

SUMMARY

The Executive Budget

FISCAL YEAR 2009

Janet Napolitano

GOVERNOR



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January 2008

To the Honorable Members of the
Forty-Eighth Arizona Legislature:

In the coming months we will demonstrate to the people we serve that skilled governance is most precious when revenues are scarce and demands for State services are increasing. Despite the slow economic growth that we anticipate for much of 2008, together we will use our ingenuity, discipline and good judgment to ensure that, from now through Fiscal Year 2009, State government will continue to:

- progress toward excellence in meeting the educational needs of young Arizonans;
- ensure access to health care for our needy citizens;
- protect the public from domestic and foreign threats to their safety and security;
and
- stimulate and broaden the state's dynamic economic base.

These are fundamental and essential functions of State government, and the relative scarcity of our resources must not deter us from fulfilling our obligations to the people. Further, we will accomplish these objectives without increasing the tax burden on Arizona families and businesses.

To meet the educational needs of young Arizonans, the Executive Budget Recommendation supports focused development of teachers in the STEM fields: science, technology, engineering and mathematics. Other education priorities include teacher mentoring; instruction for English language learners; P-20 (preschool through higher education and workforce training) alignment of Arizona's education system; investment in after-school tutoring and mentoring, youth development and extended learning time; and, to promote both education and health care in Arizona, authorization to continue building the medical school campus in Phoenix.

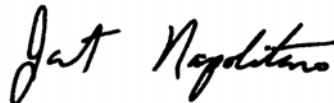
To further ensure access to health care and other support for needy Arizonans, this Recommendation provides funding to accommodate caseload growth in adoptions, Children's Services, and services for the developmentally disabled; and to expedite drug abuse interventions to get parents the treatment they need to safely care for their children. The Recommendation also provides needed resources to protect vulnerable adults, including elderly citizens and victims of domestic violence. It addresses our future needs for doctors and nurses by expanding our primary care provider student loan repayment program. Finally, to further extend health care to children

of lower-income families, we should allow families that are not eligible for AHCCCS health insurance to buy coverage for their children through the State's existing contracts with private insurance companies.

To keep our citizens safe and secure from crime and other threats, the Recommendation supports higher pay for DPS officers; opening new prison beds to keep up with the growth in our inmate population; developing an effective and secure form of personal identification – the use of which would be voluntary – to satisfy border security and other needs; easing the strain on our prison system by imposing jail incarceration on certain types of inmates; moving forward with our system of interoperable radio communications to enhance coordination among law enforcement agencies at the state, county and local levels; and expanding the Arizona Counter Terrorism Intelligence Center.

As we evaluate State government's resources and spending priorities, we should be mindful that the economic forecasts that dictate caution and austerity in crafting the Fiscal Year 2009 General Fund budget also predict a gradual return to economic vitality by the time the fiscal year reaches its midpoint. Thus, in our deliberations we should presume that the slow growth that characterizes Arizona's current economy will be short-lived. The deferrals and fiscal bridges that are appropriate at this time to balance the budget will be resolved in the relatively near future, and we can look forward with optimism to more robust General Fund revenues and greater resources to meet the growing needs of our dynamic state.

Very truly yours,

A handwritten signature in black ink, reading "Janet Napolitano". The signature is written in a cursive, flowing style.

Janet Napolitano
Governor

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ACKNOWLEDGEMENTS

Governor's Office of Strategic Planning & Budgeting	
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Overview: Budget Management Plan for FY 2008

AT THE GOVERNOR’S DIRECTION, the Governor’s Office of Strategic Planning and Budgeting (OSPB) prepared a Budget Management Plan to meet the challenges of the fiscal situation now faced by the State of Arizona. This plan has been developed to solve the Fiscal Year 2008 shortfall, which, as this document went to print, was estimated to be approximately \$870 million.

GUIDING PRINCIPLES

The principles on which this plan is based are as follows:

- The integral functions of State government must not be compromised and our commitment to efficiency and excellence must be maintained.
- Recommended spending reductions will be on an agency-by-agency and program-by-program basis, not across-the-board.
- The Arizona education system – including public K-12 and higher education programs – are exempt from spending reductions.
- Other programs and services affecting Arizona’s children and vulnerable adults will be exempt from spending reductions.
- Appropriate application of previously used and accepted budgetary practices will be employed.

PLAN ELEMENTS

The Budget Management Plan consists of three primary elements:

- First is a State agency budget savings strategy that will reduce FY 2008 General Fund expenditures by \$214 million.
- Second, the use of capital financing (in place of paying cash) for school construction allows for lease-purchase for \$393 million of elementary and secondary school facilities during FY 2008.
- Third, it is appropriate to draw \$263 million from the State’s Budget Stabilization Fund (commonly known as the “Rainy Day Fund”) as a short-term fiscal bridge. The BSF’s balance is nearly \$700 million.

The following table summarizes the plan’s key elements:

State Agency Budget Savings:	\$214,000,000
K-12 Capital Financing:	393,000,000
Budget Stabilization Fund:	263,000,000
Total Budget Management Plan:	\$870,000,000

The current plan follows the guidelines set forth by the Governor in September 2007.

	September 2007 Plan	% of total	January 2008 Plan	% of total
Shortfall	\$600 million		\$870 million	
Budget Savings	100 million	17%	214 million	25%
K-12 Capital	300 million	50%	393 million	45%
Rainy Day Fund	200 million	33%	263 million	30%

Addressing the Shortfall for FY 2009

THE ECONOMIC AND FISCAL TRENDS in Arizona and the nation continue a trend, which began in earnest in Fiscal Year 2008, that poses significant challenges to balancing the State's budget and managing State Government in FY 2009. In order to face this shortfall, it is necessary to provide information in the Executive Budget Recommendation regarding the management of the budget for FY 2009.

The FY 2008 Budget Management Plan (discussed earlier) provides a realistic and reasonable approach for the resolution of the estimated \$870 million shortfall in that fiscal year. Looking to the following year, a January 2008 analysis of economic and fiscal trends includes a projected \$1.28 billion shortfall for FY 2009. Notwithstanding the magnitude of that shortfall, the actions proposed in the Executive Recommendation will help State Government achieve a balanced budget in FY 2009.

ASSUMPTIONS

The adverse economic and fiscal trends reported in the FY 2008 Budget Management Plan are expected to continue into FY 2009 but improve as the year progresses. The Executive's projection assumes that the Federal Reserve will further cut interest rates which will help the housing downturn and the turmoil in the financial market to stabilize and ultimately rebound. As a result of these assumptions, the Executive expects base State revenues to increase by approximately 1.5% during FY 2009.

FY 2009 PLAN

Governor Napolitano directed the Governor's Office of Strategic Planning and Budgeting (OSP) to prepare an Executive Recommendation for FY 2009 that would be consistent with several key Executive policies:

- Protect and maintain State Government's integral functions and its commitment to efficiency and excellence.
- Construct a fiscally prudent, balanced budget that does not raise taxes and maximizes the efficient use of State resources.
- Recommend spending reductions on an agency-by-agency and program-by-program basis, not across-the-board.
- Protect Arizona's children and vulnerable populations.
- Reaffirm the Executive's commitment to improving education, strengthening families' economic development, preserving natural resources, and securing Arizona's borders.
- Invoke proven temporary emergency fiscal measures that are necessary and appropriate.

The FY 2009 Executive Budget anticipates the total sources of funds to be \$10.124 billion and the total uses of funds to be \$11.405 billion. The resulting shortfall of \$1.28 billion will be resolved through the adoption of the proposed FY 2009 Executive Recommendation.

The plan's primary components include:

- State agency budget savings, consisting of fund shifts and agency cuts (\$140 million);
- Non tax increase revenue generation (\$186 million);
- use of the State's Rainy Day Fund (\$196.6 million);
- delaying the June 15, 2008, State Aid payment to schools until July 1, 2008 (\$297 million); and
- use of capital financing for the construction of K-12 schools (\$471 million).

The total of these measures designed to cover the projected FY 2009 shortfall is \$1.29 billion, which would provide for a balanced budget as well as a balance forward of \$10 million.

DETAILS

Fund Shifts and Agency Cuts. The \$140 million to be realized through State agency budget savings will consist of three parts.

- Inmates with short-term sentences will be sent to county jails rather than the Department of Corrections, resulting in a General Fund savings of \$60.8 million.
- A series of agency budget cuts will save \$25.8 million.
- The State Highway Fund will be tapped for \$53 million to benefit the General Fund but will not delay highway construction.

Non Tax Increase Revenue Generation. The benefits of revenue generation to the General Fund will amount to \$186 million. In order to obtain this benefit, the collections threshold for remittance of transactions privilege tax in June (instead of July) will be reduced to \$100,000, as in prior years. Reverting to this approach will generate \$55 million in FY 2009. The addition of auditors and collectors at the Department of Revenue will bring in \$31 million in FY 2009. Redistribution of non-protected Lottery funds will give an extra \$10 million to the General Fund. Finally, enhancing the radar system on the state's highways will net \$90 million in General Fund revenue in FY 2009.

CONCLUSION

The FY 2009 Executive Recommendation provides a balanced, creative approach to eliminating the shortfall without raising taxes and by adhering to the Executive's other guiding principles. It is anticipated that the economic recovery, while gradual, will enhance revenues for much of FY 2009. ●

Executive Recommendation Reaches Out to a Diverse Array of Stakeholders

For population sectors, business owners and State agencies directly impacted by State services and programs, how the Executive and Legislative branches allocate resources transcends mere public policy

What the Executive Budget Does for ...

K-12 EDUCATION

The Governor's FY 2009 recommendation provides \$166 million in new General Fund monies for K-12 schools in FY 2009. This increase consists of:

- \$153 million in Basic State Aid, which includes the 2% inflation factor as required by Proposition 301; and
- \$13.5 million in Additional State Aid.

Basic State Aid. The largest formula-funding program for K-12 education, Basic State Aid provides financial assistance to school districts and charter schools for their maintenance and operations and "soft" capital needs. For FY 2009, the Executive's recommended \$153 million fully funds student growth in traditional and charter schools, where net enrollment is expected to rise by 31,852 students.

New Construction. For FY 2009, the Executive recommends financing \$471 million for the New Construction program, which is expected to fund approximately 40 new schools and/or build-outs of existing schools, including new and existing facilities planned for Voluntary Full-Day Kindergarten, additional funds for school safety issues, and factors in increased costs attributable to construction inflation.

To fund payments on existing obligations, the Executive recommends a total of \$79 million General Fund for the FY 2009 lease payments.

Capital Needs – K-12. The Executive recommends a five-year commitment to financing new school construction to provide that steady foundation upon which Arizona's children can grow and build better lives and better communities.

The School Facilities Board (SFB) funds the construction of approximately

34 schools per year. Since 1999, paying for school construction has been accomplished utilizing both cash (i.e., General Fund appropriations) and lease-to-own financing. By financing the estimated \$2.6 billion in school construction needed through 2013, the cost to the General Fund for debt service during the five-year period is expected to be approximately \$341 million.

What the Executive Budget Does for ...

THE UNIVERSITIES

Despite the State's current fiscal situation, the Executive Recommendation provides increased funding for the State's universities. The Executive Recommendation reflects a net funding increase to the universities of \$25.4 million from the General Fund. The recommendation includes an increase of almost \$21 million for the traditionally appropriated 22:1 funding formula, which provides funding increases for estimated enrollment growth.

Additionally, the Executive Recommendation fully funds the State match for the Arizona Financial Aid Trust (AFAT), which is used to provide immediate aid to students with verifiable financial needs; assist students who, by virtue of special circumstances, present a unique need for financial aid; and create an endowment for future financial aid.

STEM Teachers. The Executive Recommendation provides a total \$7 million in FY 2009 for all three universities to recruit, teach and retain teachers in STEM (science, technology, engineering and mathematics) areas, with a special focus on middle and secondary schools.

The goals of this initiative are to:

- aggressively recruit students to become middle schools and secondary teachers in the STEM areas, with special emphasis on attracting

more students from typically under-represented populations;

- offer innovative workshops in the STEM content areas for existing teachers;
- take a P-20 approach that aims to expand the pipeline of students and effective teachers beginning in the earliest grades and continuing through university work;
- increase teacher production annually; and
- offer innovative courses through validated and effective instruction, such as creating and offering coursework that combines content with best practice pedagogy.

The recommended funding is an investment in the state's work force and enhances Arizona's ability to compete globally.

Capital Needs. Phase I of meeting the universities' capital needs is construction of the Medical Education Building and Arizona Biomedical Collaborative II at the Phoenix Biomedical Campus. The \$470 million construction of these two research and education buildings is a joint venture of the three universities, which will share the facility in conducting related programs such as the medical school, allied health programs, bioinformatics and biotech research activities. Completion of this phase requires Legislative authorization to issue \$470 million in bonds, structured to allow debt service payments to begin in FY 2010.

In Phase II, the remaining capital needs to be addressed on each university campus includes years of deferred maintenance, building renewal and major renovations. By maintaining existing buildings at their fullest capacity, major expenditures in building replacement will be avoided. Additionally, as Arizona grows, the universities

need additional classroom space and infrastructure to accommodate enrollment growth. Completion of the projects that comprise Phase II requires Legislative authorization to issue \$966.5 million in bonds, structured to allow debt service payments to begin in FY 2011.

The Executive recommends establishing a Capital Acceleration Program (CAPs) to create a pool of funds that the universities can leverage to meet these immediate needs. By creating the funding mechanism under the CAPs program, a long-term funding solution to meet the deferred maintenance and capital requirements of Arizona's university system is established to continue laying the groundwork for the state's future.

What the Executive Budget Does for ...

COMMUNITY COLLEGES

The Executive recommends fully funding community colleges, to include:

- \$689,000 for Operating State Aid and
- \$5.5 million for Equalization Aid.

What the Executive Budget Does for ...

CHILDREN

AHCCCS KidsShare. All Arizona children must have access to health care. To that end, the Executive proposes that the KidsShare program allow children who are not eligible for Arizona Health Care Cost Containment System (AHCCCS) or KidsCare health insurance to buy health insurance through the State's existing contracts with private insurance companies. This will allow children whose families cannot obtain health insurance from other sources to have insurance, subject to certain conditions.

Permanency for Children. Adoption is the process by which a parent's legal rights have been severed and a new permanent placement must be provided to a child. For some children in the Child Protective Services (CPS) system, families may wish to provide a stable home for the child without severing a relative's parental rights. In these instances, CPS seeks to place the child in a permanent guardianship that, while not severing the parents' legal rights, does provide a more permanent placement for the child. The Executive

Recommendation includes a \$10.7 million General Fund increase to cover new caseload growth in these programs in FY 2009.

Children's Services. The Department of Economic Security has increased its focus on strengthening and maintaining families, but when this is not possible children may be removed from their homes. The Executive Recommendation provides an additional \$15 million in supplemental funding in FY 2008 and \$15.2 million in FY 2009 to continue to provide adequate funding for a program that is critical to keeping children safe.

Arizona Families First. Nearly 80% of CPS families struggle with substance abuse. Arizona Families First, a nationally recognized program, reduces the burden on CPS workers by providing treatment and support services to needy families that might otherwise lose their children to foster care. The Executive Recommendation seeks to increase this funding by \$2.5 million as the need continues to grow.

Child Fatality Review. For nearly 15 years, the Child Fatality Review program has reviewed all child fatalities in the state to provide the community with information on how to prevent child deaths. Because funding for this program has remained flat, teams of volunteers no longer receive funds necessary for travel and supplies. The Executive Recommendation includes funding to ensure that every child fatality is reviewed.

What the Executive Budget Does for ...

HEALTHCARE

KidsCare Parents. The KidsCare Parents program provides health insurance to approximately 13,000 parents of children enrolled in the KidsCare program. The program is slated to end on June 30, 2008; consequently, the Executive Recommendation provides \$12.2 million General Fund to fund the KidsCare Parents program through FY 2009. The State will qualify to receive enhanced federal funds for these parents.

Title XIX Developmentally Disabled Long Term Care. The long-term care population includes individuals with mental disabilities, cerebral palsy,

autism and epilepsy. Funding for this program supports the Arizona Training Program at Coolidge, smaller State-operated homes, case management, home services, respite care and medical services for the eligible population. The Executive Recommendation includes \$33.7 million to fund an estimated 6.5% caseload growth in the Title XIX developmentally disabled population and a 3.5% capitation rate increase. These funds will allow the State to provide services to developmentally disabled individuals at a level that is consistent with federal law.

Early Intervention Services. Early intervention is a continuum of developmental services, such as service coordination, therapy, caregivers, etc., designed to support the promotion of a child's development. The Executive recommends \$3.5 million to fund the early detection of developmental disabilities, such as autism, in children ages three and younger.

Primary Care Provider Loan Repayment Expansion. In support of improving the availability of primary care and dental services in underserved areas, the Executive Recommendation provides funding for 40 additional doctors, dentists, nurse practitioners and other primary care providers to receive student loan repayments.

Nurses' Compensation. To ensure that State agencies offer the necessary quantity and quality of nursing care, the Executive Recommendation includes \$1 million for a needed salary increase for State-employed nurses, including nurses at the State Veterans' Home.

What the Executive Budget Does for ...

SENIORS

Protection of Vulnerable Adults. Over 40,000 Arizonans receive institutional or community-based long-term care services. Between now and 2022, Arizona's population over the age of 85 will double. Improvements must be made to the system now, so that Arizona will be able to effectively meet the needs of the increasing number of seniors receiving assisted living services. The Long Term Care Ombudsman Program represents the interests of the public by investigating and addressing citizen complaints against nursing

facilities. The Executive recommends \$431,800 for three additional long term care ombudsmen and two statewide positions for oversight. These positions will continue to monitor nursing facilities and address the complaints of our senior citizens.

Nursing Facility Performance Incentives. The focus of nursing facility regulation has historically been on ensuring a minimum level of care and correcting deficiencies. While these efforts are crucial, the Executive Recommendation proposes encouraging facilities to meet the highest standards of care, by providing incentives for facilities that meet benchmarks for improved care. To that end the recommendation includes \$591,500 to leverage an additional \$3.9 million in federal and county funds to provide pay-for-performance incentives for facilities that produce improved patient health outcomes and lower medical cost.

What the Executive Budget Does for ...

FAMILIES

Domestic Violence. In a typical 12-month period, approximately 8,000 requests for shelter from domestic violence are denied. The Executive Recommendation includes \$3.3 million from the General Fund to continue to address the large unmet need for emergency shelter beds for domestic violence victims.

The Executive Recommendation will shelter an additional 4,000 victims of domestic violence. This third phase of a four-year initiative to eliminate the unmet need for emergency shelter addresses approximately one-half of the remaining unmet need.

