

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-second Legislature – Second Regular Session

MINUTES RECEIVED
CHIEF CLERK'S OFFICE

2-12-16

COMMITTEE ON APPROPRIATIONS

Report of Regular Meeting
Wednesday, February 10, 2016
House Hearing Room 1 -- 2:00 p.m.

Convened 4:00 p.m.

Recessed

Reconvened

Adjourned 5:56 p.m.

Members Present

Mr. Allen J
Ms. Alston
Mr. Bowers
Mr. Cardenas
Mrs. Fernandez
Mr. Gray
Ms. Mach
Mr. Meyer
Mr. Petersen
Mr. Rivero
Mr. Stevens
Ms. Ugenti-Rita
Mr. Leach, Vice-Chairman
Mr. Olson, Chairman

Members Absent

Agenda

Original Agenda – Attachment 1

Request to Speak

Report – Attachment 2

Presentations

Name

Debt and Lease-Purchasing Financing
Arizona Department of Education

Organization

JLBC
JLBC

Attachments (Handouts)

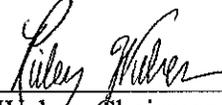
3
4

Committee Action

<u>Bill</u>	<u>Action</u>	<u>Vote</u>	<u>Attachments (Summaries, Amendments, Roll Call)</u>
HCR2031	DP	9-5-0-0	5, 6
HB2388	DP	13-1-0-0	7, 8
HB2486	DP	14-0-0-0	9, 10

Attendance

11



Riley Weber, Chairman Assistant
Wednesday, February 10, 2016

(Original attachments on file in the Office of the Chief Clerk; video archives available at <http://www.azleg.gov>)

convened - 4:00 pm
adjourned - 5:56 pm

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-second Legislature - Second Regular Session

REGULAR MEETING AGENDA

COMMITTEE ON APPROPRIATIONS

DATE Wednesday, February 10, 2016

ROOM HHR 1

TIME 2:00 P.M.

Members:

Mr. Allen J
Ms. Alston
Mr. Bowers
Mr. Cardenas
Mrs. Fernandez

Mr. Gray
Ms. Mach
Mr. Meyer
Mr. Petersen
Mr. Rivero

Mr. Stevens
Ms. Ugenti-Rita
Mr. Leach, Vice-Chairman
Mr. Olson, Chairman

Budget Presentations by the Joint Legislative Budget Committee
Arizona Department of Education
Debt and Lease-Purchase Financing

Bills	Short Title	Strike Everything Title
HB2065	<u>held</u> schools; vision screening program (Lawrence)	
	<u>—</u> ED dp 6-1-0-1-0, APPROP, RULES	
HB2388	<u>dp</u> qualified disability expenses; eligible individuals (Allen J, Brophy McGee, Cardenas, et al)	
	<u>13-1-0-0</u> CFA dpa 8-0-0-1-0, APPROP, RULES	
HB2486	<u>dp</u> telecommunications utilities; relocation; reimbursement (Olson)	
	<u>14-0-0-0</u> APPROP, RULES	
HCR2031	<u>dp</u> personal property tax; exemption (Mesnard)	
	<u>9-5-0-0</u> GHE dp 6-3-0-0-0, APPROP, RULES	

ORDER OF BILLS TO BE SET BY THE CHAIRMAN

FSW
2/4/16

People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

Information Registered on the Request to Speak System

House Appropriations (2/10/2016)

HB2065, schools; vision screening program

Support:

Farrell Quinlan, State Director, representing self; Timothy Lawless, representing self; Jeff Sandquist, NAIOP; Barry Aarons, ARIZONA ASSOCIATION OF COUNTY SCHOOL SUPERINTENDENTS; Richard Hopkins, representing self; Jay Kaprosy, NAIOP

Neutral:

Shannon Whiteaker, AZ DEPT OF HEALTH SERVICES

Oppose:

Mark Barnes, AZ SCHOOL ADMINISTRATORS ASSOC

All Comments:

Timothy Lawless, Self: Support w/ amendment; Jeff Sandquist, NAIOP: support w/ amendment

HB2388, qualified disability expenses; eligible individuals

Testified in support:

Jon Meyers, Self, The Arc Of Arizona; Robert Smith, representing self

Support:

Brandy Petrone, AZ Association Of Providers For People With Disabilities; Donna Kruck, Ability360; Suzanne Schunk, representing self; Paige Wambold, representing self; Susan Cannata, The Arc Of Arizona; Joanna Marroquin, representing self; Christine Saeva, representing self; Erica Sussman, representing self; Edward Myers, representing self; Mark Jacoby, representing self; David Carey, Ability360; Zaida Dedolph, PROTECTING ARIZONA'S FAMILY COALITION, Self; Kirin Goff, representing self; Matt Jewett, representing self; Joshua Huggins, representing self; Ginger Pottenger, representing self; Larry Clausen, representing self; Bethany Bedford, representing self; Gina Judy, chief administrative officer, representing self; David Carey, Ability360; Tatyana Soto, representing self; Eva Hamant, representing self; Chad Bays, representing self; Michael Deegan, representing self; Brayden Falk, representing self; Emily Jenkins, Arizona Council Of Human Service Providers

Neutral:

Kathy Ber, DES Director of Legislative Services, Arizona Department Of Economic Security; Christopher Vinyard, AZ HEALTH CARE COST CONTAINMENT SYSTEM

All Comments:

Donna Kruck, Ability360: Ability360 provides programs and advocacy for individuals with disabilities. We support this one time allocation state funding which will thereafter be self-sustaining.; Edward Myers, Self: I support the

legislation giving many recipients of SSI/SSDI more resources to pursue educational, and occupational goals.; Mark Jacoby, Self: Thank you in advance for your support of this much needed bill.; Matt Jewett, Self: This simple bill takes up a new federal option as so many states are to allow parents of kids w/disability to set aside \$ tax free into plan like 529 college savings to pay for health & living costs. This encourages private savings and work.; Jon Meyers, Self, The Arc Of Arizona: Passage of HB 2388 will provide a vital resource for Arizonans with disabilities at minimal cost to the State -- a winning proposition for all involved. Please continue to support establishment of ABLE Act accounts by voting YES on this bill!; Larry Clausen, Self: This Bill provides a needed tool for persons with developmental disabilities to access financial resources leading to greater community inclusion and independence without losing critical benefits.; Bethany Bedford, Self: I am representing Scottsdale Training and Rehabilitation Services, which provides services for those with disabilities. This bill will be very important in further helping those that our agency serves. Please vote FOR!!; Gina Judy, Self: I am very supportive of Arizona citizens having the opportunity to benefit from the Able Act

HB2486, telecommunications utilities; relocation; reimbursement

Support:

David Martin, Arizona Chapter Associated General Contractors; Joseph Abate, AT & T INC; Michael DiMaria, CENTURYLINK, INC; Don Isaacson, SPRINT; Mike Huckins, GREATER PHOENIX CHAMBER OF COMMERCE; Michelle Bolton, COX COMMUNICATIONS ARIZONA, LLC, COXCOM INC; Eric Emmert, East Valley Chambers Of Commerce Alliance ; Nick Debus, CHANDLER CHAMBER OF COMMERCE; Dianne McCallister, Arizona Technology Council; Steven Zylstra, representing self; Robert Medler, TUCSON METROPOLITAN CHAMBER OF COMMERCE; Dana Paschke, COMCAST/NBC UNIVERSAL; Scott Butler, MESA, CITY OF

Neutral:

Tom Belshe, League Of Arizona Cities And Towns

HCR2031, personal property tax; exemption

Support:

Farrell Quinlan, State Director, NATIONAL FEDERATION OF INDEPENDENT BUSINESS; Amanda Rusing, Arizona Bio Industry Association; Scott Ottersen, LD17 PC, representing self; Garrick Taylor, Arizona Chamber Of Commerce And Industry; Eric Emmert, East Valley Chambers Of Commerce Alliance ; Nick Debus, CHANDLER CHAMBER OF COMMERCE

Oppose:

Paige Wambold, representing self; Joanna Marroquin, representing self; Erica Sussman, representing self; Zaida Dedolph, PROTECTING ARIZONA'S FAMILY COALITION; Kirin Goff, representing self; Joshua Huggins, representing self

**State Debt and
Lease-Purchase Financing
February 9 & 10, 2016
Appropriations Committee Hearings**



Statute Requires JLBC to Annually Report on State Debt and Other Obligations

- Outstanding principal on State debt, along with principal and interest payments in the prior fiscal year (FY 2015)
- Summary of payment deferrals (“rollovers”) by budget unit and the cost of these deferrals
- Information on per-capita State debt and other long-term obligations
- A 10-year history of State debt and long-term financing based on available data

