

**Joint Legislative Budget Committee
Staff Memorandum**

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DATE: November 1, 2011

TO: Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jack Brown, Senior Fiscal Analyst
Leatta McLaughlin, Assistant Director

SUBJECT: STATE FUNDS REPORT

A.R.S. § 41-1273 requires the JLBC Staff to make recommendations to the Joint Legislative Budget Committee (JLBC) by November 1 of each odd-numbered year on:

- The elimination of not more than 7% of the total number of state funds, and
- The conversion to appropriated status of not more than 7% of the dollar value of all state non-appropriated funds.

Eliminating or Consolidating Funds

In reviewing the state's current fund structure, we have determined that there are approximately 920 separate funds. This figure is based on the number of funds in the Arizona Department of Administration (ADOA) accounting system. This estimate, however, includes some technical and inactive funds that do not appear as part of JLBC's budget documents. JLBC tracks 631 of these overall funds due to their active status.

Since the fund elimination requirement was intended to address active as well as inactive funds, we calculated the 7% elimination threshold based on the 920 funds in the ADOA system. As a result, we are required to recommend the elimination or consolidation of no more than 64 funds.

In our 2009 report, we recommended the elimination of 64 funds. These funds were no longer needed in the accounting system or could have been eliminated for other technical reasons. Legislation was introduced to eliminate these funds, but was never enacted into law.

We asked agencies to comment on whether those funds were still inactive. Based on agency comments and changes in the status of certain funds, we removed 3 funds from the list that had been reactivated and added 29 new funds. As a result, there are a total of 90 possible funds for elimination (*Attachment A*).

(Continued)

JLBC

While this number exceeds the 7% requirement, the potential eliminations do not appear to raise policy concerns. As a result, we have decided to forward all 90 funds for your consideration.

We are in the process of determining which funds can be eliminated administratively without further legislative action.

Converting Funds to Appropriated Status

In terms of expenditures, the total dollar value of non-appropriated funds (including federal Title XIX dollars) is \$14.9 billion in FY 2012. The list of these expenditures by agency appears in the *FY 2012 Appropriations Report*.

Unlike the elimination of obsolete funds, the Staff does not have a technical recommendation for appropriating new funds. Choosing funds for appropriation is a policy matter best reserved for members.

In considering this matter, the Legislature may want to start by reviewing the non-appropriated funds with the largest dollar value. For your information, we have provided a list of the largest non-appropriated funds along with the latest estimate of FY 2012 expenditures (*Attachment B*). These 32 funds, with annual expenditures greater than \$20 million, constitute about 98% of the \$14.9 billion in non-appropriated expenditures. Some of these, such as the Maricopa ½ cent transportation sales tax, are “custodial” monies held by the state on behalf of another party. Other non-appropriated funds were enacted as part of ballot propositions, which may only be modified by a three-fourths vote to further the purposes of the proposition.

Please let us know if you have any questions about the report.

RS/JB:sk

Attachments (2)

xc: Lorenzo Romero, House
Eric Figueroa, House
Michael Huckins, House
Dawn Wallace, House
Jeff Winkler, Senate
Katy Yanez, Senate
Reed Spangler, Senate

**RECOMMENDATIONS TO
ELIMINATE OR CONSOLIDATE
UP TO 7% OF ALL FUNDS**

Attachment A

<u>BUDGET UNITS/FUND #</u>	<u>FUND TITLE</u>	<u>COMMENTS</u>
Administration, Department of ADA2482	Electronic Commerce	Fund never used.
ADA4201	Technology and Telecommunications Fund	Monies in this fund were transferred to 2 other funds.
Agriculture, Department of AHA2143	The Hay Law Fund	Program eliminated.
AHA2342	Organic Food Certification	Program eliminated.
AHA1050	Service Fees	Fee revenues now deposited into other funds.
AHA2052	Services Fees Increase Pesticide	Fee revenues now deposited into other funds.
AHA2035	Services Fees Increase Dangerous Plant, Pests and Disease	Fee revenues now deposited into other funds.
AHCCCS HCA2151	Premium Sharing	Program eliminated.
HCA2222	LTC Reinsurance Fund	Extended period of fund inactivity.
HCA2376	County Contribution Fund	Fund established for one-time appropriation.
HCA3037	MNMI Fund	Program eliminated.
HCA3734	Health Plan Performance Bond	Extended period of fund inactivity.
HCA2529	Temporary Medical Coverage Fund	Program eliminated.
Attorney General AGA1022	Street Gang Enforcement Revolving Fund	Extended period of fund inactivity.
AGA2117	Attorney General Federal Grant Fund	Monies in this fund were transferred to another fund.
Commerce, Department of EPA2234	Housing Finance Review	Program transferred to the Dept. of Housing.
EPA2235	Housing Trust Fund	Program transferred to the Dept. of Housing.
EPA2313	Housing Development Fund	Program transferred to the Dept. of Housing.
EPA2424	AZ Neighborhood Preservation	Program not funded.
EPA2454	Export Promotion Fund	Program not funded.
EPA2462	Hydrogen Grant Fund	Program not funded.

