congress, Tucson	31,300	24,500	18,300	74,100
402 W Congress, Tucson	137,700	107,900	79,900	325,500
Capitol Center	967,700	340,000	0	1,307,700
Subtotal - Attorney General - Dept of Law	\$1,687,000	\$787,900	\$418,500	\$2,893,400
Automobile Theft Authority				
1400 W Washington	0	34,800	0	34,800
Barbers, Board of				
1400 W Washington	0	12,500	0	12,500
Charter Schools, State Board for				
1616 W Adams	70,500	0	0	70,500
Child Safety, Department of				
1400 W Washington	0	0	42,400	42,400
Kingman Building	18,800	38,500	25,900	83,200
400 W Congress, Tucson	21,200	20,000	9,700	50,900
Capitol Center	117,100	32,500	67,200	216,800
Subtotal - Department of Child Safety	\$157,100	\$91,000	\$145,200	\$393,300
Citizens Clean Election Commission				

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
1616 W Adams	0	0	54,300	54,300
Contractors, Registrar of				
400 W Congress, Tucson	0	287,400	0	287,400
1700 W Washington	0	38,000	0	38,000
Subtotal - Registrar of Contractors	\$0	\$325,400	\$0	\$325,400
Corporation Commission				
1200 W Washington	0	527,900	0	527,900
1300 W Washington	0	634,500	0	634,500
400 W Congress, Tucson	5,500	47,900	3,100	56,500
Subtotal - Corporation Commission	\$5,500	\$1,210,300	\$3,100	\$1,218,900
Corrections, State Department of				
1601 W Jefferson	749,900	0	0	749,900
1645 W Jefferson	668,500	0	0	668,500
1831 W Jefferson	266,300	0	0	266,300
Subtotal - State Dept of Corrections	\$1,684,700	\$0	\$0	\$1,684,700
Deaf and the Hard of Hearing, Commission for the				
1400 W Washington	0	8,400	0	8,400
Economic Security, Department of				
1400 W Washington	0	0	58,000	58,000
1624 W Adams	64,100	29,200	23,400	116,700
1700 W Washington	9,000	4,100	3,300	16,400
1789 W Jefferson (DES West)	1,441,000	359,100	476,300	2,276,400
Kingman Building	31,900	65,500	44,000	141,400
400 W Congress, Tucson	190,600	179,600	86,400	456,600
DES Group Homes	139,200	200,000	0	339,200
Capitol Center	78,700	21,900	45,100	145,700
Subtotal - Department of Economic Security	\$1,954,500	\$859,400	\$736,500	\$3,550,400
Education, Department of				
1535 W Jefferson	300,800	102,900	560,100	963,800
400 W Congress, Tucson	0	12,000	42,500	54,500
416 W Congress, Tucson	0	900	21,100	22,000
Subtotal - Department of Education	\$300,800	\$115,800	\$623,700	\$1,040,300
Education, State Board of				
1535 W Jefferson	32,400	0	0	32,400
1700 W Washington	50,700	0	0	50,700
Subtotal - State Board of Education	\$83,100	-	-	\$83,100
Emergency and Military Affairs, Department of				
400 W Congress St			\$9,000	\$9,000
Environmental Quality, Department of				
400 W Congress, Tucson	0	96,700	0	96,700
Equalization, State Board of				
416 W Congress, Tucson	1,400	0	0	1,400
Executive Clemency, Board of				
1645 W Jefferson	86,200	0	0	86,200
Financial Institutions, Department of				
2910 N 44th Street	166,000	32,400	0	198,400
Funeral Directors & Embalmers, State Board of				
1400 W Washington	0	15,000	0	15,000
Gaming, Department of				
400 W Congress, Tucson	0	14,000	0	14,000
Governor, Office of the				
1700 W Washington	569,900	0	134,200	704,100
400 W Congress, Tucson	30,000	0	0	30,000
Subtotal - Office of the Governor	\$599,900	\$0	\$134,200	\$734,100
Gov's Ofc of Strategic Planning & Budgeting				
1700 W Washington	130,300	0	0	130,300
Health Services, Department of				