Arizona's Credit Rating Was Upgraded in May 2015

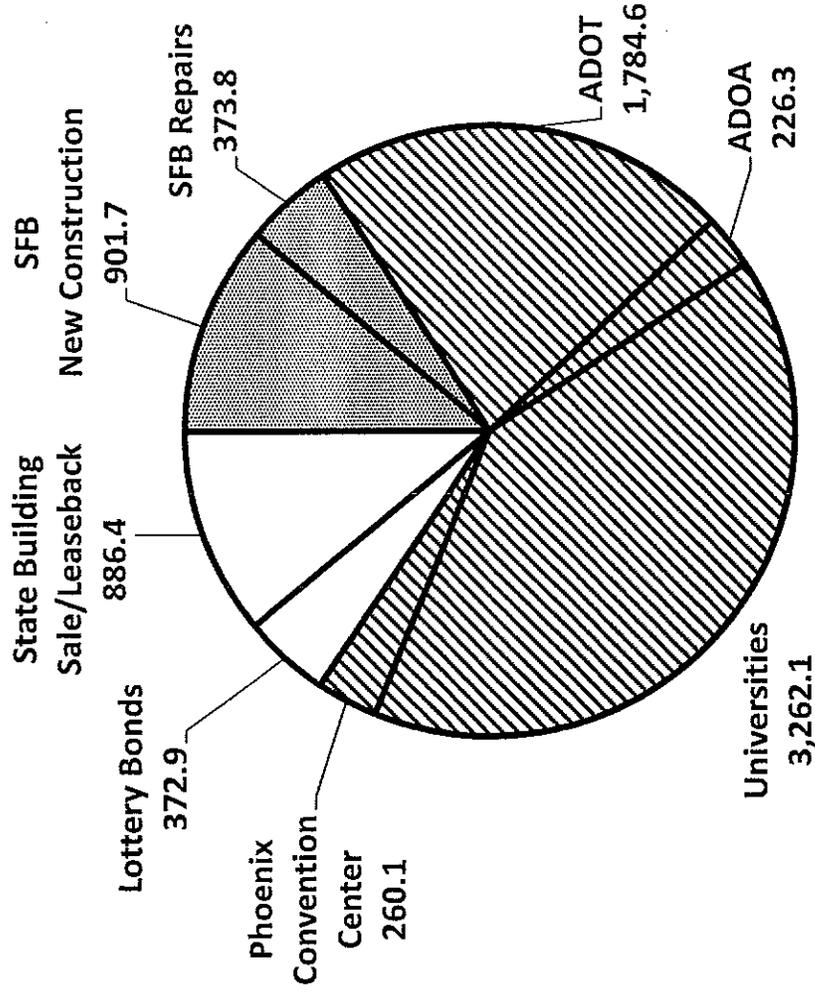
- In May 2015, both major credit rating agencies upgraded AZ's credit rating (S&P: AA- to AA; Moody's: Aa3 to Aa2)
 - Outlook from both agencies is stable
- In comparison to other states, 30 states have a higher rating, 11 states have a similar rating, and 8 states have a lower rating or are not rated due to a lack of state level debt

Debt Balance and Payment Information

Total Outstanding State Debt/Lease-Purchase

Financing is \$8.1 Billion

- Reflects Multiple Payment Sources



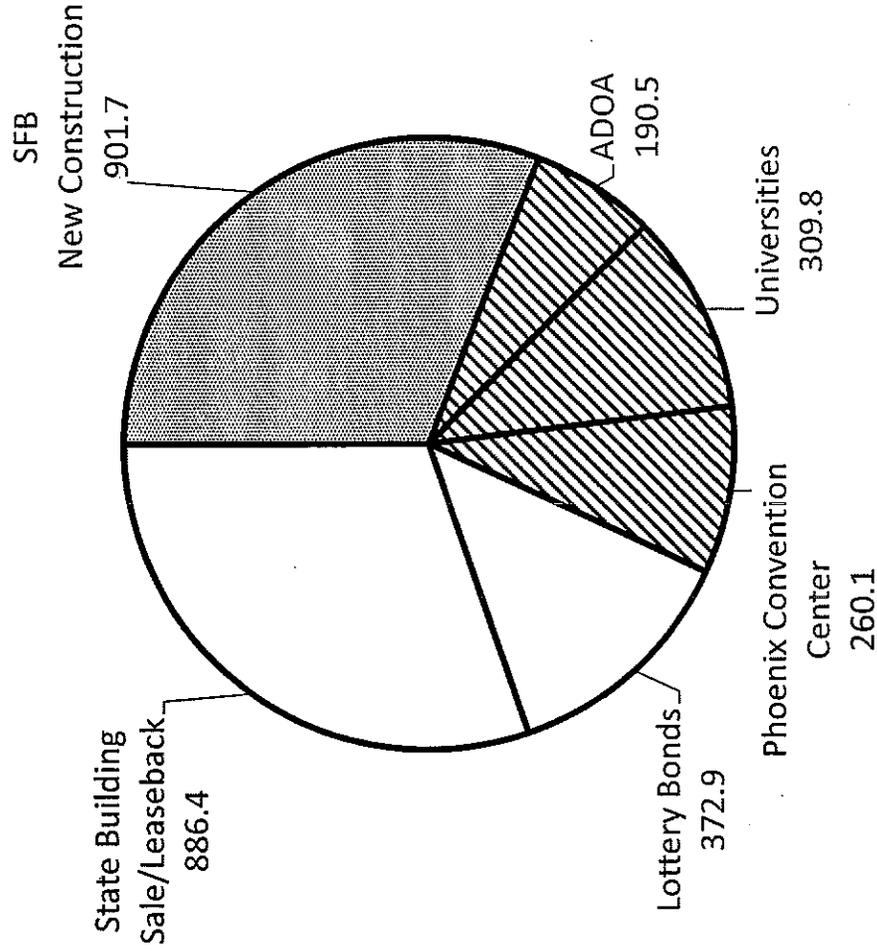
Outstanding Balances	
Capital Facilities/Uses	\$ 5.5 B
School Facilities Board	\$ 1.3 B
Operating	\$ 1.3 B

Capital
 SFB
 Operating

End of FY 2015 - \$ in Millions

General Fund Share of Outstanding Balances Is \$2.9 B

Outstanding Balances	
Capital Facilities/Uses	\$ 0.7 B
School Facilities Board	\$ 0.9 B
Operating	\$ 1.3 B

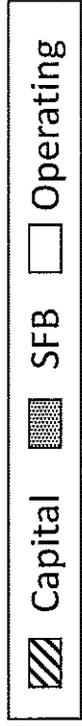
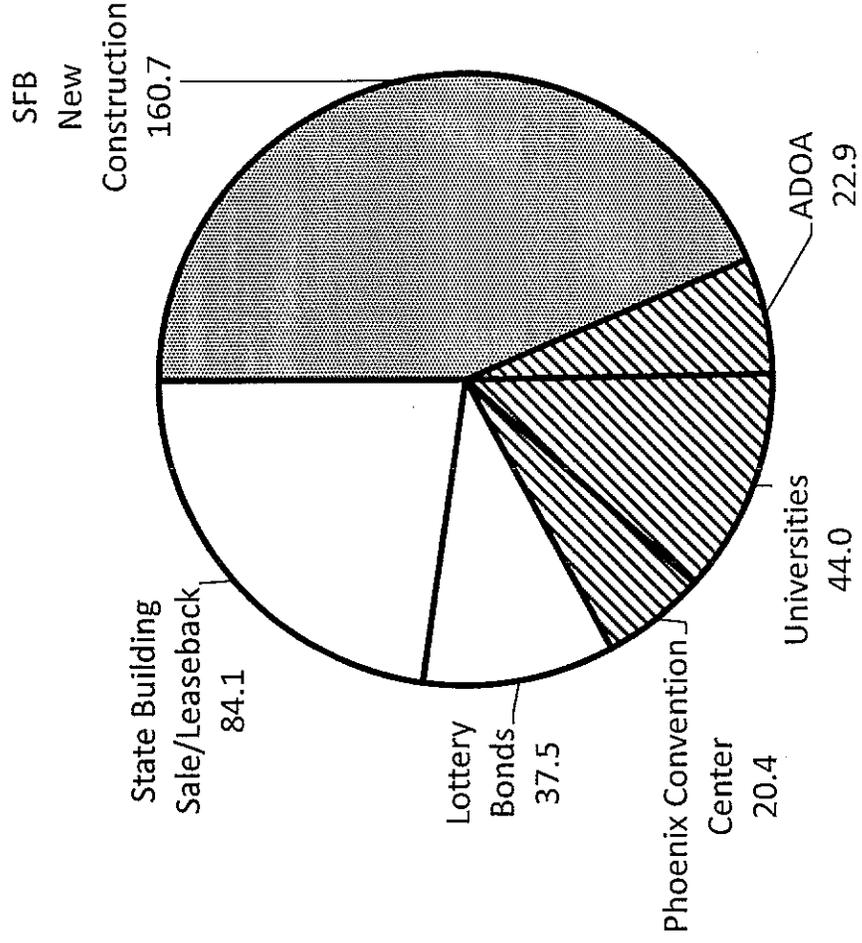