<u>BUDGET UNITS/FUND #</u>	<u>FUND TITLE</u>	<u>COMMENTS</u>
Criminal Justice Commission, AZ JCA2229	Administrative Narcotic Assistance Fund	Fund inactivated in ADOA system by agency request.
Economic Security, Department of		
DEA1301	DES Accumulator	Fund inactivated in ADOA system by agency request.
DEA2501	JTPA Wire Transfer	Fund inactivated in ADOA system by agency request.
DEA1011	Summer Youth Program	Extended period of fund inactivity.
DEA1012	Project Intervention	Extended period of fund inactivity.
DEA1301	DES Accumulator Fund	Extended period of fund inactivity.
DEA1318	Tobacco Tax – Low Income Elderly	Extended period of fund inactivity.
DEA2182	Governmental Services	Extended period of fund inactivity.
DEA2197	DES Lease Purchase Fund	Extended period of fund inactivity.
DEA2305	Temporary Assistance for Needy Families	Extended period of fund inactivity.
DEA2418	Technology System Fund	Extended period of fund inactivity.
DEA2434	Community Based Marriage	Extended period of fund inactivity.
DEA2501	JTPA – Wire Transfer Fund	Extended period of fund inactivity.
DEA3022	Child Support Enforcement	Extended period of fund inactivity.
DEA3026	Homeless Trust Fund	Extended period of fund inactivity.
DEA3151	Mesa Land Fund	Extended period of fund inactivity.
DEA3186	DES Flood Relief	Extended period of fund inactivity.
DEA3195	Child Support Enforcement	Extended period of fund inactivity.
DEA3202	Private Donation Resource Development	Extended period of fund inactivity.
Education, Department of		
EDA5005	Certificate of Participation	Fund established for one-time appropriation.
EDA2483	Extraordinary Special Education Needs	Extended period of fund inactivity.
EDA2507	Full-Day Kindergarten	Program Eliminated.
EDA2534	Arizona Scholarships for Pupils with Disabilities Program Fund	Program no longer funded.
EDA1007	Charter School Stimulus	Extended period of fund inactivity.
EDA2533	Displaced Pupil Choice Grant Fund	Program no longer funded.
EDA2527	E-Learning Fund	Extended period of fund inactivity.
EDA2485	English Learner Classroom Personnel Bonus	Extended period of fund inactivity.
EDA2363	Mathematics or Science Achievement Program Fund	Program no longer funded.
EDA2413	Research Based Reading Instruction and Reading Instruction Training	Program no longer funded.