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
1740 W Adams	0	1,013,500	0	1,013,500
1818 W Adams	209,600	0	0	209,600
400 W Congress, Tucson	84,100	50,300	0	134,400
402 W Congress, Tucson	0	3,300	0	3,300
416 W Congress, Tucson	0	56,300	0	56,300
Subtotal - Department of Health Services	\$293,700	\$1,123,400	\$0	\$1,417,100
Homeland Security, AZ Dept of				
1700 W Washington	0	0	132,700	132,700
Homeopathic & Integrated Medicine Examiners,				
1400 W Washington	0	5,000	0	5,000
Insurance, Department of				
2910 N 44th Street	323,300	0	107,800	431,100
Judiciary - Court of Appeals				
400 W Congress, Tucson	380,700	0	0	380,700
Judiciary - Supreme Court				
1501 W Washington	2,859,700	0	0	2,859,700
400 W Congress, Tucson	83,800	0	0	83,800
Subtotal - Supreme Court	\$2,943,500	\$0	\$0	\$2,943,500
Subtotal - Judiciary	\$3,324,200	\$0	\$0	\$3,324,200
Juvenile Corrections, Department of				
1624 W Adams	364,700	0	0	364,700
Land Department, State				
1616 W Adams	0	779,700	0	779,700
Legislature - Auditor General				
2910 N 44th Street	342,200	0	0	342,200
Liquor Licenses and Control, Department of				
400 W Congress, Tucson	0	21,700	0	21,700
Medical Board, AZ				
9500 Doubletree Rd.	0	200,000	0	200,000
Massage Therapy Board				
1400 W Washington	0	28,500	0	28,500
Mine Inspector, State				
1700 W Washington	74,900	0	0	74,900
Naturopathic Physicians Medical Board				
1400 W Washington	0	4,300	0	4,300
Navigable Stream Adjudication Commission, AZ				
1700 W Washington	10,000	0	0	10,000
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.				
1400 W Washington	0	23,000	0	23,000
Opticians, State Board of Dispensing				
1400 W Washington	0	5,200	0	5,200
Optometry, State Board of				
1400 W Washington	0	9,000	0	9,000
Osteopathic Examiners in Medicine and Surgery, AZ Board of				
9500 Doubletree Rd.	0	34,200	0	34,200
Parks Board, AZ State				
1100 W Washington	0	9,400	38,300	47,700
Personnel Board				
1400 W Washington	0	24,800	0	24,800
Pharmacy, AZ State Board of				
1616 W Adams	0	117,800	0	117,800
Podiatry Examiners, State Board of				
1400 W Washington	0	4,400	0	4,400
Private Postsecondary Education, State Board for				
1400 W Washington	0	13,600	3,300	16,900
Psychologist Examiners, State Board of				
1400 W Washington	0	20,500	0	20,500