Family Planning. Planned pregnancies improve birth weights, reduce birth defects and infant mortality and, in the longer term, reduce child abuse and neglect. The Executive Recommendation includes funding for family planning services targeted to uninsured or underinsured men and women at community colleges in Arizona. Family planning efforts at community college campuses would be more likely to reach men and women who are in their early 20s. The highest percentage of unplanned pregnancies (33%) occurs in the 20-24 age group. Additionally, the

Recommendation proposes expanding AHCCCS eligibility for family planning services by eliminating the eligibility requirement that a person must have been a member of the AHCCCS program for pregnant women. The proposed change would allow all eligible members up to 150% of the federal poverty level to access services, with the federal government paying for 90% of the costs. This effort will bring family planning services to an estimated 25,900 people by June 2009.

What the Executive Budget Does for ...

CORRECTIONS

Prison Beds. The Executive recommends, in addition to the new facilities authorized during the last Legislative session, the conversion of the Department of Juvenile Corrections' 144-bed Sunrise Unit to serve as an adult, minimum security facility to be managed by DOC. The Sunrise unit is a stand-alone facility adjacent to the Lewis Prison and has been vacant since 2004.

The Executive Budget also contains recommendations for the continuation of normal operations of the prison system, including funding for the marginal cost of additional inmates for expenses such as food and clothing, inflationary increases for outside medical expenditures, and the continuation of the pilot program to use GPS monitoring of parolees convicted of crimes against children.

Jail Incarceration. To ease the growth of the inmate population in Arizona prisons, the Executive recommends that certain low-level, nonviolent types of offenders serve their sentences in jails rather than be transferred to the more expensive prison system. Implementation is expected to cause the number of needed prison beds to decline incrementally to 2,273 by the end of FY 2009, saving \$61 million in provisional bed costs. In FY 2010, at full implementation, total savings are estimated at \$91 million.

Juvenile Corrections. The size of the juvenile population at DJC's secure care facilities has remained fairly level; nevertheless, DJC will require additional funding in FY 2009. Important components of the recommended funding include arsenic remediation at Adobe

Mountain School, maintenance of facilities for life and safety dangers, and nurse pay adjustments.

What the Executive Budget Does for ...

LAW ENFORCEMENT

DPS Operations. The Executive recommendation for the Department of Public Safety (DPS) provides officer pay increases; increased staffing at the DPS crime laboratories; assistance in the Concealed Carry Weapons Unit and the Vehicle Impoundment Hearings programs; and continued support for basic requirements such as vehicles, safety equipment and communications needs.

Interoperable Communication System. The Executive Recommendation provides for completion an interoperable communications system covering an area occupied by 85% of the people in the State. This will allow real-time communications among all public safety agencies. The Executive recommends \$50 million through lease-purchase funding for the purpose of completing this stage of the project.

Highway Photo Enforcement. The Executive recommends enhancing photo radar enforcement on the State's highways and dedicating the resulting revenue to DPS operations. Prompt enactment and implementation of the new highway photo Enforcement legislation would provide an estimated \$90 million in the first year to respond to growing needs in the critical areas of border security, criminal investigations public safety assistance on State highways.

What the Executive Budget Does for ...

EMERGENCY PREPAREDNESS

Operations Center. The State's emergency response and preparedness is coordinated through the State Emergency Operations Center (EOC) at Papago Military Reservation. To upgrade the EOC to a level that will allow it to support the State's emergency response mandate, the Executive recommends lease-purchase financing for the EOC's renovation and expansion.

Homeland Security. The need for additional support for the State's homeland security agency was confirmed by the State Auditor General's

performance audit, which revealed a need for the Department to improve its financial controls and its grant awarding and monitoring process.

To address the findings of the performance audit, the Executive Recommendation raises the Department's operational budget from 4.8% of total grants administered to 6.5%, a level that is still significantly lower than the average for most federal grants.

What the Executive Budget Does for ...

TRANSPORTATION

The Executive Recommendation will enable the Department of Transportation (ADOT) to:

- carry out its \$6.6 billion five-year transportation construction program for Fiscal Years 2008 through 2012,
- continue toward completion of the \$5.4 billion Maricopa Regional Freeway System, and
- accelerate freeway construction projects that have been approved pursuant to Statewide Transportation Acceleration Needs (STAN).

The Executive Recommendation supports a \$2.3 billion transportation infrastructure program for FY 2009. The funding level will provide \$1.5 billion for highway construction, \$320 million for debt service, and \$477.3 million for highway maintenance, administration and motor vehicle services. In accordance with statutes, the actual expenditures levels are determined within the scope of the Five Year Highway Construction Program as approved by the State Transportation Board. The recommendation includes the following funding initiatives.

- Controlled Access Highways (\$114.5 million)
- Highway Maintenance and Safety (\$5 million)
- Enhanced Driver Licenses (\$3.6 million)
- Port-of-Entry Inspections (\$308,300)

Airport Development. The FY 2009 Executive Recommendation provides \$28.9 million from the State Aviation Fund for development and improvement of State, county and municipal airports as approved by the State Transportation Board.

What the Executive Budget Does for ...

ECONOMIC DEVELOPMENT

The Arizona Economic Resource Organization (AERO) is building a community- and global-based focus to bring various talents and groups together for the benefit of the state's urban and rural areas. AERO is an umbrella that will serve to coordinate and guide key efforts of the economic development community. AERO is a privately funded not-for-profit alliance that will streamline, unify and enhance Arizona's economic development efforts to enhance the state's position in the global marketplace.

Statistical Research. Accuracy in the gathering and analysis of population and labor statistics provided to existing and prospective employers is vital to job growth, particularly in rural Arizona.

The Executive recommends \$774,400 to strengthen the Research Administration in order to meet State and local needs. The recommendation also funds two labor market economist positions and two previously unfunded vacant research positions to assist and support rural and small Arizona communities.

What the Executive Budget Does for ...

PUBLIC RECREATION

Parks Maintenance. State parks annually provide historical preservation, outdoor recreation and scenic beauty to over two million people, nearly half of whom visit from other states and countries. The FY 2009 Executive Budget includes \$1.5 million for parks' operating expenses, which will allow the State Parks Board to use a like amount from the Enhancement Fund for deferred maintenance costs. With this recommendation, the State will achieve environmental compliance, prevent deterioration of historical sites, and meet structural needs such as roofing, foundation and water system repairs.

Game and Fish. Stewardship of the state's wildlife is a key aspect of natural resources management.

OUI Reduction. Alcohol-related accidents on Arizona waterways continue to be a major problem. In a typical year, about 41% of Arizona's known boating accident deaths are related to alcohol consumption. A.R.S. § 5-311 established

the Watercraft Operating Under the Influence (OUI) Reduction Program, and the Department continues to improve its desired outcomes. The FY 2009 budget includes \$1 million from the Watercraft Licensing Fund for the Watercraft OUI Reduction Program.

Watercraft and Boating Safety Education. The FY 2009 budget provides an increase of \$1.3 million to support the Department's efforts in furthering public information and boating safety education. The funding will build on the progress made in this program and will enhance outreach activities to inform the public on alcohol consumption and related unsafe watercraft operations.

Vehicle Replacement. The budget includes \$1 million to provide for the replacement of field vehicles and to enable the Department to maintain its regular schedule for equipment replacement.

Information Technology. The enacted budget provides \$260,000 in FY 2009 for information technology enhancements.

Shooting Range Development. The 1,679-acre Ben Avery Shooting Range is the world's largest publicly operated recreational and competitive shooting sports complex. In September 2006, operational responsibility of the Clay Target Center shifted from a private entity to the Game and Fish Commission, requiring additional financial resources. The enacted budget includes \$500,000 in FY 2009 for required funding.

Urban Fishing. Higher fish production, the delivery of fish contracts, and the addition of new lakes to the program's inventory have driven up operating costs. The enacted budget provides an additional \$37,000 in FY 2009 to meet increased costs and demand for services.

Radio Communications. The enacted budget includes \$250,000 FY 2009 for the purchase of radio towers in the lower and upper regions of the Colorado River. Establishing radio communication will enhance the Department's field operations network and support the State's enforcement and monitoring with other entities.

Lower Gila Wildlife Area. The enacted budget provides \$75,000 in FY 2009 to enhance the wildlife resources near the Lower Gila Wildlife Area. The Depart-

ment plans to improve the area's irrigation capabilities and increase the acreage of croplands planted for wildlife food crops. Target species would include small game such as white-winged and mourning dove, quail and rabbits. Big game would include javelina and mule deer.

Deer Restoration. The enacted budget provides \$200,000 from the Game and Fish Fund for the North Kaibab Deer Habitat restoration project. This initiative involves about 24,000 acres to mitigate the damages and restore the areas that were burned in 1996 Bridger Complex wildfire.

Watercraft Cost Transfer. Finally, the enacted budget provides an additional \$50,000 in FY 2009 to cover labor cost allocations and related increases due to wider enforcement areas and salary adjustments approved by the Legislature.

What the Executive Budget Does for ...

RURAL COMMUNITIES AND AGRICULTURE

Rural Broadband Connectivity. Broadband connectivity is an essential economic development asset for rural Arizona, and the Executive Recommendation includes \$2 million for that purpose. Rural broadband connectivity will require a partnership between two key State agencies – the Government Information Technology Agency (GITA) and the Department of Commerce – working in cooperation with private sector providers and rural communities.

Ports of Entry. Arizona's ports of entry are the first line of defense against dangerous and costly pest infestations. The Department of Agriculture estimates that 100,000 regulated trucks pass through the State's ports of entry without inspection. The FY 2009 Executive Recommendation provides a total of 20 positions (including 10 that were approved during the 2007 Legislative session) to open and staff inspections at two ports of entry on the California border, as well as conduct round-the-clock inspections at Yuma. As a result of this initiative, pest interceptions are anticipated to increase from 12,185 in FY 2006 to 22,000 by FY 2009.

Food Safety and Meat Inspections.

The Executive recommends \$594,300 and 10 positions to enhance the Department of Agriculture's inspection programs. Included in the recommendation are \$422,500 and 9.0 FTE inspector positions to address workload increases at the ports of entry.

The recommendation also includes \$171,800 to fund two vacant positions and to hire an additional FTE inspector. The recommendation strengthens the Meat Inspection Program, which is designed to ensure safe meat production and compliance with industry standards.

Pesticides. Commercial users of pesticide are required to dispose of unused pesticides and recycle large pesticide containers. The FY 2009 Executive Recommendation includes \$100,000 to help pesticide users comply with this environmental protection requirement.

Laboratory. The Executive recommendation provides an additional \$336,000 to replace obsolete testing equipment and otherwise meet the growing burden of laboratory testing, and to hire a microbiologist and an entomologist.

What the Executive Budget Does for ...

WATER AND NATURAL RESOURCES

Automated Groundwater Monitoring. Instances of drinking water degradation and other environmental problems pose growing threats to the state's economy and quality of life. To address those threats, the Department of Water Resources' budget for Fiscal Years 2008 and 2009 provides \$500,000 and two additional positions (in FY 2009) for automated groundwater monitoring.

Conservation and Drought Programs. The FY 2009 enacted budget includes \$500,000 and six positions to constitute a new Conservation and Drought Office to implement innovative conservation strategies statewide.

Transportation Impact. Transportation activities have a significant environmental impact. Federal and State regulations require that ADOT implement and manage an effective environmental stewardship program covering all of its business areas. The Executive recommendation includes \$382,700 to

establish two Environmental Engineer and two Environmental Planner positions to help address workload increases, improve technical assessments and enable ADOT to comply with federal and State environmental laws.

Environmental Quality. The mission of the Arizona Department of Environmental Quality (ADEQ) is to protect public health and the environment through the enforcement of air, water and land quality standards. The FY 2009 budget includes several components designed to protect the environment and public health, including:

- a statutory funding transfer to the Water Quality Assurance Revolving Fund (WQARF) to identify, assess and clean up groundwater contamination caused by the release of hazardous substances;
- funding of \$863,800 in FY 2009 to address permitting backlogs and workload increases in ADEQ's Water Quality Division;
- \$271,300 to strengthen the State's efforts to monitor cross-boundary hazardous waste shipments entering the state at Douglas, Nogales and San Luis;
- \$100,000 and one position for hazardous air emergency response;
- \$155,100 and two positions to oversee remediation along the Colorado River and help protect the water quality of the Colorado River against a hexavalent chromium plume caused by Pacific Gas & Electric near Topock;
- \$1 million and eight positions to strengthen regulation and address permit application backlogs related to public water system wells, treatment plants, distribution systems, line extensions and other drinking water infrastructure;
- \$150,000 and three positions to implement a recycling assistance program and to ensure compliance with applicable recycling regulation; and
- \$211,800 and three positions for air quality compliance support, to help with the enforcement of Title V air permits and related violations. •

Budget Summary

STATE OF ARIZONA
SOURCES AND USES OF FUNDS
GENERAL FUND
(In Thousands)

	FY 2007 Actual	FY 2008 Executive Recommendation	FY 2009 Executive Recommendation
SOURCES OF FUNDS			
Balance Forward	1,046,460.1	377,947.0	10,000.0
<i>Adjustment to Balance Forward</i>	(23,555.0)	0.0	0.0
Base Revenues	10,108,900.7	10,208,103.3	10,842,600.1
<i>Urban Revenue Sharing</i>	(551,230.7)	(684,538.9)	(717,127.6)
<i>Urban Revenue Sharing FY03 and FY04 Repayment</i>	0.0	0.0	(10,549.8)
Adjusted Base Revenues	9,557,670.1	9,523,564.4	10,114,922.7
SFB Building Renewal Transfer <i>1/</i>	60,080.5	0.0	0.0
Ladewig Refunds	(80,735.9)	0.0	0.0
Unclaimed Property	0.0	45,000.0	0.0
Excess Balance Transfer from BSF	18,576.0	0.0	0.0
TOTAL SOURCES OF FUNDS	10,578,495.8	9,946,511.5	10,124,922.7
USES OF FUNDS			
Operating Budgets	9,761,497.7	10,643,946.4	11,421,959.9
Operating Budget Supplementals	0.0	120,714.6	0.0
Payback K-12 Rollover <i>2/</i>	191,000.0	0.0	0.0
Transfer to Rainy Day Fund (Budget Stabilization)	9,808.6	0.0	0.0
Nursing Pay Adjustment		0.0	1,000.0
Total Operating Budgets	9,962,306.3	10,764,661.0	11,422,959.9
Building Renewal and Capital Outlay	80,354.2	19,934.5	17,200.0
Highway Construction	245,000.0	0.0	0.0
Administrative Adjustments	75,105.5	97,700.0	45,211.6
Revertments	(162,217.2)	(75,352.6)	(79,960.7)
Reserve for Ending Balance		10,000.0	10,000.0
USES OF FUNDS	10,200,548.8	10,816,942.9	11,415,410.7
ENDING BALANCE	377,947.0	(870,431.4)	(1,290,488.0)
TOTAL USES OF FUNDS	10,578,495.8	9,946,511.5	10,124,922.7
Executive Recommendation for Budget Balancing			
Agency Spending Reductions		214,055.4	139,580.0
Revenue Generation			186,000.0
Budget Stabilization Fund Transfer (Rainy Day Fund)		263,376.0	196,558.0
Delaying K-12 State Aid Payment			297,000.0
Capital Financing		393,000.0	471,350.0
Total Executive Recommendation for Budget Balancing		870,431.4	1,290,488.0

1/ In FY06, School Facilities Board transferred \$60 million more from the General Fund to its building renewal fund than it was entitled to. The adjusting transfer was not made in FY06, but was done in FY07.

2/ \$191M K-12 Rollover and \$35M AZ Science Foundation were recorded as FY06 appropriations, but did not occur in FY06 as intended by the legislation since the effective date of the appropriation was beyond the end of FY06. Therefore these amounts are shown in FY07.

Sources and Uses of Funds

THE SOURCES AND USES of funds document presents budget data on projected revenue sources and expenditures for the General Fund.

For FY 2007, the data reflect actual expenditures taken from the State’s Accounting and Financial Information System.

FY 2008 revenues reflect OSPB¹ projections of taxes, fees and other General Fund revenue sources, while FY 2008 Uses of Funds reflect appropriations made by the Legislature in the 2007 Legislative session for FY 2008.

FY 2009 sources and uses include OSPB projections of taxes, fees and other General Fund revenue sources and estimates of expenditures in support of the Executive FY 2009 Budget Recommendation.

SOURCES OF FUNDS

Revenue Projections. The OSPB revenue estimating process involves participation by representatives from the Department of Revenue, Department of Economic Security, Arizona State University College of Business and OSPB. The process includes:

- *Presentation of projection scenarios for the State’s economy.* Each participant provides independent views of projection scenarios based on various projection techniques and models.
- *Consensus reached on forecasts of economic variables, including personal income, employment and gross domestic product.* These variables serve as inputs to the revenue projections. Baseline, optimistic and pessimistic scenarios are finalized.
- *Presentation of revenue projections for the “Big Three” tax sources based on economic scenarios.* Each participant provides independent views on revenue projections for the economic scenarios. Revenue flows of recent tax collections are analyzed for consistency with projections.

- Blending of revenue projections by OSPB to reflect an achievable revenue collection scenario.

Urban Revenue Sharing. Laws 2006, Chapter 351 provided that for FY 2009, cities and towns are to receive a special one-time Urban Revenue Sharing distribution of \$10,549,800 as a repayment of the reduction in the Urban Revenue Sharing distribution percentage of 14.8% in FY 2003 and FY 2004.

USES OF FUNDS

Operating Budget Supplementals. The budget includes \$120.7 million for supplemental appropriations for agencies in FY 2008. This estimate reflects projected shortfalls for the following departments:

AHCCCS:	\$12.3 million
Administration:	2.0 million
Economic Security:	29.5 million
Health Services:	9.9 million
School Facilities Board:	67.0 million

Nurses’ Compensation. The Executive recognizes that growth in the demand for health care continues to grow rapidly within the state, which strains the supply of health care workers, specifically nurses. There is an expected shortage of 1,300 nurses across the state for FY 2009, and this shortage will drive up nurses’ wages. For State agencies to stay competitive within the market, the Executive Recommendation includes \$1 million for a 2% salary increase in FY 2009. This represents an average increase of \$1,226 per State-employed nurse per year.

Building Renewal and Capital Outlay. The budget includes \$17.2 million in funding in FY 2009 for Capital Improvements and Building Renewal. Funding is included for the following projects:

- to secure and replace non-working prison cell doors and locks through the Corrections system,
- to repair and replace building systems, including fire, emergency, air

- ventilation and electrical systems at several state buildings, and
- general building renewal.

