

Department of Environmental Quality

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	13,139,900	16,917,000	16,917,000
Employee Related Expenditures	5,358,800	7,148,100	7,046,800
Professional and Outside Services	1,242,400	6,368,100	6,368,100
Travel - In State	399,400	635,700	635,700
Travel - Out of State	27,800	131,500	131,500
Other Operating Expenditures	11,170,200	15,050,100	15,088,000
Equipment	77,300	103,300	103,300
OPERATING SUBTOTAL	31,415,800	46,353,800	46,290,400
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	21,707,700	21,119,500	21,119,500
Safe Drinking Water Program	1,367,700	1,800,000	1,800,000 ^{1/}
WQARF Priority Site Remediation	7,000,000	7,000,000	9,948,600 ^{2/3/4/}
AGENCY TOTAL	61,491,200	76,273,300	79,158,500 ^{5/}
FUND SOURCES			
General Fund	7,000,000	7,000,000	2,823,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	2,795,100	5,369,300	8,236,400
Emergency Response Fund	0	132,800	132,800
Emissions Inspection Fund	25,896,500	28,381,700	32,620,500
Hazardous Waste Management Fund	1,000,900	1,738,800	1,734,600
Indirect Cost Recovery Fund	12,772,000	13,373,700	13,375,200 ^{6/}
Permit Administration Fund	4,848,700	7,129,700	7,114,100 ^{7/}
Recycling Fund	787,800	1,356,300	1,352,900
Solid Waste Fee Fund	591,800	1,241,000	1,239,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	5,798,400	10,528,000	10,507,400
SUBTOTAL - Other Appropriated Funds	54,491,200	69,273,300	76,334,900
SUBTOTAL - Appropriated Funds	61,491,200	76,273,300	79,158,500
Other Non-Appropriated Funds	30,031,400	38,037,000	60,037,000
Federal Funds	13,984,100	17,451,700	17,451,700
TOTAL - ALL SOURCES	105,506,700	131,762,000	156,647,200

- ^{1/} Before the expenditure of any monies from the Safe Drinking Water Program line item, the Department of Environmental Quality shall submit an expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{2/} A.R.S. § 49-282 requires an annual \$15,000,000 transfer from the Corporate Income Tax to the Water Quality Assurance Revolving Fund. Although the transfer is not included in the annual General Appropriation Act, it would be shown here as a General Fund expenditure. Laws 2016, Chapter 120 reduced this transfer to \$2,823,600 in FY 2017, but utilizes balances of \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund to increase total WQARF funding to \$9,948,600.
- ^{3/} The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. The department shall submit the FY 2017 report to the Joint Legislative Budget Committee on or before September 1, 2016. This report shall also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. This budget shall specify the monies budgeted for each listed site during FY 2017. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 1, 2016, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table shall include the stage of remediation for each site at the end of FY 2016, indicate whether the current stage of remediation is anticipated to be completed in FY 2017 and indicate the anticipated stage of remediation at each listed site at the end of FY 2017, assuming FY 2017 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)
- ^{4/} Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2018 budget for the Water Quality Assurance Revolving Fund before September 1, 2016, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Department of Environmental Quality (ADEQ) enforces air, water, and land quality standards. The department’s Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the clean up (remediation) of hazardous waste sites. The Office of Water Quality regulates drinking water and waste water systems, monitors and assesses waters of the state, and provides hydrologic analysis to support hazardous site remediation.

Operating Budget

The budget includes \$46,290,400 and 322 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
Air Quality Fund	\$5,361,400
Emergency Response Commission	132,800
Emissions Inspection Fund	5,451,000
Hazardous Waste Management Fund	1,734,600
Indirect Cost Recovery Fund	13,375,200
Permit Administration Fund	7,114,100
Recycling Fund	1,352,900
Solid Waste Fee Fund	1,239,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,507,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(63,400) in FY 2017 for statewide adjustments. This amount consists of:

Air Quality Fund	(7,900)
Emissions Inspection Fund	(11,200)
Hazardous Waste Management Fund	(4,200)
Indirect Cost Recovery Fund	1,500
Permit Administration Fund	(15,600)
Recycling Fund	(3,400)
Solid Waste Fee Fund	(2,000)
Water Quality Fee Fund	(20,600)

(Please see the Agency Detail and Allocations section.)

The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to allow the department to utilize up to \$6,531,000 from the

Underground Storage Tank Revolving Fund in FY 2017 for department administrative expenses.

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2017 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2016.

Monies appropriated to this line item are used to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the Emissions Inspection Fund. ADEQ then determines the amount due to the contractor, based on the number of vehicles inspected, and makes payments to the contractor on a regular basis.

