



January 4, 2008

TO: House and Senate Appropriations Committee Members

FROM: Senator Bob Burns, Senate Appropriations Committee Chairman
Representative Russell Pearce, House Appropriations Committee Chairman

RB
RP

RE: Appropriations Chairmen's Options - FY 2008 Budget Shortfall

Our Appropriations Committees will be meeting next week to start discussions on addressing a projected FY 2008 budget deficit of nearly \$1 billion. We will be meeting jointly in House Hearing Room 1. Members should plan on full day meetings for Tuesday, January 8 through Thursday, January 10.

Given the magnitude of this financial crisis, we must address this deficit in a timely manner. To expedite the process, we thought it was important as chairmen to provide you with our options to address the shortfall as a starting point. Attached to this letter you will find a spreadsheet delineating those options, along with details for each specific item. In addition, this document also includes other options available to the Legislature in revising the FY 2008 budget.

We both believe that the FY 2008 budget shortfall should have been addressed much sooner than now. The JLBC Staff published a list of options almost 2 months ago. Some agencies may have continued to spend their funds, despite knowing that their budgets were potentially subject to reduction. As a result, some of the specific savings estimates may be out of date, but we believe that agencies should be held accountable for their decisions to ignore the state's fiscal crisis.

Please let us know if you have any questions.

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^{1/} Includes the agencies listed above plus the following agencies: Arizona Department of Administration, Office of Administrative Hearings, Arizona Department of Agriculture, Arizona Commission on the Arts, Attorney General, State Capital Postconviction Public Defender Office, Corporation Commission, Department of Emergency and Military Affairs, State Board of Equalization, State Department of Financial Institutions, Department of Fire, Building and Life Safety, Arizona Geological Survey, Office of the Governor, Governor's Office of Strategic Planning & Budgeting, Arizona Historical Society, Prescott Historical Society of Arizona, Department of Insurance, Department of Juvenile Corrections, Auditor General, House of Representatives, Joint Legislative Budget Committee, Legislative Council, Arizona State Library, Archives & Public Records, Senate, Department of Liquor Licenses & Control, Board of Medical Student Loans, Department of Mines & Mineral Resources, Arizona Pioneers' Home, Department of Racing, Radiation Regulatory Agency, State Real Estate Department, Department of State-Secretary of State, and Department of Weights and Measures.

	FY 2008	Options	One-Pg # time ^{1/}	Approps Chairmen	Revised Total FY 2008
				FY 2008	
				(981,350,800)	
OPERATING SPENDING CHANGES					
DOA - Arizona Department of Administration	33,312,200				
DOA - Lump Sum Reduction		(2,602,300)		(2,361,800)	
DOA - Subtotal					30,950,400
OAH - Office of Administrative Hearings	1,283,300				
OAH - Lump Sum Reduction		(128,300)		(128,300)	
OAH - Subtotal					1,155,000
AGR - Department of Agriculture	12,481,600				
AGR - Lump Sum Reduction		(1,248,200)		(1,248,000)	
AGR - Subtotal					11,233,600
AXS - AHCCCS	1,269,136,000		1		
AXS - SERVICES					
AXS - Eliminate Adult Dental Services		(444,400)		(444,400)	
AXS - Eliminate Temporary Medical Coverage Program		(2,783,300)		(2,783,300)	
AXS - Reduce KidsCare Children Income Eligibility Limit to 175% FPL		(1,164,900)		(1,164,900)	
AXS - Rollback FY 08 SOBRA Pregnant Women 150% Eligibility Increase		(600,000)		(600,000)	
AXS - Rollback FY 08 HPV Vaccine Funding Increase		(2,869,100)	X	(2,869,100)	
AXS - Eliminate Dual Eligible Part D Copay Subsidy		(696,300)		(696,300)	
AXS - Rollback FY 08 Graduate Medical Education Increase		(3,000,000)		(3,000,000)	
AXS - Eliminate Hospital Residency Loan Program		(1,000,000)		(1,000,000)	
AXS - Revise Outlier Payment Methodology		(5,943,800)		(5,943,800)	
AXS - Eliminate 2-1-1 Call Center Support		(3,422,400)		(3,422,400)	
AXS - Rollback FY 08 DES IT Eligibility Project Increase		(1,300,000)		(1,300,000)	
AXS - Rollback FY 08 Claims Computer System Increase		(500,000)		(500,000)	
AXS - Lump Sum Reduction		(12,974,000)		(11,902,800)	
AXS - Eliminate Ticket to Work Program		(793,300)			
AXS - Accelerate KidsCare Parents Statutory Expiration		(3,296,300)	X		
AXS - Implement DRA Premiums		(300,000)			
AXS - Revise Non-Emergency Transportation Services		--			
AXS - Eliminate Critical Access Hospital Subsidy		(573,400)			
AXS - Revert Unspent FY 07 Hospital Residency Loan Program Increase		(1,000,000)	X		
AXS - Rollback FY 08 Healthcare Group Subsidy Increase		(8,000,000)	X		
AXS - Require Maricopa & Pima Counties to Pay 100% of ALTCS Growth		(7,026,800)			
AXS - Subtotal					1,233,509,000
ART - Arizona Commission on the Arts	2,127,600				
ART - Lump Sum Reduction		(212,800)		(212,800)	
ART - Subtotal					1,914,800
ATT - Attorney General	24,651,900				
ATT - Lump Sum Reduction		(2,456,200)		(2,456,200)	
ATT - Subtotal					22,195,700
BIO - Biomedical Research Commission	1,000,000		7		
BIO - Rollback FY 08 Cord Blood Banks Increase		(1,000,000)		(1,000,000)	
BIO - Subtotal					0
CPD - State Capital Postconviction Defender Office	737,900				
CPD - Lump Sum Reduction		(73,800)		(73,800)	
CPD - Subtotal					664,100
CHA - State Board for Charter Schools	1,129,500				1,129,500
COM - Department of Commerce	15,925,100		8		
COM - Rollback FY 08 International Trade Funding Increase		(700,000)		(700,000)	
COM - Rollback FY 08 GADA Increase		(2,000,000)	X	(2,000,000)	
COM - Delay FY 08 Arizona 21st Century Fund		(25,000,000)	X	(25,000,000)	
COM - Rollback CEDC Fund Shift		(750,000)		(750,000)	
COM - Lump Sum Reduction		(1,592,500)		(1,247,500)	
COM - Revert Unused FY 07 21st Century Fund Monies		(11,300,000)	X		
COM - Eliminate Business Attraction & Related Staff		(1,080,800)			
COM - Subtotal					(13,772,400)
CCO - Arizona Community Colleges	167,744,800		11		
CCO - Suspend Capital Outlay		(20,054,000)		(20,054,000)	
CCO - Eliminate Tribal College Funding		(1,944,000)		(1,944,000)	

	FY 2008	Options	One-Pg # time ^{1/}	Approps Chairmen FY 2008	Revised Total FY 2008
CCO - Rollback Northland Public Safety Funding		(1,000,000)	X	(1,000,000)	
CCO - Rollback Out of County Reimbursement Subsidy		(1,200,000)			
CCO - Subtotal					144,746,800
COR - Corporation Commission	5,857,400				
COR - Lump Sum Reduction		(546,000)		(546,000)	
COR - Subtotal					5,311,400
DOC - Department of Corrections	910,277,200		13		
DOC - Reduce Unfilled Indiana Beds		(12,637,000)		(12,637,000)	
DOC - Rollback FY 08 Van Pool & Equipment Funding		(1,900,000)	X	(1,900,000)	
DOC - Lump Sum Reduction		(91,027,700)		(2,981,900)	
DOC - Reduce Unused Oklahoma Bed Funding		(2,134,400)	X		
DOC - Revert Unspent FY 07 Sex Offender GPS Monitoring Monies		(634,300)	X		
DOC - Reduce Unused Sex Offender GPS Monitoring Monies		(375,000)			
DOC - Subtotal					892,758,300
JUS - Arizona Criminal Justice Commission	2,202,000		15		
JUS - Rollback FY 08 Information System Increase		(900,000)	X	(900,000)	
JUS - Lump Sum Reduction		(220,200)		(99,400)	
JUS - Revert Unspent FY 07 County Meth Monies		(502,700)	X		
JUS - Subtotal					1,202,600
SDB - AZ State Schools for the Deaf and Blind	22,010,400				22,010,400
DES - Department of Economic Security	794,336,400		16		
DES - Eliminate General Assistance Program		(1,826,400)		(1,826,400)	
DES - Rollback FY 08 Eligibility System Upgrade Increase		(1,000,000)		(1,000,000)	
DES - Rollback FY 08 Document Management Increase		(500,000)		(500,000)	
DES - Reduce Unused Healthy Families Funding		(3,000,000)		(3,000,000)	
DES - Rollback FY 08 Independent Living Stipend Increase		(1,000,000)		(1,000,000)	
DES - Rollback Joint Substance Abuse Increase		(2,000,000)		(2,000,000)	
DES - Eliminate Summer Youth Employment and Training		(1,250,000)		(1,250,000)	
DES - Rollback FY 08 Visually Impaired Services Increase		(500,000)		(500,000)	
DES - Rollback FY 08 Respite Care Increase		(500,000)		(500,000)	
DES - Lump Sum Reduction		(48,225,600)		(47,055,200)	
DES - Rollback FY 08 Adult Services Increase		(1,500,000)			
DES - Rollback Backfill for Child Support Enforcement		(3,141,300)			
DES - General Assistance Caseload Savings		(1,209,200)	X		
DES - TANF Cash Benefits Caseload Decline		(2,978,900)	X		
DES - Rollback FY 08 Children Services Backfill		(13,530,800)			
DES - Reduce Childcare Eligibility to 145% FPL		(3,287,900)			
DES - Subtotal					735,704,800
ADE - Arizona Department of Education	4,363,465,100		20		
ADE - Student Count and QTR Savings		(30,000,000)	X	(30,000,000)	
ADE - Rollback FY 08 Teacher Training Increase		(2,000,000)		(2,000,000)	
ADE - Rollback FY 08 Math or Science Initiative Increase		(2,500,000)		(2,500,000)	
ADE - Lump Sum Reduction		(10,385,400)		(9,935,400)	
ADE - Rollback FY 08 Discretionary Inflation		(15,333,300)			
ADE - Rollback FY 08 Reading First Initiative Increase		(1,000,000)	X		
ADE - Rollback FY 08 Technology Grants Increase		(1,000,000)	X		
ADE - Revert Unspent FY 07 Information Technology Monies		(2,500,000)	X		
ADE - Revert Unspent FY 07 E-Learning Pilot Monies		(2,800,000)	X		
ADE - Eliminate Alternative Teacher Development Funding		(1,000,000)	X		
ADE - Subtotal					4,319,029,700
EMA - Department of Emergency & Military Affairs	14,581,600				
EMA - Lump Sum Reduction		(980,700)		(836,100)	
EMA - Subtotal					13,745,500
DEQ - Department of Environmental Quality	32,979,000		23		
DEQ - Set WQARF at \$10 Million		(5,000,000)		(5,000,000)	
DEQ - Rollback FY 08 Surface Water Permitting Increase		(530,500)		(530,500)	
DEQ - Lump Sum Reduction		(1,797,900)		(1,744,900)	
DEQ - Subtotal					25,703,600
OEO - Governor's Office of Equal Opportunity	260,800				260,800
EQU - State Board of Equalization	672,900				
EQU - Lump Sum Reduction		(67,300)		(67,300)	
EQU - Subtotal					605,600
EXE - Board of Executive Clemency	1,153,500				1,153,500

	FY 2008	Options	Pg #	One-time ^{1/}	Approps Chairmen FY 2008	Revised Total FY 2008
BAN - State Dept. of Financial Institutions	4,081,800					
BAN - Lump Sum Reduction		(408,200)			(408,200)	
BAN - Subtotal						3,673,600
BFS - Department of Fire, Building & Life Safety	3,922,100					
BFS - Lump Sum Reduction		(392,200)			(392,200)	
BFS - Subtotal						3,529,900
GEO - Arizona Geological Survey	1,151,900					
GEO - Lump Sum Reduction		(115,200)			(115,200)	
GEO - Subtotal						1,036,700
GTA - Government Information Technology Agency	2,000,000		24			
GTA - Eliminate Arizona E-Health Initiative		(1,500,000)			(1,500,000)	
GTA - Subtotal						500,000
GOV - Office of the Governor	7,476,900					
GOV - Lump Sum Reduction		(738,200)			(735,800)	
GOV - Subtotal						6,741,100
OSP - Gov's Office of Strategic Planning & Budgeting	2,313,600					
OSP - Lump Sum Reduction		(231,400)			(231,400)	
OSP - Subtotal						2,082,200
DHS - Department of Health Services	583,432,200		25			
DHS - Reduce Community Health Centers Funding		(4,500,000)			(4,500,000)	
DHS - Rollback FY 08 Senior Food Program Increase		(600,000)			(600,000)	
DHS - Eliminate Health Crisis Fund Deposit		(1,000,000)			(1,000,000)	
DHS - Reduce Health Care Licensure Funding		(1,395,900)			(1,395,900)	
DHS - Consolidate Poison Control Centers		(550,000)			(550,000)	
DHS - Reduce High Risk Perinatal Services Funding		(1,800,000)			(1,800,000)	
DHS - Reduce Laboratory Services Funding		(820,000)			(820,000)	
DHS - Rollback FY 08 Contract Compliance Increase		(2,461,100)			(2,461,100)	
DHS - Rollback Youth Meth Prevention Funding		(500,000)			(500,000)	
DHS - Lump Sum Reduction		(24,867,800)			(23,851,200)	
DHS - Shift Tuberculosis Funding to Counties		(1,410,500)				
DHS - Rollback FY 08 Vaccines Increase		(2,226,100)				
DHS - Reduce Abstinence Funding		(500,000)				
DHS - Reduce Alzheimer's Research Funding		(2,000,000)				
DHS - Eliminate Women's Services		(501,500)				
DHS - Re-institute 50% Rural RTC Cost Sharing		(1,600,000)				
DHS - Eliminate Medicare Part D Dual Copay Subsidy		(267,500)				
DHS - Subtotal						545,954,000
AZH - Arizona Historical Society	4,521,300					
AZH - Lump Sum Reduction		(333,500)			(333,500)	
AZH - Subtotal						4,187,800
PAZ - Prescott Historical Society	780,700					
PAZ - Lump Sum Reduction		(78,100)			(78,100)	
PAZ - Subtotal						702,600
CIA - Arizona Commission of Indian Affairs	237,700					237,700
INS - Department of Insurance	7,800,800					
INS - Lump Sum Reduction		(780,100)			(780,100)	
INS - Subtotal						7,020,700
SPA - Judiciary - Supreme Court	18,412,600					
SPA - Lump Sum Reduction		(1,769,800)			(1,100,000)	
SPA - Subtotal						17,312,600
COA - Judiciary - Court of Appeals	14,127,800					
COA - Lump Sum Reduction		(1,106,100)				
COA - Subtotal						14,127,800
SUP - Judiciary - Superior Court	95,681,100		30			
SUP - Defensive Driving Equivalency Surcharge			--		0	
SUP - Remove 30K Judgeship Mandate			--		0	
SUP - Revert Unused FY 07 Sex Offender GPS Funds		(413,600)		X		
SUP - FY 08 Caseload Savings		(4,073,800)				
SUP - Lump Sum Reduction		(4,258,000)				
SUP - Subtotal						95,681,100

	FY 2008	Options	Pg #	One-time ^{1/}	Approps Chairmen FY 2008	Revised Total FY 2008
DJC - Department of Juvenile Corrections	81,449,800					
DJC - Lump Sum Reduction		(8,145,000)			(1,054,200)	
DJC - Subtotal						80,395,600
LAN - State Land Department	27,329,500		32			
LAN - Rollback FY 08 Trust Land Increase		(775,000)			(775,000)	
LAN - Lump Sum Reduction		(2,433,000)			(2,355,500)	
LAN - Rollback FY 08 Community Protection Deposit		(1,000,000)		X		
LAN - Subtotal						24,199,000
LEM- Law Enforcement Merit System Council	79,300					79,300
Legislature						
AUD - Auditor General	18,791,500					
AUD - Lump Sum Reduction		(1,879,200)			(1,879,200)	
AUD - Subtotal						16,912,300
HOU - House of Representatives	14,276,500					
HOU - Lump Sum Reduction		(1,283,700)			(1,236,300)	
HOU - Subtotal						13,040,200
JLBC - Joint Legislative Budget Committee	3,040,900					
JLBC - Lump Sum Reduction		(304,100)			(304,100)	
JLBC - Subtotal						2,736,800
LEG - Legislative Council	5,717,100					
LEG - Lump Sum Reduction		(571,700)			(571,700)	
LEG - Subtotal						5,145,400
LIBR - AZ State Library, Archives & Public Records	7,787,600					
LIBR - Lump Sum Reduction		(778,800)			(778,800)	
LIBR - Subtotal						7,008,800
SEN - Senate	9,476,300					
SEN - Lump Sum Reduction		(875,600)			(853,200)	
SEN - Subtotal						8,623,100
LIQ - Department of Liquor Licenses & Control	3,646,200					
LIQ - Lump Sum Reduction		(364,600)			(212,100)	
LIQ - Subtotal						3,434,100
MSL - Board of Medical Student Loans	1,500,000					
MSL - Lump Sum Reduction		(150,000)			(150,000)	
MSL - Subtotal						1,350,000
MIN - State Mine Inspector	1,884,800					1,884,800
MMR - Department of Mines & Mineral Resources	950,800					
MMR - Lump Sum Reduction		(95,100)			(95,100)	
MMR - Subtotal						855,700
NAV - AZ Navigable Stream Adjudication Commission	180,000					180,000
NUR - State Board of Nursing	167,300					167,300
SPB - Arizona State Parks Board	28,212,200		33			
SPB - General Fund Offset - Land Conservation Fund Interest		(5,500,000)			(5,500,000)	
SPB - Rollback FY 08 General Fund SPEF Offset		(1,000,000)			(1,000,000)	
SPB - Lump Sum Reduction		(821,200)			(671,200)	
SPB - Subtotal						21,041,000
PER - Personnel Board	370,800					370,800
PIO - Arizona Pioneers' Home	1,260,000					
PIO - Lump Sum Reduction		(126,000)			(126,000)	
PIO - Subtotal						1,134,000
POS - Commission for Postsecondary Education	7,427,300					7,427,300
DPS - Department of Public Safety	177,708,000		34			
DPS - Shift Highway Patrol to HURF		(106,000,000)			(106,000,000)	
DPS - Local Law Enforcement Reimbursement for DPS Lab		(640,000)			(640,000)	
DPS - Lump Sum Reduction		(17,770,800)			(2,930,100)	