Administrative Adjustments and Reversions. The budget includes an estimate of \$45 million for administrative adjustments in FY 2009, which reflect funds that have been encumbered by agencies for payment of obligations but are carried over into another fiscal year. Additionally, the budget incorporates projections of unexpended or unencumbered funds to be reverted to the General Fund in FY 2009. These projections reflect historical experience. •

¹ Governor’s Office of Strategic Planning and Budgeting

**STATE OF ARIZONA
GENERAL FUND
REVENUE SUMMARY
FY 2007 THROUGH FY 2009
(in thousands)**

<u>TAXES</u>	Actual FY 2007	Estimate FY 2008	Estimate FY 2009
Corporate Income	986,170.0	935,500.0	974,700.0
Individual Income	3,735,703.7	3,746,090.0	4,071,230.0
Property Taxes	24,486.0	21,000.0	21,000.0
Sales and Use	4,457,529.0	4,633,170.0	4,905,060.0
Luxury Taxes	65,809.0	67,389.1	70,000.0
Insurance Premium Taxes	399,817.0	415,918.9	439,991.0
Estate Taxes	(550.8)	0.0	0.0
Other Taxes	3,159.5	3,000.0	3,000.0
TOTAL TAXES	9,672,123.4	9,822,068.0	10,484,981.0
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits/Misc.	146,466.1	143,000.0	143,000.0
Interest Earnings	104,753.7	96,000.0	80,000.0
Lottery	52,922.0	40,000.0	40,000.0
Transfers & Reimbursements	19,508.9	33,178.0	20,000.0
Disproportionate Share	113,127.3	73,857.3	74,619.1
TOTAL OTHER REVENUES	436,778.0	386,035.3	357,619.1
TOTAL REVENUES	10,108,901.4	10,208,103.3	10,842,600.1
 ADJUSTMENTS			
Urban Revenue Sharing	(551,230.7)	(684,538.9)	(727,677.4)
GRAND TOTAL REVENUES	9,557,670.7	9,523,564.4	10,114,922.7

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2007	FY 2008	FY 2008	FY 2008	FY 2008	FY 2009	FY 2009
	Expendi- tures	Appro- priation	Changes and Adjustments	Executive Budget	Base / FY 2009 Approp	Changes and Adjustments	Executive Budget
Arizona Department of Administration	29,474.7	33,312.2	513.6	33,825.8	33,312.2	(5,906.9)	27,405.3
Office of Administrative Hearings	1,214.6	1,283.3	(4.5)	1,278.8	1,213.9	(4.5)	1,209.4
Arizona Department of Agriculture	11,333.1	12,481.6	(600.0)	11,881.6	12,117.5	326.9	12,444.4
Arizona Health Care Cost Containment System	1,132,470.2	1,269,136.0	8,390.4	1,277,526.4	1,269,136.0	248,190.1	1,517,326.1
Arizona Commission on the Arts	3,887.6	2,127.6	(100.0)	2,027.6	2,088.1	(10.0)	2,078.1
ASU - Polytechnic	19,980.9	25,915.9	0.0	25,915.9	25,915.9	6,150.3	32,066.2
ASU - Tempe	354,043.4	416,764.8	(5,250.0)	411,514.8	416,764.8	3,456.2	420,221.0
ASU - West	49,096.1	53,604.4	(1,000.0)	52,604.4	53,604.4	3,216.4	56,820.8
Attorney General - Department of Law	22,061.1	24,651.9	0.0	24,651.9	21,382.9	144.4	21,527.3
Auditor General	15,808.1	18,791.5	(563.0)	18,228.5	17,891.9	(265.0)	17,626.9
Arizona Biomedical Research Commission	0.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0
State Capital Post-Conviction Public Defender Office	23.4	737.9	(15.0)	722.9	721.7	1,257.5	1,979.2
State Board for Charter Schools	752.7	1,129.5	0.0	1,129.5	1,051.0	0.0	1,051.0
Department of Commerce	11,802.2	15,925.1	(500.0)	15,425.1	15,722.2	1,179.2	16,901.4
Arizona Community Colleges Corporation Commission	165,536.6	167,744.8	(1,000.0)	166,744.8	167,744.8	5,166.8	172,911.6
Department of Corrections	815,046.2	910,277.2	(19,416.9)	890,860.3	910,277.2	(11,613.5)	898,663.7
Arizona Criminal Justice Commission	4,103.5	2,202.0	(1,000.0)	1,202.0	4,102.0	(100.0)	4,002.0
Arizona State Schools for the Deaf and the Blind	19,790.2	22,010.4	0.0	22,010.4	20,681.3	65.9	20,747.2
Department of Economic Security	723,613.9	794,336.4	22,990.8	817,327.2	794,336.4	84,375.4	878,711.8
Department of Education	4,156,036.6	4,363,465.1	(4,900.0)	4,358,565.1	4,363,465.1	163,390.8	4,526,855.9
Department of Emergency and Military Affairs	11,078.0	14,581.6	(100.0)	14,481.6	14,283.2	413.6	14,696.8
Department of Environmental Quality	14,078.9	32,979.0	(1,600.0)	31,379.0	32,311.3	(750.0)	31,561.3
Governor's Office for Equal Opportunity	245.7	260.8	0.0	260.8	245.2	0.0	245.2
State Board of Equalization	644.7	672.9	(14.0)	658.9	653.5	(14.0)	639.5
Board of Executive Clemency	1,046.7	1,153.5	(60.0)	1,093.5	1,087.4	(60.0)	1,027.4
State Department of Financial Institutions	3,665.3	4,081.8	(200.0)	3,881.8	4,081.8	(51.0)	4,030.8
Department of Fire, Building and Life Safety	3,488.9	3,922.1	(300.0)	3,622.1	3,764.0	(199.5)	3,564.5
Arizona Geological Survey	1,023.0	1,151.9	(60.0)	1,091.9	1,073.9	(60.0)	1,013.9
Government Information Technology Agency	1,500.0	2,000.0	(100.0)	1,900.0	2,000.0	7,394.8	9,394.8
Office of the Governor	6,488.5	7,476.9	(225.0)	7,251.9	7,134.8	(225.0)	6,909.8
Department of Health Services	539,558.7	583,432.2	4,709.5	588,141.7	583,432.2	30,826.2	614,258.4
Arizona Historical Society	4,286.9	4,521.3	(80.0)	4,441.3	4,398.8	(15.0)	4,383.8
House of Representatives	11,350.2	14,276.5	0.0	14,276.5	13,854.8	0.0	13,854.8
Arizona Commission of Indian Affairs	221.8	237.7	(5.0)	232.7	223.3	(2.4)	220.9
Department of Insurance	7,710.5	7,800.8	(435.5)	7,365.3	7,365.8	(360.6)	7,005.2
Joint Legislative Budget Committee	1,133.8	3,040.9	0.0	3,040.9	2,948.6	0.0	2,948.6
Judiciary	123,369.5	128,221.5	(1,146.3)	127,075.2	128,221.5	0.0	128,221.5
Department of Juvenile Corrections	79,532.9	81,449.8	0.0	81,449.8	81,449.8	(1,500.0)	79,949.8
State Land Department	26,269.2	27,329.5	(750.0)	26,579.5	25,917.8	(750.0)	25,167.8

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
Law Enforcement Merit System Council	76.3	79.3	(2.0)	77.3	74.2	(2.0)	72.2
Legislative Council	4,732.2	5,717.1	0.0	5,717.1	5,576.1	0.0	5,576.1
Arizona State Library, Archives & Public Records	7,448.5	7,787.6	0.0	7,787.6	7,536.3	0.0	7,536.3
Department of Liquor Licenses and Control	3,469.3	3,646.2	(150.0)	3,496.2	3,534.1	(137.0)	3,397.1
Board of Medical Student Loans	1,440.9	1,500.0	0.0	1,500.0	1,500.0	0.0	1,500.0
State Mine Inspector	1,106.7	1,884.8	(17.0)	1,867.8	1,884.8	(115.0)	1,769.8
Department of Mines and Mineral Resources	843.2	950.8	(10.0)	940.8	839.9	(10.0)	829.9
Arizona Navigable Stream Adjudication Commission	163.9	180.0	(4.0)	176.0	0.0	0.0	0.0
Northern Arizona University	128,262.5	160,868.8	0.0	160,868.8	160,868.8	8,654.0	169,522.8
State Board of Nursing	151.5	167.3	0.0	167.3	166.0	0.0	166.0
State Parks Board	26,829.8	28,212.2	(345.0)	27,867.2	28,400.0	(95.0)	28,305.0
Personnel Board	338.6	370.8	0.0	370.8	357.9	0.0	357.9
Arizona Pioneers' Home	1,227.0	1,260.0	0.0	1,260.0	1,236.0	0.0	1,236.0
Commission for Postsecondary Education	6,620.8	7,427.3	(5,300.0)	2,127.3	7,420.8	0.0	7,420.8
Prescott Historical Society of Arizona	752.2	780.7	(15.0)	765.7	734.0	(2.0)	732.0
Department of Public Safety	166,196.6	177,708.0	(1,721.1)	175,986.9	177,708.0	(142,476.9)	35,231.1
Arizona Department of Racing	2,748.8	2,851.1	(150.0)	2,701.1	2,747.9	(65.5)	2,682.4
Radiation Regulatory Agency	1,438.6	2,249.7	(80.0)	2,169.7	2,240.7	(20.0)	2,220.7
Arizona Rangers' Pension	13.0	13.4	0.0	13.4	13.7	0.0	13.7
Department of Real Estate	3,984.7	4,614.0	(230.8)	4,383.2	4,438.5	(217.5)	4,221.0
Arizona Board of Regents	14,775.7	20,598.0	0.0	20,598.0	20,598.0	0.0	20,598.0
Department of Revenue	71,639.0	76,942.1	(2,393.3)	74,548.8	71,849.2	6,629.4	78,478.6
School Facilities Board	413,761.5	532,695.1	(326,000.0)	206,695.1	532,695.1	(365,198.8)	167,496.3
Department of State - Secretary of State	6,985.0	7,222.3	(212.0)	7,010.3	6,980.0	(5.0)	6,975.0
Senate	7,464.3	9,476.3	0.0	9,476.3	9,193.0	0.0	9,193.0
Governor's Office of Strategic Planning and Budgeting	2,211.1	2,313.6	(69.4)	2,244.2	2,209.9	(5.0)	2,204.9
State Board of Tax Appeals	272.0	317.9	(6.3)	311.6	305.2	(1.0)	304.2
Arizona Office of Tourism	14,261.6	15,649.4	(1,000.0)	14,649.4	16,622.2	(300.0)	16,322.2
Department of Transportation	83.0	86.6	(2.0)	84.6	86.6	(2.0)	84.6
State Treasurer	5,404.5	5,616.7	(335.5)	5,281.2	5,616.7	(232.2)	5,384.5
Commission on Uniform State Laws	51.1	0.0	0.0	0.0	0.0	0.0	0.0
University of Arizona - Health Sciences Center	69,098.5	80,954.2	0.0	80,954.2	80,954.2	1,353.7	82,307.9
University of Arizona - Main Campus	320,798.1	362,389.2	(5,250.0)	357,139.2	362,389.2	392.8	362,782.0
Department of Veterans' Services	5,087.2	9,284.8	(430.0)	8,854.8	8,220.6	0.0	8,220.6
Department of Water Resources	22,068.9	24,074.6	(1,000.0)	23,074.6	24,167.7	(1,000.0)	23,167.7
Department of Weights and Measures	1,625.5	1,710.8	(100.0)	1,610.8	1,640.2	(10.0)	1,630.2
Statewide Adjustments	35,000.0	25,000.0	0.0	25,000.0	25,000.0	0.0	78,078.5
General Fund Operating Total	9,726,674.5	10,643,946.4	(347,820.0)	10,296,126.4	10,628,325.0	40,626.4	10,722,029.9

The FY 2009 Executive Budget column includes much of the Governor's Executive Recommendation for budget balancing included in individual agency operating budgets.

**STATE OF ARIZONA
OTHER APPROPRIATED FUNDS
REVENUE SUMMARY
FY 2007 THROUGH FY 2009
(in thousands)**

<u>TAXES</u>	Actual FY 2007	Estimate FY 2008	Estimate FY 2009
Motor Vehicle Fuel Tax	721,594.8	747,954.0	798,873.0
Property Taxes	23,054.8	23,700.0	24,600.0
Sales and Use Taxes	6,896.8	13,956.4	13,260.8
Luxury Taxes	246,946.4	179,011.7	179,559.8
Insurance Premium Tax	38,919.7	39,210.7	40,659.4
Motor Carrier License Tax	22,272.9	25,177.0	23,206.6
UST Contents Tax	51,035.5	53,939.8	51,969.4
Vehicle License Taxes	378,620.6	417,978.0	457,479.0
Other Taxes	4,969.1	12,054.0	12,645.0
TOTAL TAXES	1,494,310.6	1,512,981.6	1,602,253.0
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits	341,959.6	361,557.6	353,976.6
Charges for Service	1,543,672.9	1,556,595.6	1,617,848.6
Interest Earnings	88,000.7	57,712.2	56,754.5
Miscellaneous Revenues	304,035.2	328,208.6	319,784.5
Lottery	462,200.0	478,100.0	485,500.0
TOTAL OTHER REVENUES	2,739,868.4	2,782,174.0	2,833,864.2
 <u>OTHER FINANCING SOURCES</u>			
Transfers & Reimbursements	2,353,203.9	2,037,992.8	2,140,017.7
 GRAND TOTAL REVENUES	 6,587,382.9	 6,333,148.4	 6,576,134.9

*Other Appropriated Funds Revenues include all revenues for funds which may only be partially subject to statutory or legislative appropriation. The expenditures shown in the "Other Funds Budget Summary" are for the appropriated portion of these funds only and may represent only a small portion of the funds' total expenditures. There are several funds where a General Fund appropriation is deposited into an "Other Appropriated Fund" and these deposits are reflected in the figures above. We have also included funds from which the Governor has recommended balance transfers to the General Fund.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2007 Expendi- tures	FY 2008 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Accountancy</u>							
Accountancy Board Fund	1,003.9	2,356.9	0.0	2,356.9	2,290.2	0.0	2,290.2
Agency Total	1,003.9	2,356.9	0.0	2,356.9	2,290.2	0.0	2,290.2
<u>Acupuncture Board of Examiners</u>							
Acupuncture Board of Examiners Fund	96.6	130.5	0.0	130.5	125.5	0.0	125.5
Agency Total	96.6	130.5	0.0	130.5	125.5	0.0	125.5
<u>Arizona Department of Administration</u>							
Personnel Division Fund	16,674.5	18,437.5	0.0	18,437.5	18,437.5	114.9	18,552.4
Capital Outlay Stabilization Fund	11,652.2	11,443.9	0.0	11,443.9	11,443.9	1,784.6	13,228.5
Watercraft Licensing Fund	796.0	0.0	0.0	0.0	0.0	0.0	0.0
Corrections Fund	651.8	741.7	0.0	741.7	741.7	0.0	741.7
Air Quality Fund	565.8	575.1	0.0	575.1	575.1	275.0	850.1
Special Employee Health Fund	4,202.9	5,630.7	0.0	5,630.7	5,630.7	0.0	5,630.7
Highway User Revenue Fund	0.0	150.0	0.0	150.0	150.0	(150.0)	0.0
Motor Pool Revolving Fund	10,356.2	11,787.9	0.0	11,787.9	11,787.9	0.0	11,787.9
State Surplus Property Fund	2,795.6	4,272.3	0.0	4,272.3	4,272.3	0.0	4,272.3
Admin - Surplus Property/Federal Fund	212.1	444.3	0.0	444.3	444.3	0.0	444.3
Risk Management Fund	77,124.2	91,733.7	0.0	91,733.7	91,733.7	2,846.1	94,579.8
Automation Operations Fund	17,965.8	24,529.6	0.0	24,529.6	24,529.6	174.6	24,704.2
Telecommunications Fund	2,556.6	7,895.4	0.0	7,895.4	7,895.4	1,942.3	9,837.7
Payroll Clearing Fund	1,906.1	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	147,459.8	177,642.1	0.0	177,642.1	177,642.1	6,987.5	184,629.6
<u>Office of Administrative Hearings</u>							
Healthcare Group Fund	0.6	14.5	0.0	14.5	14.5	0.0	14.5
Agency Total	0.6	14.5	0.0	14.5	14.5	0.0	14.5
<u>Arizona Department of Agriculture</u>							
Agricultural Consulting/Training Program Fund	67.6	106.5	0.0	106.5	103.4	0.0	103.4
Agriculture Commercial Feed Fund	290.0	302.0	0.0	302.0	293.2	0.0	293.2
Egg and Egg Product Control Fund	584.3	905.9	0.0	905.9	866.7	0.0	866.7
Pesticide Fund	274.2	388.4	0.0	388.4	376.9	0.0	376.9
Agriculture Dangerous Plants Fund	21.4	40.0	0.0	40.0	40.0	100.0	140.0
Agriculture Seed Law Fund	41.3	54.5	0.0	54.5	53.2	0.0	53.2
Livestock Custody Fund	73.3	79.4	0.0	79.4	79.4	40.6	120.0
Fertilizer Materials Fund	290.6	308.0	0.0	308.0	298.5	20.0	318.5
Citrus, Fruit, and Vegetable Revolving Fund	862.0	1,092.4	0.0	1,092.4	1,044.9	0.0	1,044.9
Aquaculture Fund	7.6	9.2	0.0	9.2	9.2	0.0	9.2
AZ Protected Native Plant Fund	113.3	195.3	0.0	195.3	186.5	0.0	186.5
Agency Total	2,625.6	3,481.6	0.0	3,481.6	3,351.9	160.6	3,512.5
<u>State Board of Appraisal</u>							
Board of Appraisal Fund	553.2	623.6	0.0	623.6	593.7	0.0	593.7
Agency Total	553.2	623.6	0.0	623.6	593.7	0.0	593.7