<u>BUDGET UNITS/FUND #</u>	<u>FUND TITLE</u>	<u>COMMENTS</u>
Game and Fish Department GFA1234	Wildlife Habitat Restoration and Enhancement Fund	Monies in this fund were transferred to Fund GFA2536 with the same name.
Geological Survey, Arizona GSA2317	Geological Survey Fund	This fund is inactive and different from an active fund with the same name.
Health Services, Department of HSA1312	Tobacco Tax and Health Care Fund (TT & HCF) Grants To Community Health Centers	Accounting fund no longer used.
HSA1313	TT & HCF Pilot Programs Providing Detoxification	Accounting fund no longer used.
HSA1314	TT & HCF Telemedicine Pilot Program	Accounting fund no longer used.
HSA1315	TT & HCF Renal Disease & Related Problem	Accounting fund no longer used.
HSA1317	TT & HCF Evaluation Program	Accounting fund no longer used.
HSA1320	Rural Capital Projects	Extended period of fund inactivity.
HSA1322	Programs to Provide Education or Information on Health Issues	Accounting fund no longer used.
HSA1324	AIDS Reporting and Treatment	Extended period of fund inactivity.
HSA1327	Non-Renal Organ Transplant Operations	Extended period of fund inactivity.
HSA1330	Emergency Vaccines Fund	Extended period of fund inactivity.
HSA1338	TCE Contamination	Extended period of fund inactivity.
HSA1340	Disease Control Research Commission	Fund transferred to the Biomedical Research Commission.
HSA1343	SMI State Match Title XIX-Tobacco	Accounting fund no longer used.
HSA2001	Title XIX Reimbursements 92-93	Extended period of fund inactivity.
HSA2063	DHS Sanitarians	Program eliminated.
HSA2133	Building Renewal Fund	Fund used for property no longer owned by the State.
HSA2144	DHS Agreement	Monies in this fund were transferred to the IGA Fund (HSA2500).
HSA2314	Rural Area Kidney Dialysis Escrow	Fund used for a one-time expense.
HSA3009	Prenatal Care Education Fund	Fund inactivated in ADOA system by agency request.
HSA3020	Spinal And Head Injuries Trust Fund	Fund used for a one-time expense.
HSA3037	Medical Services Stabilization	Fund used for a one-time expense.
HSA3173	ASH Patient Benefit	Extended period of fund inactivity.
HSA4207	State Hospital Enterprise Fund	Program eliminated.

<u>BUDGET UNITS/FUND #</u>	<u>FUND TITLE</u>	<u>COMMENTS</u>
Judiciary COU2447 COU2500	Local Courts Assistance Fund IGA and ISA Fund	Extended period of fund inactivity. Extended period of fund inactivity.
Lottery Commission, Arizona State LOA3004	Lottery Settlement Fund	Fund established for one-time settlement payment.
Retirement System, Arizona State RTA1405	Arizona State Retirement System - Appropriated Fund	This fund is inactive and different from an active fund with the same name.
School Facilities Board SFA2273 SFA2450 SFA2496	School Capital Equity Fund School Facilities Capital Reserve Fund Lease-to-Own Fund	Program eliminated. Extended period of fund inactivity. Extended period of fund inactivity.
Tourism, Office of TOA3163	Tourism Workshop Fund	Program eliminated.
Treasurer, State TRA3105 TRA3730	Arizona Arts Endowment Non-Expenditure Trust Administrative Forest Reserve	Fund inactivated in ADOA system by agency request. Fund inactivated in ADOA system by agency request.
Universities <i>Board of Regents, Arizona</i> BRA2249 <i>University of Arizona</i> UAA9204	Teacher Loan Forgiveness U of A Local Payroll Clearing	Program transferred to Commission on Post-Secondary Education. Fund inactivated in ADOA system by agency request.
Water Resources, Department of WCA3025 WCA2287	Admin Refund State Water Storage Fund	Fund was used to clear overpayment of fees, but is no longer in use. Funds transferred to Arizona Water Banking Authority.