	FY 2008	Options	Pg #	One-time ^{1/}	Approps Chairmen FY 2008	Revised Total FY 2008
DPS - Subtotal						68,137,900
RAC - Arizona Department of Racing	2,851,100					
RAC - Lump Sum Reduction		(285,100)			(285,100)	
RAC - Subtotal						2,566,000
RAD - Radiation Regulatory Agency	2,249,700					
RAD - Lump Sum Reduction		(165,800)			(165,800)	
RAD - Subtotal						2,083,900
ARP - Arizona Rangers' Pensions	13,400					13,400
REA - State Real Estate Department	4,614,000					
REA - Lump Sum Reduction		(461,400)			(461,400)	
REA - Subtotal						4,152,600
REV - Department of Revenue	76,942,100		35			
REV - Lump Sum Reduction		(7,694,200)			(7,694,200)	
REV - Rollback Revenue Generating Program Increase		(1,000,000)				
REV - Rollback BRITS Operational Support Increase		(1,378,300)				
REV - Rollback Small Town Revenue Sharing		(850,000)		X		
REV - Subtotal						69,247,900
SFB - School Facilities Board	532,695,100		36			
SFB - Suspend Building Renewal Funding		(43,141,800)		X	(43,141,800)	
SFB - New Construction Moratorium		(42,000,000)		X	(42,000,000)	
SFB - Lump Sum Reduction		(9,072,800)			(194,400)	
SFB - Rollback FY 08 Utilities Pilot Program Increase		(2,500,000)		X		
SFB - Increase New Construction Payment Tail in lieu of FY 08 Supplemental		--				
SFB - Subtotal						447,358,900
SOS - Secretary of State	7,222,300					
SOS - Lump Sum Reduction		(276,500)			(276,500)	
SOS - Subtotal						6,945,800
TAX - State Board of Tax Appeals	317,900					317,900
TOU - Office of Tourism	15,649,400		38			
TOU - Require Proportional Local Contributions to the Tourism Fund		(4,403,300)			(4,403,300)	
TOU - Cap the Tourism Fund Formula at FY 07		(885,800)				
TOU - Subtotal						11,246,100
DOT - Department of Transportation	86,600		39			
DOT - Shift MVD to HURF from SHF		--			0	
DOT - Subtotal						86,600
TRE - State Treasurer	5,616,700		40			
TRE - Shift Treasurer's Budget to Earnings/Fees		(3,386,600)			--	
TRE - Subtotal						5,616,700
UNI - Universities						
UNI - Arizona Board of Regents	20,598,000		41			
UNI - Rollback FY 08 Financial Aid Increase		(2,880,000)			(2,880,000)	
UNI - Rollback FY 08 Math & Science Increase		(2,250,000)			(2,250,000)	
UNI - Lump Sum Reduction		(1,055,700)			(776,300)	
UNI - ABOR - Subtotal						14,691,700
UNI - ASU - Main Campus	416,764,800		42			
UNI - ASU Main - Lump Sum Reduction		(41,676,500)			(41,676,500)	
UNI - ASU Main - Rollback FY 08 Student & Faculty Retention Increase		(15,064,000)				
UNI - ASU Main - Rollback FY 08 Biomedical Informatics Increase		(2,000,000)				
UNI - ASU Main - Rollback FY 08 Biomedical Campus Design Increase		(5,250,000)		X		
UNI - ASU Main - Subtotal						375,088,300
UNI - ASU - East Campus	25,915,900		43			
UNI - ASU East - Lump Sum Reduction		(2,591,600)			(2,591,600)	
UNI - ASU East - Subtotal						23,324,300
UNI - ASU - West Campus	53,604,400		44			
UNI - ASU West - Lump Sum Reduction		(5,360,400)			(5,360,400)	
UNI - ASU West - Rollback FY 08 Criminal Justice		(1,000,000)				

	FY 2008	Options	Pg #	One-time ^{1/}	Approps Chairmen FY 2008	Revised Total FY 2008
UNI - ASU West - Subtotal						48,244,000
UNI - Northern Arizona University	160,868,800		45			
UNI - NAU - Lump Sum Reduction		(16,086,900)			(16,086,900)	
UNI - NAU - Rollback FY 08 Student & Faculty Retention Increase		(4,736,000)				
UNI - NAU - Rollback FY 08 Health Professions Increase		(4,000,000)				
UNI - NAU - Subtotal						144,781,900
UNI - UA - Main Campus	362,389,200		46			
UNI - UA Main - Lump Sum Reduction		(36,238,900)			(36,238,900)	
UNI - UA Main - Rollback FY 08 Student & Faculty Retention Increase		(10,000,000)				
UNI - UA Main - Rollback FY 08 Biomedical Campus Design Increase		(5,250,000)		X		
UNI - UA Main - Rollback UA South Increase		(1,200,000)				
UNI - UA Main - Subtotal						326,150,300
UNI - UA - Health Sciences Center	80,954,200		47			
UNI - UA - HSC - Lump Sum Reduction		(8,095,400)			(8,095,400)	
UNI - UA - HSC - Rollback FY 08 Telemedicine Increase		(1,000,000)				
UNI - UA - HSC - Rollback FY 08 Pharmacy Increase		(1,500,000)				
UNI - UA - HSC - Rollback FY 08 Medical Campus Increase		(6,000,000)				
UNI - UA HSC - Subtotal						72,858,800
VSC - Department of Veterans' Services	9,284,800		48			
VSC - Rollback FY 08 Benefit Counselors Increase		(985,400)				
VSC - Lump Sum Reduction		(928,500)				
VSC - Subtotal						9,284,800
WAT - Department of Water Resources	24,074,600		49			
WAT - Rollback New Water Protection Fund Deposit		(1,000,000)			(1,000,000)	
WAT - Shift Assured & Adequate Water Program Costs		(1,100,000)			(1,100,000)	
WAT - Lump Sum Reduction		(2,407,500)			(2,097,500)	
WAT - Rollback FY 08 Drought Office Increase		(500,000)				
WAT - Rollback FY 08 Rural Water Studies Increase		(500,000)				
WAT - Rollback FY 08 Adjudication Support Increase		(1,000,000)				
WAT - Subtotal						19,877,100
WEI - Department of Weights & Measures	1,710,800					
WEI - Lump Sum Reduction		(171,100)			(171,100)	
WEI - Subtotal						1,539,700
OTH - Other	536,500					536,500
GENERAL FUND TRANSFERS	25,000,000					25,000,000
Lump Sum Reduction <u>2/</u>			51			
TOTAL OPERATING	10,644,482,900	(918,295,300)			(615,345,800)	10,029,137,100
CAPITAL SPENDING CHANGES	19,934,500		54			
Eliminate ADOA Old Health Lab Renovation Project		(2,207,000)		X	(2,207,000)	
Move Southern Arizona Veterans' Home Funding to FY 2009		(10,000,000)		X	(10,000,000)	
Eliminate Yuma Welcome Center Funding		(2,798,000)		X	(2,798,000)	
Eliminate DOC Locks Project		(10,045,300)		X		
Eliminate DJC HVAC & Electrical Renovations		(885,000)		X		
TOTAL - CAPITAL SPENDING CHANGES		(25,935,300)			(15,005,000)	4,929,500
FY 2008 SUPPLEMENTALS	64,072,300					64,072,300
ADMINISTRATIVE ADJUSTMENTS	96,000,000					96,000,000
REVERTMENTS	(95,570,500)					(95,570,500)
TOTAL SPENDING	10,728,919,200	(944,230,600)			(630,350,800)	10,098,568,400
FUND TRANSFERS						
OTH - Budget Stabilization Fund Transfer		(347,000,000)	56	X	(350,000,000)	
TOTAL - FUND TRANSFERS		(591,243,500)			(350,000,000)	(350,000,000)
REVENUE CHANGES						
OTH - Lottery - Redirect New Homeless Transfer to General Fund		(1,000,000)	58		(1,000,000)	
TOTAL - REVENUE CHANGES		(1,000,000)			(1,000,000)	(1,000,000)

	FY 2008	Options	Pg #	One-time ^{1/}	Approps Chairmen	Revised Total
					FY 2008	
TOTAL - ALL OPTIONS		(1,536,474,100)			(981,350,800)	

^{1/} Savings are one-time if the Legislature had previously placed a time limit on the program. Caseload savings can also be one-time in FY 2008 since those reductions would be reflected in the FY 2009 Baseline.

^{2/} Distributed by agency.

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/
WITH ONE-TIME FINANCING SOURCES

	FY 2008 Current	Change	FY 2008 Chairmen's Total
REVENUES			
Ongoing Revenues	\$10,073,094,300	\$1,000,000	\$10,074,094,300
Urban Revenue Sharing	(684,538,900)	0	(684,538,900)
Revised On-going Revenues	9,388,555,400	1,000,000	9,389,555,400
One-time Revenues			
Balance Forward	377,947,000	0	377,947,000
Corporate Consolidated Returns	(55,500,000)	0	(55,500,000)
Other Bills - Revenue	45,000,000	0	45,000,000
Budget Stabilization Fund Transfer	0	350,000,000	350,000,000
Subtotal One-time Revenues	367,447,000	350,000,000	717,447,000
Total Revenues	\$9,756,002,400	\$351,000,000	\$10,107,002,400
EXPENDITURES			
Operating Budget Appropriations	10,575,582,200		
--Ongoing Reductions		(466,118,700)	
--One-time Reductions		(86,995,500)	
Revised Operating Budget Total			10,022,468,000
FY 2008 Supplementals	64,072,300	0	64,072,300
Administrative Adjustments	96,000,000	0	96,000,000
Revertments	(95,570,500)	0	(95,570,500)
Subtotal Ongoing Expenditures	10,640,084,000	(553,114,200)	10,086,969,800
One-time Expenditures			
Capital Outlay	19,934,500	(15,005,000)	4,929,500
21st Century Fund Transfer	25,000,000	(25,000,000)	0
Other Major One-time Expenditures <u>2/</u>	43,900,700	(37,231,600)	6,669,100
Subtotal One-time Expenditures	88,835,200	(77,236,600)	11,598,600
Total Expenditures	\$10,728,919,200	(\$630,350,800)	\$10,098,568,400
Ending Balance <u>3/</u>	(\$972,916,800)	\$981,350,800	\$8,434,000
Ongoing Fund (Structural) Balance <u>4/</u>	(\$1,251,528,600)	\$467,118,700	(\$784,409,900)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ Details of Major One-time Expenditures can be found on page BH-5 of the FY 2008 Appropriations Report.

3/ This calculation reflects the difference between total revenues and total expenditures.

4/ This calculation reflects the difference between ongoing revenues and expenditures.

Arizona Health Care Cost Containment System

Chairmen's Options

Eliminate Adult Dental Services

FY 08 Savings: \$444,400

The FY 2008 budget included an increase of \$1 million from the General Fund and added a footnote allowing AHCCCS to provide preventive dental services for adult long-term care members. This footnote permits AHCCCS to provide these services, but does not make preventive dental care for adult long-term care members a statutory requirement. While only \$1.8 million in state match monies were appropriated for this purpose, AHCCCS now plans to spend approximately \$2 million in state match monies on adult dental services in FY 2008 through an increase in the monthly capitation rate. Of this amount, approximately \$1.2 million is from the General Fund and \$800,000 is from county funds. Coverage of this new service began on October 1, 2007.

Eliminating the program would result in full-year savings of approximately \$1.7 million from the General Fund and \$1.3 million from county funds (and Total Funds of \$9.1 million). A portion of the \$1 million General Fund appropriation in FY 2008 has been expended. This option assumes a March 1, 2008 implementation, as it may require revising a General Appropriation Act footnote.

Eliminate Temporary Medical Coverage Program

FY 08 Savings: \$2,783,300

This program provides temporary medical coverage for persons who have previously been enrolled in AHCCCS and who are now receiving federal disability insurance (SSDI) benefits but are not yet eligible for Medicare. SSDI benefits would normally raise an individual's income above eligibility limits for AHCCCS. This program allows a person to continue to receive health benefits until that person becomes eligible for Medicare after a period of 24 months. The FY 2007 budget appropriated \$6.5 million for this program and the FY 2008 budget included an increase of \$1.9 million for annualization. As of December 2007, approximately 520 people were enrolled in this program. This is much lower

than the 1,390 people AHCCCS estimated would be enrolled by April 2007 and, as a result, FY 2007 costs were significantly below forecast. Although \$6.5 million was appropriated from the General Fund for this program in FY 2007, only \$1.7 million was actually spent. Although caseloads remain below forecast, FY 2008 costs have been significantly higher than anticipated and AHCCCS has created a waiting list for this program.

Eliminating this program would result in General Fund savings of \$2.8 million (and Total Funds of \$3.4 million) in FY 2008 for 4 months of savings and \$8.4 million from the General Fund (and \$10.3 million in Total Funds) for a full year of savings. Statute allows the AHCCCS Director to stop processing applications for the program if funding is insufficient without requiring a statutory change. Eliminating the program would require a statutory change.

Reduce KidsCare Children Income Eligibility Limit to 175% FPL

FY 08 Savings: \$1,164,900

The FY 2008 budget included \$29.2 million from the General Fund (and \$133.2 million in Total Funds) for services and administration for the KidsCare Children program. The KidsCare program, also referred to as the Children's Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% of the federal poverty line (FPL), but above the levels required for the regular AHCCCS program. KidsCare is an optional program that is not federally mandated. However, achieving this savings would require a statutory change. As of December 2007, 64,115 children were enrolled in the KidsCare program.

Reducing the KidsCare income eligibility limit to 175% FPL requires a statutory change. Implementing that change by March 1, 2008 would result in General Fund savings of approximately \$1.2 million (and Total Fund savings of \$4.9 million) in FY 2008 and full-year savings of \$11.2 million from the General Fund (and \$46.9 million in Total Funds). Based on an AHCCCS analysis from last year, it is estimated that approximately 30% of KidsCare Children

enrollees, 19,235 children, are between 175% and 200% FPL.

Nationally, 9 states currently have income eligibility limits that are below 200% FPL. Of those states, 5 have an income limit of 185% FPL, 1 has an income limit of 175% FPL, and 3 have limits below 175% FPL.

Rollback FY 2008 SOBRA Pregnant Women 150% Eligibility Increase

FY 08 Savings: \$600,000

The FY 2008 budget increased the income limit for pregnant women from 133% federal poverty line (FPL) to 150% FPL and added \$1.8 million from the General Fund for this purpose. Returning the income limit to 133% FPL would require a statutory change and, therefore, would result in \$600,000 in General Fund savings (and \$1.8 million in Total Fund savings) if implemented on March 1, 2008 and \$2 million from the General Fund (and \$5.9 million in Total Funds) for a full year of savings. It is estimated that 1,128 women would be eligible for coverage under this expanded income limit, although only 677 are expected to receive services in FY 2008.

Rollback FY 2008 HPV Vaccine Funding Increase

FY 08 Savings: \$2,869,100

The FY 2008 budget included \$2.9 million from the General Fund to provide the human papillomavirus (HPV) vaccine to AHCCCS members ages 21-26. This vaccine protects against 4 strains of HPV, which are estimated to cause 70% of cervical cancer cases. The vaccine is given in a series of 3 doses over a period of 6 months. Although funding was appropriated for this purpose, providing the vaccine to AHCCCS members ages 21-26 is not a statutory requirement.

All but \$183,800 of the FY 2008 General Fund appropriation was labeled as one-time. AHCCCS estimated that \$2.9 million from the General Fund would provide the vaccine to approximately 15,000 women on the existing caseload in FY 2008. The ongoing funding would provide the vaccine to approximately 1,000 women per year in future years. The FY 2008 funding assumed that 30% of currently eligible members would request the vaccine. The

ongoing funding would provide the vaccine to those who become newly eligible each year, of which 30% are expected to request the vaccine. AHCCCS implemented this benefit on October 1, 2007. Eliminating this funding would result in General Fund savings of \$2.9 million (and Total Fund savings of \$8.5 million) in FY 2008.

Eliminate Dual Eligible Part D Copay Subsidy

FY 08 Savings: \$696,300

Beginning in FY 2007, the budget added monies to help pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as "dual eligibles." Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. As part of the benefit, however, recipients make copayments for prescription drugs ranging from \$1.00 to \$5.35, depending on the class of the drug as well as the recipient's income.

For June 2007, AHCCCS estimated 99,827 dual eligible members. Eliminating the dual eligible copay subsidy as of March 1, 2008 would result in General Fund savings of \$696,300 for 4 months of savings in FY 2008 and \$2.1 million for a full year of savings based on AHCCCS' actual FY 2007 copay expenditures. This amount includes the copay subsidy for both Acute Care and Long-Term Care members.

Rollback FY 2008 Graduate Medical Education Increase

FY 08 Savings: \$3,000,000

The FY 2008 budget included an increase of \$3 million from the General Fund and \$6 million in Federal Funds to increase Graduate Medical Education (GME) payments. It is estimated that this additional FY 2008 appropriation will fund an additional 95 residency slots. A.R.S. § 36-2903.01 gives priority for this funding to programs established or expanded after July 1, 2006 and to programs in counties with a population of less than 500,000 people at the time the residency program was established. A.R.S. § 36-2903.01 was also amended to allow local governments to provide funding for the state match for GME in order to receive Federal Funds to support additional residency positions.

Before the increases for GME in the FY 2008 budget, the base included \$11.5 million from the General Fund for GME. This amount includes a \$4 million increase first added in the FY 2007 budget.

Eliminate Hospital Residency Loan Program

FY 08 Savings: \$1,000,000

The FY 2008 budget included \$1 million for the Hospital Residency Loan Program. The program is intended to fund start-up and ongoing costs for residency programs through interest-free loans of up to \$500,000 per hospital. As these loans are to be repaid within 10 years, in theory this program should eventually become self-supporting. The FY 2007 budget also included \$1 million for this program. Due to the amount of time it has taken AHCCCS to formalize application procedures, no loans have been awarded to date. Eliminating this funding would result in savings of \$1 million in FY 2008.

This amount is in addition to a separate option to revert the \$1 million from the FY 2007 budget that has not yet been expended.

Revise Outlier Payment Methodology

FY 08 Savings: \$5,943,800

The FY 2008 budget instructed AHCCCS to revise the methodology used to pay hospital claims with significantly high operating costs known as outliers. These claims are paid by applying a cost-to-charge ratio (CCR) that is used to approximate the hospital's actual cost of providing the services. Prior to this year, these CCRs had not been updated since 1998, which has resulted in AHCCCS reimbursing hospitals at higher rates.

Laws 2007, Chapter 263 instructed AHCCCS to use the most recent urban and rural average CCRs to pay outlier claims and to phase-in the use of these updated CCRs over a 3-year period. This revision resulted in \$5.6 million in General Fund savings in FY 2008.

Achieving this savings would require a statutory change. If the outlier methodology were further revised to include the use of hospital specific CCRs and the new methodology was fully implemented on March 1, 2008, this would result in additional General Fund savings of \$5.9 million

(and Total Fund savings of \$17.7 million) in FY 2008 and full-year savings of \$14.1 million from the General Fund (and \$42.3 million in Total Funds).

Eliminate 2-1-1 Call Center Support

FY 08 Savings: \$3,422,400

The FY 2008 budget provided \$3.4 million from the General Fund and 11.2 FTE Positions for support of 2-1-1. The online version of 2-1-1 provides referrals to available health and human services in Arizona. The telephone version of 2-1-1 can also be used to communicate updates during emergencies, but is not yet operational on a regular basis. Of the budgeted amount, \$2,822,400 was considered to be ongoing funding. This money will be used to establish state infrastructure capacity to support locally-run call centers. This infrastructure will include call center connectivity projects such as internet connectivity and databases, call center support and referral services, and marketing and community relations activities. It was the intent that local governments would provide the funding for the actual call centers and the associated personnel. To date, no local call centers have been established. Eliminating this funding would result in General Fund savings of \$3.4 million in FY 2008. However, AHCCCS has already spent \$516,300 of its FY 2008 appropriation for 2-1-1.

Rollback FY 2008 DES IT Eligibility Project Increase

FY 08 Savings: \$1,300,000

The FY 2008 budget provided \$1.3 million from the General Fund and 11 FTE Positions (plus matching Federal Funds) for upgrades to the Department of Economic Security (DES) eligibility system. Additional funding of \$1 million from the General Fund was included in the DES budget for this purpose. These monies are part of a \$45 million Total Fund multi-year IT upgrade project to replace the current case management/eligibility determination system used by DES for Medicaid, TANF, General Assistance and other welfare programs. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. Eliminating this funding would result in savings of \$1.3 million from the General Fund (and \$2.6 million in Total Funds) in FY 2008.

Some of the FY 2008 appropriation may have already been expended.

Rollback FY 2008 Claims Computer System Increase

FY 08 Savings: \$500,000

The FY 2008 budget provided \$500,000 from the General Fund and 2.4 FTE Positions (plus matching Federal Funds) for replacement of the claims computer system used by AHCCCS to pay provider claims for fee-for-service charges. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. Eliminating this funding would result in savings of \$500,000 from the General Fund (and \$2.1 million in Total Funds) in FY 2008. Some of the FY 2008 appropriation may have already been expended.

Lump Sum Reduction

FY 08 Savings: \$11,902,800

See Lump Sum Reduction section for any exemptions.

Other Options

Eliminate Ticket to Work Program

FY 08 Savings: \$793,300

The Ticket to Work program allows individuals receiving Supplemental Security Income (SSI) to work and retain their AHCCCS health coverage. This program serves individuals who meet SSI eligibility criteria, who are aged 16-64, and who have earned income below 250% FPL. As of December 1, 2007 approximately 1,073 members were enrolled in this program. Premiums of \$0 to \$35 monthly are used to offset the cost of the program. Discontinuing this program would require a statutory change. Implementing this change on March 1, 2008 would result in General Fund cost savings of approximately \$793,300 (and \$2.4 million in Total Fund savings) for 4 months of savings in FY 2008 and \$2.8 million from the General Fund (and \$8.4 million in Total Funds) for a full year of savings.

