

## Capital Outlay Summary

	FY 2017 BASELINE
<b>BUILDING RENEWAL</b>	
ADOA Building System	15,112,400
ADOT Building System	3,396,800
ABOR Building System	0
<b>SUBTOTAL</b>	<b>18,509,200</b>
<b>INDIVIDUAL PROJECTS</b>	
ADOA Building System	0
ADOT Building System	289,694,900
ABOR Building System	0
<b>SUBTOTAL</b>	<b>289,694,900</b>
<b>LEASE-PURCHASE PAYMENTS</b>	
Lease-Purchase Obligations	114,566,400
<b>TOTALS</b>	
ADOA Building System	129,678,800
ADOT Building System	293,091,700
ABOR Building System	0
<b>TOTAL - ALL PROJECTS</b>	<b>422,770,500</b>
<b>FUND SOURCES</b>	
General Fund	114,566,400
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Aviation Fund	19,284,800
State Highway Fund	273,806,900
State Lottery Fund	118,100
SUBTOTAL - Other Appropriated Funds	308,204,100
<b>SUBTOTAL - Appropriated Funds</b>	<b>422,770,500</b>
Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
<b>TOTAL - ALL SOURCES</b>	<b>1,435,371,500</b>

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

The following amounts are one-time appropriations:

### Summary

	<b>FY 2017</b>
<b>Capital Outlay</b>	<b>GF \$114,566,400</b>
	<b>OF 308,204,100</b>

The Baseline includes a total of \$422,770,500 from Appropriated Funds in FY 2017. Of the total, \$114,566,400 is from the General Fund and \$308,204,100 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 Baseline includes total funding of \$18,509,200 in FY 2017 for Building Renewal, which consists of \$18,509,200 from Other Appropriated Funds. These amounts include:

Arizona Department of Administration Capital Outlay Stabilization Fund @ 22.1% (excludes ADC, Game and Fish, Lottery buildings)	\$9,000,000
Department of Corrections ADC Building Renewal Fund @ 27.2%	5,464,300
Game and Fish Department Game and Fish Fund @ 59.4%	530,000
State Lottery Commission State Lottery Fund @ 100%	<u>118,100</u>
Subtotal - ADOA	\$15,112,400
Arizona Department of Transportation State Highway Fund @ 26.0%	\$3,191,900
State Aviation Fund @ 88.2%	<u>204,900</u>
Subtotal - ADOT	\$3,396,800

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

## **Individual Projects**

The Baseline includes total funding of \$289,694,900 in FY 2017 for individual capital projects, which consists of \$289,694,900 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

## **Lease-Purchase Payments**

The Baseline 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.)*

\* \* \*

## **FOOTNOTES**

### *Capital Standard Footnotes*

#### Building Renewal

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.

#### Individual Projects

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

Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities.

# Capital Outlay

## Arizona Department of Administration Building System

FY 2017  
BASELINE

### BUILDING RENEWAL

Department of Administration	9,000,000
Department of Corrections	5,464,300
Game and Fish Department	530,000
Arizona State Lottery Commission	118,100
<b>SUBTOTAL</b>	<b>15,112,400</b>
<b>TOTAL - ALL PROJECTS</b>	<b>15,112,400</b>

### FUND SOURCES

#### Other Appropriated Funds

Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Lottery Fund	118,100
SUBTOTAL - Other Appropriated Funds	15,112,400
<b>SUBTOTAL - Appropriated Funds</b>	<b>15,112,400</b>
<b>TOTAL - ALL SOURCES</b>	<b>15,112,400</b>

**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.

The following amounts are one-time appropriations:

#### **Building Renewal**

**FY 2017**

**Building Renewal OF \$15,112,400**

The Baseline includes \$15,112,400 from Other Appropriated Funds in FY 2017 for Building Renewal within the ADOA Building System. This amount consists of:

- \$9,000,000 to ADOA from the Capital Outlay Stabilization Fund (COSF). This amount funds 22.1% of the non-Department of Corrections (ADC) building renewal formula. 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.
- \$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.
- \$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.

\* \* \*

**FORMAT** — Lump Sum by Project by Fund

**FOOTNOTES**

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

**Building Renewal**

The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund.

On or before January 31, 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.

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.

**Individual Projects**

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

The Department of Administration may allocate FTE Positions authorized for specific projects to other projects in this act if the funding for the FTE Positions is cost allocated among the projects receiving benefit. The Department of Administration shall report any FTE Position reallocations to the Joint Committee on Capital Review on or before December 31, 2016.

The appropriations made for statewide highway construction and airport planning and development do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or encumbrance. Except as above 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.

***Other Issues***

***COSF Rental Rate Change & Payment Adjustments***

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

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 916,200	\$9,177,000
• PLTO	(1,244,600)	(10,202,000)
• State Building Rent	<u>(52,700)</u>	<u>(83,400)</u>
	\$ (381,100)	\$(1,108,400)

***Lease-Purchase***

In FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$916,200 is from the General Fund, \$7,041,300 from Other Appropriated Funds, and \$1,219,500 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 \$(83,400), which consists of \$(52,700) from the General Fund, \$(11,900) from Other Appropriated Funds, and \$(18,800) from Non-Appropriated Funds. Any change in rental charges would be funded from existing agency appropriations and would have not corresponding change in agency funding levels.

The Baseline 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.)*

## LEASE-PURCHASE APPROPRIATIONS <sup>1/</sup> Department of Administration Building System

	Fiscal Year 2016 - Appropriations Report				Fiscal Year 2017 - Baseline				FY 2017-FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
<b>BUDGET UNITS</b>												
Administration, AZ Department of Sale/Lease-Back	\$84,114,600			\$84,114,600	\$84,117,400			\$84,117,400	\$2,800			\$2,800
Arizona Department of Administration Buildings <sup>2/</sup>												
Accountancy, State Board of						111,100		111,100		111,100		111,100
Administration, Arizona Department of					801,500	2,065,300	215,800	3,082,600	801,500	2,065,300	215,800	3,082,600
Deaf and Hard of Hearing, Commission for the						213,300		213,300		213,300		213,300
Equalization, State Board of					87,000			87,000	87,000			87,000
Tax Appeals, State Board of					33,500			33,500	33,500			33,500
Subtotal - ADOA Building	\$0	\$0	\$0	\$0	922,000	2,389,700	215,800	3,527,500	\$922,000	\$2,389,700	\$215,800	\$3,527,500
Corrections, Arizona Department of												
4,000 Public Prison Beds <sup>3/</sup>	16,061,900			16,061,900	15,804,400			15,804,400	(257,500)			(257,500)
Water and Wastewater Projects <sup>3/</sup>	657,000			657,000	650,000			650,000	(7,000)			(7,000)
1,000 Public Prison Beds - Refinance <sup>4/</sup>	3,075,300			3,075,300	3,075,800			3,075,800	500			500
Subtotal - AZ Department of Corrections	\$19,794,200	\$0	\$0	\$19,794,200	\$19,530,200	\$0	\$0	\$19,530,200	(\$264,000)			(\$264,000)
Arizona Department of Environmental Quality Building <sup>2/</sup>												
Criminal Justice Commission, Arizona						10,900	170,500	181,400		10,900	170,500	181,400
Environmental Quality, Department of						3,593,000		3,593,000		3,593,000		3,593,000
Environmental Quality, Department of - WIFA							107,000	107,000			107,000	107,000
Fire, Building and Life Safety, Department of					140,100		51,800	191,900	140,100		51,800	191,900
Forester, State					107,200			107,200	107,200			107,200
Gaming, Department of						692,200		692,200		692,200		692,200
Housing, Department of						27,700	434,500	462,200		27,700	434,500	462,200
Insurance, Department of							55,000	55,000			55,000	55,000
Residential Utility Consumer Office						108,700		108,700		108,700		108,700
Technical Registration, State Board of						177,400		177,400		177,400		177,400
Tourism, Office of							184,900	184,900			184,900	184,900
Subtotal - ADEQ Building	\$0	\$0	\$0	\$0	\$247,300	\$4,609,900	\$1,003,700	\$5,860,900	\$247,300	\$4,609,900	\$1,003,700	\$5,860,900
Health Services, Department of												
Health Services Building - Refinance <sup>5/</sup>	1,858,600	1,239,400		3,098,000	1,920,500	1,280,700		3,201,200	61,900	41,300		103,200
Health Lab - Refinance <sup>4/</sup>		2,033,000		2,033,000		2,033,400		2,033,400		400		400
Arizona State Hospital Forensic Unit <sup>3/</sup>	3,113,700			3,113,700	3,062,700			3,062,700	(51,000)			(51,000)
Subtotal - Department of Health Services	\$4,972,300	\$3,272,400	\$0	\$8,244,700	\$4,983,200	\$3,314,100	\$0	\$8,297,300	\$10,900	\$41,700	\$0	\$52,600
<b>GRAND TOTAL</b>	<b>\$108,881,100</b>	<b>\$3,272,400</b>	<b>\$0</b>	<b>\$112,153,500</b>	<b>\$109,800,100</b>	<b>\$10,313,700</b>	<b>\$1,219,500</b>	<b>\$121,333,300</b>	<b>\$919,000</b>	<b>\$7,041,300</b>	<b>\$1,219,500</b>	<b>\$9,179,800</b>