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Arizona Health Care Cost Containment System</u>							
Tobacco Tax and Health Care Fund	76,248.9	78,306.1	0.0	78,306.1	78,306.1	(1,533.7)	76,772.4
Tobacco Products Tax Fund	28,537.3	29,264.1	0.0	29,264.1	29,264.1	(332.8)	28,931.3
Children's Health Insurance Program Fund	125,487.8	146,611.0	0.0	146,611.0	146,611.0	16,662.6	163,273.6
Budget Neutrality Compliance Fund	2,531.9	2,683.1	0.0	2,683.1	2,683.1	146.5	2,829.6
Healthcare Group Fund	3,766.5	8,468.7	0.0	8,468.7	8,468.7	(1,947.7)	6,521.0
Temporary Medical Coverage Fund	1,915.4	1,976.4	0.0	1,976.4	1,976.4	1,508.1	3,484.5
Family Planning Fund	0.0	0.0	0.0	0.0	0.0	309.9	309.9
Agency Total	238,487.8	267,309.4	0.0	267,309.4	267,309.4	14,812.9	282,122.3
<u>ASU - Polytechnic</u>							
ASU Collections - Appropriated Fund	16,548.4	21,338.4	0.0	21,338.4	21,338.4	0.0	21,338.4
Technology and Research Initiative Fund	2,000.0	2,000.0	0.0	2,000.0	2,000.0	0.0	2,000.0
Agency Total	18,548.4	23,338.4	0.0	23,338.4	23,338.4	0.0	23,338.4
<u>ASU - Tempe</u>							
ASU Collections - Appropriated Fund	208,656.4	233,624.0	0.0	233,624.0	233,624.0	0.0	233,624.0
Agency Total	208,656.4	233,624.0	0.0	233,624.0	233,624.0	0.0	233,624.0
<u>ASU - West</u>							
ASU Collections - Appropriated Fund	20,322.0	23,057.4	0.0	23,057.4	23,057.4	0.0	23,057.4
Technology and Research Initiative Fund	1,600.0	1,600.0	0.0	1,600.0	1,600.0	0.0	1,600.0
Agency Total	21,922.0	24,657.4	0.0	24,657.4	24,657.4	0.0	24,657.4
<u>Attorney General - Department of Law</u>							
Consumer Protection/Fraud Revolving Fund	1,341.9	2,214.6	0.0	2,214.6	2,128.3	0.0	2,128.3
Attorney General Antitrust Revolving Fund	314.1	243.2	0.0	243.2	232.2	0.0	232.2
Attorney General Collection Enforcement Fund	3,821.4	4,916.9	0.0	4,916.9	4,574.7	0.0	4,574.7
Attorney General Agency Services Fund	11,545.0	13,477.1	0.0	13,477.1	12,329.3	0.0	12,329.3
Victims Rights Fund	3,256.6	3,282.9	0.0	3,282.9	3,266.0	0.0	3,266.0
Risk Management Fund	8,416.3	9,958.8	0.0	9,958.8	9,189.7	0.0	9,189.7
Attorney General Legal Services Cost Allocation Fund	6,497.1	6,775.9	0.0	6,775.9	6,193.6	0.0	6,193.6
Agency Total	35,192.4	40,869.4	0.0	40,869.4	37,913.8	0.0	37,913.8
<u>Automobile Theft Authority</u>							
Automobile Theft Authority Fund	5,202.7	5,551.2	0.0	5,551.2	5,812.9	0.0	5,812.9
Agency Total	5,202.7	5,551.2	0.0	5,551.2	5,812.9	0.0	5,812.9
<u>Board of Barber Examiners</u>							
Barber Examiners Board Fund	230.7	346.5	0.0	346.5	318.1	0.0	318.1
Agency Total	230.7	346.5	0.0	346.5	318.1	0.0	318.1
<u>Board of Behavioral Health Examiners</u>							
Behavioral Health Examiner Fund	1,203.3	1,394.4	0.0	1,394.4	1,324.2	0.0	1,324.2
Agency Total	1,203.3	1,394.4	0.0	1,394.4	1,324.2	0.0	1,324.2
<u>Arizona Biomedical Research Commission</u>							
Health Research Fund	500.0	500.0	0.0	500.0	500.0	0.0	500.0
Agency Total	500.0	500.0	0.0	500.0	500.0	0.0	500.0

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Chiropractic Examiners</u>							
Chiropractic Examiners Board Fund	474.8	523.5	0.0	523.5	506.0	0.0	506.0
Agency Total	474.8	523.5	0.0	523.5	506.0	0.0	506.0
<u>Department of Commerce</u>							
Lottery Fund	271.5	287.3	0.0	287.3	275.2	0.0	275.2
Commerce Development Bond Fund	99.4	145.4	0.0	145.4	139.5	0.0	139.5
Commerce and Economic Development Fund	2,779.4	2,318.6	0.0	2,318.6	2,276.7	0.0	2,276.7
Oil Overcharge Fund	123.0	184.0	0.0	184.0	176.0	0.0	176.0
Agency Total	3,273.3	2,935.3	0.0	2,935.3	2,867.4	0.0	2,867.4
<u>Corporation Commission</u>							
Utility Regulation Revolving Fund	12,515.7	14,049.3	0.0	14,049.3	13,486.3	0.0	13,486.3
Pipeline Safety Revolving Fund	0.0	55.4	0.0	55.4	0.0	0.0	0.0
Security Regulatory and Enforcement Fund	3,454.9	3,976.8	0.0	3,976.8	3,822.3	0.0	3,822.3
Public Access Fund	3,336.7	4,385.4	0.0	4,385.4	4,332.6	338.3	4,670.9
Securities Investment Management Fund	1,865.1	935.1	0.0	935.1	889.7	0.0	889.7
Arizona Arts Trust Fund	46.1	51.3	0.0	51.3	48.3	0.0	48.3
Agency Total	21,218.5	23,453.3	0.0	23,453.3	22,579.2	338.3	22,917.5
<u>Department of Corrections</u>							
Corrections Fund	26,596.9	29,054.7	0.0	29,054.7	29,054.7	0.0	29,054.7
State Education Fund for Correctional Education Fund	917.7	1,161.4	0.0	1,161.4	1,161.4	(739.5)	421.9
DOC - Alcohol Abuse Treatment Fund	218.1	599.3	0.0	599.3	599.3	1,400.0	1,999.3
Transition Office Fund	0.0	180.0	0.0	180.0	180.0	0.0	180.0
Transition Program Drug Treatment Fund	259.0	600.0	0.0	600.0	600.0	0.0	600.0
Prison Construction and Operations Fund	10,250.0	17,626.6	0.0	17,626.6	17,626.6	(1,976.6)	15,650.0
Penitentiary Land Earnings Fund	858.6	2,925.4	0.0	2,925.4	2,925.4	(1,201.2)	1,724.2
State Charitable, Penal & Reformatory Land Earnings Fund	482.6	570.0	0.0	570.0	570.0	3,901.2	4,471.2
Agency Total	39,582.9	52,717.4	0.0	52,717.4	52,717.4	1,383.9	54,101.3
<u>Board of Cosmetology</u>							
Cosmetology Board Fund	1,662.2	1,855.6	0.0	1,855.6	1,705.4	0.0	1,705.4
Agency Total	1,662.2	1,855.6	0.0	1,855.6	1,705.4	0.0	1,705.4
<u>Arizona Criminal Justice Commission</u>							
Criminal Justice Enhancement Fund	567.7	955.0	0.0	955.0	780.6	0.0	780.6
Victim Compensation and Assistance Fund	2,873.3	3,800.0	0.0	3,800.0	3,800.0	0.0	3,800.0
State Aid to County Attorneys Fund	877.5	1,052.5	0.0	1,052.5	1,052.5	0.0	1,052.5
State Aid to Indigent Defense Fund	833.2	999.2	0.0	999.2	999.2	0.0	999.2
Agency Total	5,151.7	6,806.7	0.0	6,806.7	6,632.3	0.0	6,632.3
<u>Arizona State Schools for the Deaf and the Blind</u>							
Schools for the Deaf and Blind Fund	13,673.5	14,317.6	0.0	14,317.6	14,695.4	0.0	14,695.4
Agency Total	13,673.5	14,317.6	0.0	14,317.6	14,695.4	0.0	14,695.4
<u>Commission for the Deaf and the Hard of Hearing</u>							
Telecom for the Deaf Fund	4,076.2	5,448.1	0.0	5,448.1	5,387.3	0.0	5,387.3
Agency Total	4,076.2	5,448.1	0.0	5,448.1	5,387.3	0.0	5,387.3

	FY 2007 Expendi- tures	FY 2008 Appro- piation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Dental Examiners</u>							
Dental Board Fund	1,026.3	1,145.8	0.0	1,145.8	1,072.6	0.0	1,072.6
Agency Total	1,026.3	1,145.8	0.0	1,145.8	1,072.6	0.0	1,072.6
<u>State Board of Dispensing Opticians</u>							
Dispensing Opticians Board Fund	109.8	127.4	0.0	127.4	120.1	0.0	120.1
Agency Total	109.8	127.4	0.0	127.4	120.1	0.0	120.1
<u>Arizona Drug and Gang Prevention Resource Center</u>							
Drug and Gang Prevention Fund	271.5	305.8	0.0	305.8	295.8	0.0	295.8
Intergovernmental Agreements and Grant Funds Fund	265.0	336.6	0.0	336.6	320.6	0.0	320.6
Agency Total	536.5	642.4	0.0	642.4	616.4	0.0	616.4
<u>Department of Economic Security</u>							
Tobacco Tax and Health Care Fund	70.4	200.0	0.0	200.0	200.0	0.0	200.0
Workforce Investment Grant Fund	38,205.2	55,937.2	0.0	55,937.2	55,937.2	0.0	55,937.2
Temporary Assistance for Needy Families (TANF) Fund	213,483.9	234,652.8	0.0	234,652.8	234,652.8	6.5	234,659.3
Child Care and Development Fund	104,223.1	117,652.5	0.0	117,652.5	117,652.5	(5,500.0)	112,152.5
Special Administration Fund	19.2	2,206.0	0.0	2,206.0	2,206.0	(460.0)	1,746.0
Child Support Enforcement Administration Fund	14,941.5	15,119.6	0.0	15,119.6	15,119.6	1,029.0	16,148.6
Domestic Violence Shelter Fund	1,700.0	1,700.0	0.0	1,700.0	1,700.0	0.0	1,700.0
Child Abuse Prevention Fund	787.9	1,576.9	0.0	1,576.9	1,576.9	0.0	1,576.9
Children and Family Services Training Program Fund	75.5	209.6	0.0	209.6	209.6	0.0	209.6
Public Assistance Collections Fund	297.3	517.0	0.0	517.0	517.0	0.0	517.0
Department Long-Term Care System Fund	20,552.8	25,000.9	0.0	25,000.9	25,000.9	760.5	25,761.4
Spinal and Head Injuries Trust Fund	1,892.4	2,570.9	0.0	2,570.9	2,570.9	0.0	2,570.9
Homeless Trust Fund	886.3	0.0	0.0	0.0	0.0	0.0	0.0
Utility Assistance Fund	500.0	500.0	0.0	500.0	500.0	(500.0)	0.0
Risk Management Fund	271.5	271.5	0.0	271.5	271.5	0.0	271.5
Indirect Cost Recovery Fund	0.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0
Reed Act Fund	0.0	3,495.7	0.0	3,495.7	3,495.7	1,740.9	5,236.6
Agency Total	397,907.0	462,610.6	0.0	462,610.6	462,610.6	(2,923.1)	459,687.5
<u>Department of Education</u>							
Teacher Certification Fund	2,007.3	2,406.5	0.0	2,406.5	2,406.5	277.8	2,684.3
School Accountability Fund	2,473.8	0.0	0.0	0.0	0.0	0.0	0.0
School Accountability Fund Prop 301 Fund	5,286.1	7,000.0	0.0	7,000.0	7,000.0	0.0	7,000.0
English Learner Class Personnel Bonus Fund	(20.8)	0.0	0.0	0.0	0.0	0.0	0.0
Public Institution Permanent School Earnings Fund	45,220.7	45,220.7	0.0	45,220.7	45,220.7	0.0	45,220.7
School Improvement Revenue Bond Debt Svc Fund	1,865.4	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	56,832.5	54,627.2	0.0	54,627.2	54,627.2	277.8	54,905.0

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Emergency and Military Affairs</u>							
Emergency Response Fund	95.6	132.7	0.0	132.7	132.7	0.0	132.7
Agency Total	95.6	132.7	0.0	132.7	132.7	0.0	132.7
<u>Department of Environmental Quality</u>							
DEQ Emissions Inspection Fund	32,558.7	37,490.6	0.0	37,490.6	37,419.7	0.0	37,419.7
Hazardous Waste Management Fund	271.4	795.0	0.0	795.0	780.0	0.0	780.0
Air Quality Fund	3,315.0	5,250.5	0.0	5,250.5	5,152.5	0.0	5,152.5
Clean Air In-Lieu Fee Account	294.5	0.0	0.0	0.0	0.0	0.0	0.0
Underground Storage Tank Revolving Fund	2.3	22.0	0.0	22.0	22.0	0.0	22.0
Recycling Fund	2,319.5	2,331.1	0.0	2,331.1	2,319.8	0.0	2,319.8
Permit Administration Fund	5,040.4	6,038.5	0.0	6,038.5	5,890.3	739.9	6,630.2
Solid Waste Fee Fund	811.1	1,511.2	0.0	1,511.2	1,483.1	0.0	1,483.1
Used Oil Fund	6.5	137.8	0.0	137.8	137.3	0.0	137.3
Water Quality Fee Fund	2,788.8	5,929.0	0.0	5,929.0	5,839.1	0.0	5,839.1
Indirect Cost Fund	11,825.5	10,768.9	0.0	10,768.9	10,531.0	0.0	10,531.0
Agency Total	59,233.8	70,274.6	0.0	70,274.6	69,574.8	739.9	70,314.7
<u>Arizona Exposition & State Fair</u>							
Coliseum and Expo Center Fund	12,952.5	16,358.0	0.0	16,358.0	16,066.1	0.0	16,066.1
Agency Total	12,952.5	16,358.0	0.0	16,358.0	16,066.1	0.0	16,066.1
<u>State Department of Financial Institutions</u>							
Receivership Revolving Fund	0.0	0.0	0.0	0.0	0.0	1,068.2	1,068.2
Agency Total	0.0	0.0	0.0	0.0	0.0	1,068.2	1,068.2
<u>State Board of Funeral Directors & Embalmers</u>							
Funeral Directors and Embalmers Fund	333.2	353.9	0.0	353.9	340.6	0.0	340.6
Agency Total	333.2	353.9	0.0	353.9	340.6	0.0	340.6
<u>Arizona Game & Fish Department</u>							
Game and Fish Fund	25,496.7	31,096.0	0.0	31,096.0	30,026.6	0.0	30,026.6
Game and Fish Watercraft License Fund	2,846.1	6,178.9	0.0	6,178.9	5,941.8	0.0	5,941.8
Game/Non-game Fund	187.6	333.1	0.0	333.1	323.2	0.0	323.2
Waterfowl Conservation Fund	13.4	43.4	0.0	43.4	43.4	0.0	43.4
Wildlife Endowment Fund	0.0	16.0	0.0	16.0	16.0	0.0	16.0
Wildlife Habitat Restoration and Enhancement Fund	1,608.2	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	30,152.0	37,667.4	0.0	37,667.4	36,351.0	0.0	36,351.0
<u>Department of Gaming</u>							
Lottery Fund	300.0	300.0	0.0	300.0	300.0	0.0	300.0
Permanent Tribal-State Compact Fund	1,703.1	2,259.7	0.0	2,259.7	2,173.9	0.0	2,173.9
Arizona Benefits Fund	9,453.2	13,001.3	0.0	13,001.3	13,781.9	0.0	13,781.9
Agency Total	11,456.3	15,561.0	0.0	15,561.0	16,255.8	0.0	16,255.8
<u>Government Information Technology Agency</u>							
Information Technology Fund	2,610.9	2,841.0	0.0	2,841.0	2,758.6	0.0	2,758.6
State Web Portal Fund	0.0	3,700.0	0.0	3,700.0	5,000.0	0.0	5,000.0
Agency Total	2,610.9	6,541.0	0.0	6,541.0	7,758.6	0.0	7,758.6

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Health Services</u>							
Tobacco Tax and Health Care Fund	34,543.9	36,324.8	0.0	36,324.8	36,324.8	0.0	36,324.8
Capital Outlay Stabilization Fund	1,542.5	1,578.1	0.0	1,578.1	1,578.1	0.0	1,578.1
Child Care and Development Fund	773.9	829.2	0.0	829.2	829.2	0.0	829.2
Emergency Medical Services Operating Fund	4,643.2	5,360.5	0.0	5,360.5	5,360.5	2,647.2	8,007.7
Newborn Screening Program Fund	4,752.6	6,829.6	0.0	6,829.6	6,829.6	0.0	6,829.6
Substance Abuse Services Fund	2,500.0	2,500.0	0.0	2,500.0	2,500.0	0.0	2,500.0
Nursing Care Institution Protection Fund	101.7	438.0	0.0	438.0	438.0	(400.0)	38.0
Environmental Lab License Revolving Fund	583.1	976.4	0.0	976.4	976.4	0.0	976.4
Child Fatality Review Fund	99.8	100.0	0.0	100.0	100.0	0.0	100.0
Vital Records Electronic Systems Fund	215.1	502.2	0.0	502.2	502.2	0.0	502.2
Hearing and Speech Professionals Fund	230.6	343.2	0.0	343.2	343.2	0.0	343.2
The Arizona State Hospital Fund	7,964.6	6,032.6	0.0	6,032.6	6,032.6	0.0	6,032.6
DHS State Hospital Land Earnings Fund	315.9	350.0	0.0	350.0	350.0	0.0	350.0
DHS - Indirect Cost Fund	7,189.0	9,053.0	0.0	9,053.0	9,053.0	0.0	9,053.0
Family Planning Fund	0.0	0.0	0.0	0.0	0.0	500.0	500.0
Agency Total	65,455.9	71,217.6	0.0	71,217.6	71,217.6	2,747.2	73,964.8
<u>Arizona Historical Society</u>							
Capital Outlay Stabilization Fund	193.7	193.2	0.0	193.2	193.7	0.0	193.7
Agency Total	193.7	193.2	0.0	193.2	193.7	0.0	193.7
<u>Board of Homeopathic Medical Examiners</u>							
Homeopathic Medical Examiners Fund	87.5	97.5	0.0	97.5	91.5	22.5	114.0
Agency Total	87.5	97.5	0.0	97.5	91.5	22.5	114.0
<u>Arizona Department of Housing</u>							
Housing Trust Fund	703.8	897.3	0.0	897.3	909.3	0.0	909.3
Agency Total	703.8	897.3	0.0	897.3	909.3	0.0	909.3
<u>Industrial Commission of Arizona</u>							
Industrial Commission Admin Fund	17,955.9	20,033.0	0.0	20,033.0	19,416.2	0.0	19,416.2
Agency Total	17,955.9	20,033.0	0.0	20,033.0	19,416.2	0.0	19,416.2
<u>Department of Insurance</u>							
Tobacco Tax and Health Care Fund	0.0	200.0	0.0	200.0	0.0	0.0	0.0
Captive Insurance Regulatory/Supervision Fund	25.0	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	25.0	200.0	0.0	200.0	0.0	0.0	0.0
<u>Judiciary</u>							
Supreme Court CJEF Disbursements Fund	7,943.0	10,120.4	0.0	10,120.4	10,120.4	0.0	10,120.4
Judicial Collection - Enhancement Fund	12,489.3	14,807.7	0.0	14,807.7	14,807.7	0.0	14,807.7
Defensive Driving Fund	3,322.6	5,419.3	0.0	5,419.3	5,419.3	0.0	5,419.3
Court Appointed Special Advocate Fund	3,381.3	3,456.0	0.0	3,456.0	3,456.0	0.0	3,456.0
Confidential Intermediary Fund	408.5	488.9	0.0	488.9	488.9	0.0	488.9
Drug Treatment and Education Fund	494.1	500.0	0.0	500.0	500.0	0.0	500.0
State Aid to Courts Fund	2,444.5	3,945.9	0.0	3,945.9	3,945.9	0.0	3,945.9
Agency Total	30,483.3	38,738.2	0.0	38,738.2	38,738.2	0.0	38,738.2