End of FY 2015 - \$ in Millions

General Fund Debt Service Cost \$370 M

- Represented 6th Largest Budget Unit

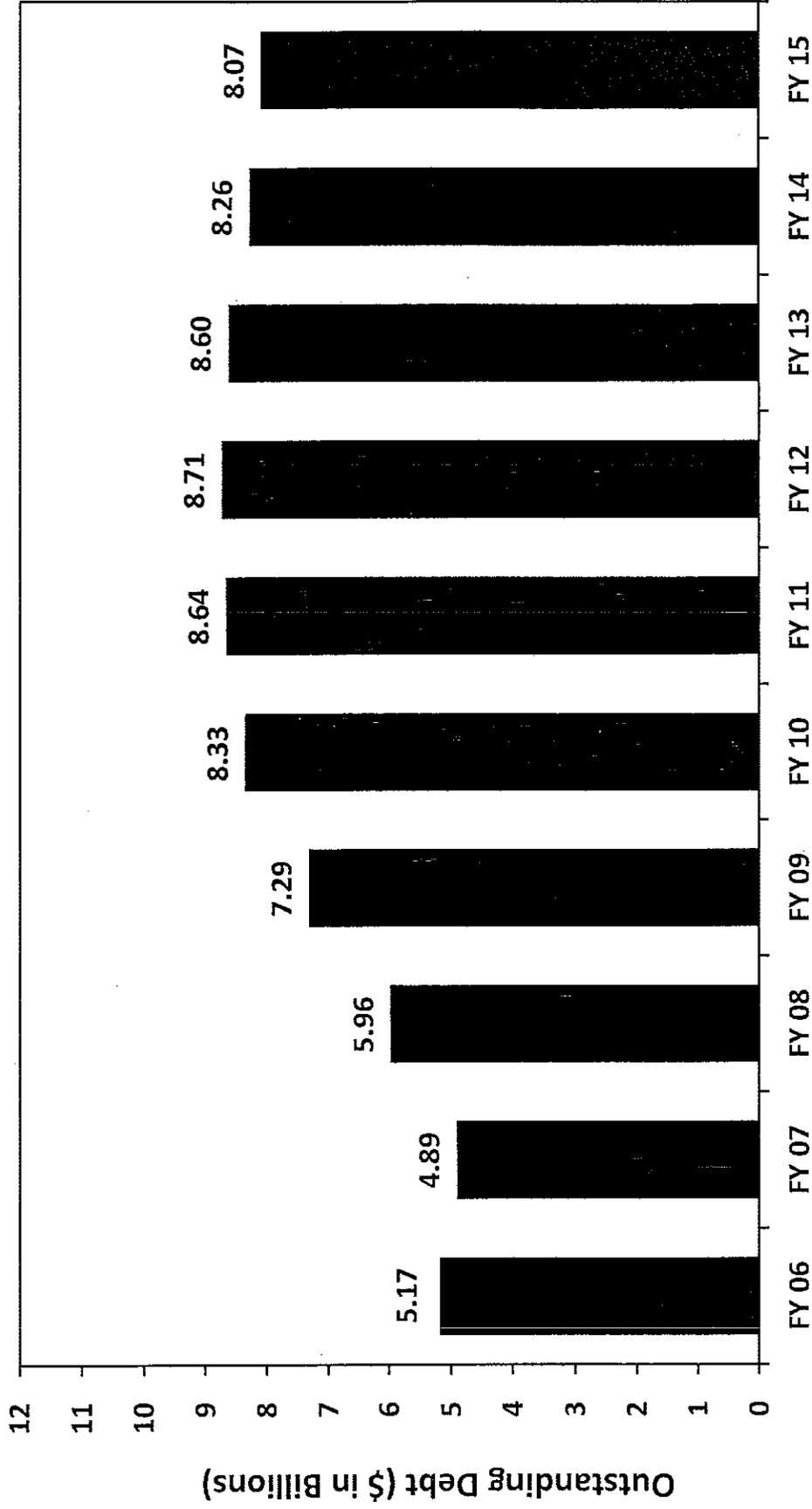
Annual Payments	
Capital Facilities/Uses	\$ 87 M
School Facilities Board	\$ 161 M
Operating	\$ 122 M



FY 2015 - \$ in Millions

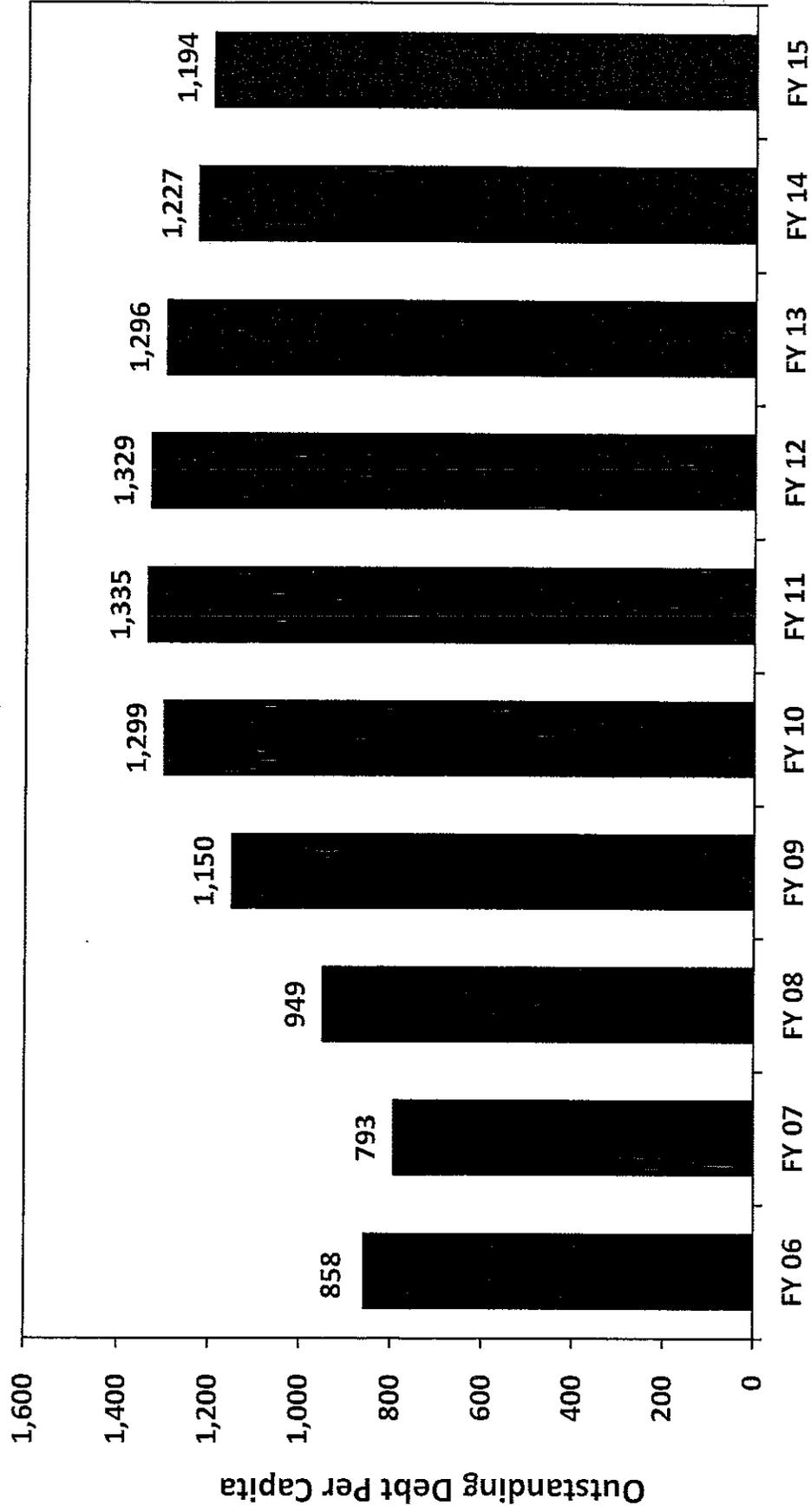
Arizona Overall Debt Obligations Have Increased Since FY '06, But Improved Recently

- Increase Is Mostly Due to Universities, SFB and Operating Financing



Arizona Per Capita Debt Obligations Since FY '06

- State's Assumption of Financing K-12 Construction and Operating Financing Played A Major Role In Growth



State Also Defers \$1.2 B of Payments Annually

- Interest Is Not Paid By the State For Rollovers

- K-12 State Aid payments: \$931 M (excludes small districts)
- Universities: \$200 M
- DES: \$21 M
- DCS: \$11 M (Executive Budget proposes to eliminate)

Potential FY 2017 Budget Issues

Annual General Fund Debt Service/Lease-Purchase Financing Costs Will Be Stable Through FY 2017

	<u>\$ in Millions</u>		
	FY '15	FY '16	FY '17
Capital Facilities/Uses	87	71	75
School Facilities Board	161	172	170
Operating	122	122	122
Total	\$370 M	\$365 M	\$367 M

Debt Retirement

- ❑ Given State’s large cash balance and limited structural balance, debt retirement is a potential source of one-time spending
- ❑ Annual report from ADOA on debt retirement options
 - 2015 Report estimates \$100 M debt retirement generates future debt service savings of \$46 M through FY 2030.
- ❑ State financing contains call provisions – where the state is prohibited from paying off an outstanding debt, typically 10 years from issuance
- ❑ However, State still able to retire debt through “defeasance” process – payoff placed into escrow account until call date and the debt is removed immediately from the state’s book