<sup>1/</sup> 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.

<sup>2/</sup> 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.

<sup>3/</sup> 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).

<sup>4/</sup> 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).

<sup>5/</sup> As reviewed by JCCR in October 2012, ADOA refinanced the existing DHS building PLTO into a traditional lease-purchase agreement. The DHS building will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.

## PRIVATIZED LEASE-TO-OWN APPROPRIATIONS 1/

	Fiscal Year 2016 - Appropriation Report				Fiscal Year 2017 - Baseline				FY 2017- FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
<b>Arizona Department of Administration Building</b>												
Accountancy, State Board of	0	113,200	0	113,200	0	0	0	0	0	(113,200)	0	(113,200)
Administration, Arizona Department of	840,600	2,166,000	226,300	3,232,900	0	0	0	0	(840,600)	(2,166,000)	(226,300)	(3,232,900)
Deaf and Hard of Hearing, Commission for the	0	217,300	0	217,300	0	0	0	0	0	(217,300)	0	(217,300)
Equalization, State Board of	88,600	0	0	88,600	0	0	0	0	(88,600)	0	0	(88,600)
Tax Appeals, State Board of	34,000	0	0	34,000	0	0	0	0	(34,000)	0	0	(34,000)
Subtotal - ADOA Building	963,200	2,496,500	226,300	3,686,000	0	0	0	0	(963,200)	(2,496,500)	(226,300)	(3,686,000)
<b>Arizona Department of Environmental Quality Building</b>												
Criminal Justice Commission, Arizona	0	11,500	178,000	189,500	0	0	0	0	0	(11,500)	(178,000)	(189,500)
Environmental Quality, Department of	0	4,054,000	0	4,054,000	0	0	0	0	0	(4,054,000)	0	(4,054,000)
Environmental Quality, Department of - WIFA	0	0	114,000	114,000	0	0	0	0	0	0	(114,000)	(114,000)
Fire, Building and Life Safety, Department of	148,400	0	54,800	203,200	0	0	0	0	(148,400)	0	(54,800)	(203,200)
Forester, State	113,000	0	0	113,000	0	0	0	0	(113,000)	0	0	(113,000)
Gaming, Department of <u>2/</u>	0	778,800	0	778,800	0	0	0	0	0	(778,800)	0	(778,800)
Housing, Department of	0	30,300	476,000	506,300	0	0	0	0	0	(30,300)	(476,000)	(506,300)
Insurance, Department of	0	0	57,700	57,700	0	0	0	0	0	0	(57,700)	(57,700)
Residential Utility Consumer Office	0	120,900	0	120,900	0	0	0	0	0	(120,900)	0	(120,900)
Technical Registration, State Board of	0	186,500	0	186,500	0	0	0	0	0	(186,500)	0	(186,500)
Tourism, Office of	0	0	192,100	192,100	0	0	0	0	0	0	(192,100)	(192,100)
Subtotal - ADEQ Building	\$261,400	\$5,182,000	\$1,072,600	\$6,516,000	\$0	\$0	\$0	\$0	(\$261,400)	(\$5,182,000)	(\$1,072,600)	(\$6,516,000)
<b>GRAND TOTAL</b>	<b>\$1,224,600</b>	<b>\$7,678,500</b>	<b>\$1,298,900</b>	<b>\$10,202,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$1,224,600)</b>	<b>(\$7,678,500)</b>	<b>(\$1,298,900)</b>	<b>(\$10,202,000)</b>

1/ Pursuant to Laws 2001, Chapter 317, the Arizona Department of Administration (ADOA) entered into 3 privatized lease-to-own (PLTO) agreements with private entities for the construction of 3 office buildings on the Capitol Mall. At the end of the lease period, the state will take possession of these buildings. The original DHS Building PLTO was converted to a traditional lease-purchase agreement as part of a refinancing review by JCCR in October 2012. The ADOA and ADEQ Building PLTO were converted to a traditional lease-purchase agreement as part of a financing review by JCCR in June 2015. As a result, the state currently has no active PLTO agreements.

2/ Includes \$155,600 for the Arizona Department of Racing PLTO agreement. The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming, effective July 3, 2015.

## SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2016 - Appropriations Report				Fiscal Year 2017 Baseline				FY 2017 - FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
<b>BUDGET UNITS</b>												
Acupuncture Board of Examiners												
1400 W Washington	0	4,500	0	4,500	0	4,500	0	4,500	0	0	0	0
Administration, AZ Department of												
1400 W Washington	3,400	3,100	0	6,500	3,400	3,100	0	6,500	0	0	0	0
1510 W Adams	0	353,600	0	353,600	0	41,900	0	41,900	0	(311,700)	0	(311,700)
1501 W Adams	0	0	0	0	0	353,700	0	353,700	0	353,700	0	353,700
1520 W Adams	0	184,800	0	184,800	0	184,800	0	184,800	0	0	0	0
1522 W Jackson	0	41,900	0	41,900	0	0	0	-	0	(41,900)	0	(41,900)
1537 W Jackson	0	89,100	0	89,100	0	89,200	0	89,200	0	100	0	100
1616 W Adams	0	77,300	0	77,300	0	77,300	0	77,300	0	0	0	0
1802 W Jackson	0	24,900	61,900	86,800	0	24,900	61,900	86,800	0	0	0	0
1840 W Jackson	0	63,600	0	63,600	0	63,700	0	63,700	0	100	0	100
1850 W Jackson	0	44,500	0	44,500	0	44,500	0	44,500	0	0	0	0
1700 W Washington	32,600	78,800	0	111,400	34,200	82,600	0	116,800	1,600	3,800	0	5,400
1789 W Jefferson (DES West)	0	16,400	0	16,400	0	16,500	0	16,500	0	100	0	100
1801 W Madison	0	21,500	0	21,500	0	21,500	0	21,500	0	0	0	0
1805 W Madison	0	24,700	0	24,700	0	24,700	0	24,700	0	0	0	0
400 W Congress, Tucson	0	53,500	0	53,500	0	47,600	0	47,600	0	(5,900)	0	(5,900)
402 W Congress, Tucson	0	56,200	0	56,200	0	56,200	0	56,200	0	0	0	0
416 W Congress, Tucson	0	2,700	0	2,700	0	2,700	0	2,700	0	0	0	0
Subtotal - AZ Dept of Administration	\$36,000	\$1,136,600	\$61,900	\$1,234,500	37,600	1,134,900	61,900	1,234,400	1,600	(1,700)	0	(100)
Administrative Hearings, Office of												
1400 W Washington	71,000	900	131,500	203,400	71,000	900	131,500	203,400	0	0	0	0
400 W Congress, Tucson	0	11,400	0	11,400	0	11,400	0	11,400	0	0	0	0
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800	\$71,000	\$12,300	\$131,500	\$214,800	0	0	0	0
African American Affairs, Commission on												
1700 W Washington	\$9,300	\$0	\$0	\$9,300	\$9,300	\$0	\$0	\$9,300	0	0	0	0
Agriculture, AZ Department of												
1520 W Adams	106,500	0	0	106,500	106,500	0	0	106,500	0	0	0	0
1688 W Adams	197,700	0	222,800	420,500	197,700	0	222,800	420,500	0	0	0	0
400 W Congress, Tucson	32,100	0	4,700	36,800	32,100	0	4,700	36,800	0	0	0	0
Subtotal - AZ Dept of Agriculture	\$336,300	\$0	\$227,500	\$563,800	\$336,300	\$0	\$227,500	\$563,800	0	0	0	0
AZ Health Care Cost Containment System												
Kingman Building	6,800	0	6,600	13,400	6,800	0	6,600	13,400	0	0	0	0
Arts, AZ Commission on the												
417 W Roosevelt	0	0	49,700	49,700	0	0	49,700	49,700	0	0	0	0
Attorney General - Department of Law												
1275 W Washington	550,300	315,500	320,200	1,186,000	550,300	315,500	320,200	1,186,000	0	0	0	0
400 W Congress, Tucson	32,600	25,600	19,100	77,300	31,300	24,500	18,300	74,100	(1,300)	(1,100)	(800)	(3,200)
402 W Congress, Tucson	137,700	107,900	79,900	325,500	137,700	107,900	79,900	325,500	0	0	0	0
Capitol Center	991,900	348,500	0	1,340,400	967,700	340,000	0	1,307,700	(24,200)	(8,500)	0	(32,700)
Subtotal - Attorney General - Dept of Law	\$1,712,500	\$797,500	\$419,200	\$2,929,200	\$1,687,000	\$787,900	\$418,400	\$2,893,300	(25,500)	(9,600)	(800)	(35,900)
Automobile Theft Authority												
1400 W Washington	0	34,800	0	34,800	0	34,800	0	34,800	0	0	0	0
Barbers, Board of												
1400 W Washington	0	12,500	0	12,500	0	12,500	0	12,500	0	0	0	0
Charter Schools, State Board for												
1616 W Adams	70,500	0	0	70,500	70,500	0	0	70,500	0	0	0	0
Child Safety, Department of												
1400 W Washington	0	0	42,400	42,400	0	0	42,400	42,400	0	0	0	0
Kingman Building	18,800	38,500	25,900	83,200	18,800	38,500	25,900	83,200	0	0	0	0
400 W Congress, Tucson	21,200	20,000	9,500	50,900	21,200	20,000	9,700	50,900	0	0	0	0
Capitol Center	117,100	32,500	67,200	216,800	117,100	32,500	67,200	216,800	0	0	0	0
Subtotal - Department of Child Safety	\$157,100	\$91,000	\$145,000	\$393,300	\$157,100	\$91,000	\$145,200	\$393,300	0	0	0	0
Citizens Clean Election Commission												
1616 W Adams	0	0	54,300	54,300	0	0	54,300	54,300	0	0	0	0
Contractors, Registrar of												
400 W Congress, Tucson	0	38,000	0	38,000	0	38,000	0	38,000	0	0	0	0
1700 W Washington	0	418,700	0	418,700	0	418,700	0	418,700	0	0	0	0
Subtotal - Registrar of Contractors	\$0	\$456,700	\$0	\$456,700	\$0	\$456,700	\$0	\$456,700	0	0	0	0
Corporation Commission												
1200 W Washington	0	527,800	0	527,800	0	527,800	0	527,800	0	0	0	0
1300 W Washington	0	375,500	0	375,500	0	375,500	0	375,500	0	0	0	0

## SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2016 - Appropriations Report				Fiscal Year 2017 Baseline				FY 2017 - FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	153,300	0	153,300	0	153,300	0	153,300	0	0	0	0
400 W Congress, Tucson	5,500	47,900	3,100	56,500	5,500	47,900	3,100	56,500	0	0	0	0
Subtotal - Corporation Commission	\$5,500	\$1,104,500	\$3,100	\$1,113,100	\$5,500	\$1,104,500	\$3,100	\$1,113,100	0	0	0	0
Corrections, State Department of												
1601 W Jefferson	749,800	0	0	749,800	749,800	0	0	749,800	0	0	0	0
1645 W Jefferson	668,600	0	0	668,600	668,700	0	0	668,700	100	0	0	100
1831 W Jefferson	266,300	0	0	266,300	266,300	0	0	266,300	0	0	0	0
Subtotal - State Dept of Corrections	\$1,684,700	\$0	\$0	\$1,684,700	\$1,684,800	\$0	\$0	\$1,684,800	100	0	0	100
Deaf and the Hard of Hearing, Commission for the												
1400 W Washington	0	8,400	0	8,400	0	8,400	0	8,400	0	0	0	0
Economic Security, Department of												
1400 W Washington	0	0	58,000	58,000	0	0	58,000	58,000	0	0	0	0
1624 W Adams	64,100	29,200	23,400	116,700	64,100	29,200	23,400	116,700	0	0	0	0
1700 W Washington	12,800	5,900	4,700	23,400	12,800	5,900	4,700	23,400	0	0	0	0
1789 W Jefferson (DES West)	1,430,600	356,500	472,900	2,260,000	1,430,700	356,500	472,900	2,260,100	100	0	0	100
Kingman Building	31,900	65,500	44,000	141,400	31,900	65,500	44,000	141,400	0	0	0	0
400 W Congress, Tucson	190,600	179,600	86,400	456,600	190,600	179,600	86,400	456,600	0	0	0	0
DES Group Homes	139,200	200,100	0	339,300	139,200	200,100	0	339,300	0	0	0	0
Capitol Center	78,600	21,900	45,100	145,600	78,600	21,900	45,100	145,600	0	0	0	0
Subtotal - Department of Economic Security	\$1,947,800	\$858,700	\$734,500	\$3,541,000	\$1,947,900	\$858,700	\$734,500	\$3,541,100	100	0	0	100
Education, Department of												
1535 W Jefferson	311,000	106,300	578,900	996,300	300,800	102,900	560,200	963,900	(10,200)	(3,400)	(18,800)	(32,400)
400 W Congress, Tucson	0	12,000	42,500	54,500	0	12,000	42,500	54,500	0	0	0	0
416 W Congress, Tucson	0	900	21,100	22,000	0	900	21,100	22,000	0	0	0	0
Subtotal - Department of Education	\$311,000	\$119,200	\$642,500	\$1,072,800	\$300,800	\$115,800	\$623,800	\$1,040,400	(10,200)	(3,400)	(18,800)	(32,400)
Education, State Board of												
1535 W Jefferson	\$0	\$0	\$0	\$0	32,400	0	0	32,400	32,400	0	0	32,400
1700 W Washington	0	0	0	0	41,400	0	0	41,400	41,400	0	0	41,400
Subtotal - State Board of Education	\$0	\$0	\$0	\$0	73,800	-	-	73,800	73,800	0	0	73,800
Emergency and Military Affairs, Department of												
400 W Congress St	\$0	\$0	\$0	\$0			\$9,100	\$9,100	0	0	9,100	9,100
Environmental Quality, Department of												
400 W Congress, Tucson	0	96,800	0	96,800	0	96,800	0	96,800	0	0	0	0
Equal Opportunity, Governor's Office of												
1700 W Washington	13,000	0	0	13,000	0	0	0	-	(13,000)	0	0	(13,000)
Equalization, State Board of												
416 W Congress, Tucson	1,400	0	0	1,400	1,400	0	0	1,400	0	0	0	0
Executive Clemency, Board of												
1645 W Jefferson	86,200	0	0	86,200	86,200	0	0	86,200	0	0	0	0
Financial Institutions, Department of												
2910 N 44th Street	166,000	32,400	0	198,400	166,000	32,400	0	198,400	0	0	0	0
Fire, Building, and Life Safety, Department of												
400 W Congress, Tucson	12,300	0	7,500	19,800	12,300	0	7,500	19,800	0	0	0	0
Funeral Directors & Embalmers, State Board of												
1400 W Washington	0	15,000	0	15,000	0	15,000	0	15,000	0	0	0	0
Gaming, Department of												
400 W Congress, Tucson	0	14,000	0	14,000	0	14,000	0	14,000	0	0	0	0
Geological Survey, AZ												
402 W Congress, Tucson	17,500	0	0	17,500	17,500	0	0	17,500	0	0	0	0
416 W Congress, Tucson	147,700	0	0	147,700	147,800	0	0	147,800	100	0	0	100
Subtotal - AZ Geological Survey	\$165,200	\$0	\$0	\$165,200	\$165,300	\$0	\$0	\$165,300	100	0	0	100
Governor, Office of the												
1700 W Washington	571,500	0	134,500	706,000	548,100	0	129,000	677,100	(23,400)	0	(5,500)	(28,900)
400 W Congress, Tucson	30,000	0	0	30,000	30,000	0	0	30,000	0	0	0	0
Subtotal - Office of the Governor	\$601,500	\$0	\$134,500	\$736,000	\$578,100	\$0	\$129,000	\$707,100	(23,400)	0	(5,500)	(28,900)
Gov's Ofc of Strategic Planning & Budgeting												
1700 W Washington	131,200	0	0	131,200	131,200	0	0	131,200	0	0	0	0
Health Services, Department of												
1740 W Adams	0	1,013,500	0	1,013,500	0	1,013,500	0	1,013,500	0	0	0	0
1818 W Adams	209,600	0	0	209,600	209,600	0	0	209,600	0	0	0	0
400 W Congress, Tucson	84,100	50,300	0	134,400	84,100	50,300	0	134,400	0	0	0	0
402 W Congress, Tucson	0	3,300	0	3,300	0	3,300	0	3,300	0	0	0	0
416 W Congress, Tucson	0	56,400	0	56,400	0	56,400	0	56,400	0	0	0	0
Subtotal - Department of Health Services	\$293,700	\$1,123,500	\$0	\$1,417,200	\$293,700	\$1,123,500	\$0	\$1,417,200	0	0	0	0

## SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2016 - Appropriations Report				Fiscal Year 2017 Baseline				FY 2017 - FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Historical Society, Arizona												
1502 W Washington	360,700	0	0	360,700	360,700	0	0	360,700	0	0	0	0
Homeland Security, AZ Dept of												
1700 W Washington	0	0	131,400	131,400	0	0	131,400	131,400	0	0	0	0
Homeopathic & Integrated Medicine Examiners,												
1400 W Washington	0	4,900	0	4,900	0	4,900	0	4,900	0	0	0	0
Independent Redistricting Commission												
1100 W Washington	24,200	0	0	24,200	24,200	0	0	24,200	0	0	0	0
Indian Affairs, AZ Commission of												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Insurance, Department of												
2910 N 44th Street	323,400	0	107,800	431,200	323,400	0	107,800	431,200	0	0	0	0
Judiciary - Court of Appeals												
400 W Congress, Tucson	380,700	0	0	380,700	380,700	0	0	380,700	0	0	0	0
Judiciary - Supreme Court												
1501 W Washington	2,859,800	0	0	2,859,800	2,859,800	0	0	2,859,800	0	0	0	0
400 W Congress, Tucson	83,800	0	0	83,800	83,800	0	0	83,800	0	0	0	0
Subtotal - Supreme Court	\$2,943,600	\$0	\$0	\$2,943,600	\$2,943,600	\$0	\$0	\$2,943,600	0	0	0	0
Subtotal - Judiciary	\$3,324,300	\$0	\$0	\$3,324,300	\$3,324,300	\$0	\$0	\$3,324,300	0	0	0	0
Juvenile Corrections, Department of												
1624 W Adams	364,700	0	0	364,700	364,700	0	0	364,700	0	0	0	0
Land Department, State												
1616 W Adams	0	779,700	0	779,700	0	779,700	0	779,700	0	0	0	0
Legislature - Auditor General												
1520 W Adams	11,800	0	0	11,800	0	0	0	-	(11,800)	0	0	(11,800)
2910 N 44th Street	342,200	0	0	342,200	342,200	0	0	342,200	0	0	0	0
400 W Congress, Tucson	45,100	0	0	45,100	0	0	0	0	(45,100)	0	0	(45,100)
Subtotal - Legislature - Auditor General	\$399,100	\$0	\$0	\$399,100	\$342,200	\$0	\$0	\$342,200	(56,900)	0	0	(56,900)
Liquor Licenses and Control, Department of												
400 W Congress, Tucson	0	21,700	0	21,700	0	21,700	0	21,700	0	0	0	0
Medical Board, AZ												
9500 Doubletree Rd.	0	200,100	0	200,100	0	200,100	0	200,100	0	0	0	0
Massage Therapy Board												
1400 W Washington	0	28,500	0	28,500	0	28,500	0	28,500	0	0	0	0
Mine Inspector, State												
1700 W Washington	84,200	0	0	84,200	84,300	0	0	84,300	100	0	0	100
Naturopathic Physicians Medical Board												
1400 W Washington	0	4,300	0	4,300	0	4,300	0	4,300	0	0	0	0
Navigable Stream Adjudication Commission, AZ												
1700 W Washington	10,100	0	0	10,100	10,100	0	0	10,100	0	0	0	0
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.												
1400 W Washington	0	23,000	0	23,000	0	23,000	0	23,000	0	0	0	0
Opticians, State Board of Dispensing												
1400 W Washington	0	5,200	0	5,200	0	5,200	0	5,200	0	0	0	0
Optometry, State Board of												
1400 W Washington	0	9,100	0	9,100	0	9,100	0	9,100	0	0	0	0
Osteopathic Examiners, AZ Board of												
9500 Doubletree Rd.	0	34,200	0	34,200	0	34,200	0	34,200	0	0	0	0
Parks Board, AZ State												
1300 W Washington	0	61,700	250,500	312,200	0	64,500	262,200	326,700	0	2,800	11,700	14,500
1616 W Adams	0	0	66,000	66,000	0	0	51,500	51,500	0	0	(14,500)	(14,500)
Subtotal - AZ State Parks Board	\$0	\$61,700	\$316,500	\$378,200	\$0	\$64,500	\$313,700	\$378,200	0	2,800	(2,800)	0
Personnel Board												
1400 W Washington	0	24,800	0	24,800	0	24,800	0	24,800	0	0	0	0
Pest Management, Office of												
1688 W Adams	0	46,300	0	46,300	0	46,300	0	46,300	0	0	0	0
400 W Congress, Tucson	0	3,900	0	3,900	0	3,900	0	3,900	0	0	0	0
Subtotal - Office of Pest Management	\$0	\$50,200	\$0	\$50,200	\$0	\$50,200	\$0	\$50,200	0	0	0	0
Pharmacy, AZ State Board of												
1616 W Adams	0	117,800	0	117,800	0	117,800	0	117,800	0	0	0	0
Podiatry Examiners, State Board of												
1400 W Washington	0	4,400	0	4,400	0	4,400	0	4,400	0	0	0	0
Private Postsecondary Education, State Board for												
1400 W Washington	0	13,600	3,300	16,900	0	13,600	3,300	16,900	0	0	0	0

## SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2016 - Appropriations Report				Fiscal Year 2017 Baseline				FY 2017 - FY 2016 Difference			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Psychologist Examiners, State Board of												
1400 W Washington	0	20,500	0	20,500	0	20,500	0	20,500	0	0	0	0
Public Safety, Department of												
14 N 18th Avenue	20,100	5,300	5,600	31,000	20,100	5,300	5,600	31,000	0	0	0	0
1700 W Washington	51,000	13,300	14,000	78,300	51,000	13,300	14,000	78,300	0	0	0	0
400 W Congress, Tucson	10,900	2,800	2,900	16,600	10,900	2,800	2,900	16,600	0	0	0	0
Subtotal - Department of Public Safety	\$82,000	\$21,400	\$22,500	\$125,900	\$82,000	\$21,400	\$22,500	\$125,900	0	0	0	0
Real Estate Department, State												
2910 N 44th Street	235,900	0	0	235,900	235,900	0	0	235,900	0	0	0	0
Respiratory Care Examiners, Board of												
1400 W Washington	0	19,800	0	19,800	0	19,800	0	19,800	0	0	0	0
Revenue, Department of												
402 W Congress, Tucson	116,900	59,500	0	176,400	116,900	59,500	0	176,400	0	0	0	0
416 W Congress, Tucson	74,900	38,200	0	113,100	74,900	38,200	0	113,100	0	0	0	0
1600 W Monroe	1,377,200	709,400	0	2,086,600	1,377,300	709,400	0	2,086,700	100	0	0	100
Subtotal - Department of Revenue	\$1,569,000	\$807,100	\$0	\$2,376,100	\$1,569,100	\$807,100	\$0	\$2,376,200	100	0	0	100
Rio Nuevo Board												
400 W Congress, Tucson	0	0	11,200	11,200	0	0	11,200	11,200	0	0	0	0
School Facilities Board												
1700 W Washington	80,500	0	33,000	113,500	80,500	0	33,000	113,500	0	0	0	0
Secretary of State - Dept of State												
1030 N 32 Street	0	0	0	-	0	0	0	-	0	0	0	0
1100 W Washington	23,500	0	0	23,500	23,500	0	0	23,500	0	0	0	0
1700 W Washington	193,700	0	0	193,700	193,700	0	0	193,700	0	0	0	0
400 W Congress, Tucson	6,000	0	0	6,000	6,000	0	0	6,000	0	0	0	0
Records Management Addition	303,400	0	0	303,400	303,800	0	0	303,800	400	0	0	400
Polly Rosenbaum Building	1,593,000	0	0	1,593,000	1,593,000	0	0	1,593,000	0	0	0	0
Subtotal - Secretary of State - Dept of State	\$2,119,600	\$0	\$0	\$2,119,600	\$2,120,000	\$0	\$0	\$2,120,000	400	0	0	400
State Boards' Office												
1400 W Washington	0	43,000	0	43,000	0	43,000	0	43,000	0	0	0	0
Transportation, Department of												
1275 W Washington <u>3/</u>	0	127,500	0	127,500	0	127,500	0	127,500	0	0	0	0
Treasurer, State												
1700 W Washington	0	142,000	0	142,000	0	142,000	0	142,000	0	0	0	0
Veterinary Medical Examining Board, AZ State												
9500 Doubletree Rd.	-	25,300	-	25,300	-	25,300	-	25,300	0	0	0	0
<b>GRAND TOTAL</b>	<b>\$16,806,800</b>	<b>\$8,508,200</b>	<b>\$3,243,500</b>	<b>\$28,558,800</b>	<b>\$16,754,100</b>	<b>\$8,496,300</b>	<b>\$3,225,000</b>	<b>\$28,475,400</b>	<b>(52,700)</b>	<b>(11,900)</b>	<b>(18,800)</b>	<b>(83,400)</b>

1/ Reflects the FY 2016 rental rates enacted by Laws 2015, Chapter 11, Section 7, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

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

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

# Capital Outlay

## Arizona Department of Transportation Building System

	FY 2017 BASELINE
<b>BUILDING RENEWAL</b>	
ADOT Building Renewal	3,396,800
<b>SUBTOTAL</b>	<b>3,396,800</b>
<b>INDIVIDUAL PROJECTS</b>	
Airport Planning and Development	19,079,900
Controlled Access Highways	94,382,000
Debt Service	126,141,000
Statewide Highway Construction	50,092,000
<b>SUBTOTAL</b>	<b>289,694,900</b>
<b>TOTAL - ALL PROJECTS</b>	<b>293,091,700</b>
<b>FUND SOURCES</b>	
<u>Other Appropriated Funds</u>	
State Aviation Fund	19,284,800
State Highway Fund	273,806,900
SUBTOTAL - Other Appropriated Funds	293,091,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>293,091,700</b>
Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
<b>TOTAL - ALL SOURCES</b>	<b>1,305,692,700</b>

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

The following reflects one-time appropriations:

### Building Renewal

The Baseline amounts in the Building Renewal section would fund projects at the same level as FY 2016.

	<b>FY 2017</b>
<b>Building Renewal</b>	<b>OF \$3,396,800</b>

The Baseline includes \$3,396,800 in FY 2017 for Building Renewal within ADOT's Building System, the same level as in FY 2016. This amount consists of \$3,191,900 from the State Highway Fund (SHF) and \$204,900 from the State Aviation Fund (SAF). 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 26% funding of

the revised highways building renewal formula and 88.2% funding of the aviation building renewal formula.

### Individual Projects

Besides debt service, the Baseline figures in the *Individual Projects* section would fund projects based on estimated revenue available from their respective fund sources.