LARGEST NON-APPROPRIATED FUNDS

Attachment B

<u>Agency</u>	<u>Fund</u> ^{1/}	FY 12 Estimated Expenditures
Various Agencies	Federal Funds (Includes Title XIX) ^{2/}	\$ 9,119,727,500
Universities	Non-Appropriated Funds (Tuition, Enterprise, Donations) (NA)	1,918,692,800
ADOA	State Employee Health Insurance (ITA3015)	656,247,900
Lottery	State Lottery Prizes (LOA2122)	364,375,500
AHCCCS	County Title XIX Match (HCA2120/HCA2223)	302,984,400
ADE	Classroom Site (EDA2471)	290,213,500
ECDHB	Early Childhood Development and Health Fund ^{3/}	238,956,000
DES	Unemployment Insurance (DEA9005)	218,470,200
DES	Unemployment Insurance Special Assessment (DEA7510)	164,700,000
DEQ	Clean Water Revolving (EVA2254)	149,101,100
AHCCCS	Tobacco Settlement (HCA2468) ^{3/}	108,211,300
ADOA	Certificate of Participation (ADA5005)	93,007,900
ADE	Proposition 301 - Non-Appropriated (NA) ^{3/}	86,280,500
DHS	IGA/County Contributions (HSA2500)	82,592,000
ASRS	State Retirement System Admin. - Non-Appropriated (RSA1407)	67,315,000
DEQ	Drinking Water Revolving (EVA2307)	66,596,200
SFB	School Improvement Revenue Bond Debt Service (SFA5020) ^{3/}	64,209,400
SFB	New School Facilities (SFA2460)	57,546,400
Industrial Commission	Special Fund (ICA9003)	49,927,000
AHCCCS	Proposition 204 Protection Account (HCA1303) ^{3/}	40,367,900
State Parks Board	Land Conservation Fund ^{3/}	40,000,000
ADE	Instructional Improvement (EDA2492) ^{3/}	39,300,000
AHCCCS	IGA and ISA Fund (HCA2500)	38,146,700
Power Authority	Hoover Uprating (NA)	34,942,500
ADOA	State Non-Health Benefits (ITA3035)	29,793,500
AHCCCS	Health Care Group Medical Premiums (HCA3197)	29,338,400
DOR	Estate and Unclaimed Property Fund (RVA1520)	27,750,000
ADOT	Maricopa Regional Area Road (DTA2029)	27,578,900
Attorney General	Anti-Racketeering Revolving (AGA2131)	26,495,700
DOC	Arizona Correctional Industries Revolving (DCA4002)	25,517,000
SFB	State Land Trust Bond Debt Service (SFB5030)	24,246,200
DEQ	Underground Storage Tank (UST) (EVA2271)	22,524,300
Total – Federal Funds		\$ 9,119,727,500
Total – Other Funds ^{4/}		\$ 5,385,428,200

^{1/} Brief explanation of each fund follows this table.

^{2/} Excludes federal Temporary Assistance for Needy Families (TANF) Block Grant and other appropriated Federal Funds.

^{3/} Funds subject to Proposition 105 voter protection requirements.

^{4/} Includes only Non-Appropriated Funds with annual expenditures greater than \$20 million.

NARRATIVE SUMMARY OF LARGEST NON-APPROPRIATED FUNDS

FEDERAL — Includes \$6.7 billion in Title XIX monies.

UNIVERSITY — Non-Appropriated Funds - Includes 3 University Funds: Auxiliary, Designated, and Restricted. Auxiliary Funds consist of monies collected from sales and services from substantially self-supporting activities such as residence halls, food services, bookstores, and intercollegiate athletics. Designated Funds consist of tuition and fees retained by the universities, summer session fees, administrative costs of student aid, and unrestricted gifts. Restricted Funds include grants from private donors and non-federal agencies.

ADOA — State Employee Health Insurance - Consists of employer and employee medical and dental insurance contributions.

LOTTERY — State Lottery Prizes - Contains state lottery prize monies

AHCCCS — County Title XIX Match - Statutorily prescribed county contributions for acute medical and long-term care services to AHCCCS eligible populations. These monies combined with state General Fund monies serve as the state match for federal Medicaid (Title XIX) dollars.

ADE — Classroom Site - Consists of monies from a 0.6% sales tax enacted by Proposition 301 (2000 General Election) and growth in the Permanent State School Fund expendable earnings. Monies are used to provide additional funding for teacher compensation increases based on performance (40%), teacher base salary increases (20%), and class size reduction, AIMS intervention programs, teacher development, dropout prevention, and teacher liability insurance premiums (40%).

ECDHB — Early Childhood Development and Health Fund – As authorized by a ballot proposition, consists of monies collected from taxes levied on various tobacco products, legislative appropriations and grants. Monies in the fund are used to pay the administrative costs of the Early Childhood Development and Health Board, as well as to provide funding for early childhood development programs and grants.

DES — Unemployment Insurance - Employer contributions and interest earnings used for payment of future unemployment benefits and refunds.

DES — Unemployment Special Assessment Fund - A Special Assessment (SA) on taxable wages paid in calendar years 2011 and 2012. The fund will pay interest owed to the U.S. Department of the Treasury due to borrowing to continue to pay Unemployment Insurance (UI) benefits as well as to return the UI Trust Fund to solvency and avoid loss of employer federal UI tax credits. The additional revenue collected above what is needed to pay for the interest owed to the U.S. Department of the Treasury will be used to pay for UI benefits.