Public School Credit Enhancement Program

- ❑ Executive Budget would create program in the new Governor’s Office of Education
- ❑ Program would set aside funding to serve as insurance for district and charter school debt financing in case of default
- ❑ This reserve balance would come from 2 sources:
 - \$20 M transferred from FY 2016 Access Our Best Public Schools appropriation originally made to SFB
 - \$80 M of the State’s existing operating balance

Credit Enhancement Program - Construction

- ❑ Executive estimates that program will serve as insurance for \$300 M – \$400 M of new school construction loans
- ❑ At that level of borrowing, Executive assumes program will help fund the construction of 35 new schools
 - Cost per school would range from \$8 M to \$11 M
- ❑ Some recent School Facilities Board new construction projects in this cost range
 - K-8 School – Avg. 65,000 Sq. ft @ \$138 = \$9 M per school
 - 9-12 School – Avg. 140,000 Sq. ft @ \$167 = \$23 M per school

Credit Enhancement Program - Financing

- Credit Enhancement Program is designed to increase credit rating, lowering issuer interest rate and debt service costs
- Large Metro Phoenix school districts have up to AA bond rating
- Current charter school credit rating is typically around BB – program may improve charters to district levels
- Program could reduce annual debt service payments for a given charter school loan by \$100k - \$200k

Credit Enhancement Program - Questions

- Application/Approval process
 - Specific financial criteria
 - Non-financial criteria (academic performance, years of operation)
- Fees/Premiums paid by schools enrolled in program
- Historical data on charter school defaults to measure potential risk of program
- Would existing school loans be able to refinance under program, or limit to new construction
- Analysis of program demand
- Any legal issues – Gift Clause

Department of Education

February 9 & 10, 2016

Appropriations Committee Hearings



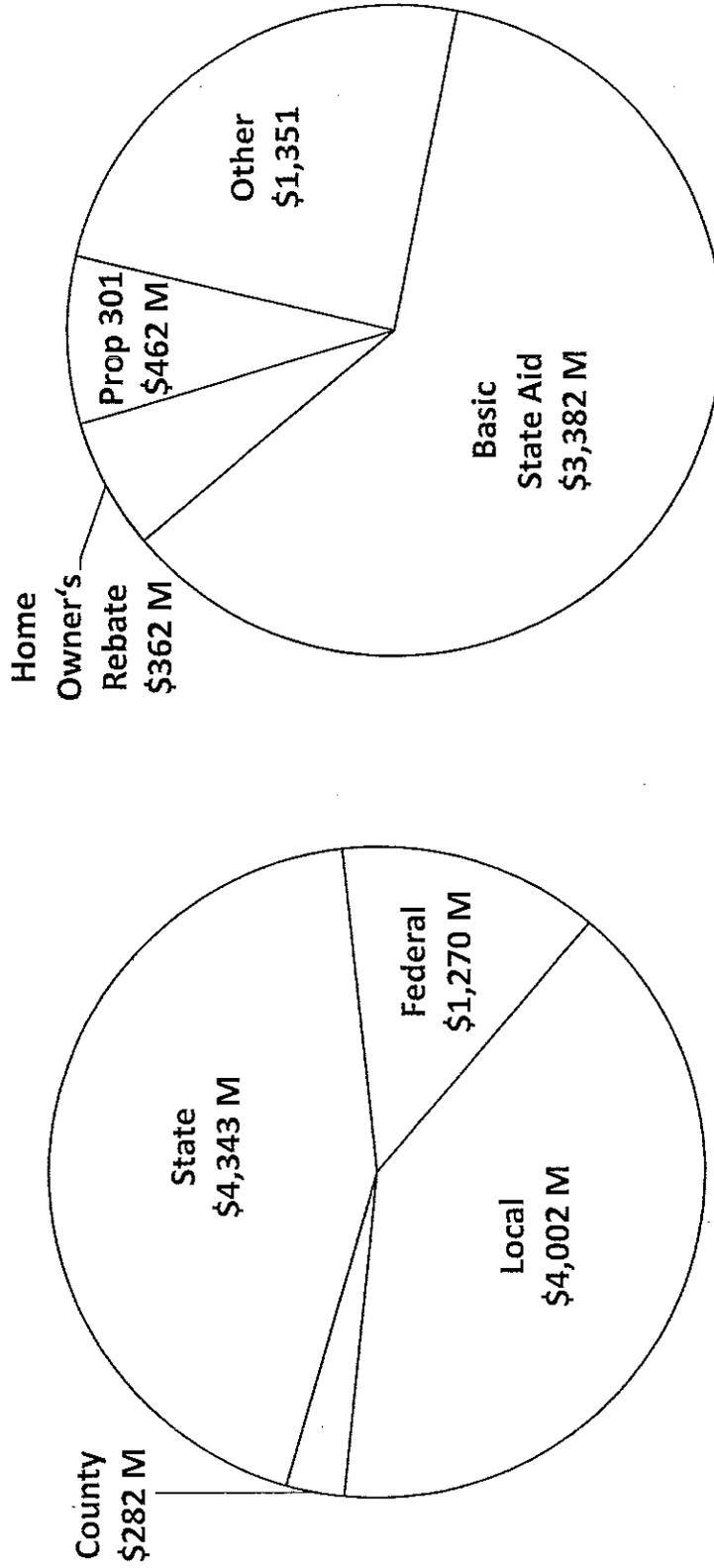
Department of Education

- Total FY 2017 Baseline Funding with Passage of Prop 123

	<u>\$ in M</u>
General Fund	\$4,026.0
Permanent State School Fund	219.8
Proposition 301 Fund (appropriated)	7.0
Teacher Certification Fund & Other	<u>5.3</u>
Appropriated Funds	\$4,258.1
Federal Funds	\$1,175.4
Proposition 301 - Classroom Site Fund	435.3
Proposition 301 - Other	98.3
Instructional Improvement Fund (Gaming \$)	44.0
Other Non-Appropriated Funds	<u>16.0</u>
Total Resources	\$6,027.1

Department of Education

- Total Resources Versus ADE Only



Total Resources - \$9.9 B
(FY '15 Actuals)

ADE Only - \$5.6 B
(FY '15 Actuals)

Department of Education

- Prop 123 Would Provide \$306 M in FY 17

Prop 123 Funding Projections

		Prop 123					Funding				
		1	2	3	4	5	A	B	C	D	E
Fiscal Year	Base Level Increase	Estimated Cost of Reset	Additional Funds	Estimated Total Increase K-12	Land Trust 4.4% Increment	Additional Inflation	Additional General Fund	Estimated Total Increase K-12			
2016	173.26	248,829,400	50,000,000	298,829,400	172,081,000	74,394,000	52,354,400	298,829,400			
2017	176.03	256,350,000	50,000,000	306,350,000	172,444,700	75,584,300	58,321,000	306,350,000			
2018	178.85	264,098,000	50,000,000	314,098,000	189,936,300	76,793,600	47,368,100	314,098,000			
2019	181.71	272,080,100	50,000,000	322,080,100	206,008,000	78,022,300	38,049,800	322,080,100			
2020	184.62	280,303,400	50,000,000	330,303,400	217,929,600	79,270,700	33,103,100	330,303,400			
2021	187.57	288,775,300	75,000,000	363,775,300	226,484,700	80,539,000	56,751,600	363,775,300			
2022	190.57	297,503,300	75,000,000	372,503,300	233,291,400	81,827,600	57,384,300	372,503,300			
2023	193.62	306,495,000	75,000,000	381,495,000	239,723,900	83,136,800	58,634,300	381,495,000			
2024	196.72	315,758,500	75,000,000	390,758,500	245,760,400	84,467,000	60,531,100	390,758,500			
2025	199.87	325,302,000	75,000,000	400,302,000	251,526,400	85,818,500	62,957,100	400,302,000			
Total		2,855,495,000	625,000,000	3,480,495,000	2,155,186,400	799,853,800	525,454,800	3,480,495,000			

How does the budget address the potential failure of Prop 123?

JLBC Baseline K-12 Spending Estimates

- JLBC Adds \$84 M versus \$46 M for Executive for \$38 M Difference in FY 17

GF \$ in M Above Prior Year *

	<u>JLBC</u>	<u>Executive</u>
Student Growth (1.4% v. 1.55%)	84	91
Higher Average Cost Per Pupil	20	0
Full Inflation (1.15% v. 1.04%)	65	61
Property Tax New Construction (1.8% v. 1.75%)	(38)	(35)
Land Trust Growth	0	(16)
JTED Reductions	(30)	(30)
“Current Year” Funding	(31)	(40)
Property Tax Statutory Changes	26	26
Multi-Site Charter Small School Weights	(7)	(7)
Base Adjustment/District Charter Phase Out/misc	(5)	(4)
Total	84	46

* All estimates assume passage of Proposition 123 in May 2016.