<b>Airport Planning and Development</b>	<b>OF 19,079,900</b>
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The Baseline includes \$19,079,900 from SHF in FY 2017 for ADOT's airport construction program. Fund revenues are generated from a flight property tax, aircraft lieu tax, and revenues from the operations of the Grand Canyon Airport.

<b>Controlled Access Highways</b>	<b>OF 94,382,000</b>
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The Baseline includes \$94,382,000 from SHF in FY 2017 for the Highway User Revenue Fund (HURF) formula dedicated to the construction of urban freeways. The Maricopa Association of Governments (MAG) receives

75% and the Pima Association of Governments (PAG) receives 25%.

**Debt Service OF 126,141,000**

The Baseline 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.)

**Statewide Highway Construction OF 50,092,000**

The Baseline includes \$50,092,000 from SHF in FY 2017 for highway construction. Please see Table 6 for the HURF distribution analysis, which shows that \$50,092,000 of net SHF monies will be available for statewide highway construction in FY 2017 from the FY 2017 HURF revenue cash flow. Only a small portion of the state's total \$1,714,800,000 highway construction funding is appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. (See the Total Highway Construction Funding discussion and Table 5 in Other Issues for additional information.)

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

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

<b>Table 1</b>	
<b>FY 2017 Highway Construction &amp; Debt Service</b>	
	<b>Capital Outlay Bill</b>
Controlled Access	\$ 94,382,000
Debt Service	126,141,000
Highway Construction	<u>50,092,000</u>
<b>Total</b>	<b>\$270,615,000</b>

\* \* \*

**FORMAT** — Lump Sum by Project by Fund

**FOOTNOTES**

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

Individual Projects

The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning,

construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph.

The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph.

The Department of Transportation shall report on or before November 1, 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.

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.

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 must appear in the same format as tables 2, 3 and 5, as found in the FY 2016 Appropriations Report.

The appropriation made for statewide highway construction and airport planning and development does not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance.

Except as provided above 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.

**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. 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.)

**Total Highway Construction Funding**

Only a small portion of the state's total highway construction funding is appropriated. The Baseline provides \$270,615,000 for highway construction, including \$50,092,000 of net SHF monies for statewide highway construction.

**Table 2**

<b>Non-Appropriated Capital Fund Expenditures (\$ in Thousands)</b>			
	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
Aviation Federal Funds	\$ 323	\$ 4,000	\$ 4,500
Federal Grants	<u>665,534</u>	<u>665,534</u>	<u>665,534</u>
<b>Subtotal - Federal Funds</b>	<b>\$ 665,857</b>	<b>\$ 669,534</b>	<b>\$ 670,034</b>
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
<b>Subtotal - Other Non-Appropriated Funds</b>	<b>\$ 437,181</b>	<b>\$ 804,634</b>	<b>\$ 342,567</b>
<b>Total</b>	<b>\$1,103,038</b>	<b>\$1,474,168</b>	<b>\$1,012,601</b>

**Table 3**

<b>Highway Construction Projects Beginning in FY 2017 (\$ in Thousands)</b>	
	<b>FY 2017<sup>1/</sup></b>
Construction	\$ 58,109
Urban Controlled Access <sup>2/</sup>	560,991
Pavement Preservation Maintenance	214,019
Other <sup>3/</sup>	<u>46,972</u>
<b>Total</b>	<b>\$880,091</b>

<sup>1/</sup> Data from ADOT's 2016-2020 5-Year Transportation Facilities Construction Program.

<sup>2/</sup> Includes expenditures from HURF for controlled access, PAG, and MRARF.

<sup>3/</sup> Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

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.

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 \$137.9 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 \$50,092,000 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 October 2015, HURF year-to-date collections were 6.1% higher than the prior year. The Baseline projects HURF revenue to grow by 3.2% in both FY 2016 and FY 2017.

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 \$2.14 in mid-November, or (72) cents per gallon lower than a year ago, according to the American Automobile Association. If

Table 4

#### Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access <sup>1/</sup>	7.7%
State Highway Fund <sup>1/</sup>	42.8%
<b>Total</b>	<b>100.0%</b>

<sup>1/</sup> 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.

this trend of dramatically lower gas prices continues, fuel consumption could increase.

For the first time since FY 2007, all HURF revenue categories experienced year-over-year growth in FY 2015. VLT revenue increased by the largest percentage, growing by 6.1% over the prior year. VLT revenue growth was followed by use fuel tax (diesel) growth of 4.6%, motor carrier fee revenue growth of 3.6%, registration fee revenue growth of 3.0%, and, as previously mentioned, gas tax revenue growth of 3.0%.

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 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>
<b>State Highway Fund (SHF)</b>			
<b>Appropriated</b>			
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	-	-	50.1
<b>Total SHF - Appropriated</b>	<b>\$ 143.7</b>	<b>\$ 453.9</b>	<b>\$ 229.3</b>
<b>Non-Appropriated</b>			
SHF Highway Construction <sup>1/</sup>	\$ 1.1	\$ 9.7	\$ 7.8
<b>Total SHF - Non-Appropriated</b>	<b>\$ 1.1</b>	<b>\$ 9.7</b>	<b>\$ 7.8</b>
<b>Total SHF Highway Construction Expenditures</b>	<b>\$ 144.8</b>	<b>\$ 463.6</b>	<b>\$ 237.1</b>
<b>Federal Aid</b>			
<b>Total Federal Aid Highway Construction Expenditures</b>	<b>\$ 842.8</b>	<b>\$ 820.0</b>	<b>\$ 815.0</b>
<b>Maricopa Regional Area Road Fund</b>			
Highway Construction Expenditures	\$ 129.7	\$ 669.2	\$ 228.9
MRARF Debt Service	103.2	103.4	142.6
<b>Total Maricopa Regional Area Road Fund Highway Construction Expenditures</b>	<b>\$ 232.9</b>	<b>\$ 772.6</b>	<b>\$ 371.5</b>
<b>Bond Proceeds</b>			
HURF - Highway Construction Expenditures	\$ 61.4	\$ 126.3	\$ 86.4
MRARF - Highway Construction Expenditures	31.7	-	196.8
GAN - Highway Construction Expenditures	13.1	-	-
<b>Total Bond Proceeds Highway Construction Expenditures</b>	<b>\$ 106.2</b>	<b>\$ 126.3</b>	<b>\$ 283.2</b>
<b>Local Agency Deposits Fund</b>			
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
<b>Total Local Agency Deposits Fund Highway Construction Expenditures</b>	<b>\$ 12.6</b>	<b>\$ 11.0</b>	<b>\$ 8.0</b>
<b>Total Highway Construction Expenditures</b>	<b>\$ 1,339.3</b>	<b>\$ 2,193.5</b>	<b>\$ 1,714.8</b>
<b>Total Debt Service</b>			
SHF	\$ 137.3	\$ 144.4	\$ 153.2
Federal Aid	64.9	56.9	19.2
MRARF	103.2	103.4	142.6
<b>Total Debt Service</b>	<b>\$ 305.4</b>	<b>\$ 304.7</b>	<b>\$ 315.0 <sup>2/</sup></b>
<b>Total Cash Highway Construction Expenditures</b>			
SHF	\$ 7.5	\$ 319.2	\$ 83.9
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
<b>Total Cash Highway Construction Expenditures</b>	<b>\$ 1,033.9</b>	<b>\$ 1,888.8</b>	<b>\$ 1,399.8</b>
<b>Total Highway Construction Expenditures</b>	<b>\$ 1,339.3</b>	<b>\$ 2,193.5</b>	<b>\$ 1,714.8</b>