DEQ — Clean Water Revolving - Consists of monies received from legislative appropriations, bond proceeds, loan repayments, and federal capitalization grants. The monies are used to make loans and facilitate debt refinancing for capital improvements at wastewater treatment facilities.

AHCCCS — Tobacco Settlement - Consists of monies received from the Tobacco Litigation Master Settlement Agreement, and pursuant to Proposition 204 are used to expand the AHCCCS program to 100% of the Federal Poverty Level and, if monies are available, for Public Health programs within DHS.

ADOA — Certificate of Participation - Consists of charges to state agencies for occupancy of space within building financed with lease-purchase agreements that are used to pay for the debt service of those agreements.

ADE — Proposition 301 - Non-Classroom Site - Monies appropriated by Proposition 301 for additional school days, school safety, and character education and carry-forward monies from the school accountability program.

DHS — IGA/County Contributions - Consists of monies received from other state and local entities in exchange for DHS provided services.

ASRS — State Retirement System Administration - Non-Appropriated - Finances ASRS administrative expenses, including investment management fees and related consulting fees deemed necessary by the Investment Advisory Council. Also includes insurance premiums paid from retiree benefits.

DEQ — Drinking Water Revolving - Consists of monies received from legislative appropriations, bond proceeds, loan repayments, and federal capitalization grants. The monies are used to make loans to drinking water facilities of political subdivisions and Indian tribes. The Water Infrastructure Finance Authority administers the fund.

SFB — School Improvement Revenue Bond Debt Service - Consists of monies from a 0.6% sales tax enacted by Proposition 301 (2000 General Election) and monies credited to the fund from the Permanent State School Fund that are used to pay the debt service on \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in Qualified Zone Academy Bonds.

SFB — New School Facilities - Consists of monies appropriated by the Legislature, funds received from the lease of state public school land, and proceeds from lease-to-own agreements. Monies in the fund are used to provide school districts with funding to construct new school facilities.

Industrial Commission — Special Fund - Investment earnings, rent, reimbursement from employers and assessments. Monies are used to provide medical benefits, compensation benefits, vocational rehabilitation, and benefits on claims against uninsured employers and insolvent insurance carriers.

AHCCCS — Proposition 204 Protection Account - Consists of Tobacco Tax revenue, and is directed to pay for the Proposition 204 AHCCCS expansion.

State Parks Board — Land Conservation Fund - Monies from the annual \$20,000,000 deposit required by Proposition 303 approved by voters in November 1998. The fund received this deposit each year from the General Fund in FY 2001 through 2011

ADE — Instructional Improvement - Receives 56% of total shared revenue from Proposition 202 from the 2002 General Election (Indian gaming).

AHCCCS — IGA and ISA Fund - Monies voluntarily given to AHCCCS from local governments and tribal communities in order to obtain a federal match for Graduate Medical Education or Disproportionate Share Hospital payments.

Power Authority — Hoover Upgrading - Consists of monies from the sale of hydro-power from the Hoover Dam that are used to purchase energy (hydro-power) for Arizona Power Authority customers.

ADOA — State Non-Health Benefits - Employer and employee contributions used to pay claims for state employee benefit plans other than health insurance.

AHCCCS — Health Care Group Medical Premiums - Consists of premiums paid by employers and employees enrolled in Health Care Group, which is AHCCCS' health insurance plan for small businesses.

DOR — Estate and Unclaimed Property Fund - Consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Monies are refunded to owners of property once claimed.

ADOT — Maricopa Regional Area Road - Consists of all transportation sales taxes collected pursuant to A.R.S. § 42-1482 and A.R.S. § 42-1482.01 for highway construction.

Attorney General — Anti-Racketeering Revolving - Consists of forfeitures of property and assets to satisfy judgments pursuant to anti-racketeering statutes. The monies are used to investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.

DOC — Arizona Correctional Industries Revolving - Consists of monies received from the sale of Arizona Correctional Industries (ACI) goods and services, and are used to pay for ACI related operational costs.

SFB — State Land Trust Bond Debt Service - Consists of monies credited to the fund from the Permanent State School Fund that are used to pay the debt service on \$246,600,000 in State Land Trust revenue bonds.

DEQ — Underground Storage Tank (UST) - Consists of excise tax revenue (\$0.01/gallon tax on gasoline) and provides partial coverage of corrective actions to underground storage tanks.