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
Public Safety, Department of				
14 N 18th Avenue	20,100	5,300	5,600	31,000
1700 W Washington	50,600	13,200	13,900	77,700
400 W Congress, Tucson	10,900	2,800	2,900	16,600
Subtotal - Department of Public Safety	\$81,600	\$21,300	\$22,400	\$125,300
Real Estate Department, State				
2910 N 44th Street	235,800	0	0	235,800
Respiratory Care Examiners, Board of				
1400 W Washington	0	19,800	0	19,800
Revenue, Department of				
402 W Congress, Tucson	116,800	59,500	0	176,300
416 W Congress, Tucson	74,900	38,200	0	113,100
1600 W Monroe	1,377,300	709,400	0	2,086,700
Subtotal - Department of Revenue	\$1,569,000	\$807,100	\$0	\$2,376,100
Rio Nuevo Board				
400 W Congress, Tucson	0	0	12,900	12,900
School Facilities Board				
1700 W Washington	76,900	0	31,500	108,400
Secretary of State - Dept of State				
1700 W Washington	371,400	0	0	371,400
400 W Congress, Tucson	6,000	0	0	6,000
Records Management Addition	303,300	0	0	303,300
Polly Rosenbaum Building	1,593,000	0	0	1,593,000
Subtotal - Secretary of State - Dept of State	\$2,273,700	\$0	\$0	\$2,273,700
Transportation, Department of				
1275 W Washington <u>3/</u>	0	127,500	0	127,500
Treasurer, State				
1700 W Washington	0	135,500	0	135,500
Tribal Relations, Governor's Office of				
1700 W Washington	13,200	0	0	13,200
University of Arizona				
1502 W Washington	360,800	0	0	360,800
Veterinary Medical Examining Board, AZ State				
9500 Doubletree Rd.	-	25,300	-	25,300
Water Resources, Department of				
1802 W Jackson	24,800	-	-	24,800
GRAND TOTAL	\$16,755,800	\$8,397,000	\$2,932,800	\$28,085,600

1/ Reflects the FY 2017 rental rates enacted by Laws 2016, Chapter 127, Section 6, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

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

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

LEASE-PURCHASE APPROPRIATIONS ^{1/}
Department of Administration Building System

	Fiscal Year 2017 - Appropriation Report			
	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS				
Administration, AZ Department of Sale/Lease-Back	\$84,117,400			\$84,117,400
Arizona Department of Administration Buildings ^{2/}				
Accountancy, State Board of		\$112,800		112,800
Administration, Arizona Department of Deaf and Hard of Hearing, Commission for the Equalization, State Board of	777,900	2,004,600	\$209,400	2,991,900
Tax Appeals, State Board of	88,300	216,500		216,500
Subtotal - ADOA Building	34,000			88,300
Corrections, Arizona Department of 4,000 Public Prison Beds ^{3/}	900,200	\$2,333,900	\$209,400	\$3,443,500
Water and Wastewater Projects ^{3/}	15,804,400			15,804,400
1,000 Public Prison Beds - Refinance ^{4/}	650,000			650,000
Subtotal - AZ Department of Corrections	3,075,800			3,075,800
Arizona Department of Environmental Quality Building ^{2/}	\$19,530,200	\$0	\$0	\$19,530,200
Criminal Justice Commission, Arizona Environmental Quality, Department of		10,500	165,200	175,700
Environmental Quality, Department of - WIFA		3,179,900		3,179,900
Forestry and Fire Management, Department of	180,600	-	106,500	106,500
Gaming, Department of		545,900	27,200	207,800
Housing, Department of	65,100	25,800	429,100	545,900
Insurance, Department of				520,000
Residential Utility Consumer Office		105,300		105,300
Technical Registration, State Board of		171,900		171,900
Tourism, Office of			184,800	184,800
Water Resources, Department of	747,100			747,100
Subtotal - ADEQ Building	\$992,800	\$4,039,300	\$912,800	\$5,944,900
Health Services, Department of				
Health Services Building - Refinance ^{5/}	1,920,500	1,280,700		3,201,200
Health Lab - Refinance ^{4/}		2,033,400		2,033,400
Arizona State Hospital Forensic Unit ^{3/}	3,062,700			3,062,700
Subtotal - Department of Health Services	\$4,983,200	\$3,314,100	\$0	\$8,297,300
GRAND TOTAL	\$110,523,800	\$9,687,300	\$1,122,200	\$121,333,300

- ^{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 the JCCR in June 2015, ADOA refinanced the existing ADOA and ADEQ building PLTO to a traditional lease-purchase agreement. The ADOA and ADEQ buildings 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.
- ^{3/} As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADC 4,000 prison bed lease-purchase agreement (2008A) and the ASH lease-purchase agreement (2008A).
- ^{4/} 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).
- ^{5/} 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.