<sup>1/</sup> Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

<sup>2/</sup> 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>
<b>Total HURF Collections</b>	\$1,290,439	\$1,331,733	\$1,374,349
Less: Economic Strength Fund <sup>1/</sup>	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program <sup>2/</sup>	652	653	653
Dept. of Public Safety Transfer from HURF <sup>3/</sup>	89,255	96,409	96,409
Reversions from DPS	(5,581)	0	0
Cities <sup>4/</sup>	16,003	16,003	16,003
Counties <sup>4/</sup>	9,969	9,969	9,969
Controlled Access <sup>4/</sup>	<u>4,028</u>	<u>4,028</u>	<u>4,028</u>
<b>Net HURF Collections</b>	<b>\$1,175,113</b>	<b>\$1,203,671</b>	<b>\$1,246,287</b>
Less: Cities <sup>5/</sup>	358,409	367,120	380,117
Counties <sup>5/</sup>	223,271	228,697	236,794
VLT Transfer to Parity Compensation Fund <sup>6/</sup>	2,771	2,975	3,142
VLT Transfer to General Fund (5-Year VLT) <sup>7/</sup>	1,204	1,200	1,200
VLT Transfer to General Fund (Abandoned Vehicle) <sup>8/</sup>	4,279	4,100	4,100
Controlled Access <sup>9/</sup>	<u>88,947</u>	<u>91,136</u>	<u>94,382</u>
<b>Net SHF (Discretionary)</b>	<b>\$ 496,232</b>	<b>\$ 508,443</b>	<b>\$ 526,552</b>
Plus: Other Income <sup>10/</sup>	43,971	28,153	28,753
Less: Operating Budget <sup>11/</sup>	350,539	341,900	341,900
Dept of Public Safety Transfer from Highway Fund <sup>12/</sup>	6,744	7,273	7,273
Capital Outlay	3,477	5,190	0
Building Renewal	3,192	3,192	3,192
Motor Vehicle Third Party Payments <sup>13/</sup>	23,469	25,145	26,557
Miscellaneous	307	150	150
Debt Service <sup>14/</sup>	<u>109,716</u>	<u>113,844</u>	<u>126,141</u>
<b>Net SHF Available for Statewide Highway Construction (5-Year Plan) <sup>15/</sup></b>	<b>\$ 42,759</b>	<b>\$ 39,902</b>	<b>\$ 50,092</b>
<b>SHF Adjustments</b>			
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>
<b>Total SHF Available for Statewide Highway Construction</b>	<b>\$ 332,170</b>	<b>\$ 381,360</b>	<b>\$ 136,573</b>

- <sup>1/</sup> Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.
- <sup>2/</sup> The FY 2015 amount of \$651,800 includes \$300 for statewide adjustments. The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments.
- <sup>3/</sup> The FY 2015 amount of \$89,255,000 includes \$7,900 for statewide adjustments. The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments.
- <sup>4/</sup> The FY 2016 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the Department of Public Safety budget.
- <sup>5/</sup> A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.
- <sup>6/</sup> A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.
- <sup>7/</sup> 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.
- <sup>8/</sup> 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.
- <sup>9/</sup> 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.
- <sup>10/</sup> 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 \$28,752,700 includes \$28,100,000 in miscellaneous revenue and \$652,700 for the Registration Compliance program.
- <sup>11/</sup> The FY 2016 amount of \$341,899,700 includes \$(1,056,200) for statewide adjustments.
- <sup>12/</sup> The FY 2015 amount of \$6,743,900 includes \$100 for statewide adjustments. The FY 2016 amount of \$7,273,200 includes \$(29,500) for statewide adjustments.
- <sup>13/</sup> Statutory payments to third parties from VLT collected by third parties.
- <sup>14/</sup> Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.
- <sup>15/</sup> Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

### **3-Year HURF Distribution to Local Governments**

The FY 2015 Revenue BRB required \$30.0 million of HURF revenues in both FY 2015 and FY 2016 and \$60.0 million of HURF revenues in FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The FY 2016 Revenue BRB decreased the distribution in FY 2017 from \$60.0 million to \$30.0 million. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures. *(Please see footnote 4 in Table 6 for the impact of this policy on the HURF distribution.)*

Prior to FY 2015, \$119.2 million of HURF funding had been allocated to the Department of Public Safety (DPS) for highway patrol expenses. By replacing \$30.0 million of HURF with General Fund in the DPS budget, the Legislature made the additional \$30.0 million available to local governments through the HURF distribution in FY 2015, FY 2016, and FY 2017. Consistent with the 3-year budget projections associated with the enacted FY 2016 budget, the FY 2017 Baseline continues the \$30.0 million local HURF allocation in FY 2018.

As seen in *Table 6*, approximately 50% of HURF funding is distributed to local governments. Because DPS receives \$96.4 million from HURF for highway patrol expenses, local governments forego \$48.2 million of their HURF monies. With the \$30.0 million special distribution offset, local governments forego \$18.2 million as a result of the DPS HURF distribution.

**Capital Outlay**  
**Arizona Board of Regents Building Systems**

FY 2017  
 BASELINE

**BUILDING RENEWAL**

Arizona Board of Regents

**TOTAL - ALL PROJECTS**

0  
 0

**FUND SOURCES**

General Fund

**TOTAL - ALL SOURCES**

0  
 0

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

**Building Renewal**

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

**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 \$29,414,900. 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.

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 2015, 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). The FY 2017 Research Infrastructure debt service appropriation will be \$3,854,500 above the amount in FY 2016 due to declining savings from the refinancing of the COPs. The Baseline would adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect lower debt service payments as a result of the refinance. The average annual savings of the new proposed debt service appropriation

compared to the original Chapter 267 appropriation is \$(544,900). The majority of the savings would come from Northern Arizona University (NAU). *(See the ABOR operating section for additional information on universitywide refinance savings.)*

**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, 1<sup>st</sup> Special Session, Chapter 6 and Laws 2009, 3<sup>rd</sup> 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, 1<sup>st</sup> 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.*)

Table 1

## University Issuances

Purpose	University	Statutory Distribution	Reviewed Issuance	Actual Issuance	Remaining Authority	Planned Issuance
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
ASU's School of Construction	ASU	16,000,000	16,000,000	14,520,000	1,480,000	0
Building Renewal/ New Construction	ASU	136,000,000	137,653,000 <sup>1/</sup>	127,835,000	8,165,000	0
	NAU	136,000,000	136,015,000 <sup>1/</sup>	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>145,050,000</u> <sup>1/</sup>	<u>134,835,000</u>	<u>1,165,000</u>	<u>0</u>
Subtotal		<u>408,000,000</u>	<u>418,718,000</u>	<u>395,170,000</u>	<u>12,830,000</u>	<u>0</u>
<b>TOTAL</b>		<b>\$800,000,000</b>	<b>\$710,963,000</b>	<b>\$668,710,000</b>	<b>\$131,290,000</b>	<b>\$ 0</b>