Department of Education

- Executive Assumes Lower Cost for Enrollment Growth and Higher Savings from Trust Lands and “Current Year Funding”

- Executive assumes lower per pupil costs than JLBC
 - JLBC adds \$104 M for 1.4% student growth and a growing proportion of charter and special education pupils
 - OSPB adds \$92 M for 1.55% growth
- JLBC uses more accurate Land Trust and Current Year Funding estimates
 - Land Trust = \$(16) M savings for Executive versus (\$0) for JLBC under more accurate data
 - Current Year funding = \$(40) M savings for Executive versus \$(31) M for JLBC based on recent ADE report

Department of Education

- 1% Cap Could Cause \$20 M ADE Shortfall in '16

- 1% Cap Reforms Not Providing Budgeted Savings
 - FY 16 budget assumed \$(20.2) M savings from 1% cap funding changes (\$1 M limit per county)
 - DOR's allocations of 1% Cap funding to individual school districts for '16 do not reflect the \$(20.2) M in savings
 - DOR says the reform language is unclear
 - Statutory changes are needed to realize the budgeted savings
 - Neither Baseline nor Executive budget address this issue
- Demographic issues also could trigger a shortfall (more data needed)

Department of Education

- Executive Policy Issues Would Increase ADE's Baseline Spending by \$9.7 M

<u>Policy Issue</u>	<u>\$ (millions)</u>
Data System Operating Costs	3.2
Data System Development Costs	1.9
Achievement Testing	4.6
Total	9.7

Excludes funding increases to new Governor's Office of Education (GOE)

Department of Education

- Executive Provides \$3.2 M for Data System Operating Costs

- Provides ongoing Maintenance and Operation (M&O) funding for the Education Learning and Accountability System (ELAS)
- Includes \$0.5 M for ELAS Program Support Office
 - Interfaces with districts & charters, maintains financial accountability, oversees contracts, manages software development
- Includes \$2.7 M for ELAS Operating Costs
 - Operates and maintains ELAS, including network operations and monitoring, system security, data reconciliation, hardware maintenance, support center, and software license renewals
- Not clear how ADE historically has “backfilled” information technology M&O with funding from other areas and whether those backfills could continue

Department of Education

- Executive Provides \$7.3 M for Data System Development

- FY 16 budget included \$7 M for data system development
 - \$5.4 M GF
 - \$1.6 M OF from \$6 per FTSE fee (CC's and U's)
- Executive provides \$7.3 M for FY 17
 - \$7.3 M GF (\$1.9 M increase)
 - No \$6 per FTSE fee (\$1.6 M decrease)
 - \$0.3 M net increase to ADOA
- Baseline does not continue the \$7 M of one-time funding
- ELAS has received \$45.7 M in total funding through FY 16

Department of Education

- Executive Provides \$4.6 M More for Achievement Testing

- Matches ADE budget request (see table below)
- Carry-forward funds are expected to be available to fund the \$4.6 M

Item	\$ (millions)
Replace One-Time Carryforward	2.6
Revise English Learner Test (AZELLA)	1.0
Test Security	0.7
Develop AzMERIT Alternative Exams	0.2
Program Operations	0.2
AzMERIT Testing	(0.1)
Information Technology Support	<u>0.1</u>
Total	4.6

(See page 197 of FY 2017 Baseline Book for Achievement Testing totals.)

Department of Education

- Executive Provides \$37 M for New Governor's Office of Education (GOE)

- \$30 M for new JTED grant program
 - For competitive grants to JTEDs that prepare students for jobs in high need industries. \$10 M to be allocated annually for next 3 years.
- \$6.0 M for new College Prep Incentive Pilot Program
 - For 2 year pilot to encourage more participation in college prep exams
 - Governor's Office would determine distribution formula
- \$500K for GOE administration
- \$100K for Executive Leadership Academy to train principals

(Executive also transfers Access Our Best Public Schools Funding to GOE.)

Department of Education

- ELAS (AzEDS) Could Count Students Differently Than SAIS

- ADE plans to switch over to the new student data reporting system (AzEDS) for FY 17
- AzEDS could count students differently than SAIS, resulting in changes in funded enrollment starting in FY 17
- ADE is analyzing the potential differences

Department of Education

- “Current Year Funding” Law Could Be Revised to Eliminate

Indirect Impacts

- Policy intent was to fund Base Support Level (BSL) portion of formula using current year ADM counts (versus prior year through FY 16)
- Would eliminate one-year “grace period” on school district ADM losses
- ADE says the enacted language also would indirectly affect:
 - Eligibility for small school budget exemptions (A.R.S. § 15-949)
 - District allocations from the Classroom Site Fund, Instructional Improvement Fund, the K-12 rollover and lump sum reductions
 - District Additional Assistance (DAA) allocations
 - Calculations for school district overrides, high school tuition amounts for elementary-only districts; “minimum QTR” payments, and tax rate setting
- Revised language could eliminate the indirect impacts

Department of Education

- Website links

JLBC Baseline –

[Department of Education](#)

Executive Budget –

[Department of Education](#)



A r i z o n a
Department of Education

Budget Hearing
February 10, 2016

ARIZONA DEPARTMENT OF EDUCATION

Operating Budget FY2008- FTEs Appropriated	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Percent Change 2008 to 2016
	114	114	114	97	97	86.4	90.9	90.9	92.9	
Administration	\$ 6,705,300	\$ 6,766,600	\$ 6,792,400	\$ 5,923,600	\$ 7,591,300	\$ 7,571,000	\$ 8,261,000	\$ 8,263,900	\$ 8,239,400	
Formula	\$ 2,198,700	\$ 2,199,200	\$ 2,221,400	\$ 1,684,600						
Non-Formula	\$ 1,148,400	\$ 1,548,600	\$ 1,146,600	\$ 671,100						
Total General Fund	\$ 10,062,400	\$ 10,514,400	\$ 10,160,400	\$ 8,279,300	\$ 7,591,300	\$ 7,571,000	\$ 8,261,000	\$ 8,263,900	\$ 8,239,400	-18.0%
AELAS Fund					\$ 1,200,000					-100%
ESA Fund						\$ 200,000	\$ 200,000	\$ 200,100	\$ 399,000	50%
Teacher Certification Fund (Teacher Evaluation)	\$ 217,700	\$ 217,700	\$ 218,500	\$ 133,900	\$ 133,900	\$ 134,300	\$ 138,100	\$ 138,200	\$ 137,500	-37%
Total Other Funds	\$ 217,700	\$ 217,700	\$ 218,500	\$ 133,900	\$ 1,333,900	\$ 334,300	\$ 338,100	\$ 338,300	\$ 536,500	146%
OPERATING BUDGET	\$ 10,270,100	\$ 10,732,100	\$ 10,378,900	\$ 8,413,200	\$ 8,925,200	\$ 7,905,300	\$ 8,599,100	\$ 8,602,200	\$ 8,775,900	-14.5%
FUND SOURCES	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Percent Change 2008 to 2016
General Fund	\$ 4,363,465,100	\$ 4,141,201,000	\$ 4,398,139,500	\$ 3,491,223,400	\$ 3,436,528,700	\$ 3,496,900,300	\$ 3,620,831,200	\$ 3,808,392,700	\$ 3,889,519,500	-10.9%
Other Appropriated Funds	\$ 54,627,200	\$ 54,793,500	\$ 56,944,300	\$ 55,776,200	\$ 56,959,300	\$ 57,167,700	\$ 56,035,200	\$ 77,836,100	\$ 56,977,100	4.3%
Other Non-Appropriated	\$ 665,846,300	\$ 652,707,200	\$ 482,963,400	\$ 441,962,800	\$ 442,024,600	\$ 456,187,600	\$ 557,141,000	\$ 556,239,100	\$ 602,768,300	-9.5%
Federal Funds	\$ 829,023,400	\$ 889,375,400	\$ 1,171,850,500	\$ 1,070,165,500	\$ 987,897,800	\$ 1,199,433,400	\$ 1,074,084,800	\$ 1,074,288,800	\$ 1,074,395,900	29.6%
Total Funds (Appropriated, Non-Appropriated, Federal Funds)	\$ 5,912,962,000	\$ 5,738,077,100	\$ 6,108,897,700	\$ 5,059,127,900	\$ 4,923,410,400	\$ 5,209,689,000	\$ 5,308,092,200	\$ 5,516,756,700	\$ 5,623,660,800	-4.9%

Employees	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Percent Change 2008 to 2016
Contract Employees*										
Total FTEs	696	673	601	602	621	597	624	651	651	-6.5%
Total Employees									792	
ESA										
ESA Fund						\$ 200,000	\$ 200,000	\$ 200,100	\$ 399,000	100%
ESA Student Participation**					115	302	761	1311	2059	1690%
Teacher Certification										
Teacher Certification			\$ 2,468,800	\$ 2,300,700	\$ 1,781,200	\$ 1,787,700	\$ 1,841,900	\$ 1,842,500		-25.4%
Total Number of Teachers Certified			170,774.00	171,330.00	173,024.00	174,743.00	170,447.00	169,591.00		-1%

*Due to time restraints data for other fiscal years could not be provided; however, ADE can provide the information upon request.