Accelerate KidsCare Parents Statutory Expiration

FY 08 Savings: \$3,296,300

The FY 2008 budget continued the KidsCare Parents program until June 30, 2008. The program provides healthcare coverage for parents up to 200% FPL. Revenue from monthly premiums and enrollment fees are collected from participants and used to offset the cost of the program. As of December 2007, 13,086 parents were enrolled in the KidsCare Parents program. Achieving this savings prior to July 2008 would require a statutory change. Accelerating the expiration of this program to March 1, 2008 would result in General Fund savings of \$3.3 million (and Total Fund savings of \$13.2 million) in FY 2008. This General Fund savings is composed of \$3.1 million from service expenditures and \$152,000 from administration.

Implement DRA Premiums

FY 08 Savings: \$300,000

In December 2006, AHCCCS issued a report on the fiscal impact of implementing the cost sharing provisions included in the federal Deficit Reduction Act (DRA). Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL). These cost sharing efforts can only be applied to certain groups of AHCCCS enrollees. Premiums would vary based on other cost sharing expenses in order to comply with the 5% cap.

AHCCCS estimated net ongoing revenues of \$0.9 million to the General Fund each year. If premiums were implemented on March 1, 2008 this would result in General Fund savings of \$300,000 in FY 2008. AHCCCS estimated one-time start-up costs for premiums at \$5.1 million from the General Fund. These start-up costs have not been included in the savings estimate. Start-up costs include enhancements to the AHCCCS and Department of Economic premium billing systems and purchasing hardware to support premium processing and ensure that total cost sharing does not exceed 5% of family income.

Revise Non-Emergency Transportation Services

FY 08 Savings: To be determined

AHCCCS is federally mandated to provide emergency transportation services to AHCCCS members. In addition, AHCCCS is required to cover some non-emergency transportation services. Non-emergency transportation is provided when free transportation is unavailable and the recipient is unable to arrange or pay for transportation; the service requires prior authorization and must be medically necessary and ordered in writing by a network provider.

For calendar year 2006, AHCCCS spent \$15.1 million from the General Fund (and \$45.4 million in Total Funds) on non-emergency transportation. This is in addition to the \$31.8 million from the General Fund (and \$95.4 million in Total Funds) spent on emergency transportation during this time period. Cost savings could be realized by using a transportation brokerage program and requiring members to make copayments for non-emergency transportation services.

Eliminate Critical Access Hospital Subsidy

FY 08 Savings: \$573,400

The program was started in FY 2002; it provides reimbursement to small rural hospitals that are designated as critical access hospitals (CAH). Currently, there are 10 such hospitals in Arizona receiving funding. Elimination of this program would require a statutory change. The federal Medicare Modernization Act provides additional federal funding to hospitals to offset the costs of emergency care for unauthorized immigrants; however, it is unknown at this time how much of these monies may go to these 10 hospitals. These 10 hospitals also receive funding under the Rural Hospital Reimbursement (RHR) line item. Eight hospitals are also receiving funding under Disproportionate Share Payments (DSH). *Table 1* on the following page lists all payments to hospitals that receive CAH payments. Eliminating this program would result in General Fund savings of \$573,400 in FY 2008. With federal matching funds, the Total Funds impact would be \$1.7 million.

Revert Unspent FY 2007 Hospital Residency Loan Program Increase

FY 08 Savings: \$1,000,000

The FY 2007 budget included \$1 million for the Hospital Residency Loan Program. The program is intended to fund start-up and ongoing costs for residency programs through interest-free loans of up to \$500,000 per hospital. As these loans are to be repaid within 10 years, in theory this program should eventually become self-supporting. Due to the amount of time it has taken AHCCCS to formalize application procedures, no loans have been awarded to date. However, the full General Fund appropriation has been deposited into the Hospital Residency Loan Program Fund and is exempt from lapsing.

Rollback FY 2008 Healthcare Group Subsidy Increase

FY 08 Savings: \$8,000,000

The FY 2008 budget added a subsidy of \$8 million for Healthcare Group (HCG). The FY 2008 budget designated this funding as one-time. This program was intended to be self-sufficient with revenues from monthly premium collections being used to cover the cost of the program. In spring 2007, HCG announced that it was running an annual deficit. Laws 2007, Chapter 263 (the Health and Welfare BRB) included numerous reforms to the HCG program including capping the number of businesses that may participate, adjusting reimbursement rates for HCG contractors, establishing a HCG study committee, and instructing the Department of Insurance to conduct a financial examination of HCG. We are awaiting information on how the loss of this subsidy would impact monthly premiums. As of November 2007, 25,334 people were enrolled in HCG medical plans.

Require Maricopa and Pima Counties to Pay 100% of ALTCS Growth

FY 08 Savings: \$7,026,800

In FY 1998, the state began to share in the costs of the ALTCS program and funds at least 50% of the State Match growth from year to year. In FY 2008, the state's budgeted share of the ALTCS State Match for ALTCS services is \$146 million. If the state required Maricopa and Pima Counties

to pay for 100% of their growth from FY 2007 levels, the state would save approximately \$7 million in FY 2008. The savings would lead to increased costs to Maricopa and Pima Counties of approximately \$5.5 million and \$1.5 million, respectively. Achieving this savings would require a statutory change.

Table 1

Payments to Selected Rural Hospitals FY 2007

<u>Hospital</u>	<u>SFY 07 CAH</u>	<u>SFY 07 DSH</u>	<u>SFY 07 RHR</u>	<u>Hospital Total</u>
Benson Hospital	\$ 86,496	\$ 8,668	\$ 97,358	\$ 192,522
Carondelet Holy Cross Hospital	208,858	166,585	345,280	720,723
Cobre Valley Community Hospital	172,941	10,974	650,305	834,220
Copper Queen Community Hospital	96,944	-	87,295	184,239
Northern Cochise Community Hospital	107,398	42,994	81,155	231,547
Page Hospital	233,668	534,573	900,465	1,668,706
Sage Memorial Hospital	164,566	196,271	258,043	618,880
Southeast Arizona Medical Center	218,464	16,140	139,566	374,170
Wickenburg Regional Hospital	69,799	-	32,739	102,538
Winslow Memorial Hospital	<u>340,866</u>	<u>71,209</u>	<u>898,921</u>	<u>1,310,996</u>
SFY 2007 Total	\$1,700,000	\$1,047,414	\$3,491,127	\$6,238,541

Chairmen's Options

Rollback FY 2008 Cord Blood Banks Increase

FY 08 Savings: \$1,000,000

Laws 2007, Chapter 263 appropriates \$1 million each year from FY 2008 through FY 2012 to establish centralized public repositories of diverse types of human stem cells of nonembryonic origin for public use. The Arizona Biomedical Research Commission is responsible for establishing a competitive grant process for these repositories, otherwise known as "cord blood banks." The Requests for Proposals deadline is February 4, 2008.

Department of Commerce

Chairmen's Options

Rollback of FY 2008 International Trade Funding Increase

FY 08 Savings: \$700,000

The FY 2008 budget included an increase of \$700,000 and 1 FTE Position from the General Fund in the International Trade Office Special Line Item for the establishment of new business attraction and investment programs in Canada, Germany, and China. The funds will also be used to strengthen the current international trade programs in the United Kingdom, Japan, and Mexico; and to encourage public and private partners in Arizona to coordinate foreign investment activities with the agency. In FY 2008, the budget provided a total of \$2,064,000 and 7 FTE Positions for the International Trade Offices, representing a 53% increase from the FY 2007 amount.

Rollback FY 2008 GADA Increase

FY 08 Savings: \$2,000,000

The FY 2008 budget provides an increase of \$2 million from the General Fund for a one-time deposit into the Greater Arizona Development Authority (GADA) Revolving Fund. An additional one-time deposit of \$2 million is appropriated for FY 2009. GADA utilizes the monies in the GADA Revolving Fund to issue tax-exempt bonds, which allows localities to receive lower-than-market interest rates for infrastructure projects. GADA is authorized to provide funding, through the sale of bonds, for "infrastructure," defined as "any facility located in this state for public use and owned by a political subdivision, special district or Indian tribe that retains ultimate responsibility for its operation and maintenance." In addition to cities, towns and counties, specific special districts are eligible applicants to GADA; including improvement districts, fire districts, and regional transportation authorities. Typical projects could include roads, jails, and firehouses.

GADA receives payments from borrowers which are then passed on to the appropriate lenders; however, GADA is ultimately responsible for the

debt service incurred on the bonds that it issues. If borrowers are delinquent, GADA can access state-shared revenues to fulfill the local debt obligations pursuant to A.R.S. § 41-1554.06 L.

Due to GADA's position as an infrastructure bond guarantor and issuer, this one-time funding will allow GADA to expand its lending capacity. The Department of Commerce estimates the total funds available in the GADA Fund to be \$20.5 million for FY 2008 which represents a \$2.4 million increase over the FY 2007 total. GADA leverages its Revolving Fund money at a ratio of 30 to 1, which allows the agency to issue an additional \$60 million in bonds with the FY 2008 one-time appropriation of \$2 million.

As of November 8, 2007, the GADA Revolving Fund supports \$347.0 million in bond issuances compared to \$244.1 million as of September 2006. Based on GADA's leverage ratio, this leaves approximately \$8.93 million in uncommitted capital. Of this amount, \$6.93 million is from their base and the other \$2 million is from the FY 2008 appropriation. At the 30 to 1 ratio, GADA could support \$267.9 million in new projects with the existing \$8.93 million in uncommitted capital. The Department of Commerce anticipates committing this base amount within the next 2 years.

Delay FY 2008 Arizona 21st Century Fund

FY 08 Savings: \$25,000,000

The FY 2008 budget appropriates \$25 million from the General Fund for deposit into the Arizona 21st Century Competitive Initiative Fund, which represents a \$(10) million decrease from the FY 2007 startup appropriation. There will also be an annual \$25 million deposit into the fund for FY 2009 – FY 2011. On October 2, SFAz received a pledge of \$25 million from the Stardust Charitable Fund, which will meet the dollar-for-dollar match requirement for FY 2008.

The FY 2008 funds would be spent in a similar manner to FY 2007. Last year, the expenditure plan included 10-15 research partnerships between industry and research performing institutions, 11-50 competitive advantage award grants to assist Arizona researchers in securing grant funding from federal agencies, and up to

80 students receiving fellowships of up to \$50,000 to conduct research.

SFAz has submitted a budget proposal for FY 2008, which is included in *Table 1* below along with the FY 2007 budget and expenditures.

Rollback CEDC Fund Shift

FY 08 Savings: \$750,000

The FY 2008 budget shifted \$750,000 and 4 FTE Positions from the CEDC Fund to the General Fund. This fund shift includes 2 components; \$500,000 and 4 FTE Positions, and \$250,000 in the International Trade Offices Special Line Item. This funding shift would permit increased issuance of non-appropriated grants and loans by the CEDC to businesses expanding or locating in Arizona, by moving some administrative costs to the General Fund. In FY 2007, the CEDC Fund provided \$719,200 in grants and loans. The estimate for FY 2008 is \$1 million for both programs.

The estimated revenues for the CEDC Fund for FY 2008 are \$3.6 million with an estimated balance forward of \$8.4 million. In FY 2008, \$2.3 million of this \$3.6 million is set aside for the department's operating budget. The remaining \$1.3 million could be used for grants and loans.

The FY 2008 General Fund operating budget for the Department of Commerce is \$4.2 million. As a result, the fund shift could be increased to \$1.3 million, since there would be sufficient General Fund monies to offset.

Lump Sum Reduction

FY 08 Savings: \$1,247,500

See Lump Sum Reduction section for any exemptions.

Other Options

Revert Unused FY 2007 21st Century Fund Monies

FY 08 Savings: \$11,300,000

The FY 2007 budget allocated \$35 million to the 21st Century Competitive Initiative Fund, which represented the initial deposit into the fund. Of this \$35 million, \$23.7 million was expended leaving a fund balance of \$11.3 million. The monies from this fund are utilized by the Department of Commerce and the Commerce and Economic Development Commission to contract with the non-profit corporation, Science Foundation Arizona (SFAz), to build medical, scientific, and engineering research programs and infrastructure for the purpose of promoting statewide economic development. All grants require a dollar for dollar matching from a private funding source. As detailed below, SFAz is proposing to expend the \$11.3 million in FY 2008.

Table 1				
\$ IN MILLIONS				
<u>Expenditure Categories</u>	<u>FY 2007 Original Allocation</u>	<u>FY 2007 Unexpended Amount</u>	<u>FY 2008 \$25 Million Allocation</u>	<u>FY 2008 Including '07 Balance</u>
Public-Private Research	\$18.0	\$5.8	\$10.3	\$16.1
Federal Research Leverage	5.0	0.0	2.0	2.0
Small Business Seed Capital	2.0	0.0	5.0	5.0
Graduate Research Fellowships	4.0	2.3	5.0	7.3
K-12 Student Programs	1.5	1.6	1.0	2.6
K-12 Teacher Internships	2.0	1.5	1.0	2.5
Other Discretionary Grants	2.0	0.0	0.0	0.0
Management Studies	0.5	0.1	0.7	0.8
Total	\$35.0	\$11.3	\$25.0	\$36.3

Eliminate Business Attraction and Related Staff

FY 08 Savings: \$1,080,800

The Auditor General's 2003 Performance Audit and Sunset Review of the Department of Commerce noted that the Legislature could eliminate this function or as an alternative, retain only its role as a primary source of contact for companies seeking to relocate to Arizona. Business Attraction acts as the primary statewide contact for businesses seeking information on locating to or expanding within the state. The Office of Innovation focuses exclusively on technology-focused entrepreneurs.

According to the Auditor General report, many of the services provided by these 2 offices are available from other local and private development companies. There are over 300 local and statewide economic development organizations throughout Arizona providing assistance to businesses. The report also indicates that the impact of the program may be limited since "The most important factors in economic growth (labor costs, availability of skilled labor, and natural resources, energy cost, and climate) are beyond the control of state and local governments."

In FY 2006, the Department of Commerce reported that its Business Attraction programs had recruited 10 businesses to rural areas in both FY 2005 and FY 2006. Additionally, Commerce reported that these programs created 7,400 jobs in FY 2005 and 8,076 jobs in FY 2006, and aided in the relocation and expansion of 37 businesses in FY 2005 and 45 in FY 2006.

In FY 2008, Commerce will receive \$1,080,800 for these efforts, \$539,500 from the General Fund and \$541,300 from the Commerce and Economic Development Commission (CEDC) Fund. The estimate is based on a FY 2003 audit conducted by the Office of the Auditor General; Commerce has been unable to provide more up-to-date information. General Fund savings would be realized by allocating CEDC monies to programs in Commerce that currently are appropriated by the General Fund and reducing the agency's GF appropriation accordingly.

Arizona Community Colleges

Chairmen's Options

Suspend Capital Outlay

FY 08 Savings: \$20,054,000

Capital Outlay State Aid provides community college districts with funds for capital, land, building, and equipment needs. The statutory formula appropriates per capita funding to districts based on the district's size and the most recent year's actual audited FTSE. The formula multiplies \$210/FTSE for districts with 5,000 or less FTSE or \$160/FTSE for districts with greater than 5,000 FTSE.

The option would suspend capital outlay funding in FY 2008 and would require a statutory change. Districts were appropriated \$20.1 million in FY 2008 for Capital Outlay State Aid. This amount represents approximately 2% of their total budgets. The Capital Outlay State Aid formula does not hold harmless districts with declining FTSE. Districts currently have the ability to also generate funds for capital purposes through local property taxes and tuition and fee payments. In FY 2008, districts generated \$64.5 million in secondary property taxes for capital outlay purposes. The table below shows Capital Outlay formula funding by district.

Suspend Capital Outlay State Aid	
<u>District</u>	<u>FY 2008</u>
Cochise	\$ 1,060,600
Coconino	423,800
Gila	133,400
Graham	510,100
Maricopa	11,204,000
Mohave	591,200
Navajo	505,700
Pima	3,198,900
Pinal	797,600
Yavapai	703,900
Yuma/LaPaz	924,800
Total	\$20,054,000

Eliminate Tribal College Funding

FY 08 Savings: \$1,944,000

A.R.S. § 42-5031.01 provides tribal community colleges with funding for maintenance, renewal,

and capital expenses. Laws 2007, Chapter 265 altered this funding to allow any qualifying tribal community college to receive \$1.75 million, or 10% of the Transaction Privilege Tax revenues collected from sources located on Indian reservations, whichever is less. Chapter 265 repealed the statute which limited distribution of these monies to Diné College. As a result, Tohono O'odham is now eligible to receive funding.

Based on projected collections, Diné would continue to be capped at \$1.75 million and Tohono O'odham would receive an estimated \$0.2 million in new funding in FY 2008. Actual amounts will depend on FY 2008 collections. This option would eliminate the funding in FY 2008 and would require a statutory change.

Rollback Northland Public Safety Funding

FY 08 Savings: \$1,000,000

Laws 2007, Chapter 225 appropriated \$1 million from the General Fund in FY 2008 for a public safety facility in the Navajo Community College District. The facility is to be constructed at Northland Pioneer Community College. Additionally, a General Appropriation Act footnote indicated that it was the intent of the Legislature that this funding be continued in FY 2009. This option would eliminate funding for the facility in FY 2008.

Other Options

Rollback Out of County Reimbursement Subsidy

FY 08 Savings: \$1,200,000

Laws 2007, Chapter 225 provided a total of \$1.2 million in one-time monies from the General Fund for Out of County Reimbursement Subsidy. This funding is provided to partially offset the cost to counties that are not part of an established community college district. The funding is appropriated to Apache, Greenlee, and Santa Cruz Counties. Counties are still responsible for paying the entirety of the reimbursement amount. Of the total \$1.2 million appropriation, Apache received \$0.5 million, Greenlee \$0.5 million, and Santa Cruz \$0.2 million. These monies

are used by the counties at their own discretion. This option would eliminate funding for the subsidy in FY 2008.

Chairmen's Options

Reduce Unfilled Indiana Beds

FY 08 Savings: \$12,637,000

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$91,412,800 to ADC for the Provisional Beds Special Line Item (SLI) in FY 2008. The Provisional Beds SLI includes \$29,514,200 to fund the annual per diem payments for 1,260 medium security provisional beds located at the Newcastle Facility in the State of Indiana. The 1,260 provisional beds are privately-operated, non-permanent, rented beds that serve as an overflow for state-operated beds.

Due to ADC concerns about staffing and program services and an April 24 disturbance at the facility, the department ceased transferring additional inmates to Indiana beyond the 630 (of the 1,260) beds currently occupied. At this time, it is unclear how many, if any, additional inmates will be transferred to the facility. According to news reports, the State of Indiana does not plan to open up any additional housing units to Arizona inmates beyond those currently at the facility due to Indiana's need for the remaining beds. At the current occupancy level, the per diem payments associated with this facility in FY 2008 would total approximately \$14,626,800, resulting in a savings of approximately \$14,887,400. Factoring in the marginal cost incurred by ADC to house the 630 inmates that would have otherwise been housed in Indiana reduces the savings to \$12,637,000 in FY 2008.

The annual cost to house 630 inmates at the Indiana facility totals \$14,716,800. Based on the current appropriation and marginal costs to be incurred by ADC, the ongoing savings is estimated to be \$12,572,800.

Rollback FY 2008 Van Pool and Equipment Funding

FY 08 Savings: \$1,900,000

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$1.9 million to ADC for Van Pool and Equipment replacement in FY 2008.

This amount includes \$1 million in ongoing funds for equipment replacement and \$900,000 in one-time funding to replace van pool vehicles. The equipment to be replaced includes motor pool, kitchen, laundry, office, facility and personal security equipment. This option would rollback \$1 million in ongoing funding and \$900,000 in one-time funding in FY 2008, however, the actual amount of savings in FY 2008 is dependent upon how much, if any, of the \$1.9 million the department has expended or encumbered to date.