	FY 2007 Expendi- tures	FY 2008 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Juvenile Corrections</u>							
Juvenile Corrections CJEF Dist Fund	685.3	689.8	0.0	689.8	689.8	0.0	689.8
State Education Fund for Committed Youth Fund	2,638.3	2,682.5	0.0	2,682.5	2,682.5	0.0	2,682.5
Endowments/Land Earnings Fund	1,094.9	1,098.6	0.0	1,098.6	1,098.6	3,241.8	4,340.4
Risk Management Fund	340.0	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	4,758.5	4,470.9	0.0	4,470.9	4,470.9	3,241.8	7,712.7
<u>State Land Department</u>							
Environmental Special Plate Fund	214.6	220.0	0.0	220.0	220.0	0.0	220.0
Due Diligence Fund	478.3	500.0	0.0	500.0	500.0	0.0	500.0
Risk Management Fund	169.5	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	862.4	720.0	0.0	720.0	720.0	0.0	720.0
<u>Arizona State Library, Archives & Public Records</u>							
Records Services Fund	584.9	680.6	0.0	680.6	662.5	0.0	662.5
Agency Total	584.9	680.6	0.0	680.6	662.5	0.0	662.5
<u>Arizona State Lottery Commission</u>							
Lottery Fund	66,496.3	70,181.8	0.0	70,181.8	70,486.7	0.0	70,486.7
Agency Total	66,496.3	70,181.8	0.0	70,181.8	70,486.7	0.0	70,486.7
<u>Arizona Medical Board</u>							
Medical Examiners Board Fund	5,307.8	5,849.1	0.0	5,849.1	5,567.7	0.0	5,567.7
Agency Total	5,307.8	5,849.1	0.0	5,849.1	5,567.7	0.0	5,567.7
<u>Board of Medical Student Loans</u>							
Medical Student Scholarship Fund	1,176.9	0.0	0.0	0.0	0.0	0.0	0.0
Med Student Loan Fund	309.8	309.8	0.0	309.8	309.8	0.0	309.8
Agency Total	1,486.7	309.8	0.0	309.8	309.8	0.0	309.8
<u>State Mine Inspector</u>							
Aggregate Mining Reclamation Fund	262.0	303.8	0.0	303.8	303.8	4.2	308.0
Risk Management Fund	0.0	0.0	0.0	0.0	0.0	460.0	460.0
Agency Total	262.0	303.8	0.0	303.8	303.8	464.2	768.0
<u>Naturopathic Physicians Board of Medical Examiners</u>							
Naturopathic Board Fund	493.1	611.3	0.0	611.3	584.0	0.0	584.0
Agency Total	493.1	611.3	0.0	611.3	584.0	0.0	584.0
<u>Northern Arizona University</u>							
NAU Collections - Appropriated Fund	49,400.2	47,723.2	0.0	47,723.2	47,723.2	0.0	47,723.2
Agency Total	49,400.2	47,723.2	0.0	47,723.2	47,723.2	0.0	47,723.2
<u>State Board of Nursing</u>							
Nursing Board Fund	3,392.1	3,816.1	328.2	4,144.3	3,461.5	561.3	4,022.8
Agency Total	3,392.1	3,816.1	328.2	4,144.3	3,461.5	561.3	4,022.8
<u>Nursing Care Ins. Admin. Examiners</u>							
Nursing Care Institution Admin/ACHMC Fund	236.2	377.0	0.0	377.0	358.7	0.0	358.7
Agency Total	236.2	377.0	0.0	377.0	358.7	0.0	358.7
<u>Board of Occupational Therapy Examiners</u>							
Occupational Therapy Fund	194.0	247.0	0.0	247.0	239.9	0.0	239.9
Agency Total	194.0	247.0	0.0	247.0	239.9	0.0	239.9

	FY 2007 Expendi- tures	FY 2008 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Optometry</u>							
Board of Optometry Fund	167.4	203.5	0.0	203.5	194.4	0.0	194.4
Agency Total	167.4	203.5	0.0	203.5	194.4	0.0	194.4
<u>Arizona Board of Osteopathic Examiners</u>							
Osteopathic Examiners Board Fund	557.1	694.8	0.0	694.8	660.6	0.0	660.6
Agency Total	557.1	694.8	0.0	694.8	660.6	0.0	660.6
<u>State Parks Board</u>							
Reservation Surcharge Revolving Fund	270.8	541.1	0.0	541.1	522.1	0.0	522.1
Boating Safety Fund	2,323.8	1,092.7	0.0	1,092.7	1,092.7	0.0	1,092.7
State Parks Enhancement Fund	8,404.3	7,701.9	0.0	7,701.9	6,868.3	0.0	6,868.3
Agency Total	10,998.9	9,335.7	0.0	9,335.7	8,483.1	0.0	8,483.1
<u>Arizona State Board of Pharmacy</u>							
Pharmacy Board Fund	1,551.5	2,520.8	0.0	2,520.8	1,846.5	0.0	1,846.5
Agency Total	1,551.5	2,520.8	0.0	2,520.8	1,846.5	0.0	1,846.5
<u>Board of Physical Therapy Examiners</u>							
Physical Therapy Fund	288.7	393.7	0.0	393.7	349.6	0.0	349.6
Agency Total	288.7	393.7	0.0	393.7	349.6	0.0	349.6
<u>Arizona Pioneers' Home</u>							
Pioneers' Home State Charitable Earnings Fund	3,467.6	3,558.4	0.0	3,558.4	3,524.2	0.0	3,524.2
Pioneers' Home Miners' Hospital Fund	1,594.8	1,751.0	0.0	1,751.0	1,685.6	0.0	1,685.6
Agency Total	5,062.4	5,309.4	0.0	5,309.4	5,209.8	0.0	5,209.8
<u>State Board of Podiatry Examiners</u>							
Podiatry Examiners Board Fund	104.4	144.3	0.0	144.3	138.8	0.0	138.8
Agency Total	104.4	144.3	0.0	144.3	138.8	0.0	138.8
<u>Commission for Postsecondary Education</u>							
Postsecondary Education Fund	2,109.5	2,955.2	0.0	2,955.2	2,941.1	0.0	2,941.1
Agency Total	2,109.5	2,955.2	0.0	2,955.2	2,941.1	0.0	2,941.1
<u>State Board for Private Postsecondary Education</u>							
Private Postsecondary Education Fund	311.2	336.6	0.0	336.6	318.4	0.0	318.4
Agency Total	311.2	336.6	0.0	336.6	318.4	0.0	318.4
<u>State Board of Psychologist Examiners</u>							
Psychologist Examiners Board Fund	336.9	389.8	0.0	389.8	381.9	0.0	381.9
Agency Total	336.9	389.8	0.0	389.8	381.9	0.0	381.9

	FY 2007 Expenditures	FY 2008 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Public Safety</u>							
State Highway Fund	10,000.0	10,000.0	0.0	10,000.0	10,000.0	53,000.0	63,000.0
Arizona Highway Patrol Fund	18,644.8	21,321.4	0.0	21,321.4	21,321.4	671.5	21,992.9
Safety Enforcement and Transportation Infrastructure Fund	0.0	1,564.1	0.0	1,564.1	1,564.1	0.0	1,564.1
Crime Laboratory Assessment Fund	5,282.4	5,881.4	0.0	5,881.4	5,881.4	310.4	6,191.8
Motor Vehicle Liability Insurance Enforcement Fund	1,512.0	0.0	0.0	0.0	0.0	0.0	0.0
Auto Fingerprint Identification Fund	3,119.6	3,299.2	0.0	3,299.2	3,299.2	0.0	3,299.2
DNA Identification System Fund	2,753.3	5,750.1	0.0	5,750.1	5,750.1	597.8	6,347.9
Motorcycle Safety Fund	153.8	205.0	0.0	205.0	205.0	0.0	205.0
Parity Compensation Fund	2,768.1	3,398.3	0.0	3,398.3	3,398.3	1,500.1	4,898.4
Highway User Revenue Fund	10,000.0	10,000.0	0.0	10,000.0	10,000.0	0.0	10,000.0
Criminal Justice Enhancement Fund	3,186.7	3,290.3	0.0	3,290.3	3,290.3	792.6	4,082.9
Risk Management Fund	277.6	296.2	0.0	296.2	296.2	0.0	296.2
Highway Photo Radar	0.0	0.0	0.0	0.0	0.0	90,000.0	90,000.0
Agency Total	57,698.3	65,006.0	0.0	65,006.0	65,006.0	146,872.4	211,878.4
<u>Arizona Department of Racing</u>							
Racing Administration Fund	71.8	67.0	0.0	67.0	67.0	0.0	67.0
County Fair Racing Fund	298.6	450.0	0.0	450.0	450.0	0.0	450.0
Agency Total	370.4	517.0	0.0	517.0	517.0	0.0	517.0
<u>Radiation Regulatory Agency</u>							
State Radiologic Technologist Certification Fund	275.2	291.8	0.0	291.8	281.9	0.0	281.9
Agency Total	275.2	291.8	0.0	291.8	281.9	0.0	281.9
<u>Registrar of Contractors</u>							
Registrar of Contractors Fund	10,614.6	15,597.7	0.0	15,597.7	11,908.5	0.0	11,908.5
Agency Total	10,614.6	15,597.7	0.0	15,597.7	11,908.5	0.0	11,908.5
<u>Residential Utility Consumer Office</u>							
Residential Utility Consumer Office Revolving Fund	1,112.5	1,313.1	0.0	1,313.1	1,273.9	0.0	1,273.9
Agency Total	1,112.5	1,313.1	0.0	1,313.1	1,273.9	0.0	1,273.9
<u>Board of Respiratory Care Examiners</u>							
Board of Respiratory Care Examiners Fund	233.1	264.7	0.0	264.7	251.8	0.0	251.8
Agency Total	233.1	264.7	0.0	264.7	251.8	0.0	251.8
<u>Arizona State Retirement System</u>							
Retirement System Appropriated Fund	18,109.1	20,067.8	0.0	20,067.8	20,112.7	0.0	20,112.7
LTD Trust Fund	2,574.6	2,800.0	0.0	2,800.0	2,800.0	0.0	2,800.0
Agency Total	20,683.7	22,867.8	0.0	22,867.8	22,912.7	0.0	22,912.7
<u>Department of Revenue</u>							
Tobacco Tax and Health Care Fund	502.9	630.5	0.0	630.5	646.8	0.0	646.8
DOR Unclaimed Property Fund	1,659.3	3,439.2	0.0	3,439.2	3,378.6	0.0	3,378.6
DOR Liability Setoff Fund	290.3	430.9	0.0	430.9	413.8	0.0	413.8
Risk Management Fund	113.5	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total	2,566.0	4,500.6	0.0	4,500.6	4,439.2	0.0	4,439.2

	FY 2007 Expendi- tures	FY 2008 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of State - Secretary of State</u>							
Election Systems Improvement Fund	12,277.7	15,002.0	0.0	15,002.0	4,000.0	0.0	4,000.0
Professional Employer Organization Fund	0.0	98.2	0.0	98.2	94.8	0.0	94.8
Agency Total	12,277.7	15,100.2	0.0	15,100.2	4,094.8	0.0	4,094.8
<u>State Boards Office</u>							
Special Services Fund	200.1	280.0	0.0	280.0	260.0	0.0	260.0
Agency Total	200.1	280.0	0.0	280.0	260.0	0.0	260.0
<u>Structural Pest Control Commission</u>							
Structural Pest Control Fund	2,235.6	2,888.4	0.0	2,888.4	2,668.9	0.0	2,668.9
Agency Total	2,235.6	2,888.4	0.0	2,888.4	2,668.9	0.0	2,668.9
<u>State Board of Technical Registration</u>							
Technical Registration Board Fund	1,483.2	1,766.6	0.0	1,766.6	1,700.2	0.0	1,700.2
Agency Total	1,483.2	1,766.6	0.0	1,766.6	1,700.2	0.0	1,700.2
<u>Department of Transportation</u>							
State Aviation Fund	2,181.5	2,641.9	0.0	2,641.9	2,641.9	90.0	2,731.9
State Highway Fund	387,399.2	418,166.8	0.0	418,166.8	418,166.8	9,877.9	428,044.7
Transportation Department Equipment Fund	37,779.4	39,147.8	0.0	39,147.8	39,147.8	0.0	39,147.8
Safety Enforcement and Transportation Infrastructure Fund	558.7	2,172.4	0.0	2,172.4	2,172.4	0.0	2,172.4
Air Quality Fund	68.6	71.7	0.0	71.7	71.7	0.0	71.7
Vehicle Inspection and Title Enforcement Fund	1,408.8	1,809.7	0.0	1,809.7	1,809.7	0.0	1,809.7
Motor Vehicle Liability Insurance Enforcement Fund	3,185.0	2,456.9	0.0	2,456.9	2,456.9	0.0	2,456.9
Driving Under Influence Abatement Fund	136.8	143.3	0.0	143.3	143.3	0.0	143.3
Highway User Revenue Fund	608.8	617.0	0.0	617.0	617.0	0.0	617.0
Agency Total	433,326.8	467,227.5	0.0	467,227.5	467,227.5	9,967.9	477,195.4
<u>State Treasurer</u>							
State Treasurer's Management Fund	0.0	33.8	0.0	33.8	33.8	(32.5)	1.3
Agency Total	0.0	33.8	0.0	33.8	33.8	(32.5)	1.3
<u>University of Arizona - Health Sciences Center</u>							
U of A College of Medical - Collections - Appropriated Fund	14,502.3	14,158.7	0.0	14,158.7	14,158.7	0.0	14,158.7
Agency Total	14,502.3	14,158.7	0.0	14,158.7	14,158.7	0.0	14,158.7
<u>University of Arizona - Main Campus</u>							
U of A Main Campus - Collections - Appropriated Fund	104,610.8	128,539.7	0.0	128,539.7	128,539.7	0.0	128,539.7
Agency Total	104,610.8	128,539.7	0.0	128,539.7	128,539.7	0.0	128,539.7
<u>Department of Veterans' Services</u>							
Veterans' Conservatorship Fund	678.0	747.4	0.0	747.4	722.7	0.0	722.7
State Home for Veterans Trust Fund	13,231.9	13,740.4	0.0	13,740.4	13,291.5	0.0	13,291.5
Agency Total	13,909.9	14,487.8	0.0	14,487.8	14,014.2	0.0	14,014.2
<u>State Veterinary Medical Examining Board</u>							
Veterinary Medical Examiners Board Fund	401.4	480.2	0.0	480.2	451.0	0.0	451.0
Agency Total	401.4	480.2	0.0	480.2	451.0	0.0	451.0

	FY 2007 Expendi- tures	FY 2008 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2008 Base / FY 2009 Approp	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Water Resources</u>							
Assured and Adequate Water Supply Administration Fund	156.6	1,124.6	0.0	1,124.6	1,100.4	0.0	1,100.4
Agency Total	156.6	1,124.6	0.0	1,124.6	1,100.4	0.0	1,100.4
<u>Department of Weights and Measures</u>							
Air Quality Fund	1,404.6	1,544.9	0.0	1,544.9	1,517.6	0.0	1,517.6
Motor Vehicle Liability Insurance Enforcement Fund	109.4	135.0	0.0	135.0	120.7	0.0	120.7
Agency Total	1,514.0	1,679.9	0.0	1,679.9	1,638.3	0.0	1,638.3
Other Appropriated Funds Operating Total	2,292,082.4	2,603,016.7	328.2	2,603,344.9	2,579,890.9	186,690.8	2,766,581.7

FY 2009 General Fund Executive Recommendation: Expenditure Growth Breakdown

Agency	(1) FY 2008 Appropriations	(2) Caseload Requirements and Inflation Growth	(3) Statutory, Federal and Court Mandates	(4) Extension of Existing Programs	(5) Technical and Other Adjustments	(6) Executive New Initiatives	(7) FY 2009 Executive Recommendation
Administration	33,312	-	-	-	(5,907)	-	27,405
AHCCCS	1,269,136	250,924	-	9,274	(13,724)	1,717	1,517,326
Community Colleges	167,745	6,167	-	-	(1,000)	-	172,912
Corrections	910,277	45,724	-	-	3,476	(60,814)	898,664
Economic Security	794,336	52,143	3,500	10,124	18,609	-	878,712
K-12 Education	4,363,465	166,501	-	-	(3,110)	-	4,526,856
Health Services	583,432	35,278	-	1,240	(5,691)	-	614,258
Juvenile Corrections	81,450	-	-	-	(1,500)	-	79,950
Public Safety	177,708	-	120	-	(142,596)	-	35,231
School Facilities Board	532,695	90,000	-	-	(466,549)	11,350	167,496
Universities	1,121,095	20,723	-	4,500	(10,500)	8,500	1,144,319
All Other Agencies	609,294	2,176	-	3,658	32,582	11,190	658,901
Total Agency Operating Budget	10,643,946	669,636	3,620	28,796	(595,911)	(28,057)	10,722,030
Percent of growth over FY 2008 Appropriations		6.3%	0.03%	0.3%	-5.6%	-0.3%	0.7%
				} net = -5.6%			

Budget Message

State's Economy Expected to Grow – Slowly – for Most of 2008

Arizona will likely experience slow economic growth for the first three quarters, with a reasonably strong rebound toward the end of 2008

THE NATION IN general and Arizona in particular will see, in 2008, a continuation of the slow rates of growth that were widely felt in 2007. The major headwinds that will impede growth include:

- a declining residential housing sector,
- tightness in credit markets, and
- consumers who are concerned about the economy.

It should be noted that the global economy has remained fairly strong. Most economists believe that, despite the headwinds noted above, overall global economic health will sustain a moderate level of economic growth in the U.S. As a result, for a time America may find itself in the unusual position of being the caboose in the global growth train instead of the engine.

NATIONAL OUTLOOK

Economic growth through the first two quarters of 2008, as measured by GDP growth, will be quite weak, averaging about 1.3% at annual rates. Still, growth rates are expected to improve slightly, quarter by quarter, to 2.9% in the fourth quarter of 2008 and to exceed 3% in 2009. Historically, growth above 3% has been associated with a vibrant economy.

Job Growth. Employment gains will slow in 2008, impeded by the housing sector and pressures in the credit markets. Those factors will combine with the same pressures that have existed for several years: high health benefit costs, global market alternative opportunities, and labor-saving productivity enhancements.

Consumer Spending. The adverse economic conditions will pressure the heretofore resilient consumer. Specifically, high energy prices, Wall Street volatility, and the deterioration in hous-

ing equity have rattled consumer confidence. Auto sales slumped in November 2007, and some automakers and industry analysts predict that 2008 sales could drop to their lowest level in a decade.

The Federal Reserve Board will continue to reduce interest rates, and companies such as Goldman Sachs expect to see a federal funds rate of 3% by mid-year.