**ESA student participation for FY2016 currently has 2059 students that received funds in the 3rd quarter. There were 2502 students at the beginning of the 2015-2016 school year.

Change Orders
Source: JLBC Appropriations Reports



Education Data System Sustainability

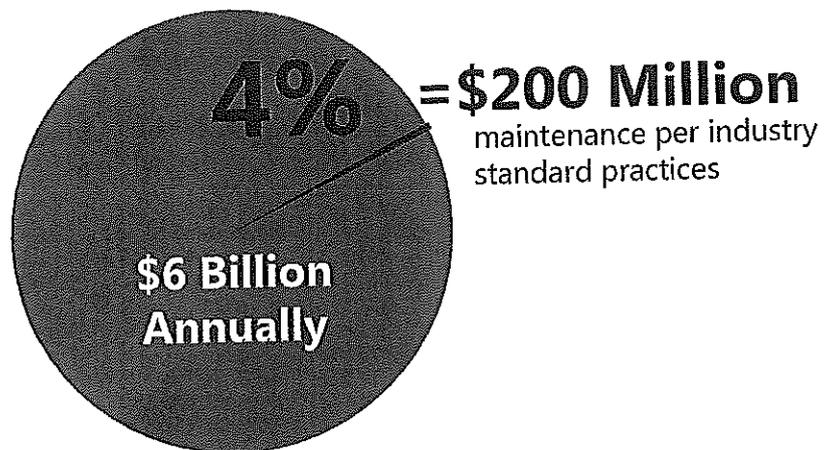
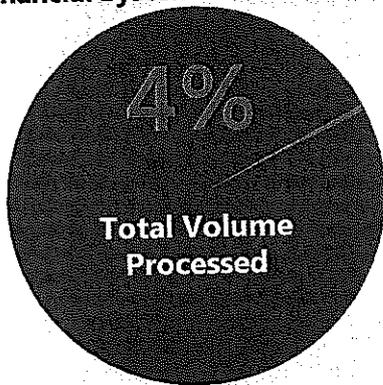


Education Data System maintenance costs are low, but vital...

Cost to use new AFIS
\$1⁰⁰ / Transaction

AzEDS annual volume
100,000,000+
Transactions

Industry Standard
Financial System Maintenance

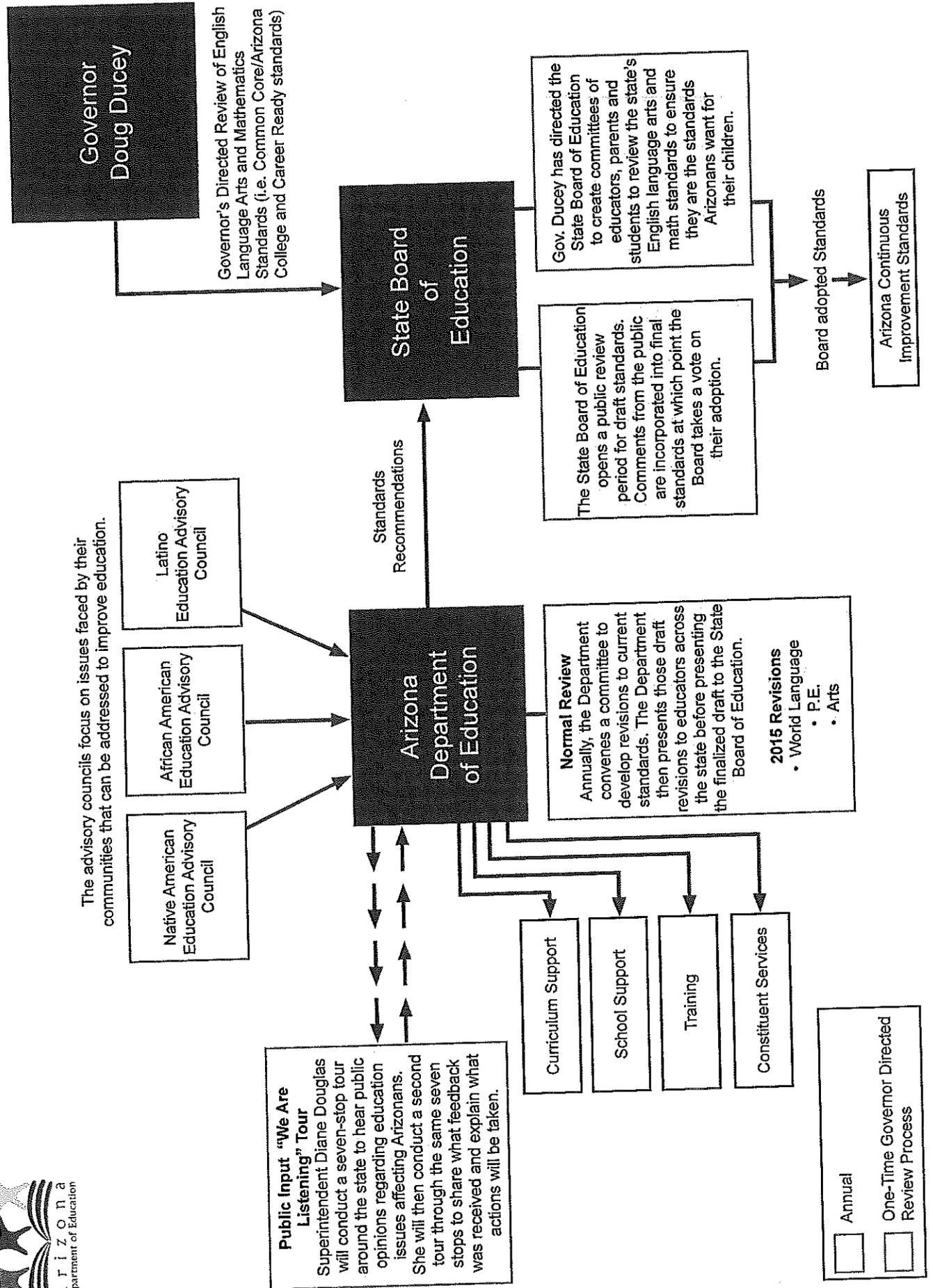


ADE Data System Maintenance

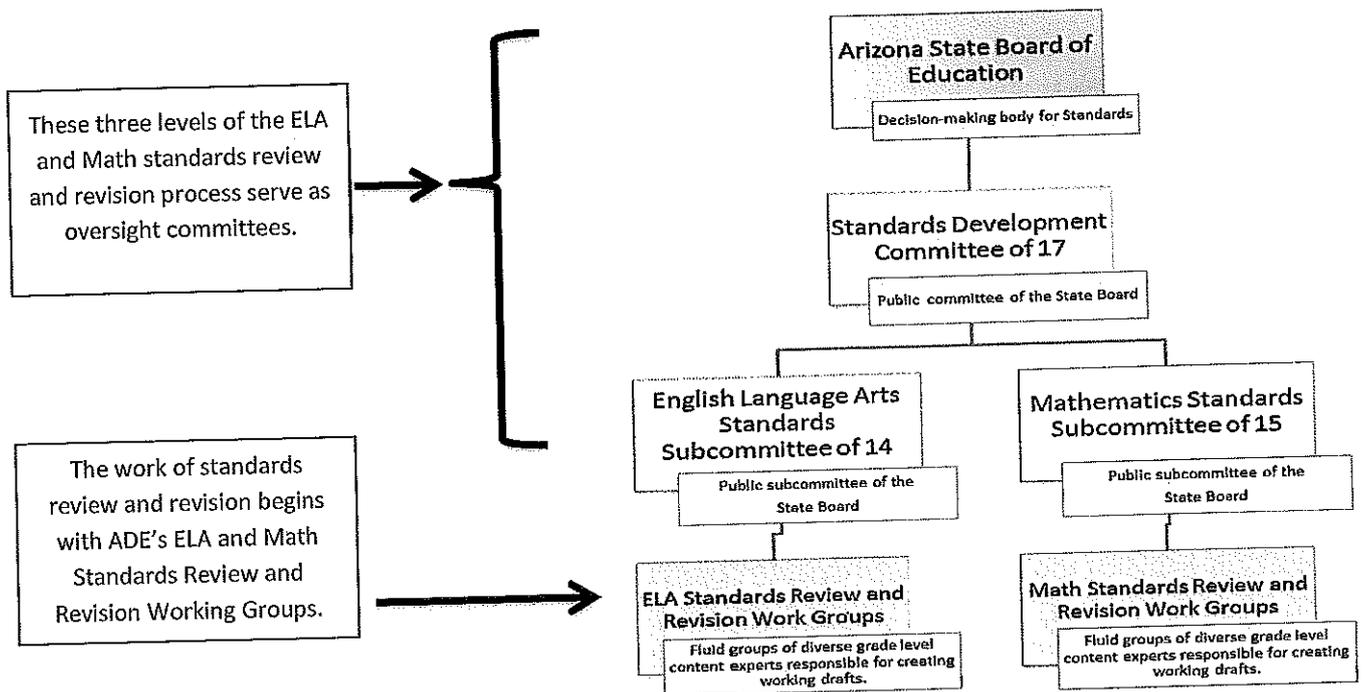
FY17 — \$3.175 Million
FY18 — \$4.850 Million < 1%



Arizona Continuous Improvement Standards Process



Arizona Department of Education – English Language Arts and Mathematics Standards Review and Revision 2015-2016



ADE Standards Review Process:

Convene working groups to:

1. Review public feedback to determine broad categories in which to place comments to assist with targeted conversations regarding standards review.
 - ELA standards received 1,034 comments; Math standards received 1,084 comments
2. Categorize comments received through initial public review.
3. Discuss and come to consensus regarding the purpose of standards.
4. Review the Arizona Standards Revision and Refinement Criteria.
5. Begin the process of reviewing and refining current Arizona standards based on public comments, research, other state standards, professional knowledge of content, and grade level expertise.
6. Revise grade level standards.
 - Apply grade-level expertise and research to all decisions
 - Address public feedback within the decisions/revisions.
7. Develop drafts of K-12 English Language Arts and Mathematics Academic Standards to present to the Arizona State Board of Education for public and expert review.
8. Refine drafts of ELA and Math standards upon receipt of public and expert comments.
9. Develop final drafts for presentation to the Arizona State Board of Education for possible standards adoption.