Lump Sum Reduction

FY 08 Savings: \$2,981,900

See Lump Sum Reduction section for any exemptions.

Other Options

Reduce Unused Oklahoma Bed Funding

FY 08 Savings: \$2,134,400

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$91,412,800 to ADC for the Provisional Beds Special Line Item (SLI) in FY 2008. These beds are privately-operated, non-permanent, rented beds that serve as an overflow for state-operated beds. In FY 2008, the department received partial year funding of \$30,732,200 for 2,060 new provisional beds, including 720 additional beds at the Diamondback facility in Watonga, Oklahoma and 1,340 beds at the Great Plains facility in Hinton, Oklahoma. These beds were budgeted to be phased-in at 105 per week beginning in July 2007; however, ADC has not phased-in the beds as funded. Through November 30, 2007, the department has accrued a one-time savings of \$2,134,400 in FY 2008 due to deviations in loading the 2,060 provisional beds. The savings could be greater if further delays occur in loading the beds. The annualized cost for all 2,060 beds is estimated to be \$42,279,500.

Revert Unspent FY 2007 Sex Offender GPS Monitoring Monies

FY 08 Savings: \$634,300

A.R.S. § 41-1604.08 requires global position system (GPS) monitoring of inmates released on parole, community supervision or other release after being convicted of a dangerous crime against children, specifically sex offenses. In FY 2007, the department was appropriated \$750,000 in non-lapsing (through June 30, 2008) monies for costs associated with GPS monitoring. Of this amount, ADC expended approximately \$115,700 (of the \$750,000) for GPS monitoring of inmates released on parole, community supervision or other release. This option would revert the remaining \$634,300 in unexpended, non-lapsing, monies the department received for the GPS monitoring of inmates in FY 2007. Beyond the unexpended, non-lapsing, monies for FY 2007, the department's base budget includes another \$750,000 for GPS monitoring in FY 2008. The estimated cost to operate the GPS monitoring program in FY 2008 is \$375,000.

On average, approximately 66 offenders were monitored per month in FY 2007, however, the actual number of offenders monitored by month ranged from 9 to 151. In total, the department reports the GPS monitoring of offenders resulted in 36,057 violations, however, information relating to any actions the department took as a result of these violations are unknown. As a result, it is difficult to assess the effectiveness of the program. In addition to the funding received by ADC, the Judiciary also received funding for GPS monitoring of those convicted of sex offenses.

Reduce Unused Sex Offender GPS Monitoring Monies

FY 08 Savings: \$375,000

A.R.S. § 41-1604.08 requires global position system (GPS) monitoring of inmates released on parole, community supervision or other release after being convicted of a dangerous crime against children, specifically sex offenses. In FY 2008, the department was appropriated \$750,000 for costs associated with GPS monitoring. In addition to these monies, ADC has \$634,300 in unexpended, non-lapsing (through June 30, 2008), monies from FY 2007.

Currently, the department estimates the annual cost to conduct the GPS monitoring program to be \$375,000. As a result, this option would reduce funding for the program to the department's estimated cost to operate the program, resulting in an annual savings of \$375,000. On average, this level of funding, would allow the department to track up to 85 offenders per day during each fiscal year as the GPS monitoring of offenders is out-sourced to a third party vendor at a cost of \$12 per day, per offender. In September 2007, the department reported tracking an average of 73 offenders per month. In addition to the funding received by ADC, the Judiciary also received funding for GPS monitoring of those convicted of sex offenses.

Arizona Criminal Justice Commission

Chairmen's Options

Rollback FY 2008 Information System Increase

FY 08 Savings: \$900,000

ACJC received a one-time appropriation of \$900,000 in FY 2008 to fund enhancements to the Arizona Disposition Reporting System, a software product that facilitates the movement of criminal justice data submitted by law enforcement through the court system. This funding would allow for more automation of data entry as defendants proceed through the state's judicial system. This background data is stored centrally at the Department of Public Safety. As of September 30, 2007, none of the FY 2008 appropriation has been spent.

Lump Sum Reduction

FY 08 Savings: \$99,400

See Lump Sum Reduction section for any exemptions.

Other Options

Revert Unspent FY 2007 County Meth Monies

FY 08 Savings: \$502,700

Laws 2006, Chapter 337 included a one-time appropriation of \$3 million from the General Fund to establish grants to counties for methamphetamine interdiction. These monies are appropriated to ACJC, which allocates the monies to counties based on population. Statute requires that these monies be used for increased meth interdiction efforts, including investigation, training, prosecution, abuse treatment or education. In the first quarter of FY 2008, financial expenditures and obligations by the Arizona counties total \$2.5 million. Of this amount, 9 counties spent a total of \$2.0 million on the Arizona Meth Project, a prevention program, modeled after the Montana Meth Project, whose goal is to reduce first-time methamphetamine use among Arizona youth. Maricopa County has taken on the role of project coordinator and has finalized

intergovernmental agreements with other counties to use Chapter 337 funding for the project. The effectiveness of the Arizona Meth Project has not yet been assessed; however the Montana Meth Project had the following effects:

- Decreased Montana from a rank of 5th in the nation for meth abuse to 38th
- Decreased teen meth use by 50%
- Decreased Adult meth use by 70%
- Decreased meth related crime by 53%

The remaining \$503,400 of the spent funds was used on school meth education programs, drug task forces, and treatment programs. The remaining unspent funds total \$502,700 and are unencumbered as of the end of the 1st quarter of FY 2008.

Additional monies were not appropriated in FY 2008, but the original appropriation was non-lapsing. In FY 2008, counties will continue to expend their allocations. It has taken a substantial amount of time to develop the advertising campaign associated with the Arizona Meth Project. As a result, participating counties have not spent their allotment of monies.

Department of Economic Security

Chairmen's Options

Eliminate General Assistance Program

FY 08 Savings: \$1,826,400

This option would eliminate the state's Temporary Assistance for Needy Families General Assistance Program. The total appropriation in FY 2008 is \$3.1 million. Based on current estimates, however, full-year FY 2008 expenditures are expected to be approximately \$1,851,800. If savings from elimination of this program were to begin on March 1, 2008, this option would result in FY 2008 savings of approximately \$1.8 million, or the amount of the total appropriation less the amount of the estimated expenditures for the first 8 months of the fiscal year. Full year savings are estimated to be about \$2 million.

This program provides financial assistance to persons who are unemployable because of a physical or mental disability. Eligibility is limited to 12 months out of every 36-month period. The program serves as a "bridge" to Supplemental Security Income (SSI). Laws 2002, Chapter 329, modified the program so that only persons DES expects to qualify for SSI will be eligible to receive General Assistance. Currently, the program funds about 1,300 clients at an average monthly benefit of \$152. Eliminating the program to achieve these savings would require a statutory change.

Rollback FY 2008 Eligibility System Upgrade Increase

FY 08 Savings: \$1,000,000

The FY 2008 budget provided \$1 million General Fund to the DES as part of a \$45 million total fund multi-year information technology upgrade project to replace the current case management/eligibility determination system used by the division for Medicaid, TANF, General Assistance, and other welfare programs. DES' current eligibility systems are as much as 3 decades old. DES is expected to seek \$12.7 million from the General Fund over the project's lifetime. The remaining costs would be covered by non-appropriated federal monies and pass-

through monies from AHCCCS. DES has expended approximately \$65,000 on this project as of November 7, 2007.

Rollback FY 2008 Document Management Increase

FY 08 Savings: \$500,000

These monies are part of a \$5 million Total Fund multi-year project to implement an agencywide electronic document management system. Currently, much of the agency's work is paper-intensive. DES has been piloting an electronic document management system in its Family Assistance programs in Maricopa County; the U.S. Department of Agriculture encouraged expansion of the initiative in a recent review.

DES is expected to seek \$2.2 million from the General Fund over the project's lifetime, with remaining monies provided by non-appropriated Federal Funds. In FY 2008, the money expands the existing pilot program in Maricopa County to the Food Stamp program statewide, and future year funding would expand the program to the rest of the agency. As of November 7, 2007, approximately \$75,000 had been expended from this appropriation.

Reduce Unused Healthy Families Funding

FY 08 Savings: \$3,000,000

This option would reduce the unused portion of the FY 2007 General Fund appropriation for the Healthy Families program to reflect actual spending levels. The Healthy Families program provides contracted services to children less than 5 years of age and members of their families and is designed to prevent child abuse or neglect and promote child development and wellness.

In both FY 2006 and FY 2007, the program was appropriated \$13.8 million but only used \$10.8 million. After this reduction, funding for this program would total \$10.8 million and the program would serve approximately 4,250 clients.

Rollback FY 2008 Independent Living Stipend Increase

FY 08 Savings: \$1,000,000

The budget provided a \$1 million General Fund increase to DES in FY 2008 to increase the monthly stipend provided to about 320 former foster youth between 18 and 21 now living independently and either employed or enrolled in a postsecondary program. The increase raised the stipend from \$558 to \$795. In addition to the \$1 million increase, the FY 2008 budget also provided 2 case managers and \$0.1 million from the General Fund in the Commission for Postsecondary Education to work with existing DES case managers in providing education resources for these youth. As of November 7, 2007, DES has spent approximately \$311,000. Eliminating the increase would not require a permanent statutory formula change.

Rollback Joint Substance Abuse Increase

FY 08 Savings: \$2,000,000

This option would rollback the \$2 million in additional permanent General Fund monies appropriated to the Joint Substance Abuse Treatment Fund (JSATF) in FY 2008. Monies in the fund pay for services for parents, guardians, or custodians whose substance abuse is a significant barrier to preserving the family. The monies also pay for services to recipients of Temporary Assistance for Needy Families (TANF) monies whose substance abuse is a significant barrier to maintaining or obtaining employment.

The FY 2007 budget increased General Fund support for the program from \$3 million to \$5 million. This adjustment was labeled as one-time. The Legislature decided to retain the \$2 million General Fund increase in the FY 2008 budget. Removing the additional \$2 million General Fund appropriation would remove funding to serve about 800 individuals. After this reduction, the appropriation to JSATF would total \$5 million, \$3 million from the General Fund and \$2 million from the federal TANF Block Grant, and would serve approximately 2,000 clients.

Eliminate Summer Youth Employment and Training

FY 08 Savings: \$1,250,000

The Summer Youth Employment and Training Program received \$1.25 million in FY 2008, up from \$1 million in FY 2007. The program is intended for at-risk youth. These monies are distributed directly to city and county governments according to statute and they supplement federal Workforce Investment Act (WIA) monies. Funding for this program was eliminated in FY 2006 and reinstated in FY 2007. The counties and cities receiving the money do not report service figures to DES. DES distributed these FY 2008 funds to the local governments in July 2007. The table below shows the funding distribution per the formula in A.R.S. § 11-1042.

Summer Youth Employment and Training Allocations		
<u>Locality</u>	<u>FY 2007</u>	<u>FY 2008</u>
Maricopa County	\$ 175,000	\$ 218,750
Phoenix	235,000	293,750
Mesa	115,000	143,750
Pima County	275,000	343,750
All other counties (by population)	<u>200,000</u>	<u>250,000</u>
Total	\$1,000,000	\$1,250,000

Rollback FY 2008 Visually Impaired Services Increase

FY 08 Savings: \$500,000

These monies assist severely disabled individuals in living more independently by purchasing technology assistance, adaptive aids and devices, home modifications, and independent living skills training. In FY 2008, it was estimated to provide independent living services to 9,100 clients, provide 10,900 eye exams and 7,300 pairs of glasses. The option would reduce funding for the Independent Living Rehabilitation Services line item to FY 2007 levels of \$2.5 million. At the time of appropriation and at then-current costs, the FY 2007 appropriation was estimated to provide services to about 7,600 clients, 9,200 eye exams, and 6,100 pairs of glasses.

Rollback FY 2008 Respite Care Increase

FY 08 Savings: \$500,000

The FY 2008 budget added \$500,000 and 1 FTE Position from the General Fund in for a new

Lifespan Respite Care program. Respite care is short-term care and supervision services that are provided to an individual to relieve the individual's caregiver. The services in this program are provided to children or adults with special needs who do not currently qualify for other publicly funded respite services. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$47,055,200

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Adult Services Increase

FY 08 Savings: \$1,500,000

The FY 2008 budget provided an additional increase of \$1.4 million from the General Fund for Independent Living Support, which will allow an additional 600 individuals to receive home care services. The FY 2008 budget also provided an increase of \$121,600 and 1 FTE Position to hire a Director for the state's Long Term Care Ombudsman program.

Rollback Backfill for Child Support Enforcement

FY 08 Savings: \$3,141,300

The FY 2008 budget provided an increase of \$3.1 million from the General Fund in FY 2008 to backfill lost Federal Funds associated with the passage of the federal Deficit Reduction Act of 2005 (DRA). As of October 1, 2007, federal incentive payments can no longer be used as a source of state matching funds to draw down federal child support monies. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state. Elimination of this appropriation produces a total savings of \$3.1 million, but would prevent the state from receiving approximately \$6.1 million in federal matching funds.

A footnote in the FY 2007 General Appropriation Act authorized DES to use revenues in excess of the appropriated monies deposited into the Child Support Enforcement Administration

(CSEA) Fund toward operating expenditures. Programs that were scheduled to receive the additional CSEA monies were begun in early FY 2007 or late FY 2006, suggesting that it was known during the budget process for FY 2008 that further funds would be available. However, DES did not notify the Legislature of revenues of approximately \$3 million until after the backfill was appropriated, even though the monies could have been used to offset the cost to the General Fund.

General Assistance Caseload Savings

FY 08 Savings: \$1,209,200

This program provides financial assistance to persons who are unemployable because of a physical or mental disability. Eligibility is limited to 12 months out of every 36-month period. The program serves as a "bridge" to Supplemental Security Income (SSI). Laws 2002, Chapter 329 modified the program so that only persons DES expects to qualify for SSI will be eligible to receive General Assistance. Currently, the program funds about 1,300 clients at an average monthly benefit of \$152.

The FY 2008 appropriation of \$3.1 million was based on paying a monthly benefit of \$154 to 2,440 clients (with offsetting SSI payments), which was based on estimated FY 2007 caseloads. Actual FY 2007 caseloads were much lower, and as a result, the estimated average monthly caseload for FY 2008 is 1,422. This caseload amount will result in expenditures \$1.2 million below the FY 2008 appropriation.

TANF Cash Benefits Caseload Decline

FY 08 Savings: \$2,978,900

Monies in this program provide financial assistance on a temporary basis to dependent children in their homes or in the homes of responsible caretaker relatives. The FY 2008 appropriation of \$125.1 million was estimated to serve 84,700 recipients at an average benefit of \$122.58 per month. TANF caseloads actually had declined to 78,876 by June 2007, however. Estimating 5.8% annualized caseload growth for the rest of FY 2008 results in estimated expenditures of \$122.2 million for a savings of \$3 million in FY 2008.

If caseloads grow at an annualized rate of 12.5% instead of 5.8% during the remainder of the fiscal year, there would be no available TANF savings. During the economic downturn of FY 2001 to FY 2004, caseloads increased by 45.6% in 26 months, or 21% on an annualized basis.

Rollback FY 2008 Children Services Backfill

FY 08 Savings: \$13,530,800

The FY 2008 budget provided \$13.5 million to backfill costs previously covered by federal monies that were eliminated by the Federal Deficit Reduction Act (DRA). This represents 8% of the budget in the relevant line items in the Division of Children, Youth and Families budget, and 2.7% of the overall division budget, including Federal Funds. From FY 2006 to FY 2007, Federal Funds increased by \$5.6 million.

The DRA eliminated the federal reimbursement of Child Protective Services (CPS) administrative costs associated with unlicensed relative foster care placements. DES estimates that 2,800 children are eligible for federal participation under Title IV-E but are in unlicensed relative placements. Under the DRA, these children are no longer eligible for federal reimbursement of DES CPS and relative administrative costs. These costs include CPS caseworkers, Attorney General legal expenses, training for staff and foster families, and a proportionate share of total agency administration.

Reduce Childcare Eligibility to 145% FPL

FY 08 Savings: \$3,287,900

The state's child care program helps eligible families pay a portion of child care costs when parents or children partake in DES eligible activities. This option would eliminate subsidies to families above 145% of the Federal Poverty Level (FPL). Currently, families at 165% FPL are eligible to receive child care subsidies. A family of 4 at 145% FPL makes \$29,900 annually, while a family of 4 at 165% FPL earns \$34,000.

This option would eliminate services to about 3,200 children receiving \$260 each in subsidies monthly. The median cost for child care for 3 to 5 year olds, according to the 2006 Child Care Market Rate Survey, is \$28 per day, or approximately \$588 per month. Implementing this change on March 1, 2008 would result in

savings of about \$3.3 million. Full year's savings would be about \$9.9 million.

The state's child care program received \$198.5 million for child care subsidies and quality set-aside activities in FY 2008, \$84.5 million of which is from the General Fund.

Chairmen's Options

Student Count and QTR Savings

FY 08 Savings: \$30,000,000

The K-12 Basic State Aid program is currently projected to have a surplus of approximately \$65 million for FY 2008 due to lower than projected enrollment growth and higher than projected Qualifying Tax Rate (QTR) revenues for FY 2008. This option would utilize \$30 million of that total as a budget option with the remaining \$35 million being reflected in the statewide reversion estimate for FY 2008. The estimated \$65 million total includes \$46 million from lower than projected student count growth and \$19 million from higher than projected QTR revenues for FY 2008.

The estimated \$46 million savings from student counts includes \$29 million from lower than budgeted district enrollment growth in FY 2007 (which affects formula costs in FY 2008) and \$17 million from lower than budgeted charter enrollment growth in FY 2008. Preliminary FY 2008 enrollment data are available only for charter schools at this time, as only charters are funded based on current year data only. Preliminary FY 2008 counts for school districts will not become available until at least March 2008.

The possible \$30 million savings from this issue could be realized by reducing the FY 2008 Basic State Aid appropriation by \$30 million. If not ex-appropriated, these monies could be transferred by ADE to other programs.

Rollback FY 2008 Teacher Training Increase

FY 08 Savings: \$2,000,000

Laws 2006, Chapter 350 provided \$1 million from the General Fund in FY 2007 to fund a new "Teacher Training" program and required the department to distribute the monies to the Arizona K-12 Center for use in providing teacher mentor programs. (The Arizona K-12 Center is affiliated with Northern Arizona University and is located in downtown Phoenix.) The FY 2008 budget provides a \$2 million increase for the program, providing it with \$3 million total for the

year. The additional funding for FY 2008 is intended to increase the number of mentor teachers serving under the program. This option would rollback the FY 2008 increase, returning the program to its FY 2007 funding level of \$1 million.

Program monies are primarily used to hire substitute teachers for participants, so they can have release time for mentoring activities and related training. A portion also is used for training costs and for mentor stipends. Detailed information on program expenditures, however, is not currently available.

Rollback FY 2008 Math or Science Initiative Increase

FY 08 Savings: \$2,500,000

The General Appropriation Act for FY 2008 provided \$2.5 million in first-time funding from the General Fund in FY 2008 for a new "Math or Science Initiatives" program. The purpose of the program is "to promote improved pupil achievement in mathematics or science by providing supplemental funding for innovative mathematics or science programs" (A.R.S. §15-720.01, Subsection A). A.R.S. § 15-720.01 requires the State Board of Education to develop application procedures, selection criteria and minimum performance standards for the program. As of late December 2007, State Board of Education staff indicate that the FY 2008 monies have not yet been allocated, but anticipate that they will be allocated early in 2008.

Lump Sum Reduction

FY 08 Savings: \$9,935,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Discretionary Inflation

FY 08 Savings: \$15,333,300

This option would permanently roll back the \$46 million (approximately 1%) discretionary "base level" increase that was included in the FY 2008 budget. That increase was provided in addition to the 2% increase required by A.R.S. § 15-901.01 (see language below), so was discretionary in nature. The savings from this option is estimated at \$15.3 million in FY 2008 (\$46 million X 33% (for last 4 months of fiscal year only) = \$15.3 million). On a full year basis, the savings would be \$46 million plus an adjustment for ongoing enrollment growth.