Confidence should steadily resume in the second half of 2008, as credit conditions improve and the economy moves beyond the worst of the residential housing contraction. To date, capital gains and dividend returns from Wall Street have helped buffer the lost equity accumulations in housing, but any further deterioration of equity prices will further erode consumer confidence.

Interest Rates. As central bankers confront a sluggish economy, 2008 will see a continuation of the Fed's easing of interest rates. Eventually, credit will find its way to borrowers and help counter the headwinds currently faced by businesses and consumers.

Homeowners with non-conventional mortgage positions will find some relief from Washington's efforts to delay adverse effects of mortgage loan resets, and an overall expansion of credit will allow some to shift back into conventional means of borrowing. As long as inflation rates remain moderate, the Fed should have sufficient latitude in extending credit.

Business Spending. For the past five years, growth in corporate profits has been consistent and robust. That is likely to change.

Most economists look for deterioration in corporate profits through the first three quarters of 2008, with a resumption of modest growth into 2009. This deterioration will limit the ability of businesses to invest in people, plant and equipment. The slowing growth in

business profitability is a major contributor to the overall growth-slowing expected to prevail over the next several quarters.

The Dollar. The dollar declined at a steady rate throughout much of 2007. The nation's trade imbalance and domestic deficit will continue to pressure the dollar, but the consensus forecasts among economists suggest that most of the expected dollar erosion has already taken place, despite ongoing concerns about trade (particularly with respect to imported oil) and domestic fiscal imbalances.

One positive consequence of a weaker dollar is its stimulating effect on exports, which should boost the nation's manufacturing and wholesale distribution sectors. Job stability in those industries may be a key factor in the nation's avoidance of a recession.

Notwithstanding well-documented pressures and a weakening economy, the U.S. remains an attractive low-risk investment for both financial and physical capital, and this attractiveness will buffer against dollar depreciation pressures. The global economy should slow somewhat from its rapid growth pace, and this should lead to further stabilization of the dollar. Few economists see much dollar appreciation from this position, but continued erosion at recent rates is unlikely.

ARIZONA OUTLOOK

Arizona business cycles typically have more amplitude than national cycles, and for this cycle the upside catalyst was clearly real estate. Arizona's job gains, income growth and tax revenues outpaced the nation during the period following the most recent recession.

The flip side of this cycle is now clearly in place, and the only remaining question is how long the down cycle

will persist. The consensus view is that Arizona's economic growth will be very slow through the next three quarters, with some improvement beginning toward the end of 2008.

Employment growth in the state slowed sharply in the second half of 2007, and some economists see very sluggish growth for most of 2008. Resumption of more robust growth patterns can be expected in late 2008 and into 2009. Construction- and real estate-related areas of employment will see the most pressure.

Personal Income. Aggregate personal income growth in the state, as reported by the Bureau of Economic Analysis, is also slowing, with average growth of 6.7% during the first three quarters. This is historically a slow growth rate for a state that is accustomed to 8% growth and higher through much of its recent history, but it is still better than the national average. The challenge for forecasters is to determine the degree to which residential real estate will erode growth in 2008, and whether the sluggish real estate sector will have adverse spillover effects throughout the economy.

Risks. Risks to continued economic growth for the Arizona economy come from at least two sources.

First, as in the past, any prolonged U.S. downturn will adversely affect the state. Arizona's export, construction and hospitality industries would suffer at a time when Arizona consumer confidence is already quite fragile.

Second, Arizona's exposure to the real estate cycle is greater than that of most states. Arizona enjoyed considerable growth and prosperity in the up trend of the cycle and is now in the depths of the down cycle in the residential sector. Any spillover to the commercial real estate sector will damage employment and income growth throughout the real estate and financial services industries.

BUDGET IMPACT

The recent explosive growth in General Fund revenues has contributed to the current scenario in which, as was mentioned earlier, slow growth "feels" recessionary.

However, through FY 2009 several components of the State's revenue base will continue to experience growth, albeit modest by Arizona standards. Growth is expected in each of the "Big

Three" tax categories: (a) Transaction Privilege and Use Tax, (b) Individual Income Tax and (c) Corporate Income Tax.

As contributors to the Transaction Privilege and Use Tax, the following categories are expected to experience growth over FY 2008:

- retail
- restaurant and bar
- hotel and motel
- utilities
- use tax.

Continued population growth increases the need for new schools and K-12 education funding. Meanwhile, a slower-than-normal Arizona economy in 2007 and 2008 has placed higher demands for State services provided by the Arizona Health Care Cost Containment System (AHCCCS), the Department of Health Services and the Department of Economic Security. In FY 2009 the growth in the need and cost for these services is expected to outpace the growth in anticipated revenue. The Executive Recommendation, however, encompasses several reasonable mechanisms to bridge the shortfall without significant disruption to the operation of State Government. ●

State Agency Innovations Produce Major Savings

The Efficiency Review process challenges agency management to find sensible ways to reduce costs while improving the way the State serves the public

THE GOVERNOR'S EFFICIENCY REVIEW team coordinates and implements efficiencies in partnership with agency leadership. The Efficiency Review (ER) process serves to further solidify the public's confidence in a leaner, smarter State government.

FINANCIAL SUCCESS

According to data compiled by the Governor's Office of Strategic Planning and Budgeting (OSPB), by the end of FY 2009 the agency-specific and statewide projects developed through ER will have saved the taxpayers an estimated \$1.2 billion since its inception in 2003.

ACCOUNTABILITY

The Efficiency Review Steering Committee, composed of the Governor's Chief of Staff and top advisors to the Governor, was established to oversee and guide projects and hold agencies accountable for implementation of ER projects.

Significant progress has been made in advancing several statewide project initiatives. Many observers credit these successes to the commitment and cooperative working relationships between the Executive agency managers and the ER Steering Committee. The Steering Committee's monthly meetings provide a forum for consultation and guidance to ensure that agencies follow through on their project commitments.

In addition, OSPB (the Governor's budget office) developed the Consolidated Efficiency Review Tracking System (CERTS), which requires State agencies to document their efficiency savings and report those savings to OSPB.

IMPLEMENTATION

The Efficiency Review team coordinates with agencies to find and develop best practices and showcases them in monthly cabinet meetings. Examples include:

- auditing software licensing,
- reviewing consultant contracting,
- consolidating job advertising,
- implementing virtual office administration,
- imaging documents for electronic efficiencies, and
- printing, copying, mailing consolidation.

Presentations are followed up with instructions for implementation as well as agency contacts to provide assistance.

Five implementation teams were established and charged with overseeing workgroups chaired by the ER Steering Committee. Implementation team members include policy advisors, Executive agency directors and subject matter experts.

Examples of workgroups within the teams include:

- Energy Efficiency
- Employee Recruitment/Retention
- E-Licensing
- Permitting Processing
- "Plain Talk" Public Communications.

Agencies are expected to report on their efforts to accomplish larger statewide initiatives in addition to reporting on their individual efforts.

THE FUTURE OF ER

In 2008 and beyond, ER will continue to focus on statewide initiatives that yield larger savings. Current and future initiatives include:

- *On-Line Licensing.* Helping all licensing agencies post licenses on the Internet so that the public can access and apply for licenses more efficiently.
- *Consolidation.* Streamlining, consolidating and aligning divisions, programs, boards, councils and commissions.

- *Web-Based Video Conferencing.* Using web-based technology to connect public employees to meetings and events at a fraction of the cost of traditional travel methods.
- *Virtual Office.* Allowing State employees to work from a remote location in an effort to increase employee morale, retention and productivity while decreasing costs related to office space and turnover.
- *Imaging.* Creating paperless processes to speed up work flow and save on file storage space.
- *Wellness.* Ensuring that all State employees are offered avenues to participate in effective wellness programs that will create a healthier workforce and reduce health insurance costs.
- *Volunteers and Interns.* Promoting the use of volunteers and interns in State services to help lower costs.

Upon implementation, these initiatives will help to ensure a leaner and smarter State government.

STATEWIDE INITIATIVES

Statewide initiatives implemented in 2003 continue to produce savings and are projected to contribute over \$100 million in FY 2007 alone. These initiatives include:

- Energy Conservation,
- Fleet Consolidation,
- Statewide E-Procurement, and
- Employee Benefits.

All State agencies were required to participate in the total savings achieved through these initiatives.

AGENCY-SPECIFIC SAVINGS

Agencies are continually challenged to create new ideas for efficiency savings. Agency-specific efficiency savings achieved in FY 2007 from fully and partially implemented projects totaled approximately \$88.5 million. The two

following tables – “FY 2009 Efficiency Review Initiatives” and “Efficiency Review Initiatives - Five-Year Summary” – identify estimated savings by agency for FY 2009; actual savings from FY 2004 through FY 2007; and estimates for projects scheduled for FY 2008 and FY 2009.

If an initiative is a “cost avoidance” – i.e., a permanent or long-term savings – it is accounted for in each year of the five-year plan in which the avoidance applies. If an initiative is a cost savings – i.e., a temporary or short-term savings – it is accounted for in the year(s) it applies. By the end of the current fiscal year, cumulative project savings since FY 2004 are expected to total almost \$791.6 million.

Technology. Agencies have utilized technology to convert paper processes to forms of electronic communication. Several agencies are now completing license renewals on-line, and many are converting mailings for items such as reports, newsletters and various other documents to Internet formats for public viewing.

Hiring Gateway, the new paperless recruiting and hiring system implemented for all agencies, was able to achieve savings of close to \$2.1 million in FY 2007 and is estimated to save the

State approximately \$2.3 million more by the end of FY 2008. In addition, the Department of Revenue has been successful in encouraging tax payers to file their tax returns on line through the recently developed E-File web-based application.

Human Resources. Several agencies have increased the number of volunteers and volunteer hours to alleviate some of the pressures caused by a lack of funding for additional staff. One agency has implemented the aforementioned Virtual Office initiative that, by allowing employees to work from their homes, reduces costs associated with leased office space and employee turnover.

Reduction of Red Tape. Process streamlining has also achieved savings. While some agencies have consolidated the number of required forms by reducing duplicative questions, others have also been conducting process reviews and eliminating unnecessary steps.

Consolidation of Boards and Commissions. Streamlining State government is an Executive priority. At the Governor’s request, the Efficiency Review team identified over 50 boards, councils, commissions and agencies that are being consolidated or eliminated. This will result in a smarter, leaner State government.

This initiative will consolidate similar functions and shrink administrative costs while improving public services. Any cost savings are likely to be realized in FY 2010.

CONCLUSION

In addition to the ER-related improvements discussed above, State agencies have been able to implement other innovative approaches to enhancing efficiency, including:

- reducing the intake process for short-term inmates,
- taking advantage of creative purchasing opportunities for prescription drugs,
- using a solar farm to supplement power usage,
- limiting the number of hair cuts for juveniles in custody, and
- creating policies that guide supervisors and employees on how to reduce overtime.

The potential benefits associated with Efficiency Review are endless, and the people of Arizona can look forward to even more dynamic innovations in the years ahead. ●

FY 2009 EFFICIENCY REVIEW INITIATIVES

	<i>Agency Request Prior to Efficiency Initiatives</i>	<i>Agency Request Post Efficiency Initiatives</i>	<i>Efficiency Initiative Savings</i>
Statewide Initiatives			
Employee Benefits			59,000.0
Energy Conservation			382.4
Fleet Consolidation			929.9
Leasing/Space Utilization			400.0
Statewide E-Procurement			24,717.0
Total: Statewide Initiatives			85,429.3
Agency Initiatives			
Department of Administration	1,095,797.7	1,093,143.8	2,653.9
Department of Agriculture	30,814.3	30,604.4	209.9
Arizona Health Care Cost Containment System	8,821,524.0	8,615,009.3	206,514.7
Department of Commerce	92,830.8	92,803.5	27.3
Department of Corrections	1,218,100.3	1,218,094.7	5.6
Department of Economic Security	3,616,429.7	3,538,132.0	78,297.7
Department of Emergency and Military Affairs	82,831.2	82,725.2	106.0
Department of Environmental Quality	337,784.1	337,553.2	230.9
State Department of Financial Institutions	8,691.6	8,666.3	25.3
Game & Fish Department	95,290.2	92,601.6	2,688.6
Department of Gaming	16,630.6	16,255.8	374.8
Department of Health Services	2,164,833.0	2,156,043.6	8,789.4
Department of Homeland Security	15,419.7	15,337.6	82.1
Department of Housing	126,765.4	126,528.5	236.9
Department of Insurance	20,262.7	19,881.7	381.0
Department of Juvenile Corrections	93,108.8	91,139.6	1,969.2
State Land Department	47,078.9	47,037.6	41.3
Department of Liquor Licenses and Control	6,029.2	6,013.3	15.9
State Lottery Commission	763,013.1	760,186.7	2,826.4
State Parks Board	176,084.9	171,687.4	4,397.5
Department of Public Safety	362,679.5	359,360.7	3,318.8
Department of Racing	6,290.0	6,131.0	159.0
Department of Real Estate	4,916.6	4,765.6	151.0
Registrar of Contractors	18,522.5	18,515.5	7.0
Residential Utility Consumer Office	1,312.8	1,273.9	38.9
Department of Revenue	178,468.6	177,715.6	753.0
School Facilities Board	1,628,858.7	1,619,700.7	9,158.0
Office of Tourism	32,996.9	32,545.5	451.4
Department of Transportation	3,506,401.1	3,504,805.1	1,596.0
Department of Veterans' Services	23,611.2	23,582.8	28.4
Department of Water Resources	65,999.5	65,879.0	120.5
Total: Agency Initiatives			325,656.4
TOTAL FOR FY 2009: ALL INITIATIVES FOR ALL AGENCIES AND STATEWIDE			411,085.7

EFFICIENCY REVIEW INITIATIVES - SIX-YEAR SUMMARY

	<i>2004 Actual</i>	<i>2005 Actual</i>	<i>2006 Actual</i>	<i>2007 Actual</i>	<i>2008 OSPB Est.</i>	<i>2009 OSPB Est.</i>	<i>Six-Year Total</i>
Statewide Initiatives							
Employee Benefits	0.0	0.0	25,000.0	48,000.0	59,000.0	59,000.0	191,000.0
Energy Conservation	0.0	442.8	205.0	205.0	367.4	382.4	1,602.6
Leasing/Space Utilization	0.0	1,543.0	1,200.0	0.0	400.0	400.0	3,543.0
Fleet Consolidation	0.0	922.0	1,074.9	922.0	929.9	929.9	4,778.7
Statewide E-Procurement	0.0	15,700.0	22,295.0	45,000.0	37,712.0	24,717.0	145,424.0
Total: Statewide Initiatives	0.0	18,607.8	49,774.9	94,127.0	98,409.3	85,429.3	346,348.3
Total: Agency Initiatives	30,041.2	87,304.4	166,296.4	88,507.1	158,663.9	325,656.4	856,469.4
TOTAL: ALL INITIATIVES	30,041.2	105,912.2	216,071.3	182,634.1	257,073.2	411,085.71	1,202,817.7

Preserving Investments in Education Is a Safeguard for Arizona's Future

By keeping K-12 funding virtually intact and increasing the funding for the universities, the Executive Budget Recommendation continues to enhance student achievement

THE EXECUTIVE'S COMMITMENT to education remains strong, adhering to budget priorities that protect education spending, focus on student achievement, and prepare Arizona students to compete in the global marketplace after graduation.

K-12

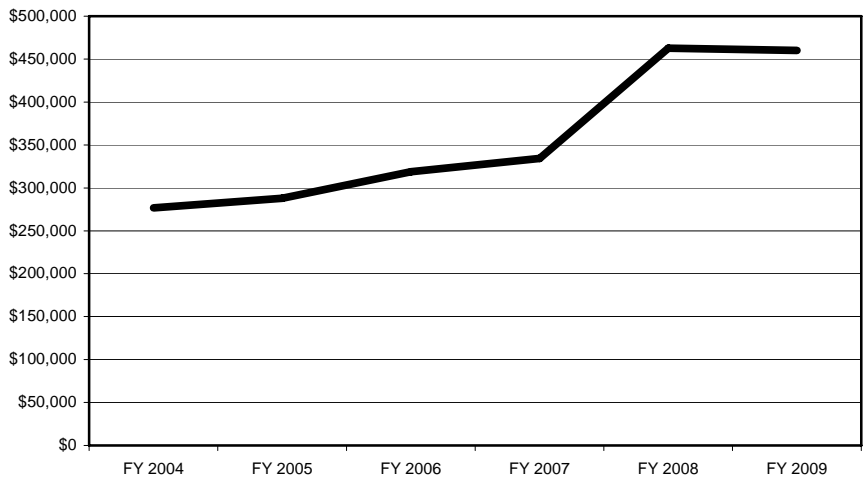
In promoting educational excellence, the FY 2009 Executive Budget Recommendation provides for statutory per-pupil funding, including inflationary increases, for all K-12 formula programs. Despite the State's current fiscal strains, funding for K-12 education programs remains virtually intact in order to protect the significant investments made over the past several years. Those investments, such as Voluntary Full-Day Kindergarten and increased teacher pay, are critical to continued student achievement.

The Governor's FY 2009 recommendation provides \$166 million in new General Fund monies for K-12 schools in FY 2009. This increase consists of:

- \$153 million in Basic State Aid, which includes the 2% inflation factor as required by Proposition 301; and
- \$13.5 million in Additional State Aid.

Basic State Aid. The largest formula-funding program for K-12 education, Basic State Aid provides financial assistance to school districts and charter schools for their maintenance and operations and "soft" capital needs.¹ The recommendation is based on the following growth assumptions in FY 2009:

New School Construction
Cost in Thousands



- 3% enrollment growth,
- 10% increase for net assessed valuations, and
- 2% inflationary growth for per-pupil maintenance and operations funding.

For FY 2009, the Executive's recommended \$153 million fully funds student growth in traditional and charter schools, where net enrollment is expected to rise by 31,852 students. For school districts, the primary net assessed valuation growth is estimated at 10% and is expected to yield approximately \$194 million through local property tax levies, which offset the State's cost. The increased valuations are based on appreciation due to new and existing properties.

Additional State Aid. To provide property tax relief to residential property owners, the Executive Recommendation includes \$13.5 million for the Additional State Aid program.

New Construction. For FY 2009 the Executive recommends financing \$471 million for the New Construction pro-

gram,² which is expected to fund approximately 40 new schools and/or build-outs of existing schools, including new and existing facilities planned for Voluntary Full-Day Kindergarten, additional funds for school safety issues, and factors in increased costs attributable to construction inflation.

To fund payments on existing obligations, the Executive recommends a total of \$79 million General Fund for the FY 2009 lease payments.

Existing Facilities. The School Facilities Board (SFB) is charged with the administration of three capital programs: Deficiencies Corrections, New School Construction, and Building Renewal. Under the "Students FIRST" mandate, the Board is required to improve school buildings to established minimum standards, fund construction of new facilities as needed, and ensure

¹ "Soft" capital funding can be used only for short-term capital items, such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment.