* English Language Arts and Mathematics Working Groups meet monthly until the work of standards review is completed.
 * During the first four working group meetings, ADE has involved 87 Mathematics educators and 79 English Language Arts educators in the standards review and revision process. ADE will continue to engage additional educators in the working groups to ensure broad representation.

Upon State Board adoption of standards, ADE is charged with supporting implementation by:

1. Providing ongoing professional development to educators.
2. Providing guidance documents and resources to educators, parents, and the community.
3. Assisting with any needed revisions to the statewide assessment.
4. Collecting feedback on new standards to determine areas of need.
5. Collaborating with professional organizations and Institutes of Higher Education.
6. Communicating with educators, parents, and the community.



HOUSE OF REPRESENTATIVES

HCR 2031

personal property tax; exemption
Prime Sponsor: Representative Mesnard, LD 17

DP Committee on Government and Higher Education
X Committee on Appropriations
Caucus and COW
House Engrossed

OVERVIEW

HCR 2031, upon voter approval, increases the full cash value exemption for qualifying personal property.

PROVISIONS

1. Prohibits levying a tax on the first \$2.4 million of full cash value of personal property initially acquired during or after Tax Year 2016 that is used for agricultural purposes or in a trade or business.
2. Permits the Legislature to increase the exemption amount.
3. Declares the measure as the "Small Business Job Creation Act".
4. Requires the Secretary of State to submit this proposition to the voters at the next general election.
5. Makes technical and conforming changes.

CURRENT LAW

The first \$50,000 of full cash value of a taxpayer's personal property used for agricultural purposes or in a trade or business is exempt from taxation. The Department of Revenue is required to annually increase the maximum amount of exemption for the following tax year based on the percentage increase, if any, in the *employment cost index* for total compensation for private industry workers in the two most recent complete state fiscal years (A.R.S. § 42-11127). *Full cash value* is synonymous with market value which means the estimate of value that is derived annually by using standard appraisal methods and techniques. The full cash value is prohibited from being greater than market value regardless of the method prescribed to determine value for property tax purposes. *Personal property* is defined as property of every kind, both tangible and intangible, not included in real estate (A.R.S. § 42-11001).



HOUSE OF REPRESENTATIVES

HB 2388

qualified disability expenses; eligible individuals
Prime Sponsor: Representative Allen J, et al., LD 15

DPA Committee on Children & Family Affairs

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

HB 2388 establishes the Achieving a Better Life Experience (ABLE) Program within the Department of Economic Security (DES), to be administered and managed by a financial institution chosen by DES. Establishes the seven-member Achieving a Better Life Experience Act Oversight Committee (Committee) to assist in the implementation, regulation and oversight of the ABLE program (program).

PROVISIONS

The Achieving a Better Life Experience Program

1. Requires DES to:
 - a. Develop and implement the program by adopting rules, guidelines, and procedures in consultation with the Committee.
 - b. Retain professional services, including: accountants, auditors, consultants and other experts.
 - c. Seek rulings and guidance relating to the program from the U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS).
 - d. Make changes to the program, as necessary, to comply with United States Code regarding qualified ABLE programs.
 - e. Notify the chairpersons of the Senate Health and Human Services Committee and the House Children and Family Affairs Committee of any changes to the federal program that would require rule or statute changes.
 - f. Receive proposals and consult with the Committee to select and contract with a financial institution or institutions to act as the depository of the ABLE program fund (fund) and manager of the program and ensure that the financial institution is in the best interest of the designated beneficiaries and demonstrates the most advantageous combination of:
 - i. Financial stability and integrity.
 - ii. Investment safety.
 - iii. Record keeping and reporting requirements.
 - iv. Plan for promoting the program.
 - v. Fees, if any, charged to eligible individuals for maintaining accounts.
 - vi. The minimum initial deposit required by the financial institution for the investment of fund monies and the willingness of the financial institution to accept contributions through payroll deduction plans and other deposit plans.

- vii. Any other benefits to the state or its residents, including an account opening fee payable to the account by the designated beneficiary and an additional fee from the financial institution for statewide program marketing by DES.
 - g. Negotiate a fee with the financial institution or institutions.
 - h. Maintain the program on behalf of the state.
 - i. Develop requirements for disbursement from qualified disability expense accounts in consultation with the Committee.
 - j. Provide for separate accounting for each designated beneficiary of the designated beneficiaries account.
 - k. Develop procedures for educating account owners about nonqualified expenses, if any such expenses were made by the account, and work with the financial institution to ensure that such nonqualified expenses are not approved in the future.
 - l. Develop and provide educational materials on the program, qualified disability expenses and requirements for being a designated beneficiary.
 - m. Submit an annual report for the first five years of the program to the Speaker of the House of Representatives, the President of the Senate and the Governor, which must include:
 - i. The number of accounts.
 - ii. The number of designated beneficiaries.
 - iii. A description of the types of disabilities the designated beneficiaries have.
 - iv. A summary of the qualified disability expenses that disbursements from the accounts are being used for.
 - n. Submit the first annual report on or before December 31, 2017, and the final four reports on or before December 31 of each year.
2. Appropriates \$240,000 from the state general fund to DES in fiscal year 2016-17 to implement and administer the program and exempts the appropriation from lapsing.
 3. Allows persons to submit applications for enrollment into the program and establish accounts in the fund at the financial institution.
 4. Excludes DES from procurement when contracting with the financial institution to act as depository of the fund and manager of the program.
 5. Requires the financial institution to receive all fund monies from account owners and deposit them into the fund.
 6. Requires that proposals submitted by financial institutions to DES must detail the financial instruments that will be held in accounts.
 7. Requires the contract entered into by DES and the financial institution to be between three to seven years in length and to provide the terms and conditions of the interests sold, the investment of monies and management of the fund.
 8. Requires the financial institution or financial institutions to:
 - a. Take all action to ensure that the program is in compliance with statute and federal code.
 - b. Keep adequate records of each of the funds accounts, keep each account and any subsequent records or accounting separate from one another, and provide DES with the information necessary to send electronic distribution statements and other notices to the Commissioner of Social Security as required by federal code.
 - c. Allow access of the program manager's books to representatives of DES and other state agencies in order to ensure compliance with the contract.

HB 2388

- d. Hold all operating monies in the fund in the name of and for the benefit of the fund and the state.
9. Allows DES to terminate a contract with a financial institution at any time for good cause on the recommendation of the committee.
10. Requires DES to take custody of accounts held at a financial institution if the contract is terminated and seek to promptly transfer the accounts to another financial institution and into investment instruments as similar to the original investments as possible.
11. Stipulates that if an eligible individual is a minor or an incapacitated adult, the account may be opened and managed by:
 - a. An agent under power of attorney signed by the eligible individual at a time when they had capacity to execute the power.
 - b. A parent of a minor child.
 - c. A court-appointed conservator of the estate.
 - d. A court-appointed guardian with express authorization.
12. Allows a court to waive any requirements of further accounting or inclusion in any bond in a case where the conservator or guardian of an eligible individual opened and manages the account.
13. Requires that a designated beneficiary may have only one account and must direct the investment of any contributions or earnings no more than two times a year.
14. Stipulates that contributions to accounts must be made in cash and that any excess contributions be promptly withdrawn in a nonqualified withdrawal or rolled over into another account.
15. Prohibits contributions and earnings on a designated beneficiaries account from being counted as income or resources for the purposes of eligibility for any welfare programs or the Arizona Health Care Cost Containment System (AHCCCS).
16. Allows the state to file a claim for payment of all remaining amounts in the account, subject to any outstanding payments due for qualified disability expenses, which is not to be in excess of the amount equal to the total medical assistance paid for the designated beneficiary.
17. Stipulates that accounts may be opened by filling out an application form provided by DES.
18. Prohibits a designated beneficiary from using an interest in an account as security for a loan.
19. Requires the financial institution to provide yearly statements to the designated beneficiary summarizing contributions made within the last year, total contributions made through the end of the period, the total amount in the account, distributions made during this period and any other matters that DES requires to be reported.
20. Provides that statements and information returns must be prepared and filed as required by statute and federal code.
21. Prohibits DES from sharing any social security numbers, addresses, or telephone numbers of designated beneficiaries.
22. Clarifies that this article does not:
 - a. Give any designated beneficiary rights or legal interests in an account, unless they are the account owner.