The \$46 million appropriation funded an additional 1% (rounded from 0.98%) "base level" increase in FY 2008. That additional 1% increase, plus the 2% "base level" adjustment provided for Proposition 301 inflation, resulted in a net "base level" increase of 3% (rounded from 2.98%) in FY 2008. This option would reduce the net FY 2008 "base level" increase to approximately 2.65%.

The FY 2008 "base level" amount of \$3,226.88 (which reflected the 3% increase) was established in the K-12 Budget Reconciliation Bill (Laws 2007, Chapter 264, Section 7). That bill would have to be amended in order to implement this option.

15-901.01. Inflation adjustments

If approved by the qualified electors voting at a statewide general election, for fiscal years 2001-2002 through 2005-2006, the legislature shall increase the base level or other components of the revenue control limit by two per cent. For fiscal year 2006-2007 and each fiscal year thereafter, the legislature shall increase the base level or other components of the revenue control limit by a minimum growth rate of either two per cent or the change in the GDP price deflator, as defined in section 41-563, from the second preceding calendar year to the calendar year immediately preceding the budget year, whichever is less, except that the base level shall never be reduced below the base level established for fiscal year 2001-2002.

Rollback FY 2008 Reading First Initiative Increase

FY 08 Savings: \$1,000,000

The K-12 Education BRB for FY 2008 provided \$1 million in first-time funding from the General Fund in FY 2008 for a new "Reading First Initiative" program. The Arizona Department of Education is required to distribute the monies as grants to schools for expanding the Reading First program authorized under the federal No Child Left Behind Act of 2001. The federal Reading First program seeks to ensure that every Arizona child will learn to read proficiently by third grade and remain a proficient reader through the twelfth grade.

ADE indicates that 12 school districts have applied for and received \$82,000 apiece for the program for FY 2008, for total pass-through funding of \$984,000. ADE reports that the remaining \$16,000 is for technical assistance and that a contract has been issued for those services.

Rollback FY 2008 Technology Grants Increase

FY 08 Savings: \$1,000,000

The K-12 Education BRB for FY 2008 provided \$1 million in one-time funding from the General Fund in FY 2008 for a new "Technology Grants" program. It also requires the State Board of Education, in collaboration with the Department of Education, to establish an instructional technology systems pilot program under parameters specified in A.R.S. § 15-901.04, as established by the bill. A.R.S. § 15-901.04 requires the Department of Education to select one school that provides instruction in any combination of Kindergarten programs and Grades 1-8 to participate in the program, after review and approval by the State Board of Education. It also specifies that program monies shall be used to significantly increase academic performance at the pilot site through an upgrading of instructional technology systems and through teacher training on the use of those technologies.

The State Board of Education (SBE) approved the application process for the program in late October 2007 and schools have until mid-January 2008 to apply for the grant. The SBE is expected to award the grant at either its January 28 or February 25, 2008 meeting.

Revert Unspent FY 2007 Information Technology Monies

FY 08 Savings: \$2,500,000

The General Appropriation Act (GAA) for FY 2007 provided \$2.5 million in one-time monies from the General Fund (non-lapsing through FY 2008) to improve access to currently-collected K-12 education data. Footnotes in the FY 2007 GAA stipulated that 1) the monies were not to be used to expand data collection or hire additional staff and 2) ADE was required to present to the JLBC a timeline for project implementation (which it did at the November 2007 JLBC meeting). ADE spent only \$6,300 on the program during FY 2007, so virtually all of the \$2.5 million appropriation carried forward into FY 2008. The program did not receive additional funding in the FY 2008 budget. ADE anticipates that "Phase I" of the "Education Data Warehouse" will be operational by January 2008. "Phase I" will provide access to "student level" data only.

Revert Unspent FY 2007 E-Learning Pilot Monies

FY 08 Savings: \$2,800,000

Laws 2006, Chapter 375 provided \$3.0 million in one-time monies from the General Fund (non-lapsing with no ending date) to fund a 3-year eLearning pilot program focusing on mathematics instruction provided through a digital curriculum. Chapter 375 also established an eLearning task force and required it to submit an actionable request for proposals by December 15, 2006 to begin operating the pilot program in FY 2008. That deadline was not met, but the K-12 Education BRB for FY 2008 extended all program deadlines by one year, so the pilot program is now expected to begin in FY 2009 rather than FY 2008. ADE reports that only \$2,700 in program monies were spent in FY 2007, so virtually all of the original \$3.0 million appropriation remains available for use in FY 2008 and future years. The K-12 Education BRB allows program monies to be spent through FY 2011. The FY 2008 budget continues the original \$3.0 million one-time appropriation, but does not provide additional funding. ADE is permitted to spend 5% of program monies on administration.

On August 22, 2007, the Information Technology Authorization Committee (ITAC) gave the Project

Investigation Justification (PIJ) for the program an "Approval with Conditions," with the condition being only that ADE amend the PIJ if the best and final cost exceeded the PIJ estimate by more than 10%. The PIJ proposes project expenditures of \$30,000 in FY 2007, \$180,000 in FY 2008, \$1,949,300 in FY 2009 and \$418,700 in both FY 2010 & FY 2011, for a total cost of \$2,996,700.

This budget option assumes that only planning monies would be spent through FY 2008. Laws 2006, Chapter 375 required JLBC review of both the draft Request for Proposals (RFP) for the project and also its final contract. The JLBC gave the draft RFP for the project a favorable review on September 20, 2007. As of late December 2007, ADE indicates that it plans to submit the final contract for JLBC review early in 2008.

Eliminate Alternative Teacher Development Funding

FY 08 Savings: \$1,000,000

Laws 2006, Chapter 359 provided \$2.0 million in one-time funding from the General Fund in FY 2007 to establish an alternative teacher development program in order to accelerate the placement of highly qualified teachers in low income schools. For FY 2008, the program received \$1.0 million in one-time funding from the General Fund through the General Appropriation Act. Based on requirements stipulated in A.R.S. § 15-552, as established by Chapter 359, the Arizona Department of Education (ADE) awarded both FY 2007 and FY 2008 funding for the program to Teach America, which is a non-profit organization that was established nationally in 1990 and in Arizona in 1994. The program is also supported with private donations.

In FY 2007, approximately 170 Teacher America members taught in Arizona schools, serving about 14,500 students in schools in the Phoenix area. Program funding is used to defray the cost of teacher training, recruiting and other fees. Detailed information on program expenditures is not currently available.

Department of Environmental Quality

Chairmen's Options

Set WQARF at \$10 Million

FY 08 Savings: \$5,000,000

This option would reduce the annual transfer to the Water Quality Assurance Revolving Fund (WQARF) from the Corporate Income Tax (CIT). A.R.S. § 49-282 sets this transfer at \$15 million annually, but session law lowered this amount to \$10 million from FY 2002 through FY 2005 and \$11 million for FY 2006. In FY 2007, WQARF funding was restored to the full level required by statute. The \$15 million funding level has been continued for FY 2008 and FY 2009. This \$5 million option would set the funding level at \$10 million again for FY 2008.

The WQARF program is designed to monitor and remediate contaminated groundwater at specific sites. The majority of its funding comes from the transfer of CIT monies. The WQARF registry lists 35 contaminated sites, all of which were investigated and had Potential Responsible Party (PRP) searches in FY 2007. The Department of Environmental Quality (DEQ) reports that remediation was carried out at 17 sites in 2007, with 11 of the sites progressing on the path from site identification to delisting. It is unclear to what degree this process was accelerated by the restoration of full funding to the program. In FY 2007, the program received \$6.6 million in fees and other revenue in addition to the \$15 million CIT transfer. Actual program expenditures in FY 2007 totaled \$16.5 million, with a carry forward into FY 2008 of \$11.9 million.

Rollback FY 2008 Surface Water Permitting Increase

FY 08 Savings: \$530,500

This option would reduce surface water staffing to its FY 2007 level. DEQ was appropriated an increase of \$530,500 and 8 FTE Positions from the General Fund in FY 2008 and FY 2009 for additional surface water permit staff.

Surface water permits are issued to wastewater treatment plants and municipal storm water systems as part of the Arizona Pollution

Discharge Elimination System. The recent increase in funding was designed to allow DEQ to reduce the time needed to issue permits and to increase the inspection rate for the 7,000 permit sites in the state. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$1,744,900

See Lump Sum Reduction section for any exemptions.

Government Information Technology Agency

Chairmen's Options

Eliminate Arizona E-Health Initiative

FY 08 Savings: \$1,500,000

This option would eliminate the Arizona E-Health Initiative, for a General Fund savings of \$1.5 million. The Arizona E-Health Initiative program provides information technology (IT) grants to rural health care providers throughout the state to establish electronic health records and facilitate the exchange of medical records in rural areas. It was established by Laws 2006, Chapter 350 with \$1.5 million from the General Fund. This level of funding was continued for FY 2008 and FY 2009. Seven organizations, with requests from \$125,000 to \$375,000, received one-time funding from the \$1.5 million FY 2007 allocation. Of the 7 awards, 4 went to organizations in Cochise County, while Santa Cruz, Pima, and Coconino County organizations each received a single award. Applications for new grants were taken through the end of the calendar year 2007, with final awards expected to be announced in early calendar year 2008. The following is a summary of the awards for FY 2007:

Mariposa Community Health Center, Inc. – \$375,000 – To implement electronic medical records in coordination with other community health centers throughout Southern and Southwestern Arizona. Primary location: Nogales.

Chiricahua Community Health Centers, Inc. – \$250,000 – To enhance electronic health record implementation, and facilitate required electronic exchange of data with state agencies for collaboration with community health centers stretching from far Northern Arizona (including the Navajo Reservation) through the Prescott area to Southeastern Arizona. Primary location: Elfrida.

Copper Queen Community Hospital – \$150,000 – Expansion and enhancement of home health services to patients throughout Southeastern Arizona. Primary location: Bisbee.

Benson Hospital – \$200,000 – Deployment of coordinated electronic health records system, including connectivity to external pharmacies and upgrading of hospital IT infrastructure. Primary location: Benson.

Community Behavioral Health Services – \$200,000 – Deployment of electronic medical records system to behavioral health facilities across Northern and Northwestern Arizona. Primary location: Page.

Northern Cochise Community Hospital – \$200,000 – Replacement of obsolete hospital core information technology system with state-of-the-art system that will enhance hospital operational efficiency and support future deployment of electronic health records. Primary location: Willcox.

Marana Health Center – \$125,000 – Development of an integrated electronic health records system. Primary location: Marana.

Department of Health Services

Chairmen's Options

Reduce Community Health Centers Funding

FY 08 Savings: \$4,500,000

Community Health Centers received an additional \$3.0 million in FY 2007 and \$1.5 million in FY 2008 from the Medically Needy Account of the Tobacco Tax. Returning funding to FY 2006 levels would decrease funding to approximately \$10.5 million and would free up \$4.5 million of General Fund monies.

Monies in the Community Health Centers Special Line Item provide grants to 19 community health centers throughout the state for the provision of primary health care services to uninsured persons below 200% of the Federal Poverty Level. The current FY 2008 funding is anticipated to pay for approximately 109,000 visits per year. This option would eliminate compensation for approximately 33,000 visits.

As of November 30, the department had expended \$5.2 million of the total \$15.0 million appropriation.

Rollback FY 2008 Senior Food Program Increase

FY 08 Savings: \$600,000

General Fund monies were first appropriated in FY 2008 for this Special Line Item, which consists of 2 programs: The Arizona Commodity Supplemental Food Program (CSFP) and the Seniors' Farmers Market Program. Both programs provide food for seniors who are 60 years and above who make up to 130% FPL.

- The Arizona CSFP receives approximately \$1 million from the federal government for administration of this program and \$4 million worth of food through the United States Department of Agriculture. Federal funding for this program provides food baskets for approximately 14,000 seniors per month (baskets are worth about \$50-\$60 retail). State funding provides an additional 1,000 baskets per month.
- Funding for the Seniors' Farmers Market Program provides coupon books to seniors

worth \$30 and may be redeemed for food at local farmers' markets. DHS is in the process of trying to obtain federal matching funds for this program. If obtained, 8,300 seniors will receive this service annually; otherwise, only 3,300 will be served.

As of November 30, the department had not spent any monies from this appropriation.

Eliminate Health Crisis Fund Deposit

FY 08 Savings: \$1,000,000

The Health Crisis Fund receives an annual allocation of \$1 million from the Medically Needy Account of the Tobacco Tax and Health Care Fund. This money can be allocated at the Governor's discretion to address health issues. Medically Needy Account monies are used for Title XIX costs in AHCCCS and Behavioral Health, which are also paid for out of the General Fund. This option to eliminate the Health Crisis Fund deposit frees up Medically Needy Account monies, which can be used to offset General Fund Title XIX costs in FY 2008. In FY 2007, 4 health crises were declared and \$670,000 was authorized. The chart below provides a breakdown of authorized amounts in FY 2007.

<u>Executive Order</u>	<u>Funding Purpose</u>	<u>FY 2007 Authorized Amount</u>
2006-16	Promote influenza control & management	\$ 75,000
2007-11	Mitigate the effects of sudden cardiac arrest	\$200,000
2007-13	Congenital Syphilis Education Campaign	\$100,000
2007-14	Tuberculosis control interventions	\$295,000

Reduce Health Care Licensure Funding

FY 08 Savings: \$1,395,900

This option would reduce the assurance and licensure funding from \$12.2 million to \$10.8 million. This option would return the program to its FY 2006 funding level. Funding added in FY 2007 and FY 2008 increased the number of appropriated FTE Positions as follows: 9 in the Assisted Living Division, 1.6 in the Behavioral Health Division, 11 in the Child Care Division, 0.7

in the Long Term Care Division, and 1.6 in the Behavioral Health Division.

The chart below provides information on the renewal backlogs, the surveyor to provider ratio for each division, the vacancy rate, and refunds given. The "Renewal Backlog" refers to the number of facilities whose licenses expire prior to DHS conducting a renewal survey. "Total Refunds Given" refers to the refunds that the department must provide when a new facility submits an application for a new license but does not receive a license within 180 days.

	<u>Beginning FY 2007</u>	<u>Ending FY 2007 (preliminary)</u>	<u>FY 2008 Projected</u>
Assisted Living			
Renewal Backlog	254	316	165
Surveyor/Provider Ratio	1/87	1/65	1/69
Vacancy Rate	22%	0%	--
Behavioral Health			
Renewal Backlog	177	70	85
Surveyor/Provider Ratio	1/66	1/58	1/58
Vacancy Rate	21%	14%	--
Child Care			
Renewal Backlog	361	344	100
Surveyor/Provider Ratio	1/70	1/61	1/59
Vacancy Rate	20%	5%	--
Long-Term Care			
Renewal Backlog	53	9	12
Surveyor/Provider Ratio	1/5	1/5	1/5
Vacancy Rate	16%	26%	--
Medical Services			
Renewal Backlog	207	228	212
Surveyor/Provider Ratio	1/65	1/58	1/62
Vacancy Rate	25%	13%	--
Total Refunds Given	\$311,600	\$234,800	\$117,000

As of November 30, the department had expended \$5.4 million of the total \$12.2 million appropriation.

Consolidate Poison Control Centers

FY 08 Savings: \$550,000

Two separate poison control centers are located in Arizona. The Good Samaritan Hospital in Phoenix serves residents of Maricopa County and receives approximately 325 calls per day. The University of Arizona Poison Control Center serves the rest of the state and receives about 200-230 new calls per day.

This option would consolidate the 2 centers into 1, thus reducing administrative costs associated

with operation of 2 centers. This option reduces total funding for Poison Control Centers by 25%.

As of November 30, the department had expended \$318,800 of the total \$2.2 million appropriation.

Reduce High Risk Perinatal Services Funding

FY 08 Savings: \$1,800,000

This option would reduce the High Risk Perinatal funding from \$5.4 million to \$3.6 million. This option would return the program to its FY 2006 funding level.

In FY 2008, the department plans to spend the \$5.4 million as follows:

- \$3.1 million for home visits to families who have infants born at risk of having developmental problems.
- \$423,000 to provide training to physicians in Arizona to use a screening tool to better detect developmental problems in infants and provide developmental assessments for enrolled infants when there are concerns about developmental delays.
- \$510,000 to cover transportation costs for critically ill newborns and pregnant women at risk of preterm delivery.
- \$1.4 million to pay for contracts with hospitals and doctors for care of critically ill newborns.

As of November 30, DHS had expended \$1.2 million of the total \$5.4 million appropriation.

Reduce Laboratory Services Funding

FY 08 Savings: \$820,000

This option would reduce the Laboratory Services Special Line Item funding from \$5.3 million to \$4.5 million. This option would return the program to its FY 2006 funding level. The FY 2007 budget added an additional \$820,000 to the Laboratory Services Special Line Item for increased expenses associated with both the Phoenix and Flagstaff laboratories. Specifically, monies were designated for higher than estimated utility expenses at the Phoenix lab and relocation and equipment expenses for the Flagstaff lab. Monies also included funding for an additional 4.6 FTE Positions.

As of November 30, DHS had expended \$2.1 million of the total \$5.3 million appropriation.

Rollback FY 2008 Contract Compliance Increase

FY 08 Savings: \$2,461,100

The FY 2008 General Appropriation Act added 44 FTE Positions to improve contract monitoring and oversight and to evaluate contract compliance among the Regional Behavioral Health Authorities. In particular, monies were appropriated to improve contract compliance associated with the *Arnold v. Sarn* and *JK v. Gerard* lawsuits. Of the positions added, DHS intends to hire 5 additional field auditors to ensure that the stipulations of the *Arnold v. Sarn* exit criteria are being met. An additional 3 positions will specifically be responsible for overseeing the *JK v. Gerard* settlement. The remaining positions will provide general contract compliance oversight throughout Arizona not specifically related to either of the 2 lawsuits.

DHS reports that there are 30 new FTE Positions which have already been hired or are in the final stages of being hired. They anticipate that all 44 FTE Positions will be in place by February. DHS also reports that they anticipate spending approximately \$417,600 in General Fund monies by January 1, 2008 and \$1.1 million in General Fund monies by the end of FY 2008.

In addition to General Fund monies, DHS receives approximately \$2 in federal matching dollars for every \$1 of General Fund monies spent.

Rollback Youth Meth Prevention Funding

FY 08 Savings: \$500,000

In FY 2007, the budget added \$500,000 for substance abuse prevention programming for children. The FY 2008 General Appropriation Act continued this funding.

In FY 2007, funding was awarded to 16 Boys' and Girls' Clubs throughout the state to provide a specialized curriculum. The Boys' and Girls' Clubs partnered with several dozen organizations for curriculum delivery. It is not known whether additional monies are contributed by program partners.

During FY 2007, 9,719 youths and teens participated in this educational program. Participants are asked about their perception and knowledge of methamphetamine before and after the curriculum is taught. A 13-40% increase in knowledge, varying by age, was reported in FY 2007. Participants, however, are not asked whether they have used methamphetamine.

As of November 30, the department had not spent any monies from this appropriation.

Lump Sum Reduction

FY 08 Savings: \$23,851,200

See Lump Sum Reduction section for any exemptions.

Other Options

Shift Tuberculosis Funding to Counties

FY 08 Savings: \$1,410,500

This program provides General Fund reimbursement to hospitals and physicians for the care of hospitalized tuberculosis (TB) patients and for assistance to all county health departments for local TB control programs. The program also provides directly-observed therapy to patients at risk not to complete treatment. In FY 2008, the program received an increased appropriation of \$400,000. General Fund monies for this program are in addition to funding provided by individual counties.

In calendar year 2006, local health departments had 315 active TB cases and 602 suspected cases, which were treated early-on but later ruled out to have TB. Additionally, local health departments screened and/or evaluated 10,785 individuals for TB as part of work, immigration, refugee, or day care screening requirements. This work was supported by both state and local funding sources.

This option would eliminate General Fund support for this program and require counties to pay the full amount. As of November 30, DHS had expended \$155,200 from this appropriation.

Rollback FY 2008 Vaccines Increase

FY 08 Savings: \$2,226,100

The vaccines program provides funding for uninsured and underinsured children and adults to receive vaccines which are not funded by federal monies. This option would reduce vaccine funding to FY 2007 levels, approximately \$8.2 million.