The Emissions Control Program is operated by an independent contractor in the Phoenix Metropolitan Area and the Tucson Metropolitan Area with the purpose of identifying and repairing polluting motor vehicles. The program is funded through test fees that are charged to motorists at the time of inspection. Statute does not specify a fee level. The Director of ADEQ has the statutory authority to specify the fees required to pay for the full cost of the Vehicle Emissions Inspection Program. The FY 2017 Environment BRB reduces emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. *(Please see Other Issues for more information.)*

Safe Drinking Water Program

The budget includes \$1,800,000 from the Emissions Inspection Fund in FY 2017 for the Safe Drinking Water Program. This amount is unchanged from FY 2016.

^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
^{6/} All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,375,200 in FY 2017 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,375,200 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).
^{7/} All Permit Administration monies received by the Department of Environmental Quality in excess of \$7,114,100 in FY 2017 are appropriated to the department. Before the expenditure of Permit Administration monies in excess of \$7,114,100 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).

The FY 2017 Environment BRB continues to allow the department to use up to \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program. Before any monies in the line item were expended in FY 2016, the department was required to submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for its review. The JLBC favorably reviewed the FY 2016 Safe Drinking Water Expenditure Plan at its September 2015 meeting. ADEQ's expenditures for the Safe Drinking Water Program appear in *Table 1*.

<u>Position or Function</u>	<u>Actual FY 2015</u>	<u>Estimated FY 2016</u>
Direct Personnel	\$ 999,800	\$1,121,700
Indirect Cost Fund	336,600	501,900
Contracting	0	50,000
Travel	18,000	48,400
Other	<u>13,300</u>	<u>78,000</u>
Total	\$1,367,700	\$1,800,000

WQARF Priority Site Remediation

The budget includes \$9,948,600 in FY 2017 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

General Fund	2,823,600
Air Quality Fund	2,875,000
Emissions Inspection Fund	4,250,000

These amounts fund the following adjustments:

WQARF Fund Shift

The budget includes an increase of \$2,948,600 in FY 2017 for WQARF Priority Site Remediation. This amount consists of:

General Fund	(4,176,400)
Air Quality Fund	2,875,000
Emissions Inspection Fund	4,250,000

WQARF is funded in part from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. Funding for this program, therefore, does not appear in the General Appropriation Act. In addition, WQARF generates other revenue from various license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the \$15,000,000 CIT transfer so that, when combined with the WQARF fee-generated revenue, the program receives \$18,000,000 annually.

The FY 2017 Environment BRB continues to notwithstanding these statutory provisions. *Table 2* describes program activity for FY 2015 and FY 2016. In FY 2015 and FY 2016, the General Fund allocation was reduced from the statutory amount to \$7,000,000. The budget further reduces this General Fund allocation to \$2,823,600 in FY 2017 but utilizes balances of \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund to increase total WQARF funding to \$9,948,600.

The WQARF program is similar to the federal Superfund program in that it is designed to monitor and remediate contaminated groundwater at specified sites. Program expenditures include searching for responsible polluters, conducting risk assessments and remediation feasibility studies, and contracting for remediation services.

	<u>Actual FY 2015</u>	<u>Estimated FY 2016</u>
Balance Forward	\$ 5,629,600	\$ 5,682,100
General Fund	7,000,000	7,000,000
Other Revenue	<u>4,462,900</u>	<u>4,235,700</u>
Total Funds Available	\$17,092,500	\$16,917,800
General Fund Expenditures	\$ 7,000,000	\$ 7,000,000
Other Funds Expended	4,110,400	8,405,900
<u>Funds Transferred</u>		
Dept. of Water Resources	\$ (300,000)	\$ (130,000)
Year-End Fund Balance	\$ 5,682,100	\$ 1,381,900

Other Issues

Vehicle Emissions Inspection Fees

The FY 2013 Environment BRB (Laws 2012, Chapter 303) required the State Agency Fee Commission to recommend reductions to Vehicle Emissions Inspection (VEI) fees by December 31, 2012, along with any proposed changes to the statutory use of monies from the Emissions Inspection Fund. The Fee Commission recommended that the current fee structure remain unchanged and that the Legislature set a statutory cap of 140% of Emissions Control Contractor Payment. A statutory fee cap has not been implemented.

In response to the report, ADEQ decreased the primary VEI fee in Maricopa County by 27% on July 1, 2014. The fee for Phoenix Metropolitan area residents who have 1981 and newer cars and light duty trucks (onboard diagnostic test) was reduced from \$27.25 to \$20.00.

Despite this fee reduction, VEI fees continued to generate a structural surplus. As shown in *Table 3*, ADEQ estimated the VEI Program generated more in fees than administration of the program in FY 2015 and FY 2016.