² Includes \$460 million for New School Facilities, \$11 million for Voluntary Full-Day Kindergarten capital needs, and \$350,000 for school safety items.

proper maintenance of the physical facilities of the State school system.

COMMUNITY COLLEGES

Arizona community colleges offer higher education opportunities for all students, regardless of previous academic experience.

Between FY 2006 and FY 2007, aggregate student enrollment at Arizona community colleges decreased by 0.2%, although individual colleges experienced increased enrollment. The 0.2% reduction represents a net loss of 198 full-time equivalent students (FTSE) from FY 2006 to FY 2007.

Six counties – Cochise, Coconino, Gila, Mohave, Pinal and Yavapai – experienced enrollment growth, with the largest FTSE growth occurring in Yavapai County. Meanwhile, five districts – Graham, Maricopa, Navajo, Pima and Yuma/La Paz – experienced declining enrollment.

Funding levels are not decreased for districts experiencing enrollment decline; instead, community college districts are held harmless as their funding level remains the same as the previous fiscal year.

The Executive recommends fully funding community colleges, to include:

- \$121 million for Operating State Aid,

- \$20 million for Capital Outlay Aid, and,
- \$29 million for Equalization Aid.

UNIVERSITIES

Higher education is the fuel for future economic growth and must not be impaired by decisions that fail to contemplate Arizona's long-range need for economic development.

Despite the State's current fiscal situation, the Executive Recommendation provides increased funding for the State's universities. The Executive Recommendation reflects a net funding increase to the universities of \$25.4 million from the General Fund. The recommendation includes an increase of almost \$21 million for the traditionally appropriated 22:1 funding formula, which provides funding increases for estimated enrollment growth.

Additionally, the Executive Recommendation fully funds the State match for the Arizona Financial Aid Trust (AFAT), which is used to provide immediate aid to students with verifiable financial needs; assist students who, by virtue of special circumstances, present a unique need for financial aid; and create an endowment for future financial aid.

STEM Teachers. The Executive Recommendation provides a total \$7 million

in FY 2009 for all three universities to recruit, teach and retain teachers in STEM (science, technology, engineering and mathematics) areas, with a special focus on middle and secondary schools.

The goals of this initiative are to:

- aggressively recruit students to become middle schools and secondary teachers in the STEM areas, with special emphasis on attracting more students from typically underrepresented populations;
- offer professional development in the STEM content areas for existing teachers;
- take a P-20 approach that aims to expand the pipeline of students and effective teachers beginning in the earliest grades and continuing through university work;
- increase teacher production annually; and
- offer innovative courses through validated and effective instruction, such as creating and offering coursework that combines content with best practice pedagogy.

The recommended funding is an investment in the state's work force and enhances Arizona's ability to compete globally. •

New Initiatives Address Increased Demand

State must meet dual challenges of slow economic growth, greater need for essential services

TO VARYING DEGREES, a slowing in economic growth invariably is accompanied by increased needs for services for society's most vulnerable population groups.

While acknowledging the necessity of budget discipline, the Executive Budget Recommendation provides additional funding in critical areas that benefit children, seniors and the medically and behaviorally disadvantaged.

Foremost, the Recommendation reflects a commitment to ensuring that Arizonans have access to adequate health care. To help address this concern, the Executive Recommendation proposes a modest package of new initiatives to make certain that Arizonans receive essential medical care and, in a related area, vital social services.

KIDSSHARE

In a year when economic growth has slowed, it will become more difficult for Arizona businesses to provide health insurance for their employees and for Arizona parents to pay for health care for their children. Of particular concern are continuing increases in private sector health insurance costs and declining percentages of employers offering health insurance for families.

All Arizona children must have access to health care. To that end, the Executive proposes that the KidsShare program allow children who are not eligible for Arizona Health Care Cost Containment System (AHCCCS) or KidsCare health insurance to buy health insurance through the State's existing contracts with private insurance companies. This will allow children whose families cannot obtain health insurance from other sources to have insurance, assuming that their family income is under 350% federal poverty level (FPL) and they meet any of the following conditions:

- The child does not have coverage available through a parent or legal

guardian's current employer or is not eligible for available coverage.

- Private insurance for the child would cost more than 10% of the family income or more than 150% of the KidsShare premiums.
- The child is excluded from private insurance because of a pre-existing condition.

OTHER SERVICES FOR CHILDREN

In its recommended cuts, the Executive Budget holds children's programs harmless and continues to expand programs that most impact a child's welfare. To help address these issues, the Executive proposes a package of initiatives that will help Arizonans receive the quality medical care and social services. Following is a partial list of those initiatives.

Permanency for Children. Adoption is the preferred outcome for children whose natural parents are unable to care for them. Adoption provides a permanent placement for a child and is less costly to the State than temporary out-of-home placements. The program is anticipated to provide maintenance payments to the adoptive parents of an average of 10,598 children each month.

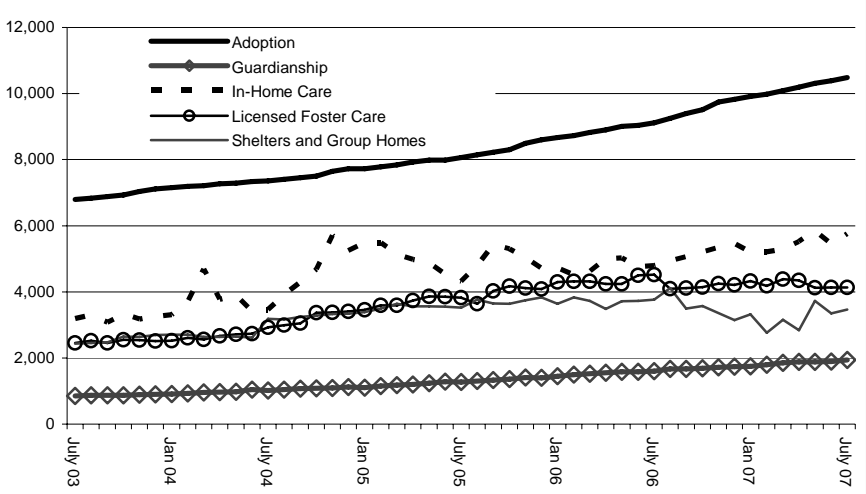
In instances where relatives want to provide a stable environment for a child, the Department seeks to place the child in a permanent guardianship. This may be a good option for families that want to provide stability for a child while maintaining the child's ties to their birth parents. The Executive Recommendation includes a \$10.7 million General Fund increase to cover new caseload growth in these programs in FY 2009.

Children's Services. The Department seeks to strengthen families and educate parents; however, to ensure a child's safety, it is sometimes necessary to remove the child from the home. The Executive Recommendation provides an additional \$15 million in FY 2008 and \$15.2 million in FY 2009 to continue to provide adequate funding to keep children safe.

Strengthening Families. Child welfare reform has made significant improvements in the last few years, including the following:

- In FY 2007, the number of out-of-home placements was reduced by 2%, marking the first reduction in this type of placements since FY 2002.
- Since FY 2004, permanent guardian-

Number of Children in Various Settings
FY 2004 - FY 2007



ships have increased by 116%.

- During the same period, finalized adoptions increased by more than 52%.
- Since FY 2004 the number of available foster homes has increased by about 65%, and the processing time for a completed application was shortened by half.

Arizona Families First. Nearly 80% of CPS families struggle with substance abuse. Arizona Families First, a nationally recognized program, reduces the burden on CPS workers by providing treatment and support services to needy families that might otherwise lose their children to foster care.

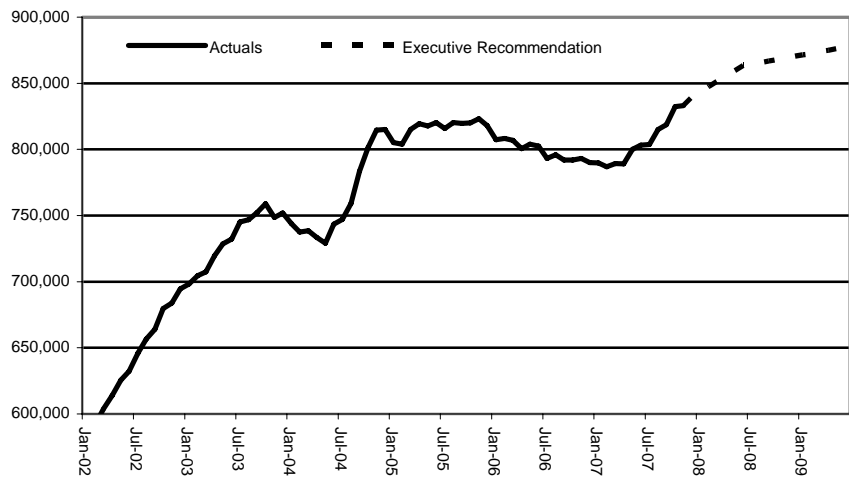
This early intervention effort, which is a product of the department of Economic Security (DES)/Department of Health Services (DHS) Joint Substance Abuse Treatment (JSAT) program, provides necessary substance abuse treatment for parents' recovery, helping them care for their children. Arizona Families First also serves families that receive Temporary Assistance for Needy Families (TANF) and for which a substance abuse problem is the main barrier to finding employment. The Executive Recommendation seeks to increase this funding by \$2.5 million as the need continues to grow.

Children's Rehabilitative Services. Continuing a tradition that dates to 1927, the Children's Rehabilitative Services (CRS) program, administered by the DHS Office for Children with Special Health Care Needs, provides specialty rehabilitative services to Arizona children, regardless of financial status, who have a crippling disorder. Services include medical treatment, rehabilitation, support services and case management.

To be eligible for services, the child or youth must be an Arizona resident under 21 years of age and have an identified physical disability, chronic illness or medical condition that is potentially disabling. Services are provided through four contracted regional clinics in Phoenix, Tucson, Flagstaff and Yuma. Anyone – doctors, nurses, teachers, patients or friends – may refer a child to CRS.

The Title XIX CRS Program, which is eligible for federal matching dollars, provides services under a monthly

AHCCCS Member Months
Actuals and Forecasts



capitated rate basis. Title XIX CRS requires that capitation rates paid to CRS contractors are actuarially sound and developed in compliance with federal regulations. The Title XIX CRS General Fund increase recommended for FY 2009 will fund an expected 10% medical inflation increase and a 1.8% client growth rate. The program will provide services to 16,300 children in FY 2009.

Child Care Quality. With over 2,700 child care facilities in Arizona, parents and caretakers need assurance that their children are safe and well cared for while at those facilities. The Executive Recommendation includes funding for the third year of the Governor's three-year plan to bring the facility-to-surveyor ratio to 50:1 – the national average and the standard set by the National Academy of Pediatrics.

Child Fatality Review. For nearly 15 years, the Child Fatality Review program has reviewed all child fatalities in the state to provide the community with information on how to prevent child deaths. Because funding for this program has remained flat, teams of volunteers no longer receive funds necessary for travel and supplies. The Executive Recommendation includes funding to ensure that every child fatality is reviewed.

HEALTH CARE

Demand for health care for low-income individuals continues to grow nationwide, particularly in rapidly growing states. Arizona continues to be

a national leader in the efficient provision of health services to the medically needy and low-income populations.

Providing consistent, timely and safe health care access to Arizonans is a high priority in the Executive Budget Recommendation.

AHCCCS. Most state governments spend more on Medicaid health care services than on any budget area except education. Arizona is no exception.

Over one million Arizonans – 17% of the state's population – receive benefits through the Arizona Health Care Cost Containment System (AHCCCS). As the number of people depending on the State for health care increases, the State must address its competing responsibilities of providing adequate services while containing costs.

Following dramatic population increases in the summer and fall of 2007, AHCCCS enrollment is expected to climb by 7.5% during Fiscal Year 2008. This growth is expected to slow to 1.6% in FY 2009 as the economy improves. In addition to the projected enrollment increase, a 6% capitation rate increase is anticipated for FY 2009.³ For FY 2009 caseload issues, the Executive recommends an additional \$251.3 million above the FY 2008 appropriation.

KidsCare Parents. The KidsCare Parents program provides health insurance to approximately 13,000

³ The capitation rate is comprised of medical inflation, program changes, and utilization.

parents of children enrolled in the KidsCare program. The program is slated to end on June 30, 2008; consequently, the Executive Budget Recommendation provides \$12.2 million General Fund to fund the KidsCare Parents program through FY 2009. The State will qualify to receive enhanced federal funds for these parents.

Behavioral Health. Arizona’s Behavioral Health system provides psychiatric treatment, rehabilitation, substance abuse treatment, crisis intervention, in-patient, residential and prevention services to individuals of all age groups.

In the Title XIX Behavioral Health system, 21% of recipients were adults who suffered from a serious mental illness – i.e., emotional or behavioral functioning that is so impaired that it interferes with their capacity to remain in the community without supportive treatment. A sharp enrollment increase during the first half of FY 2008 and steady medical inflation continue to drive up costs.

Further, the amount of Federal Medical Assistance Percentage (FMAP) decreased as of October 2008, from 66.2% to 65.8%. As a consequence of inflation and the reduced FMAP, overall costs to the State for the Behavioral Health program are projected to increase. The Executive Recommendation includes the additional General Fund dollars required to fund these trends.

Title XIX Developmentally Disabled Long Term Care. The long-term care population includes individuals with mental disabilities, cerebral palsy, autism and epilepsy. Funding for this program supports the Arizona Training Program at Coolidge, smaller State-operated homes, case management, home services, respite care and medical services for the eligible population. All services provided are considered entitlements.

The Executive Recommendation includes \$33.7 million to fund an estimated 6.5% caseload growth in the Title XIX developmentally disabled population (*see chart*) and a 3.5% capitation rate increase. These funds will allow the State to provide services to developmentally disabled individuals at a level that is consistent with federal law.

Early Intervention Services. Early intervention is a continuum of developmental services, such as service coordination, therapy, caregivers, etc., designed to support the promotion of a child’s development. The Executive recommends \$3.5 million to fund the early detection of developmental disabilities, such as autism, in children ages three and younger.

Tobacco Cessation. An estimated 32.9% of AHCCCS members smoke. The recommendation proposes coverage of smoking cessation services in AHCCCS by making available federally matched Nicotine Replacement Therapy to an estimated 164,600 AHCCCS-eligible smokers.

WORKFORCE DEVELOPMENT

The health care industry continues to grow rapidly within the state, and with growth comes better medical service; however, there has been a strain on the supply of health care workers. Of particular concern is the need for nurses, physicians, dentists, and other medical practitioners. With an expected shortage of 1,300 nurses across the state for FY 2009 and a physician per resident ratio well below the national average, the Executive recognizes the need to act now to ensure Arizona has the professionals necessary for quality medical care.

Nurses’ Compensation. As the demand for nursing care continues to rise, so does the average market salary for nurses. For State agencies to stay com-

petitive within the market, the Executive Recommendation includes \$1 million for a 2% salary increase in FY 2009. This represents an average increase of \$1,226 per State-employed nurse per year, including nurses at the State Veterans’ Home.

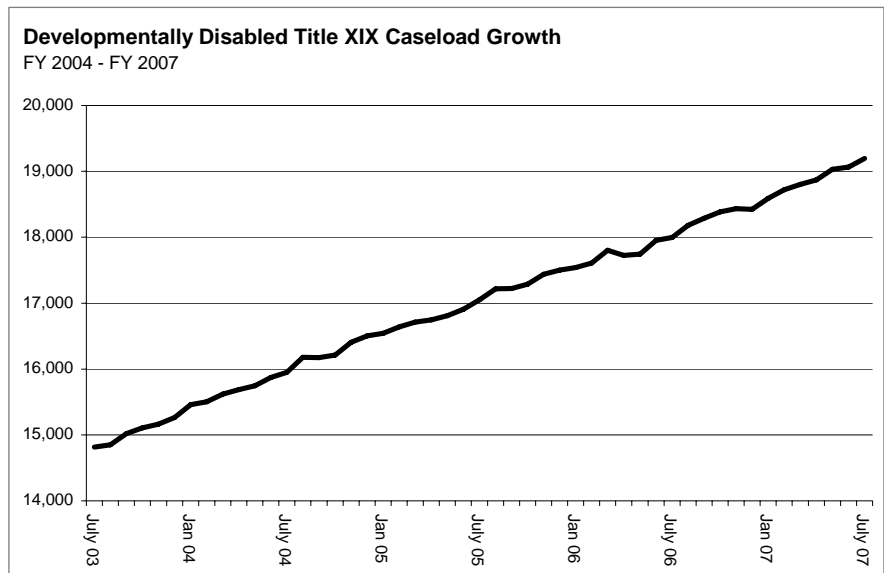
Primary Care Provider Student Loan Repayment. In support of improving the availability of medical services in underserved areas, where the physician per resident ratio is of particular concern, the Executive Recommendation provides funding for 40 additional doctors, dentists, nurse practitioners and other primary care providers to receive student loan repayments.

To qualify for student loan repayments, an individual must agree to work for two years in a medically underserved area and be licensed and/or certified as a physician (general practice, family medicine, dentistry, OB/GYN, pediatrics, or internal medicine), dentist, physician assistant, nurse practitioner, or nurse mid-wife.

SENIOR CITIZENS

Arizona has long been a favorite destination for individuals reaching retirement age. Coupled with a growing segment of aging resident adults, the senior population age 65 and over is increasing relative to other population age groups.

Seniors remain positive contributors to Arizona’s economy well beyond retirement age and – due to advancements in health, wellness and medical



science – are living longer than ever. As this population continues to grow, it is important that the most vulnerable seniors have access to quality care and that the facilities that provide this care have proper oversight.

The Executive Recommendation provides additional funding for two important programs designed to safeguard senior Arizonans.

Protection of Vulnerable Adults.

Over 40,000 Arizonans receive institutional or community-based long-term care services. Between now and 2022, Arizona’s population over the age of 85 will double. Improvements must be made to the system now, so that Arizona will be able to meet the needs of the increasing number of seniors receiving assisted living services. The Long Term Care Ombudsman Program represents the interests of the public by investigating and addressing citizen complaints against nursing facilities. The Executive recommends \$420,600 for three additional long term care ombudsmen and two statewide positions for oversight. These positions will continue to monitor nursing facilities and address the complaints of our senior citizens.

Nursing Facility Performance Incentives. The focus of nursing facility regulation has historically been on ensuring a minimum level of care and correcting deficiencies. While these efforts are crucial, the Executive Recommendation proposes encouraging

facilities to meet the highest standards, by providing incentives for facilities that meet benchmarks for improved care. To that end the recommendation includes \$592,200 to leverage an additional \$3.4 million in federal and county funds to provide pay-for-performance incentives for facilities that produce improved patient health outcomes and lower medical cost.

FAMILIES

Many families in Arizona face unmet needs for domestic violence shelters and family planning assistance. The Executive Recommendation addresses these concerns in two ways.