Additional monies were awarded in FY 2008 to provide the human papillomavirus vaccine (HPV) to adolescent girls and adults, along with additional funding for the increased cost of other vaccines. DHS makes decisions on which vaccines to purchase based on demand, costs, and funding availability. Because vaccine prices vary considerably between types of vaccines and DHS determines which vaccines to purchase, it is unknown how many people this would impact.

As of November 30, the department had expended \$1.9 million of the total \$10.4 million appropriation.

Reduce Abstinence Funding

FY 08 Savings: \$500,000

This option would reduce abstinence funding from \$1.5 million to \$1 million. This option would return the program to its FY 2006 funding level. In addition to the \$1 million of General Funds, the program would also receive an additional \$1.2 million from Federal Funds. As of November 30, DHS had expended \$246,900 from this appropriation.

In FY 2007, a total of 13,191 youth and 893 parents were served due to the state and Federal Funds. The additional funding was used to expand abstinence education services in unserved or underserved areas of the state, accounting for 1,868 youth and 60 adults being served. The expanded appropriation was also used to provide additional services, special youth development events, and educational materials to already existing projects. Funds were also used to support the design and implementation of a non-randomized experimental evaluation with one of the abstinence providers.

Reduce Alzheimer's Research Funding

FY 08 Savings: \$2,000,000

This option would reduce Alzheimer's research funding from \$4 million to \$2 million annually. Monies for Alzheimer's research are distributed to universities, hospitals, and research centers in Arizona through a competitive grant process. In order to be eligible, recipients must provide dollar for dollar matching monies. At \$2 million, this option would return the program to its FY 2006 funding level. As of November 30, DHS had expended \$1 million of the total \$4 million appropriation.

Eliminate Women's Services

FY 08 Savings: \$501,500

The FY 2007 budget provided \$0.5 million from the General Fund to create a new Special Line Item for Women's Services. Monies from this line item are used to provide funding for grants to nonprofit agencies whose primary function is to assist pregnant women in seeking alternatives to abortion. Grants are awarded to the agencies in the amount of \$20,000 each (23 grants in total). The department may utilize no more than 10% of the monies for administrative costs.

As of November 30, DHS had expended \$129,300 of this appropriation.

Re-institute 50% Rural RTC Cost Sharing

FY 08 Savings: \$1,600,000

Prior to FY 2007, rural counties were required to pay 50% of the cost of restoration to competency (RTC) patients that they sent to the State Hospital. The FY 2007 Health and Welfare BRB eliminated all costs to rural counties for RTC services provided by the hospital. In addition, the FY 2007 General Appropriation Act appropriated \$1.6 million from the General Fund to provide for the costs incurred by the state in treating rural counties' RTC patients. DHS reports that the full \$1.6 million was spent in FY 2007. There were approximately 6,100 patient days from rural counties in FY 2007 at a cost of approximately \$3.2 million to the state, comparable to 5,900 patient days in FY 2006 at \$3.1 million (50% to state, 50% to county). This option would roll back the \$1.6 million and require rural counties to again pay 50% of the

costs of the RTC patients that they send to the State Hospital for treatment.

Eliminate Medicare Part D Dual Copay Subsidy

FY 08 Savings: \$267,500

Beginning in FY 2007, the budget included General Fund monies to help pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as "dual eligibles." Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. After the federal government took over the program, recipients were charged a co-pay, but the state has been covering these costs. In 2008, co-pays range from \$1.05 to \$5.60, depending on the class of the drug as well as the recipient's income.

Eliminating the dual eligible copay subsidy as of March 1, 2008 would result in General Fund savings of \$267,500 for 4 months of savings in FY 2008. The full year cost of the program is approximately \$802,600.

Judiciary – Superior Court

Chairmen's Options

Defensive Driving Equivalency Surcharge

FY 08 Savings: \$--

The first Judiciary Fee option would add a \$45 surcharge to all persons who elect to take a Defensive Driving Course instead of paying a civil traffic violation fine. Drivers who are cited for violations may 1) contest the traffic ticket, 2) plead guilty and pay a financial sanction, or 3) attend a Defensive Driving Course and avoid license points. The current cost of the driving school is less than the cost to plead guilty and pay the sanction. The \$45 Defensive Driving Course surcharge, in addition to the course fee, would be approximately equivalent to the cost paid by individuals who plead guilty (estimated at \$165).

Based on current Defensive Driving school attendance, this option would generate an additional \$10.8 million in revenue annually. This new revenue could be used for criminal justice homeland security funding, subject to legislative appropriation. In FY 2007, there were 240,916 attendees at defensive driving courses.

The second Judiciary Fee option relates to the Time Payment Fee. Laws 2006, Chapter 369 permanently repeals the time payment fee from \$20 to \$12, effective January 1, 2010. A time payment fee is charged at any time when any penalty sanction is not collected in full on the date that it is imposed by the court. This fee allows payments to be made over a scheduled timeframe rather than all on the day of court imposition. Of this \$20 fee, \$13 is deposited into the state's Judicial Collection Enhancement Fund and \$7 is retained by the court imposing the fee. A large share of these monies are spent on automation projects around the state.

This option would repeal Laws 2006, Chapter 369, section 2 to prevent the fee reduction to \$12 in January 2010. In FY 2007, time payment fees generated \$7.3 million. With the reduced \$12 fee, the AOC estimates a revenue reduction of \$2.5 million to \$3 million per year for automation projections.

Remove 30,000 Judgeship Mandate

FY 08 Savings: \$--

A.R.S. § 12-121 requires that there be an additional Superior Court judge for each 30,000 inhabitants, or a majority faction thereof. Pursuant to A.R.S. § 12-128, the annual salary of each judge is paid 50% by the state and 50% by the counties. This option would eliminate the 30,000 population requirement for new judgeships and potentially reduce the number of new judgeships created that require state funding.

Other Options

Revert Unused FY 2007 Sex Offender GPS Funds

FY 08 Savings: \$413,600

A.R.S. § 13-902 requires global position system (GPS) monitoring of sex offenders sentenced to probation following a conviction of a dangerous crime against children. In FY 2007, the courts were appropriated \$750,000 for costs associated with GPS monitoring. This option would revert \$413,600 in unexpended monies from that appropriation. Beyond the unexpended monies for FY 2007, the Administrative Office of the Courts base budget includes \$756,800 for GPS monitoring in FY 2008.

In FY 2007, the AOC spent \$336,400 (of the \$750,000) to supervise 38 offenders sentenced to GPS-monitored probation. The Administrative Office of the Courts (AOC) estimates that approximately 201 probationers will be tracked in FY 2008. Fewer offenders were tracked in FY 2007 since the GPS monitoring program did not begin until November, 2006. The Department of Corrections also received funding for GPS monitoring of sex offenders on supervised release.

FY 2008 Caseload Savings

FY 08 Savings: \$4,073,800

In FY 2008, the Superior Court received total funding of \$41.2 million for Adult Standard, Adult

Intensive, Juvenile Standard, and Juvenile Intensive Probation Programs.

Based on the current caseloads, overall staffing could be reduced by 51 probation officers, 5 supervisors, and 10 support staff. These estimates are based on statutory adjusted probation officer (PO) caseload ratios that have been adjusted downward because of the distances officers in rural counties must travel to supervise probationers. These adjusted ratios are 59:1 for Adult Standard Probation, 24:2 for Adult Intensive Probation, 33:1 for Juvenile Standard Probation, and 24:2 for Juvenile Intensive Probation. All programs, with the exception of Adult Standard Probation, are operating below the statutory ratio.

Adult Standard Probation is operating 3.7% above the FY 2007 caseload and is underfunded by a forecasted 540 cases, which reflects an increased funding need of \$740,400. Adult Intensive Probation is overfunded by 104 cases, resulting in savings of \$(678,300). Juvenile Standard Probation is overfunded by 744 cases, resulting in savings of \$(1.7) million. Juvenile Intensive Probation is overfunded by 357 cases, resulting in \$(2.4) million in savings. The net result is a savings of \$(4.1) million. The JLBC Staff is currently discussing the magnitude of the surplus with AOC.

Lump Sum Reduction

FY 08 Savings: \$4,258,000

See Lump Sum Reduction section for any exemptions.

State Land Department

Chairmen's Options

Rollback FY 2008 Trust Land Increase

FY 08 Savings: \$775,000

This option would rollback a FY 2008 increase of \$775,000 for trust land sales and management. The increase included funding for various positions to aid in the preparation of state trust land for sale or lease and for the management of trust land. As of November 8, 2007, 5 new FTE Positions associated with this increase had been filled and expenditures were minimal. Detailed information regarding expenditures from this increase is not available.

In addition to this increase, the FY 2007 budget also provided the department with an increase of \$1,329,100 from the General Fund for additional staff and resources to increase the effectiveness of state trust land management. This option would retain the FY 2007 monies.

Lump Sum Reduction

FY 08 Savings: \$2,355,500

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Community Protection Deposit

FY 08 Savings: \$1,000,000

The Environment Budget Reconciliation Bill (Laws 2007, Chapter 262) appropriated \$1 million from the General Fund to establish the Community Protection Initiative Fund. With the fund, the State Forester is to issue grants to at-risk communities to complete wildfire protection plans. The appropriation was made as a one-time deposit into the new continuously appropriated fund. The State Forester has allocated the entire amount in FY 2008 to various projects in rural communities throughout the state, although to date the grants have not actually been distributed.

Chairmen's Options

General Fund Offset – Land Conservation Fund Interest

FY 08 Savings: \$5,500,000

The State Parks Department is allowed by current statute to use up to \$500,000 (or 5% of the yearly deposit into the Fund, whichever is smaller) of the yearly interest earned by the Land Conservation Fund, to administer the program. The remaining interest is credited to the Land Conservation Fund. This remaining interest, however, could be used as a General Fund offset in the State Parks operating budget. A voter initiative referred to as Growing Smarter created the Land Conservation Fund in 1998. It required \$20 million from the General Fund to be deposited into the fund annually in FY 2001 through FY 2011. Monies are used for grants to purchase or lease state trust lands that are classified for conservation purposes and may be awarded to the state, non-profit organizations, individual landowners and agricultural lessees of the state or federal land. The most recent balance has been reported as \$95.2 million.

In each of FY 2006 and FY 2007, total earned interest was \$3.6 million and \$5.9 million, respectively, while the agency estimates that \$6.0 million of revenue will be generated in FY 2008. In FY 2007, Parks spent approximately \$166,000 to administer the Growing Smarter grant program and estimates that they will spend the full \$500,000 in FY 2008, leaving approximately \$5.5 million of interest to offset their General Fund appropriation in FY 2008.

In 2008, a grant award of \$47.6 million is expected to be disbursed to the City of Phoenix; however, this award is not expected to reduce interest earnings for FY 2008.

The Governor vetoed this offset in both the FY 2003 and FY 2004 budgets.

Rollback FY 2008 General Fund SPEF Offset

FY 08 Savings: \$1,000,000

The State Parks Enhancement Fund (SPEF) consists of revenues from park user fees. Under permanent law, half of SPEF is appropriated for park operations and the other half is used for park acquisition and development with prior approval by the State Parks Board and JCCR. From FY 2004 to FY 2006, this statute was suspended as a budget savings measure in order to allow almost all park fees to be used for operating purposes, thereby reducing the department's General Fund expenses.

While the permanent statute is still suspended, the FY 2008 budget did permit use of some park fees for capital projects. The FY 2008 General Appropriation Act provided an additional \$1 million in FY 2008 and \$1.5 million in FY 2009 to shift more operating costs of the state parks from SPEF to the General Fund, thereby freeing up park fees for capital projects.

This option would reverse the FY 2008 budget decision and continue to use most park fees for operating costs. Assuming park fee collections remain at the FY 2007 level of approximately \$9.5 million, however, approximately \$820,000 would be available for capital projects under this option.

Lump Sum Reduction

FY 08 Savings: \$671,200

See Lump Sum Reduction section for any exemptions.

Department of Public Safety

Chairmen's Options

Shift Highway Patrol to HURF

FY 08 Savings: \$106,000,000

A.R.S. § 28-6737 and A.R.S. § 28-6993 limit the use of Highway User Revenue Fund (HURF) and State Highway Fund (SHF) for DPS highway operational costs to \$10 million from each fund. This option would temporarily allow more than the statutory cap to offset the General Fund. Prior to FY 2007, the statutory cap on HURF and SHF was notwithstanding and \$106.2 million was used for Highway Patrol expenses in FY 2006.

The total FY 2008 General Fund amount that could be shifted back onto HURF is estimated to be \$106 million, including any adjustments related to this fund since FY 2007. In combination with the \$10 million HURF shift allowed under permanent law, a total of \$116 million would be used from HURF to pay highway patrol costs.

The Highway User Revenue Fund (HURF) consists of monies received from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's license fees. A portion of HURF collections is shared with cities and counties.

For every \$1 increase in DPS' HURF allocation, funding allocated to cities and counties would decrease by 49.5¢ and funding to highway construction would decrease by 50.5¢. For every \$1 increase in the DPS SHF allocation, funding available to highway construction decreases by \$1. This option could be implemented with any combination of HURF and SHF contributions.

Local Law Enforcement Reimbursement for DPS Lab

FY 08 Savings: \$640,000

This option would require local law enforcement agencies to reimburse DPS for services performed in the crime lab. A.R.S. § 41-1771 gives the DPS crime laboratory the responsibility to provide scientific services to all criminal justice

agencies statewide. DPS crime labs, located in Flagstaff, Lake Havasu City, Phoenix, and Tucson, provide lab services to local law enforcement agencies free of charge. City crime labs in Mesa, Phoenix, Scottsdale, and Tucson may also provide lab services to local law enforcement if there is an agreement with these labs to do so.

In FY 2006, the General Fund cost to provide crime lab services was \$183,500 for counties and \$458,100 for municipalities, which totals \$641,600. As a result, in FY 2008, the General Fund savings generated by requiring local law enforcement reimbursement for DPS crime lab processing is an estimated \$640,000.

The table below shows the types of cases submitted to DPS crime labs by counties and municipalities during FY 2006. The table includes cases funded by both the General Fund and other DPS funding sources.

County and Municipality Case Submissions	
<u>Crime Lab</u>	<u>FY 2006</u>
Drugs	10,100
Toxicology-Alcohol	7,400
Toxicology-Drugs	7,900
Blood/DNA	3,700
Latent Prints	4,200
Firearms/Trace Evidence	1,100
Questioned Documents	100
Total	34,500

Lump Sum Reduction

FY 08 Savings: \$2,930,100

See Lump Sum Reduction section for any exemptions.

Department of Revenue

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$7,694,200

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback Revenue Generating Program Increase

FY 08 Savings: \$1,000,000

This option would eliminate the \$1,000,000 increase received in FY 2008 by the Department of Revenue (DOR) for the revenue generating program, which was estimated to increase General Fund enforcement revenue by more than \$1,000,000 by filling vacant enforcement positions. Enforcement revenue is generated by DOR's audit and collection activities.

Rollback BRITS Operational Support Increase

FY 08 Savings: \$1,378,300

This option would eliminate the \$1,378,300 and 16 FTE Positions increase received in FY 2008 by the Department of Revenue for ongoing BRITS operational support of the implemented BRITS systems. These monies are used for information technology personnel to operate and maintain the BRITS system. In the absence of these resources, the Department of Revenue would likely seek a BRITS contract amendment to contract for these services with a vendor. The contract amendment would permit the Department of Revenue to expend BRITS-related General Fund revenue collections without an appropriation.

Rollback Small Town Revenue Sharing

FY 08 Savings: \$850,000

The FY 2008 budget included \$850,000 in the Department of Revenue budget for the small town revenue sharing program. This is the second year of a program which was first

implemented in FY 2007; the FY 2008 amount of \$850,000 is unchanged from FY 2007. The appropriation was labeled as one-time in both years.

These monies are for distribution to towns with a population of 1,500 or less. The following table provides the scheduled distribution amounts by town for FY 2008.

<u>Town</u>	<u>Amount</u>
Jerome	\$221,340
Winkleman	199,970
Duncan	130,160
Hayden	115,020
Patagonia	109,730
Fredonia	<u>73,780</u>
Total	\$850,000

The Department of Revenue has not yet distributed this funding.

School Facilities Board

Chairmen's Options

Suspend Building Renewal Funding

FY 08 Savings: \$43,141,800

In FY 2008, \$86.3 million was appropriated to the School Facilities Board (SFB) for Building Renewal. SFB distributes the monies to school districts in 2 equal installments, in November and May. Eliminating the May payment in FY 2008 would generate \$43.1 million in savings.

The \$86.3 million appropriation does not represent the full statutory formula amount. The only year the Building Renewal formula was fully funded was in FY 2001. Building Renewal received no funding in FY 2004. As a result of the state not fully funding the statutory Building Renewal formula, 4 school districts filed a lawsuit against the state in October 1999. The districts claimed that underfunding the formula resulted in districts being unable to meet the minimum facility guidelines.

In October 2006, the Arizona Superior Court issued a summary judgment in favor of the state in the lawsuit. The Court found that the school districts had not made an effort to obtain all available sources of state funding to maintain their facilities at the minimum guidelines, and therefore, their claim was premature. Other sources of capital funding available to school districts include Capital Outlay Revenue Limit funds and Emergency Deficiencies Correction funds provided by SFB.

New Construction Moratorium

FY 08 Savings: \$42,000,000

This option would place a moratorium on SFB new construction expenditures for projects that did not break ground by December 1, 2007. The moratorium would last through the end of at least FY 2008. It is expected to result in a cost savings of \$42 million in FY 2008. The slowdown of the housing industry has had some impact on the need for new schools, although the exact impact is not yet known.

Lump Sum Reduction

FY 08 Savings: \$194,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Utilities Pilot Program Increase

FY 08 Savings: \$2,500,000

Laws 2007, Chapter 266 appropriated one-time funding of \$2.5 million from the General Fund for the new Energy and Water Savings Pilot Program in FY 2008. The program funding will be used to provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. No monies have been spent yet. SFB made the grant applications available to districts on October 12. The application deadline will be January 21, and SFB will distribute monies starting on March 6.

Increase New Construction Payment Tail in lieu of FY 2008 Supplemental

FY 08 Savings: \$0

SFB was appropriated \$370.0 million in FY 2008 for new school construction, but they expect to have \$442.4 million worth of new construction expenditures in that fiscal year. Based on their projections, therefore, they expect to incur a \$(66.7) million shortfall in FY 2008 in their New School Facilities Fund. Deferring \$66.7 million worth of new construction expenditures from FY 2008 to FY 2009 would not result in an actual reduction in costs, but would instead result in a \$66.7 million cost avoidance in FY 2008.

SFB has already deferred \$38.0 million worth of FY 2007 new construction expenditures from FY 2007 into FY 2008 to ensure they ended FY 2007 with a positive cash balance.

New School Facilities Fund
(\$ in millions)

	<u>FY 2008</u>
Beginning Balance	\$ 0.7
Appropriation	370.0
Lease Revenues	<u>5.0</u>
Total Revenues	375.7
Expenditures	442.4
FY08 expend. deferred	<u>(66.7)</u>
Total Expenditures	375.7
Ending Balance	\$0

Chairmen's Options

Require Proportional Local Contributions to the Tourism Fund

FY 08 Savings: \$4,403,300

This option would require cities and counties to contribute their proportional share to the Tourism Fund. The state General Fund deposits an annual amount equivalent to 3.5% of the gross revenues from taxes on lodging, 3% of the gross revenues from amusement classification, and 2% of the gross revenues from restaurant classification into the Tourism Fund. However, the state General Fund only receives 73.8% of the gross revenues from amusement and restaurant classifications, and 67.25% of the gross revenues from the taxes on lodging. Cities and counties receive the remaining revenues generated by the taxes. As a result, the state is currently paying the local governments' share of Tourism Fund deposits. Since cities and counties receive benefits from tourism spending, they could also be required to contribute to the Tourism Fund using the funding formula.

In FY 2008, the impact to cities would be \$1.7 million, the impact to counties would be \$2.7 million, and the state would save \$4.4 million from the General Fund. The Tourism Fund will not lose money as a result of this option.