<sup>1/</sup> Actual issuances will not exceed statutory distribution

Table 2

University Lottery Bonding Projects <sup>1/</sup>

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Projected Lottery Revenue to UCI Fund <sup>2/</sup>		\$ 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>
<b>Total Debt Service for \$395.2 M</b>		<b>\$ 17,537,200</b>	<b>\$ 30,836,900</b>	<b>\$ 32,128,900</b>	<b>\$ 32,126,700</b>	<b>\$ 32,122,700</b>
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>
<b>Total Debt Service for \$259.0 M <sup>3/</sup></b>		<b>\$ 9,609,000</b>	<b>\$ 16,523,200</b>	<b>\$ 16,822,500</b>	<b>\$ 16,819,700</b>	<b>\$ 16,814,600</b>
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>
<b>Total Debt Service for \$14.5 M</b>		<b>\$ 716,100</b>	<b>\$ 956,100</b>	<b>\$ 958,900</b>	<b>\$ 958,900</b>	<b>\$ 958,500</b>
Total Lottery Share at 80% <sup>4/</sup>		\$ 22,273,200	\$ 38,653,000 <sup>5/</sup>	\$ 39,928,200 <sup>5/</sup>	\$ 39,924,300	\$ 39,916,700
Projected University Cost <sup>4/5/6/</sup>		\$ 5,589,100	\$ 9,663,200	\$ 9,982,100	\$ 9,981,000	\$ 9,979,100

<sup>1/</sup> Represents JCCR reviewed projects and issuances.

<sup>2/</sup> 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.

<sup>3/</sup> 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.)

<sup>4/</sup> 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.

<sup>5/</sup> 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.)

<sup>6/</sup> 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 October 2015 based on available information from ABOR.

<sup>6/</sup> Represents the 20% university share.

After all lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$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 Baseline 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 Baseline forecast (made in January 2016) and ABOR debt service estimates from that time period.

## Capital Outlay

### Debt and Lease-Purchase Financing

	FY 2017 BASELINE
<b>LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*</b>	
Arizona Department of Administration - 2010 Leaseback Financing	84,117,400
Phoenix Convention Center	20,449,000
Rio Nuevo Distribution	10,000,000
<b>TOTAL - ALL PROJECTS</b>	<b>114,566,400</b>
* 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. <i>(Please see Table 2.)</i>	
<b>FUND SOURCES</b>	
General Fund	114,566,400
<b>TOTAL - ALL SOURCES</b>	<b>114,566,400</b>

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

**FY 2017**

**2010 Leaseback Financing**      **GF**      **\$84,117,400**

The Baseline 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/lease-back agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3<sup>rd</sup> Special Session, Chapter 6) and Laws 2010, 6<sup>th</sup> Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/lease-back agreements in FY 2010 for existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at an average tax-exempt interest rate ranging from 4.37% to 4.57%, with an effective yield of approximately 4%. These issuances range up to 20 years in period of time, however, optional prepayment by the state is prohibited by the agreements until FY 2020. *(Please see the Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.)*

The sale/lease-back agreements were issued as a tax-exempt deficit financing mechanism in which the proceeds were used for state operational expenses. In this circumstance, the federal government essentially 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 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 (OSP) by October 1 of each year on any costs associated with the Investment Yield Restriction, including whether the policy has reduced the yield of investments or required the state to pay any associated penalties to the federal government.

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 prepayment by the state until FY 2020.

**Phoenix Convention Center                      GF            20,449,000**

The Baseline includes \$20,449,000 from the General Fund in FY 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 just calendar year 2015 alone, \$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                                      GF            10,000,000**

The Baseline 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 will assure greater transparency and will be consistent with how the distributions of state monies to the Phoenix Convention Center are currently reported. The FY 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>
<b>Total</b>	<b>\$125,334,537</b>

\* \* \*

**FORMAT** — Lump Sum by Project by Fund

**FOOTNOTES**

*Standard Footnotes*

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 lease-back of state buildings authorized by Laws 2009, 3<sup>rd</sup> Special Session, Chapter 6, Section 32.

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 lease-back of state buildings authorized by Laws 2010, 6<sup>th</sup> Special Session, Chapter 4, Section 2.

Pursuant to A.R.S. § 9-602, \$20,449,000 of State General Fund revenue is allocated in FY 2017 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601.

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.

**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. Using Moody’s credit ratings as of May 2015, in comparison to other states, 25 states have a higher rating, 9 states have a similar rating, and 15 states have a lower rating or are not rated due to a lack of state level debt. 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.

**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, 3<sup>rd</sup> 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, 1<sup>st</sup> 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 will reduce SFB's lease-purchase payments by a combined total of \$15,100,000 in FY 2016 through FY 2024.

In addition, all other lease-purchase payments and PLTO payments are estimated to change by the following amounts in FY 2017: 1) Lease-purchase payments will increase by \$916,200 from the General Fund and \$9,177,000 from All Other Funds; and 2) PLTO payments will decrease by \$(1,244,600) from the General Fund and \$(10,202,000) from All Other 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, 6<sup>th</sup> 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

	Overall Balance	<sup>1/</sup> GF Balance	Overall FY 17 Payment	<sup>2/</sup> FY 17 GF Payment	Retirement FY
<b>Lease-Purchase Summary</b>					
<u>ADOA Building System</u>					
<b>2008 A Issuance</b>					
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$ 43,360,000	\$ 43,360,000	\$ 14,212,200	\$ 14,212,200	FY 28
<b>2010 A/B Issuance</b>					
Sale/Leaseback	\$ 802,100,000	\$ 802,100,000	\$ 84,117,400	\$ 84,117,400	FY 30
<b>2013 A Issuance</b>					
PLTO Refinance - DHS Building	\$ 20,445,000	\$ -	\$ 3,201,200	\$ 1,920,500	FY 29
<b>2013 B Issuance</b>					
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
<b>2015 Issuance</b>					
Refinance - 2008A ADC and DHS	\$ 107,515,000	\$ 107,515,000	\$ 5,304,900	\$ 5,304,900	FY 28
<b>2015 A Issuance</b>					
PLTO Refinance - Capitol Mall	\$ 50,560,000	\$ 50,560,000	\$ 9,388,400	\$ 1,169,300	FY 28
<i>Subtotal - ADOA</i>	\$ 1,040,375,000	\$ 1,010,060,000	\$ 121,333,300	\$ 109,800,100	
<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 <sup>3/</sup>	9,938,100 <sup>3/</sup>	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	257,835,000	257,835,000	76,446,500	76,446,500	FY 20
2016 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 736,867,700	\$ 736,867,700	\$ 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	4,246,600	FY 31
University of Arizona	338,959,000	144,580,000	49,119,000	13,978,000	FY 72
<i>Subtotal - ABOR</i>	\$ 700,263,100	\$ 343,860,000	\$ 82,887,300	\$ 29,414,900	
Phoenix Convention Center <sup>4/5/</sup>	\$ 260,124,300	\$ 260,124,300	\$ 20,449,000	\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,737,630,100	\$ 2,350,912,000	\$ 394,676,200	\$ 329,670,600	
<b>Bonding Summary</b>					
<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 <sup>6/</sup>	\$ 1,705,089,000	\$ -	\$ 172,301,000 <sup>7/</sup>	\$ -	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 <sup>8/</sup>	-	49,910,300	-	FY 48
<i>Subtotal - ABOR</i>	\$ 2,417,990,000	\$ -	\$ 197,372,500	\$ -	
Lottery Revenue Bond <sup>4/</sup>	\$ 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	
<b>TOTAL - Lease-Purchase &amp; Bonding</b>	\$ 7,403,642,600	\$ 2,684,522,000	\$ 890,898,200	\$ 367,172,100	

- 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.)*