- b. Guarantee an eligible individual will receive services from a state agency or department related to the eligible individual's disability.
 - c. Guarantee that the amounts deposited or earned in an eligible individual's account will be sufficient to cover any qualified disability expense.
 - d. Establish any obligation by the state or any state agency to guarantee the benefit of any eligible individual to: the return on amounts contributed, the rate of interest or other return, or the payment of interest or other return on any account.
23. Stipulates that every contract, application, deposit slip or other document used in connection with an account must clearly state that the account is not insured by this state and that neither the deposited nor the investment return is guaranteed by the state.
24. Excludes DES from rulemaking requirements for the first year of this program.
25. Stipulates that DES must provide a 30-day public comment period when drafting the rules and hold at least one public hearing before adoption.
26. Strikes the amount of any deduction that is claimed in computing federal adjusted gross income for health insurance premiums or contributions to a health savings account from being added to Arizona gross income.
27. Stipulates that the amount of a withdrawal that is a qualified disability expense in the ABLE program shall not be added in calculation the Arizona gross income.
28. Clarifies that any amount of qualified disability expenses that are distributed from a qualified program must be subtracted in computing Arizona adjusted gross income.
29. Terminates the program on July 1, 2026.
30. Defines *ABLE*, *account*, *committee*, *department*, *designated beneficiary*, *eligible individual*, *financial institution*, *fund*, *program*, and *qualified disability expenses*.

The Achieving a Better Life Experience Act Oversight Committee

31. Establishes the seven-member ABLE Act Oversight Committee (Committee) within DES, comprised of:
- a. The Director of DES (Director) or the Director's designee.
 - b. The State Treasurer or the State Treasurer's designee.
 - c. One member who has knowledge, skill, or experience in investment, asset management or financial related experience.
 - d. One member who is a state attorney who has knowledge, skill, or experience in special needs trusts and disability issues.
 - e. One member who is an eligible individual.
 - f. One member who is a family member of an eligible individual.
 - g. One representative of a community-based organization that supports or advocates for individuals with disabilities.
32. Enables the governor to appoint every committee member other than the Director, State Treasurer or their designees.
33. Specifies that the Committee must appoint a chairperson from among their membership and meet once per calendar quarter.
34. Allows committee members to receive compensation not to exceed \$30 per each day in the service of the Committee.

35. Requires the Committee to:
- a. Make recommendations and provide guidance for the establishment, implementation and improvement of the program.
 - b. Make recommendations regarding the selection of one or more financial institutions to act as depositories and managers of the accounts.
 - c. Review regulations adopted by the United States Secretary of the Treasury and identify changes necessary for the compliance.
 - d. Provide advice regarding requirements for disbursements from accounts for qualified disability expenses.
 - e. Monitor the use and effectiveness of the program, including: the number of accounts, the number of designated beneficiaries, a description of the types of disabilities which the designated beneficiaries have and the types of expenses for which disbursements have been made.
36. Exempts committee members from personal liability with respect to all action that are taken in good faith and within the scope of Committee actions.
37. Restricts committee membership to four year terms and prohibits committee members from serving more than two terms.
38. Specifies that three committee members serve terms ending January 31, 2018 and that two committee members serve terms ending January 31, 2020, with no limitations placed on the terms of the Director, State Treasurer, or their designees.
39. Directs DES to consult with the Committee to establish rules necessary to implement the program on or before July 1, 2017.
40. Terminates the Committee on July 1, 2024.
41. Makes technical and conforming changes.

AMENDMENT OF THE CHILDREN & FAMILY AFFAIRS COMMITTEE

Makes additions and subtractions to Arizona gross income, as related to this bill, retroactive to the taxable year beginning from and after December 31st, 2015. The amendment also makes technical changes.

CURRENT LAW

The federal Achieving a Better Life Act of 2014 (ABLE Act) was enacted on December 19, 2014 as part of the Tax Increase Prevention Act of 2014 (Public Law 113-295). The ABLE Act amends the Internal Revenue Code to exempt a qualified ABLE program from taxation. A *qualified ABLE program* is defined as “a program established by a state, or agency or instrumentality thereof under which a person may make contributions for a taxable year, for the benefit of an individual...to an ABLE account which is established for the purpose of meeting the qualified disability expenses of the designated beneficiary of the account” (Public Law 113-295).

ADDITIONAL INFORMATION

As of April, 2015, 14 states have passed the ABLE Act or a Study Committee.



HOUSE OF REPRESENTATIVES

HB 2486

telecommunications utilities; relocation; reimbursement

Prime Sponsor: Representative Olson, LD 25

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

HB 2486 requires a municipality to reimburse a telecommunications utility for facility relocation costs if certain conditions are met.

PROVISIONS

1. Requires, to the fullest extent allowed by law, a municipality to reimburse a telecommunications utility for facility relocation costs if all of the following are met:
 - a. Any construction project in the municipality is undertaken individually or jointly by an intergovernmental contract;
 - b. The contract is funded in whole or in part by voter-approved bond proceeds; and
 - c. The construction project requires the telecommunications utility to adjust or relocate facilities.
2. Requires, if the telecommunications utility has existing land rights, the municipality to provide the telecommunications utility with equal land rights in the new location of the relocated facilities at the municipality's expense.
3. Requires, if the telecommunications utility's existing facilities are located in the right-of-way under a permit, the municipality to provide rights in the new location of the relocated facilities equivalent to the existing permit at the municipality's expense.
4. Requires the telecommunications utility to submit a verified itemized claim (claim) for reimbursement to the municipality within 180 days after each calendar quarter in which the telecommunications utility incurs relocation costs.
5. Requires the municipality to:
 - a. Review each submitted claim. Allows the review to include an audit.
 - b. Reimburse the telecommunications utility for the relocation costs within 90 days after receipt of the claim.
 - c. Reimburse claims from all affected telecommunications utilities in the order of receipt.
6. Caps the reimbursement limitation amount for paid claims for facilities with no existing land rights at 2% of the total project monies. Stipulates that total project monies are the total dollar amount of all voter-approved bond proceeds that fund a construction project from time to time.
7. Prohibits the total amount of reimbursement paid for claims of relocation costs of all telecommunications utility facilities for which there are no existing land rights from exceeding the reimbursement limitation.

HB 2486

8. Directs, if a claim causes the total amount of *all* claims to exceed the limitation, that claim to be reduced so that the total amount of reimbursement paid for all claims for which there are no existing land rights equals the limitation.
9. Requires, after the previous limitation is exhausted, the municipality to resume processing previously submitted and new claims within 30 days after the limitation is increased, if the dollar amount of the limitation increases as a result of an increase in total project funds.
10. Excludes any claims for reimbursement of relocation costs for facilities with existing land rights or any amounts paid by the municipality to provide equivalent land or permit rights from the reimbursement limitation.
11. Specifies that reimbursement does not apply to a construction project funded in whole or in part with voter-approved bonds if approval of the bonds was referred to the voters, or the initiative petition for the bonds was applied for, before January 1, 2017.
12. Stipulates that new provisions do not prohibit a municipality from complying with other applicable laws or an agreement that requires the municipality to reimburse a telecommunications utility for additional relocation costs.
13. Defines *intergovernmental contract*, *municipality*, *relocation costs*, and *telecommunications utility*.

CURRENT LAW

Not currently addressed in statute.

**ARIZONA HOUSE OF REPRESENTATIVES
Fifty-second Legislature - Second Regular Session**

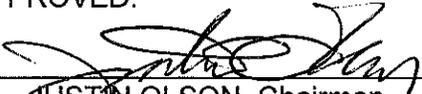
ROLL CALL VOTE

COMMITTEE ON _____ APPROPRIATIONS _____ BILL NO. HB 2486

DATE February 10, 2016 MOTION: dp

	PASS	AYE	NAY	PRESENT	ABSENT
Mr. Allen J		✓			
Ms. Alston		✓			
Mr. Bowers		✓			
Mr. Cardenas		✓			
Mrs. Fernandez		✓			
Mr. Gray		✓			
Ms. Mach		✓			
Mr. Meyer		✓			
Mr. Petersen		✓			
Mr. Rivero		✓			
Mr. Stevens		✓			
Ms. Ugenti-Rita		✓			
Mr. Leach, Vice-Chairman		✓			
Mr. Olson, Chairman		✓			
		14	0	0	0

APPROVED:


 JUSTIN OLSON, Chairman
 VINCE LEACH, Vice-Chairman


 COMMITTEE SECRETARY

ATTACHMENT 10