Other Options

Cap the Tourism Fund Formula at FY 2007

FY 08 Savings: \$885,800

This option would suspend the funding formula for the Office of Tourism and give them \$14.8 million, which was what the agency received in FY 2007. According to A.R.S. § 42-5029, the Tourism Fund receives 3.5% of the gross amount of taxes on lodging, 3% of the gross revenues from the amusement classification, and 2% of the gross revenues from the restaurant classification. The Office of Tourism received approximately \$14.8 million in FY 2007, and will receive \$15.6 million in FY 2008. Holding the

funding level at the FY 2007 amount of \$14.8 million will free up \$0.9 million in FY 2008.

In FY 2004, the funding formula was suspended and \$9 million was appropriated from the General Fund. The money received by the Office of Tourism is used to promote tourism statewide.

Department of Transportation

Chairmen's Options

Shift Motor Vehicle Division to HURF from SHF

FY 08 Savings: \$ --

The full year impact of this option would be to shift \$105 million in the Motor Vehicle Division's (MVD) FY 2008 operating budget from the State Highway Fund (SHF) to the Highway User Revenue Fund (HURF).

The ultimate full year impact of this option would be to free up an additional \$51 million of SHF monies for statewide highway construction. Local governments would lose \$51 million of their anticipated FY 2008 HURF collections. In the absence of this option, local HURF distributions are projected to increase by \$25 million in FY 2008. After accounting for the MVD shift, the local government distribution would decrease by \$(26) million compared to FY 2007.

The use of HURF monies would effectively share the cost of MVD operations with cities and counties. These local entities benefit from MVD revenue collections by receiving 55% of vehicle license taxes and 49.5% of HURF revenues. The HURF consists of monies received from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's license fees. The SHF receives 50.5% of HURF revenue.

State Treasurer

Other Options

Shift Treasurer's Budget to Earnings/Fees

FY 08 Savings: \$3,386,600

The State Treasurer has proposed to shift their direct General Fund operating expenditure of \$3.4 million to investment earnings or management fees. In addition, this alternative fund source would be used to finance \$1.0 million in new operating budget increases designed to improve investment yields.

The Treasurer has provided 2 options to achieve this proposal. The first option would revert the General Fund appropriation for agency operations and eliminate the current 6 basis point management fee that is charged on assets. These fees are currently deposited into the General Fund. Instead, funding for the Treasurer would be provided through retained earnings on investments. These earnings currently accrue to the General Fund, state agency funds and local governments.

The Treasurer's Office expects the elimination of the management fee to increase local government's investments with the office. The Treasurer also expects the combination of the larger investment pool and the operating budget enhancements will increase yields for the General Fund and other assets.

The Treasurer's alternative proposal is to allow their office to retain management fees but reduce those fees to the level that covers their operating budget. This option would also allow the revertment of General Fund appropriations. This may also entice more local governments to deposit assets and allow for better pricing and higher yields to the General Fund.

The overall net General Fund impact of the proposal will depend on the following factors:

- General Fund savings from the shift of the operating budget to a non-General Fund source.
- Loss of General Fund revenue due to lower or eliminated management fees.

- The General Fund cost associated with the new earnings financing mechanism, and
- The General Fund gain from higher investment yields.

The Chairman's options would implement this proposal in FY 2009. This proposal could be implemented in FY 2008 to generate the \$3.4 million in savings; however, there are logistical issues that would need to be addressed to allow the Treasurer to collect sufficient funds to cover their budget.

Arizona Board of Regents

Chairmen's Options

Rollback FY 2008 Financial Aid Increase

FY 08 Savings: \$2,880,000

The General Appropriation Act provided a \$2.9 million increase from the General Fund to the Arizona Financial Aid Trust (AFAT) in FY 2008. This option would rollback that funding, which was provided to achieve the statutory 2:1 ratio of state funding to student fees paid to AFAT. This option would require a statutory change. We are awaiting information on any year-to-date expenditures.

In FY 2006, total financial aid for students was \$932.9 million, of which the state provided \$2.1 million or 0.2%. General Fund support increased to \$7.1 million in FY 2007 and \$10 million in FY 2008.

Rollback FY 2008 Math and Science Increase

FY 08 Savings: \$2,250,000

The General Appropriation Act provided a \$2.3 million increase from the General Fund to increase the number of math, science, and special education teachers in the state. Of this amount, the agency will distribute \$1.8 million for student loans to prospective math and science teachers and \$0.5 million for student loans to prospective special education teachers. The Act specifies that the program can begin in the spring semester of 2008. ABOR has notified a total of 76 qualified applicants from the 3 state universities that they are eligible to participate in the program. Because of the delayed start date, this funding could potentially be eliminated as soon as FY 2008.

Lump Sum Reduction

FY 08 Savings: \$776,300

See Lump Sum Reduction section for any exemptions.

Arizona State University - Main Campus

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$41,676,500

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$15,064,000

The General Appropriation Act provided \$15.1 million from the General Fund to Arizona State University (ASU) in FY 2008 for Student and Faculty Retention funding. This funding was intended to increase stipends to faculty and graduate teaching assistants and associates, increase course availability and reduce class sizes, enhance student advising, and create a new enrollment management system.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. As of late November 2007, ASU has expended \$5.6 million of the total appropriation and indicates that the remaining \$9.5 million is committed for expenditure by the end of FY 2008.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	<u>10,000,000</u>
Total	\$29,800,000

Rollback FY 2008 Biomedical Informatics Expansion Increase

FY 08 Savings: \$2,000,000

The FY 2008 General Appropriation Act provided an increase of \$2.0 million and 14 FTE Positions

from the General Fund to double the number of graduate students enrolled in Biomedical Informatics from 10 to 20. The appropriation also allows additional medical students at the Phoenix Medical Campus to participate in Biomedical Informatics instruction. As of late November 2007, ASU had expended \$0.9 million of the total appropriation for personnel and start-up expenses and indicates that the remaining \$1.1 million is committed for expenditure by the end of FY 2008.

This option would retain \$1 million in base funding for the informatics program, which was originally approved in FY 2007.

Rollback FY 2008 Biomedical Campus Design Increase

FY 08 Savings: \$5,250,000

This option would rollback the FY 2008 appropriation of \$5.3 million from the General Fund for programming and schematic design for the Arizona Biomedical Collaborative (ABC) 2 and Education buildings at the Phoenix Medical Campus. The University of Arizona (UA) received an additional \$5.3 million for programming and schematic design. The construction cost of the ABC 2 and Education buildings is estimated to be between \$400 million and \$500 million.

Eliminating this funding would delay or prevent the construction of both buildings. The buildings would be used to expand the number of medical students admitted to the campus and house additional research. The current medical school buildings are able to house around 140 medical students, while UA plans to increase enrollment to over 600 medical students by FY 2015. We are awaiting information on any year-to-date expenditures. To date, UA and ASU have not expended or obligated their respective appropriations, as both are required to first submit an expenditure plan for review by the Joint Committee on Capital Review (JCCR). The universities have selected a design firm to develop the schematic design and are currently negotiating a formal contract with the firm.

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$2,591,600

See Lump Sum Reduction section for any exemptions.

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$5,360,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 08 Criminal Justice

FY 08 Savings: \$1,000,000

This option would rollback the new FY 2008 appropriation of \$1.0 million and 12 FTE Positions from the General Fund for the School of Criminal Justice and Criminology. The appropriation was intended to be used to hire 2 additional faculty members and accommodate 12 part-time graduate teaching assistantships. ASU-West also planned to hire 3 additional staff members dedicated to modeling the school's curriculum after those at John Jay College or the University of Maryland, each of which offer Executive Masters degrees, specialized training to criminal justice employees, and cohort programs for undergraduate students. The appropriation would also support an annual statewide victimization survey that will gauge the level of victimization experienced by Arizona residents, as well as solicit survey information about criminal justice practices and experiences with the criminal justice system. Of the FTE Positions, it is unknown how many have actually been hired. As of late November 2007, ASU had expended \$0.6 million of the total appropriation and indicates that the remaining appropriation is committed in FY 2008 primarily to establish a consortium between ASU and John Jay University for criminal justice policy.

Northern Arizona University

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$16,086,900

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$4,736,000

The General Appropriation Act provided \$4.7 million and 25 FTE Positions from the General Fund to NAU for Student and Faculty Retention funding. This funding was intended to decrease class sizes, provide additional advising for freshman and transfer students, and improve technology in classrooms. NAU will also use a portion of the appropriation to recruit and retain faculty.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. We are awaiting information on any year-to-date expenditures.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	<u>10,000,000</u>
Total	\$29,800,000

Rollback FY 2008 Health Professions Increase

FY 08 Savings: \$4,000,000

The General Appropriation Act provided an increase of \$4 million and 19 FTE Positions from the General Fund in FY 2008 for an expansion of health professions programming in both Flagstaff and at NAU's locations throughout the state. NAU will establish programs in human biology, occupational therapy, and for physician assistants with the goal of increasing the number

of health care workers in the state. With additional funding from the Technology Research Infrastructure Funds, NAU also will expand its offerings in nursing and physical therapy. Funding will initially support the hiring of personnel and building and equipping laboratories. Personnel and operations will represent the bulk of ongoing expenditures for these programs. We are currently awaiting details on how much of this funding was spent in FY 2008.

University of Arizona - Main Campus

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$36,238,900

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$10,000,000

The General Appropriation Act provided \$10.0 million and 91 FTE Positions from the General Fund to the University of Arizona (UA) for Student and Faculty Retention funding. This funding would be spent on math preparedness for incoming students, an early faculty/staff online referral system for struggling students, and exit and re-entry interventions for students who withdraw.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. As of December 2007, UA expended \$3.3 million and encumbered \$3.9 million, leaving a balance of \$2.8 million from the original appropriation.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	<u>10,000,000</u>
Total	\$29,800,000

Rollback FY 2008 Biomedical Campus Design Increase

FY 08 Savings: \$5,250,000

This option would rollback the FY 2008 appropriation of \$5.3 million from the General

Fund for programming and schematic design for the Arizona Biomedical Collaborative (ABC) 2 and Education buildings at the Phoenix Medical Campus. Arizona State University (ASU) received an additional \$5.3 million for programming and schematic design. The construction cost of the ABC 2 and Education buildings is estimated to be between \$400 million and \$500 million.

Eliminating this funding would delay or prevent the construction of both buildings. The buildings would be used to expand the number of medical students admitted to the campus and house additional research. The current medical school buildings are able to house around 140 medical students, while UA plans to increase enrollment to over 600 medical students by FY 2015. To date, UA and ASU have not expended or obligated their respective appropriations, as both are required to first submit an expenditure plan for review by the Joint Committee on Capital Review (JCCR). The universities have selected a design firm to develop the schematic design and are currently negotiating a formal contract with the firm.

Rollback UA-South Increase

FY 08 Savings: \$1,200,000

This option would rollback the FY 2007 General Appropriation Act appropriation of \$1,200,000 from the General Fund to UA-South for a program expansion. This funding was originally designated as one-time in FY 2007, but was continued as an ongoing appropriation in the FY 2008 General Appropriation Act. The additional funding has been used to expand upper-division class offerings at sites in Sierra Vista, Douglas, Graham County, and outlying areas of Pima County.

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$8,095,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Telemedicine Increase

FY 08 Savings: \$1,000,000

This option would rollback the new FY 2008 appropriation of \$1.0 million and 2 FTE Positions from the General Fund to expand the telemedicine program to Phoenix. Currently, the telemedicine program is offered exclusively at the UA Main Campus in Tucson. The expansion will link a range of healthcare providers to teach medical students the latest technology in medical education and new ways of delivering care in a team based model. Additionally, the funding will be used to develop a pilot inter-professional clinical delivery system throughout the state. Elimination of this funding would leave \$1.2 million for telemedicine in the UA-HSC base budget. As of December 2007, UA expended \$228,000 and encumbered \$319,500, leaving a balance of \$452,500 from the original appropriation.

Rollback FY 2008 Pharmacy Increase

FY 08 Savings: \$1,500,000

This option would rollback the new FY 2008 appropriation of \$1.5 million and 11 FTE Positions from the General Fund to start a 4-year Doctor of Pharmacy program in Phoenix and allow 40 students enrolled in the Tucson pharmacy program to complete their 4th year of training in Phoenix. Eliminating this funding would prevent the proposed expansion. As of December 2007, UA expended \$218,000 and encumbered \$401,000, leaving a balance of \$881,000 from the original appropriation.

Rollback FY 2008 Medical Campus Increase

FY 08 Savings: \$6,000,000

This option would rollback the new FY 2008 appropriation of \$6.0 million and 26.5 FTE Positions from the General Fund to double the projected medical school class size from 24 students to 48 students in FY 2009. Elimination of this funding would leave \$6.2 million for the medical campus in the UA-HSC base budget. Some or all of this funding could potentially be eliminated in FY 2008 before the university prepares to accept these additional students.

Department of Veterans' Services

Other Options

Rollback FY 2008 Benefit Counselors Increase

FY 08 Savings: \$985,400

Veterans' Benefit Counselors (VBCs) answer questions about benefit eligibility and help veterans apply and obtain benefits. This option would rollback the 19 additional VBCs appropriated for FY 2008. This option would retain a total of 40 VBCs, including the 21 additional VBCs appropriated for FY 2007. Information compiled by the Governor's Office in FY 2006 showed that 10 of 37 other states had more state VBCs per veteran than Arizona. As of December, the department has spent \$1.4 million of the total \$3 million VBC appropriation.

Lump Sum Reduction

FY 08 Savings: \$928,500

See Lump Sum Reduction section for any exemptions.

Department of Water Resources

Chairmen's Options

Rollback New Water Protection Fund Deposit

FY 08 Savings: \$1,000,000

A.R.S. § 45-2112 requires that \$5,000,000 be transferred into the Water Protection Fund each year for grants to organizations for the preservation, enhancement, and restoration of rivers, streams, and riparian environments. The FY 2008 Environment Budget Reconciliation Bill (Laws 2007, Chapter 262) continues a session law change to A.R.S. § 45-2112 suspending the statutory \$5,000,000 General Fund appropriation to the Water Protection Fund in FY 2008 and FY 2009 and notes that the amount shall be as specified in the General Appropriation Act. This appropriation had previously been suspended since FY 2004. This fund receives other sources of revenue, such as monies from purchases or leases of Central Arizona Project water.

The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) includes \$1 million in FY 2008 and \$2 million in FY 2009. This option would eliminate the FY 2008 appropriation of \$1 million. If the FY 2008 appropriation is eliminated, the fund would have \$10.3 million available for grants in FY 2008. The department plans to expend \$6 million of the monies, leaving an estimated FY 2008 ending balance of \$4.3 million.

Shift Assured and Adequate Water Program Costs

FY 08 Savings: \$1,100,000

Laws 2005, Chapter 217 established the Assured and Adequate Water Supply (AAWS) Administration Fund to provide for the costs and expenses incurred by DWR when determining and declaring assured and adequate water supplies. Prior to the creation of this Special Line Item (SLI), the AAWS program was funded from the department's operating budget at an estimated General Fund cost of \$1.7 million per year. This amount was shifted to the new AAWS Administration SLI in FY 2007 and was earmarked as one-time funding due to the creation of the

AAWS Administration Fund. The \$1.7 million appropriation was continued in FY 2008.

Revenues generated by the program are deposited into this new fund and are expected to allow the program to be more reliant on revenue generated from fees rather than the General Fund, where the fees were previously deposited. Revenue deposited into the fund in FY 2007 totaled \$0.8 million. It is expected that this amount will eventually increase to \$1.1 million in the future. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$2,097,500

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Drought Office Increase

FY 08 Savings: \$500,000

The Conservation and Drought Office was originally requested in the Executive's FY 2007 budget. The Legislature did not appropriate funding for the new program in FY 2007. However, the department used \$500,000 and 6 FTE Positions from the Rural Water Studies Special Line Item (SLI) to fund the new program. As a part of the final FY 2008 budget, a new SLI was created and ongoing funding was provided to continue this program. Funding totaled \$0.5 million in FY 2008 and \$0.5 million in FY 2009.

DWR reports that \$0.1 million, or 24.7% of the FY 2008 appropriation, has been expended so far in FY 2008. This option would eliminate the FY 2008 appropriation of \$0.5 million.

Rollback FY 2008 Rural Water Studies Increase

FY 08 Savings: \$500,000

This option would reduce Rural Water Studies funding from \$2 million to \$1.5 million. These studies assess local water use needs and

develop plans for sustainable future water supplies in rural areas outside the state's Active Management Areas. Currently, there are 10 studies underway.

Of the \$2 million appropriated for the line in FY 2007, DWR used \$0.5 million for the Drought Office and \$1.5 million for Rural Water Studies. As a result, funding this program at \$1.5 million in FY 2008 would leave it at the same level of funding as in FY 2007. The Conservation and Drought Office was separately funded in FY 2008.

Rollback FY 2008 Adjudication Support Funding

FY 08 Savings: \$1,000,000

A.R.S. § 45-251 requires the Department of Water Resources (DWR) to provide technical and administrative support to judicial proceedings involving general stream adjudications for the Gila and Little Colorado River. The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) includes \$1 million and 13 FTE Positions from the General Fund in FY 2008 and FY 2009 for additional staff to assist in general stream adjudications.

The purpose of the adjudications is to determine the nature, extent, and priority of the water rights claims on the 2 rivers. Technical support for the adjudication courts includes the preparation of hydrographic survey reports and technical reports on specific issues within the adjudications.

In 1953, Congress passed the McCarran Amendment, granting state courts jurisdiction over the adjudication of the tribal water rights. As part of this amendment, if the states are unsuccessful in completing the adjudications, the adjudications will be moved to federal courts.

This option would eliminate the FY 2008 appropriation of \$1 million. We are awaiting information on any year-to-date expenditures.

Statewide - Lump Sum Reduction

Chairmen's Options

10% Lump Sum Reduction

FY 08 Savings: \$246,312,800

The following table provides the estimated impact of a 10% lump sum reduction to agency budgets, which is estimated to generate \$246 million. Lump sum reductions provide agencies with the flexibility to determine their own spending priorities. As a result, the lump sum reduction calculation excludes statutory funding formulas, which agencies cannot modify on their own. These exempted amounts are described in the "Exclusions" column.

The lump sum amount is based on the FY 2008 budget adjusted for other reductions in the Chairmen's Options. Additionally, agencies below a General Fund budget of \$400,000 were exempted, due to the small level of savings generated by a 10% reduction.

Of the \$10.6 billion General Fund budget, statutory requirements account for \$6.8 billion. Other exemptions total \$1.4 billion. After exempting this funding, the base for lump sum reductions is \$2.5 billion. Ten percent of this amount is \$246 million. Without the exemptions, the total impact of the 10% reduction would be \$1.1 billion.

The size of the lump sum reduction is currently set at 10%; however, the size of the reduction could be modified. Each 1% of the reduction generates \$25 million.

Most of the Department of Education (ADE) and Arizona Health Care Cost Containment System (AHCCCS) budgets are determined by statutory funding formulas and are therefore largely exempted from the 10% option. If ADE and AHCCCS were to implement lump sum reductions across their entire budgets, they may require more than a statutory change. They may also need to consider altering programs that are "voter protected" by the State Constitution (Article 4, Part 1, Section 1).

In 1998, Arizona voters approved Proposition 105, which stipulates that the Legislature cannot amend statutory language in other ballot propositions unless the amendment "furthers the

purposes" of the proposition and is approved by a three-fourths majority vote. These "voter protection" provisions affect inflation funding for Basic State Aid in the ADE budget and the expanded income eligibility limits established by Proposition 204 in AHCCCS. If any proposed changes to these specific provisions do not further the purpose of the original ballot propositions, they can be modified by placing a new referendum on the ballot.

In ADE, Proposition 301 from the November 2000 election requires "the base level or other components of the revenue control limit" to be increased each year for inflation. Differing legal opinions have existed regarding the interpretation of that requirement since it became law. In October 2001, Legislative Council opined that it required the Legislature to increase *either* the "base level" or "route mile" funding rates each year. In November 2001, however, the Attorney General opined that it required *both* items to be increased annually. Increasing both "base level" and "route mile" funding by 2% currently costs the state approximately \$105.0 million. Increasing only "route mile" funding, however, would cost only about \$4.3 million (\$100.7 million less).