Emissions Inspection Fund			
	Actual	Estimated	Estimated
Revenues	FY 2015	FY 2016	FY 2017
Balance Forward	\$20,016,500	\$17,318,000	\$14,217,000
Fees	<u>30,359,300</u>	<u>30,280,700</u>	<u>26,585,500</u>
Total Revenues	\$50,375,800	\$47,598,700	\$40,802,500
Expenditures			
Inspections	24,890,000	26,581,700	25,731,300
SDWP	1,367,700	1,800,000	1,800,000
APF	6,800,000	5,000,000	0
WQARF	0	0	4,250,000
Total Expenditures	\$33,057,700	\$33,381,700	\$31,781,300
Total Balance	\$17,318,100	\$14,217,000	\$9,021,200

In recent years, the resulting balances have been utilized for other programs. Between FY 2014 and FY 2016, \$16.8 million in excess revenues (\$5.0 million in FY 2014, \$6.8 million in FY 2015, and \$5.0 million in FY 2016) have been transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund (APF). The budget does not include FY 2017 transfers for this purpose. In FY 2017, ADEQ plans to use carry-over balances in the APF for the e-licensing project. (*Please see the ADOA - Automation Projects Fund section for more information.*) Since FY 2013, the appropriations from the Emissions Inspection Fund for the Safe Drinking Water Program (SDWP) have totaled \$7.2 million.

The Auditor General’s October 2015 Performance Audit and Sunset Review of ADEQ’s VEI Program recommended that ADEQ restructure testing fees to more closely reflect the true cost of administering the tests. They also noted that fees are inconsistent across testing locations. Fees charged in the Phoenix area are often higher than comparable fees in the Tucson area:

- Vehicle owners in the Phoenix area paid \$20.00 for the onboard diagnostic test, while those in the Tucson area pay \$12.25 for the same test. Regardless of location, ADEQ pays its contractor \$13.85 for each diagnostic test. As a result, ADEQ ran a \$6.15 surplus in the Phoenix area and a \$(1.60) deficit in the Tucson area per test.
- Owners of heavy-duty diesel trucks in the Phoenix area paid \$28.00 for each test, while those in the Tucson area pay \$12.25 for each test. Regardless of

location, ADEQ pays its contractor \$23.50 for each heavy-duty diesel test. As a result, ADEQ ran a \$4.50 surplus in the Phoenix area and an \$(11.25) deficit in the Tucson area per test.

The FY 2017 Environment BRB reduces emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. This does not affect Area B, which refers to the Tucson Metropolitan Area. Area A’s onboard diagnostic test fee is reduced from \$20.00 to \$17.00, its steady state and idle test fee is reduced from \$19.00 to \$16.00, and its heavy-duty diesel test fee is reduced from \$28.00 to \$25.00. This is estimated to reduce fees on over 1.2 million tests conducted annually and reduce Emissions Inspection Fund revenues by approximately \$3.7 million annually. *Table 3* shows the estimated revenues and expenditures of the Emissions Inspection Fund in FY 2017 after fee reductions and the additional utilization of the fund for WQARF Priority Site Remediation.

Additional Legislation

Underground Storage Tank Statutory Changes

The FY 2017 Environment BRB revises FY 2015 Underground Storage Tank statutory changes to allow the Underground Storage Tank Revolving Fund to continue to retain its interest earnings rather than deposit them into the General Fund.

Operator Certification Fees

Laws 2016, Chapter 192 requires fees collected for wastewater and drinking water operator certification to be deposited in the Water Quality Fee Fund instead of the General Fund. DEQ estimates that there are 6,500 certified operators holding 13,500 certificates. DEQ estimates that annual revenues for operator certification fees will be approximately \$357,000 to \$502,000 annually.

Transfer to Hazardous Waste Management Fund

Laws 2016, Chapter 352 eliminates the requirement for assayers and drug laboratory site remediation firms to be professionally registered with the Board of Technical Registration. Chapter 352 also transfers all unexpended and unencumbered monies attributable to drug laboratory site remediation firm registration fees from the Technical Registration Fund to the Hazardous Waste Management Fund. Revenue from fees relating to drug laboratory site remediation firm registration totaled \$93,500 in FY 2015.

Oil and Gas Commission Transfer

The FY 2017 Agency Consolidation BRB (Laws 2016, Chapter 128) transfers the Oil and Gas Conservation Commission (Commission), which was administered by the Geological Survey, to ADEQ. All unexpended and unencumbered monies appropriated to support the commission are transferred to the Permit Administration Fund established by A.R.S. § 49-455. The Permit Administration Fund will now receive fees and interest of less than \$1,000 annually collected pursuant to A.R.S. § 27-515.