With the statutory and other exemptions, ADE's 10% lump sum reduction is \$9.9 million. If there were no exemptions, ADE's budget would be reduced by \$436 million. Achieving this savings would require statutory changes. The need to modify voter protected provisions would depend on whether sufficient savings could be generated without affecting the voter protected inflation funding.

In AHCCCS, Proposition 204 from the November 2000 election increased the income eligibility limit for AHCCCS to 100% of the federal poverty line. With the statutory and other exemptions, AHCCCS' 10% lump sum reduction is \$11.9 million. Without the exemptions, AHCCCS' reduction would be \$127 million. As with ADE, reductions of this magnitude would require statutory changes. These changes could modify eligibility for programs above 100% of the federal poverty line or the current payment methodology without affecting the voter protected Proposition 204 programs.

10% Lump Sum Reduction Detail

<u>Agency</u>	<u>FY 2008 Approp</u>	<u>Exemption</u>	<u>10% Lump Sum</u>	<u>Exclusions ^{1/}</u>
Administration, Department of	33,312,200	9,694,400	2,361,800	ENSCO payment, Capitol Police
Administrative Hearings, Office of	1,283,300	-	128,300	
Agriculture, Arizona Department of	12,481,600	-	1,248,200	
AHCCCS	1,269,136,000	1,150,108,000	11,902,800	Capitation, Reinsurance, Fee-For-Service lines, Medicare Premiums, Breast and Cervical Cancer, Ticket to Work, Clawback, Temporary Medical Coverage, and Prop 204 County Hold Harmless Does not exempt Administration, Part D Copay Subsidy, Disproportionate Share, Graduate Medical Education, Hospital Loan Residency Program, Critical Access Hospitals, Rural Hospital Reimbursement and the Board of Nursing funding
Arts, Arizona Commission on the	2,127,600	-	212,800	
Attorney General	24,651,900	90,000	2,456,200	Attorney General Salary
Biomedical Research Commission	1,000,000	1,000,000	-	This funding is eliminated elsewhere in the Chairmen's options.
Capital Postconviction Defender Office, State	737,900	-	73,800	
Charter Schools, State Board for	1,129,500	1,129,500	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Commerce, Department of	15,925,100	3,450,100	1,247,500	
Community Colleges	167,744,800	167,744,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Corporation Commission	5,857,400	397,500	546,000	Commissioner Salaries
Corrections, Department of	910,277,200	880,458,200	2,981,900	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Criminal Justice Commission, AZ	2,202,000	1,208,000	99,400	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Deaf & the Blind, AZ State Schools for the	22,010,400	22,010,400	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Economic Security, Department of	794,336,400	323,784,000	47,055,200	Title XIX Long Term Care State Match, TANF Cash Benefits, Tuberculosis Control
Education, Department of	4,363,465,100	4,264,111,000	9,935,400	Basic State Aid, Additional State Aid, Special Education Vouchers, English Language Learner and Compensatory Instruction
Emergency and Military Affairs, Department of	14,581,600	6,221,000	836,100	Governor's Emergency Fund Statutory Appropriation, NEMF Deposit, Guardsmen Tuition Reimbursement
Environmental Quality, Department of	32,979,000	15,530,500	1,744,900	Water Quality Assurance Revolving Fund (WQARF) Deposit
Equal Opportunity, Governor's Office of	260,800	260,800	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Equalization, State Board of	672,900	-	67,300	
Executive Clemency, Board of	1,153,500	1,153,500	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Financial Institutions, State Department of	4,081,800	-	408,200	
Fire, Building and Life Safety, Department of	3,922,100	-	392,200	
Geological Survey, Arizona	1,151,900	-	115,200	
Government Information Technology Agency	2,000,000	2,000,000	-	This funding is eliminated elsewhere in the Chairmen's options.
Governor, Office of the	7,476,900	119,400	735,800	Governor Salary
Governor's Office of Strategic Planning & Budgeting	2,313,600	-	231,400	
Health Services, Department of	583,432,200	344,920,700	23,851,200	Behavioral Health and Children's Rehabilitative Services State Match and Premium Tax
Historical Society, Arizona	4,521,300	1,186,700	333,500	Papago Park Museum Lease-Purchase Payment
Historical Society of AZ, Prescott	780,700	-	78,100	
Indian Affairs, AZ Commission of	237,700	237,700	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Insurance, Department of	7,800,800	-	780,100	
Judiciary				
Supreme Court	18,412,600	714,700	1,100,000	The amount of this reduction was specifically designated by the Chairmen's options and is 6%, excluding judges' salaries.
Court of Appeals	14,127,800	14,127,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Superior Court	95,681,100	95,681,100	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
SUBTOTAL - Judiciary	128,221,500	56,882,500	1,100,000	
Juvenile Corrections, Department of	81,449,800	70,908,000	1,054,200	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Land Department, State	27,329,500	3,775,000	2,355,500	Fire Suppression Statutory Appropriation

<u>Agency</u>	<u>FY 2008 Approp</u>	<u>Exemption</u>	<u>10% Lump Sum</u>	<u>Exclusions ^{1/}</u>
Legislature				
Auditor General	18,791,500	-	1,879,200	
House of Representatives	14,276,500	1,913,300	1,236,300	Legislator Salaries
Joint Legislative Budget Committee	3,040,900	-	304,100	
Legislative Council	5,717,100	-	571,700	
Library, Archives & Public Records, Arizona State Senate	7,787,600	-	778,800	
Senate	9,476,300	944,000	853,200	Legislator Salaries
SUBTOTAL - Legislature	59,089,900	2,857,300	5,623,300	
Liquor Licenses & Control, Department of	3,646,200	1,525,000	212,100	The Chairmen's options excludes investigations salaries and operations, otherwise entire budget would be subject to lump
Medical Student Loans, Board of	1,500,000	-	150,000	
Mine Inspector, State	1,884,800	1,884,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Mines & Mineral Resources, Department of	950,800	-	95,100	
Navigable Stream Adjudication Commission, AZ	180,000	180,000	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Nursing, State Board of	167,300	167,300	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Parks Board, State	28,212,200	21,500,000	671,200	Growing Smarter Ballot Proposition
Personnel Board	370,800	370,800	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Pioneers' Home, AZ	1,260,000	-	126,000	
Postsecondary Education, Commission of	7,427,300	7,427,300	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Public Safety, Department of	177,708,000	148,407,000	2,930,100	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Racing, Arizona Department of	2,851,100	-	285,100	
Radiation Regulatory Agency	2,249,700	592,200	165,800	NEMF Deposit
Rangers' Pensions, Arizona	13,400	13,400	-	Statutory Formula
Real Estate Department, State	4,614,000	-	461,400	
Revenue, Department of	76,942,100	-	7,694,200	
School Facilities Board	532,695,100	530,750,700	194,400	New Schools Facilities Fund debt service payment, New School Construction, Building Renewal
Secretary of State, Department of State	7,222,300	4,457,800	276,500	Elections Funding and Secretary of State Salary
Tax Appeals, State Board of	317,900	317,900	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Tourism, Office of	15,649,400	15,649,400	-	Statutory Formula Deposit
Transportation, Department of	86,600	86,600	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Treasurer, State	5,616,700	5,616,700	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Universities				
Arizona Board of Regents	20,598,000	12,835,500	776,300	Financial Assistance
ASU - Main Campus	416,764,800	-	41,676,500	
ASU - East Campus	25,915,900	-	2,591,600	
ASU - West Campus	53,604,400	-	5,360,400	
NAU	160,868,800	-	16,086,900	
UofA - Main Campus	362,389,200	-	36,238,900	
UofA - Health Sciences Center	80,954,200	-	8,095,400	
SUBTOTAL - Universities	1,121,095,300	10,041,200	110,826,000	
Veterans' Services, Department of	9,284,800	9,284,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Water Resources, Department of	24,074,600	3,100,000	2,097,500	
Weights and Measures, Department of	1,710,800	-	171,100	
Total	10,618,867,100	8,215,971,000	246,312,800	

^{1/} Funding for these items was excluded when calculating the 10% reduction. Exclusions also include amounts for specific reductions included elsewhere in the Chairmen's options.

Capital Outlay

Chairmen's Options

Eliminate ADOA Old Health Lab Renovation Project

FY 08 Savings: \$2,207,000

The Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$2.2 million to the Arizona Department of Administration (ADOA) in FY 2008 and FY 2009 for the renovation of the former state health laboratory. The 27,100 square foot facility has been two-thirds vacant since the new state health laboratory opened in FY 2004. The combined funding would allow the renovation of the laboratory to replace the existing 23,300 square foot Department of Agriculture laboratory, and allow for the sale of the current Agriculture lab. ADOA estimates that the sale could generate approximately \$890,000 to the state after expenses to demolish the existing facility. The planned renovations would extend the life of the building by 10 years. The scope, purpose, and estimated cost of the project have not been submitted to the Joint Committee on Capital Review (JCCR), but the department may have expended some monies for initial design.

Move Southern Arizona Veterans' Home Funding to FY 2009

FY 08 Savings: \$10,000,000

The FY 2007 budget appropriated \$10 million for construction of the Southern Arizona Veterans' Home in Tucson. The Department of Veterans Affairs (VA) requires that states pay 35% of the construction costs while the federal government pays the remaining 65%. The VA publishes an annual list of priority projects, and available federal monies are distributed according to the list. The most recent list, published in October 2007, indicated that the Southern Arizona Veterans' Home would not receive matching federal funding until at least FY 2010. The Department of Veterans' Services has not spent any monies on the Home thus far, and does not plan to do so in FY 2008.

This option would revert the \$10 million in FY 2008 and then appropriate \$10 million for the Home in FY 2009. If the Legislature reverts the money in FY

2008 but does not appropriate it in FY 2009, the priority of this project on the federal list may be impacted.

Eliminate Yuma Welcome Center Funding

FY 08 Savings: \$2,798,000

A total of \$4 million has been appropriated to the Office of Tourism for distribution to the City of Yuma to build a Yuma Welcome Center. Laws 2006, Chapter 335, appropriated \$2 million from the General Fund in FY 2007, while the Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$1 million in both FY 2008 and FY 2009 to finish the center.

Laws 2006, Chapter 335 required that the City of Yuma operate and maintain the center through its city-funded Convention and Visitors Bureau, and that the city acquire the property (from the federal government). Laws 2007, Chapter 257 amends Chapter 335 to modify the property acquisition requirement to also allow the property to be conveyed by license to the city. The appropriations do not require a local matching of funds.

Of the \$2 million FY 2007 appropriation, to date Tourism has given \$202,000 to the city for design fees. After the city completes the design development phase of the project, Tourism will give the city 15% of the FY 2007 appropriated amount. Tourism has not distributed any of the \$1 million FY 2008 appropriation.

This option would eliminate the Welcome Center funding by reverting \$1.8 million of the unspent FY 2007 appropriation along with eliminating the \$1 million FY 2008 appropriation. Therefore, the state savings would be a total of \$2.8 million in FY 2008.

Other Options

Eliminate Department of Corrections' Door & Lock Project

FY 08 Savings: \$10,045,300

In FY 2002, an assessment of the Arizona Department of Corrections (ADC) door and lock

replacement needs throughout the Arizona state prison system was completed. At that time, the assessment estimated costs up to \$38.5 million to replace doors, locks, and monitoring panels that exceeded their useful life expectancy or posed security risks. Based on a re-assessment and competitive bid recently completed on a single project in FY 2007, ADOA estimates the total cost of the project may now exceed \$60 million.

Laws 2006, Chapter 345 (FY 2007 Capital Outlay Bill) appropriated \$5.2 million to ADOA to begin the replacement of cell doors and locks throughout the state prison system. In September, ADOA submitted for review, a \$5.2 million plan to the JCCR. The project includes the replacement of a control room panel and 408 doors and locks located at the ASPC-Tucson, Rincon Unit. In October, the Committee gave a favorable review to their request. At that time, ADOA expended \$354,700 (of the \$5.2 million) for professional service fees relating to the project.

In addition to the monies appropriated in FY 2007, another \$5.2 million was appropriated in FY 2008 for the continued replacement of cell doors and locks throughout the state prison system. The ADC has identified an additional 6 projects at 5 complexes where the security control systems, doors and locks are in the most need of replacement. Costs associated with the projects are unknown as a re-assessment has not been completed. The projects identified are anticipated to address the most critical problems, in high-custody level locations, with minimal disruption to operations.

This option would eliminate the \$5.2 million appropriated in each of FY 2007 and FY 2008, less the \$354,700 already expended, to address these projects.

Eliminate DJC HVAC & Electrical Renovations

FY 08 Savings: \$885,000

The Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$885,000 to ADOA in FY 2008 for the Department of Juvenile Corrections Black Canyon Girls School to replace air-cooling and electrical systems in 2 housing units. At a November 2007 JCCR Meeting, \$835,000 of this appropriation was favorably reviewed.

The housing units were built with evaporative cooling units that are past their useful life. The evaporative coolers would be replaced with air conditioning units. The housing units do not have sufficient electrical capacity to support air conditioning systems, and electrical upgrades would also be done. Savings associated with this item result in the delay of HVAC upgrades at Black Canyon School recreational facilities.

Revenue Changes

Chairmen's Options – Fund Transfer

Fund: Budget Stabilization Fund Transfer

FY 08 Fund Balance: \$673,531,000

FY 08 Transfer: \$350,000,000

Under this option, \$350 million of the estimated \$673 million of the FY 2007 ending balance in the Budget Stabilization Fund (BSF) would be withdrawn in FY 2008.

The BSF, which was enacted in 1990, is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. A statutory formula (A.R.S. § 35-144) is used to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. This formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation. According to the formula, deposits are made when personal income growth is above the 7-year average growth in personal income. Withdrawals occur when personal income growth is below the 7-year average.

Under the BSF formula, withdrawals also have one additional condition. Besides the below-trend growth requirement described above, annual personal income growth must also be less than 2%. The intent of this 2% floor was to preclude withdrawals when economic conditions are slowing, but personal income remains positive.

Formula calculations do not result in automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine actual deposits and withdrawals in individual years. While it has not used the specific formula, the Legislature has generally withdrawn monies during slow economic periods and deposited monies in fast-growth periods.

In the period between FY 2001 and FY 2003 when the state experienced an economic downturn, the Legislature authorized withdrawals from the BSF for the following reasons: (1) to

balance the budget (\$280.5 million), (2) to pay for alternative fuel tax credits (\$116.9 million), and (3) to defray the cost for the construction of the Arizona State Hospital (\$37.5 million).

By contrast, during the economic recovery and expansion phase between FY 2005 and FY 2007, the Legislature deposited a total of \$647.2 million. In the absence of the statutory 7% fund cap, it is estimated that the FY 2007 ending balance would have been \$688 million.

For FY 2008, personal income is projected to exceed the 7-year average annual growth rate and for this reason the formula is not expected to recommend any BSF transfers in the current fiscal year. Note, however, that even in some years, such as in FY 2002 (*see attached table*), when no withdrawals were recommended by the formula, the Legislature opted to notwithstand existing statutory provisions in order to use BSF monies to meet certain financial obligations.

Budget Stabilization Fund
(\$ in Thousands)

	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995	Actual FY 1996	Actual FY 1997	Actual FY 1998	Actual FY 1999	Actual FY 2000	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007
<u>General Fund Revenues</u>																
Adjusted Revenues	3,488,215.3	3,784,822.0	4,073,278.9	4,463,733.0	4,661,181.8	5,039,857.8	5,229,384.5	5,635,341.2	5,960,280.0	6,181,782.6	6,239,325.1	6,217,459.1	6,882,328.3	7,950,117.6	9,284,689.5	9,621,871.0
Statutory Limit of Revenues	15.000%	15.000%	15.000%	5.000%	5.000%	5.000%	5.634%	6.333%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%
Maximum Balance	523,232.3	567,723.3	610,991.8	223,186.7	233,130.0	251,992.9	294,623.5	356,886.2	417,219.6	432,724.8	436,752.8	435,222.1	481,763.0	556,508.2	649,928.3	673,531.0
<u>Arizona Personal Income in Prior CY</u>																
Real Adjusted Annual Income Growth	-0.70%	0.44%	4.04%	6.81%	8.26%	6.39%	5.97%	7.10%	5.94%	7.31%	2.10%	1.67%	1.98%	5.53%	6.74%	5.96%
7-Year Average Income Growth	3.51%	2.16%	1.97%	2.42%	3.26%	3.78%	4.65%	5.65%	6.52%	6.84%	5.78%	5.26%	4.70%	4.68%	4.25%	3.98%
Annual Difference	-4.21%	-1.72%	2.07%	4.39%	5.00%	2.61%	1.32%	1.45%	-0.58%	0.47%	-3.68%	-3.59%	-2.72%	0.85%	2.49%	1.98%
<u>BSF Transactions</u>																
Beginning BSF Balance	0.0	0.0	0.0	42,145.7	223,186.7	233,130.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2
BSF Formula Recommendation	(141,012.9)	(59,902.2)	78,345.8	178,816.9	223,196.4	121,660.3	66,526.1	75,822.8	0.0	28,013.3	0.0	(224,085.4)	(169,505.0)	56,813.9	190,912.8	173,913.0
Deposits	0.0	0.0	42,000.0	178,816.9	0.0	0.0	30,000.0	75,115.0	0.0	36,000.0	0.0	0.0	0.0	156,490.5	480,957.9	9,808.6
Withdrawals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(69,425.4)	(332,490.8) ^{3/}	(53,028.7) ^{3/}	(643.2)	(9,485.6)	(80.9)	(6.9)
Actual BSF Net Transfer ^{1/}	0.0	0.0	42,000.0	178,816.9	0.0	0.0	30,000.0	75,115.0	0.0	(33,425.4) ^{2/}	(332,490.8)	(53,028.7)	(643.2)	147,004.9	480,877.0	9,801.7
Balance Before Interest Earnings	0.0	0.0	42,000.0	220,962.6	223,186.7	233,130.0	275,810.9	366,784.6	385,266.2	374,240.9	59,033.0	11,690.6	13,122.5	160,529.7	641,711.5	659,414.9
Interest Earnings & Equity Gains/Losses	0.0	0.0	145.7	4,036.4	12,149.3	12,680.9	15,858.7	18,481.6	22,400.1	17,282.9	5,686.3	2,075.1	402.3	304.8	7,901.7	29,069.0
Ending BSF Balance Before Statutory Limit	0.0	0.0	42,145.7	224,999.0	235,336.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2	688,483.9
Excess Amount Reverted to General Fund	0.0	0.0	0.0	(1,812.3)	(2,206.0)	0.0	0.0	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(14,952.9)
Ending BSF Balance	0.0	0.0	42,145.7	223,186.7	233,130.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2	673,531.0
Percent of Revenues	0.0%	0.0%	1.0%	5.0%	5.0%	4.9%	5.6%	6.8%	6.8%	6.3%	1.0%	0.2%	0.2%	2.0%	7.0%	7.0%

Footnote:

1/ Of this amount, \$49.4 million in FY 2001, \$61.9 million in FY 2002, \$5.5 million in FY 2003, and \$0.6 million in FY 2004 was deposited to the General Fund to offset alternative fuel tax credit claims. As of FY 2007, a total of \$118.9 million has been transferred from the BSF for this purpose.

2/ There was a \$20 million withdrawal in FY 2001 to pay for the construction of the Arizona State Hospital (ASH). However, since the \$20 million withdrawal was reimbursed from from the Tobacco Settlement Fund in the same fiscal year, the actual net BSF transfer related to ASH was \$0 in FY 2001. In addition, \$16 million was deposited from the General Fund to the BSF to offset the alternative fuel tax credit cost.

3/ For FY 2002 and FY 2003, the Legislature authorized BSF withdrawals for ASH payments in the amounts of \$20 million and \$17 million, respectively.

Revenue Changes

Chairmen's Options

Redirect New Homeless Transfer to General Fund

FY 08 Savings: \$1,000,000

Laws 2007, Chapter 260 revised the Lottery distribution formula, and annually appropriates up to \$1 million to the Department of Economic Security to distribute grants to nonprofit organizations for homeless emergency and transitional shelters beginning in FY 2008. Based on the FY 2008 forecast, this new fund would reduce General Fund revenues by \$1 million in FY 2008 since these monies would have otherwise been deposited into the General Fund. Under this option, the \$1 million deposit to the new Homeless Shelter Fund would be redirected to the General Fund.