Domestic Violence. In a typical 12-month period, approximately 8,000 requests for shelter from domestic violence are denied. The Executive Recommendation includes \$3.3 million from the General Fund to continue to address the large unmet need for emergency shelter beds for domestic violence victims.

The Executive Recommendation will shelter an additional 4,000 victims of domestic violence. This third phase of a four-year initiative to eliminate the unmet need for emergency shelter addresses approximately one-half of the remaining unmet need.

Family Planning. Planned pregnancies improve birth weights, reduce birth defects and infant mortality and, in the longer term, reduce child abuse and neglect. The Executive Recommendation

includes funding for family planning services targeted to uninsured or underinsured men and women at community colleges in Arizona. Family planning efforts at community college campuses would be more likely to reach men and women who are in their early 20s. The highest percentage of unplanned pregnancies (33%) occurs in the 20-24 age group.

Additionally, the Recommendation proposes expanding AHCCCS eligibility for family planning services to women and men up to 150% FPL by eliminating the requirement that limits access solely to those who have been in the AHCCCS program for pregnant women. The federal government would pay for 90% of the cost of services. This effort will bring family planning services to an estimated 25,900 individuals by June 2009.

CONCLUSION

The services described in this chapter are inseparable from State government’s essential purposes. Despite the slowing of the economy and State revenue growth, the Executive Recommendation does not cut benefits for Arizona’s children and other vulnerable populations. In fact, the Executive proposes greatly needed increases that, while modest in some cases, respond to the growing demand for services for the most vulnerable sectors of Arizona’s population. •

State Government Responds to New Challenges in Protecting the Public

State government must continue to ensure that Arizonans are safe from crime and foreseeable threats

IN TIMES OF economic sluggishness, the need for fiscal discipline is undeniable. But while Arizonans expect State government to tighten its belt, they will not tolerate compromise when it comes to issues of personal safety. State leaders must continue to ensure that law-abiding Arizonans are safe from the criminal elements of society, and that the State is prepared to respond to foreseeable threats.

LAW ENFORCEMENT

As Arizona grows, so does the demand for law enforcement services. The Executive Budget provides funding to help public safety in the state keep pace with population, traffic and crime.

The Executive recommendation for the Department of Public Safety (DPS) provides:

- implementation of Year Five of the officer pay adjustment plan;
- increased staffing at the DPS crime laboratories, to keep pace with the growing demand for services;
- assistance in the Concealed Carry Weapons Unit and the Vehicle Impoundment Hearings programs; and
- continued support for basic requirements such as vehicles, safety equipment and communications needs, to ensure that DPS's ability to operate is not seriously diminished in a tight budget environment.

Interoperable Communication System. The Executive Recommendation also provides for the next stage of the interoperable communications system, to allow real-time communications among all public safety agencies in the state.

Recent historical events (e.g., 9/11 and Hurricane Katrina) have reminded the public safety community of the importance of having a fully interoperable communications system, the absence of which poses a considerable risk

to public safety. To respond to that issue, the State has been working on creating a statewide voice and mobile-data network that will support local public safety operations and provide a robust integrated communications infrastructure for the entire state. The end result will have all State, county and local government public safety and emergency response agencies integrated into a single radio system network.

The next major step of the project is to connect the Phoenix, Tucson and Yuma communications areas so that 85% of the state's population will be protected by first responders that can communicate with each other.

The Executive recommends \$50 million through lease-purchase funding for the purpose of completing this stage of the project. Funding for debt service payments, which begin after FY 2009, could be provided from revenue (estimated to be \$120 million in a typical year) generated by expanded photo enforcement on highways.

Highway Photo Enforcement. The Executive recommends enhancing photo enforcement on the state's highways and dedicating the resulting first-year revenue (estimated to be \$90 million) to DPS operations.

Numerous studies conducted in the U.S. and elsewhere (including the results of the Loop 101 initiative in Scottsdale) strongly show that enforcement programs help manage traffic speed, reduce collisions and injuries, and combat the huge resulting economic burden to state and local governments, motorists and passengers.

Prompt enactment and implementation of the new highway photo enforcement legislation would provide revenue needed for responding to growing needs in the critical areas of border security, criminal investigations and public safety assistance on State highways.

PRISONS

The number of inmates in the State's prison system continues to grow at a rapid rate. During FY 2006 and FY 2007, the population increased by, respectively, 2,154 and 2,224. At 6.5% per year, Arizona's prison population is growing twice as fast as the state's population as a whole. The Executive Budget projects a continuation of this trend through FY 2009.

In December 2007, the Department of Corrections (DOC) housed 37,957 inmates in prisons that were designed to hold 34,460, or 10% more than the intended capacity. The 3,497 "extra" inmates were in temporary emergency beds, which constitute the best solution to the problem of overcrowding until new facilities are ready for occupancy.

During the 2007 session, the Legislature authorized the addition of 6,000 new prison beds to the system, which will bring the prisons' capacity to 40,520 when construction is completed in 2010.

Projected opening dates for the new beds are:

Opening Date	Beds	Public/Private
January 2009	1,000	Private
February 2009	1,000	Private
July 2009	1,000	Public
October 2009	1,000	Public
January 2010	1,000	Public
April 2010	1,000	Public

The new public prison beds will be created as part of expansions to the following existing prison sites:

Prison	Beds	Security Level
Perryville	1,000	Minimum
Yuma	2,000	Minimum
Tucson	1,000	Minimum

The Executive recommends, in addition to the new facilities authorized during the last Legislative session, the conversion of the Department of Juvenile Corrections' 144-bed Sunrise Unit to serve as an adult, minimum security facility to be managed by DOC. The Sunrise unit is a stand-alone facility adjacent to the Lewis Prison and has been vacant since 2004.

The Executive Budget also contains recommendations for the continuation of normal operations of the prison system, including funding for the marginal cost of additional inmates for expenses such as food and clothing, inflationary increases for outside medical expenditures, and the continuation of the pilot program to use global-positioning-system (GPS) monitoring of parolees convicted of crimes against children.

Jail incarceration. During FY 2007:

- 2,439 felons released on probation had their probation revoked for technical reasons (missing meetings or flunking a drug or alcohol test) and sentenced to one year or less in prison for an average of 142 days;
- 1,332 felons sentenced to probation were admitted to the Department of Corrections as a condition of probation for an average of 84 days; and
- 6,437 felons with less than a year to serve were admitted to the Department of Corrections for an average of 129 days.

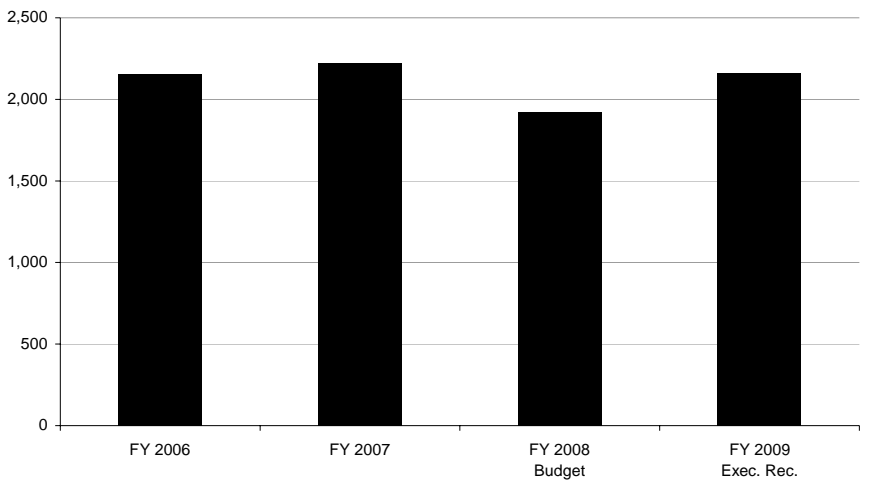
To ease the growth of the inmate population in Arizona prisons, the Executive recommends that certain low-level, nonviolent types of offenders serve their sentences in jails rather than be transferred to the more expensive prison system. The recommendation is consistent with the practice of most other states.

Implementation of this recommendation is expected to yield the following positive results (*see charts above right*).

- In FY 2009, the number of needed prison beds would decline incrementally to 2,273, saving \$61 million in provisional bed costs by the end of the year.
- In FY 2010, at full implementation, savings would accrue from 2,273 beds for the entire year, saving \$91 million.

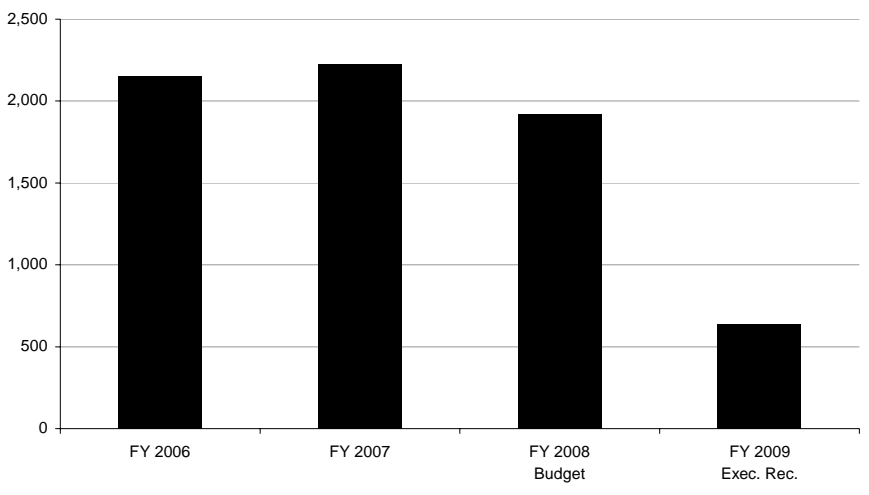
Arizona Prison Inmates

Annual Increases - Without Recommended Criminal Code Changes



Arizona Prison Inmates

Annual Increases - With Recommended Criminal Code Changes



EMERGENCY PREPAREDNESS AND SECURITY

The State's emergency response and preparedness is coordinated through the State Emergency Operations Center (EOC) at Papago Military Reservation.

The EOC, which was built in 1986, is undeniably inadequate for its new use. It has no computer infrastructure, and, due to lack of space, it does not house the necessary components for emergency response and preparedness.

The Joint Information Center, Disaster Mitigation Section, Disaster Recovery Section and the AZ211 Emergency Bulletin System are housed outside of the EOC, in equally inadequate facilities.

To upgrade the EOC to a level that will allow it to support the State's emer-

gency response mandate, the Executive recommends lease-purchase financing for the EOC's renovation and expansion.

National Guard Training. Another instance in which State resources must be increased to support emergency response pertains to the Army National Guard's training facilities. The National Guard leases from the State several parcels of State Trust land. Lease costs have increased sharply, and the U.S. Department of Defense has informed the National Guard that the federal government cannot pay State land leases. The Executive recommends funding to continue the State land leases and ensure that the National Guard has the space it needs for training.

HOMELAND SECURITY

Funding for the grant administration function of the Arizona Department of Homeland Security, which was established as a State agency in FY 2007, comes from a 4.8% share of the federal grants it administers. For most other federal grants, the percentage that the State is allowed for administration is approximately 10%. The low 4.8% is more appropriate in other states, where the agencies that administer the federal Homeland Security grants manage more than just those grants, and they receive funding from additional sources. In Arizona, this is not the case.

The need for additional support for the State's homeland security agency was confirmed by the State Auditor General's performance audit, which revealed a need for the Department to improve its financial controls and its grant awarding and monitoring process.

To address the findings of the performance audit, the Executive Recommendation raises the Department's operational budget from 4.8% of total grants administered to 6.5%, a level that is still significantly lower than the average for most federal grants.

JUVENILE CORRECTIONS

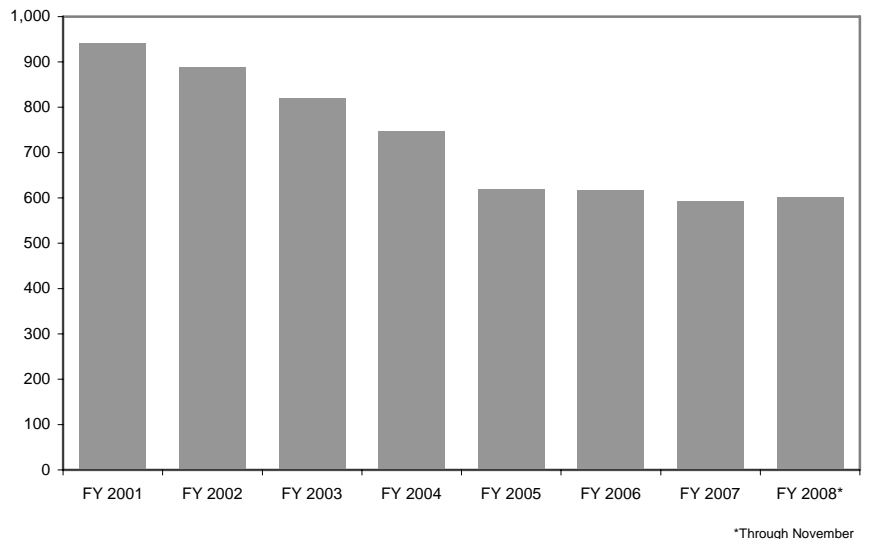
The Department of Juvenile Corrections (DJC) delivers a valuable public safety service to Arizona by providing secure care, rehabilitation, treatment and education for some of Arizona's most troubled youth.

In welcome contrast to the growing number of adult inmates in the State prison system, the size of the juvenile population at DJC's secure care facilities has remained fairly level (*see chart*).

Nevertheless, DJC will require additional funding in FY 2009 to fulfill its mission. Important components of the recommended funding include the following:

- arsenic remediation of the drinking water at Adobe Mountain School;
- maintenance of facilities for life and safety dangers; and
- nurse pay adjustments to help recruit and retain nurses (since the Department adopted the new salary schedule, turnover rates have

Population: Department of Juvenile Corrections



dropped from 126% in FY 2007 to 21% in the first half of FY 2008).

LEGAL SERVICES AND REPRESENTATION

For FY 2009, the Executive proposes additional resources to ensure that all Arizonans have access to some of the most critical and specific legal services and representation, with the following recommendations for the Attorney General's Office and the State Capital Post-Conviction Public Defender.

State Capital Post-Conviction Public Defender Office. When the Office was established in FY 2007, its actual needs were not known; as a consequence, it received initial funding based on certain assumptions and few specifics. The Executive Budget provides the next step in the Office's development.

In December 2007, 15 death row inmates were on a waiting list, awaiting appointment of counsel, with some having waited two or more years. Additionally, the Office anticipates a caseload increase due to the large number of pending capital trials in Maricopa County, currently 125 cases. At the Office's current appropriation, it is not able to accept more than four cases at a time.

The Executive recommends funding for seven new positions and for expert witness fees associated with capital post-conviction appeal cases. The recommended funding will allow the Of-

fice to handle eight to twelve cases at a time and to comply with its statutory mandate and the Arizona Rules of Criminal Procedure.

Attorney General. The Attorney General's Office has contractual agreements, with the U.S. Equal Employment Opportunity Commission (EEOC) and the U.S. Department of Housing and Urban Development (HUD), that require that the Attorney General resolve 492 employment cases during a year and complete a detailed housing investigation within 100 days of the date a complaint is filed with the office. The Attorney General's contracts with the EEOC and HUD generate revenue for the General Fund, as the office receives \$540 for every closed employment case, \$2,400 for every closed housing case, and \$500 for each housing cause determination it issues.

In FY 2007, the Compliance Section of the Civil Rights Division investigated 1,314 housing and employment discrimination complaints, with each Compliance Officer investigating an average of 88 cases.

The Executive Recommendation provides for greater investigative capacity for housing and employment discrimination claims filed with the Attorney General's Office. The recommendation provides funding for two Compliance Officers in the Civil Rights Division. •

Consistent Growth Requires a Sustainable Development Strategy

The Executive Recommendation reflects the importance of strengthening Arizona's economic development efforts and transportation infrastructure

FOR DECADES, ARIZONA'S unprecedented economic prosperity and opportunities have led the nation, and the state has attracted thriving businesses and a diverse population from around the world. Arizona continues to be engaged in economic competition on a global scale, vying with other states and nations for investment, business activity, and highly mobile organizations and workforces.

Balancing population growth, economic vitality and the preservation of Arizona's natural resources requires a continued commitment to quality and excellence in infrastructure development and safety, environmental protection, and expanding system capacity through innovative approaches to growth and development. A sustainable development strategy will help us reach our goals to do better now and for the Arizona we leave for the future.

ECONOMIC DEVELOPMENT

To help streamline and guide Arizona's economic development efforts, the Department of Commerce is developing an innovative, unified economic development model.

The Arizona Economic Resource Organization (AERO) is building a community- and global-based focus to bring various talents and groups together for the benefit of the state's urban and rural areas. AERO is an umbrella that will serve to coordinate and guide key efforts of the economic development community, including the work of the Commerce and Economic Development Commission (CEDC), the Governor's Council on Innovation and Technology, the Department of Commerce, the Greater Arizona Development Authority, Science Foundation Arizona, and the Arizona Global Network.

AERO is a privately funded not-for-profit alliance that will streamline, unify

and enhance Arizona's economic development efforts to enhance the state's position in the global marketplace.

Rural Broadband Connectivity. Broadband connectivity is an essential economic development asset for rural Arizona, and the Executive Recommendation includes \$2 million for that purpose. Rural broadband connectivity will require a partnership between two key State agencies – the Government Information Technology Agency (GITA) and the Department of Commerce – working in cooperation with private sector providers and rural communities.

Statistical Research. Accuracy in the gathering and analysis of population and labor statistics provided to existing and prospective employers is vital to job growth, particularly in rural Arizona.

The Executive recommends \$774,400 to strengthen the Department of Commerce's Research Administration in order to meet State and local needs. The Recommendation provides \$672,000 to establish a State Demographer position that will focus on resolving the research program's shortcomings and lead the Population Statistics Unit to work on active and applied research. The Recommendation also funds two labor market economist positions and two previously unfunded vacant research positions to assist and support rural and small Arizona communities.

TRANSPORTATION

Transportation congestion and bottlenecks damage air quality, slow commerce, increase energy consumption, threaten our quality of life and rob Arizona businesses and citizens of time and capital. Arizonans want practical answers to these transportation challenges and expect the answers to be consistent with sound environmental planning.

During the 2006 and 2007 Legislative sessions, the Governor and Legislature approved the Statewide Transportation Acceleration Needs (STAN), providing additional monies to help expedite highway construction. (See a more detailed discussion of STAN later in this chapter.) While these initiatives are extremely helpful and important, additional support is needed to fund the State's transportation system.

The FY 2009 Executive Budget Recommendation provides responsible levels of funding to sustain the State's transportation system, while protecting our natural resources, en route to economic vitality. The Recommendation increases funding for mission-critical operating programs and the most challenging aspects of transportation relating to infrastructure maintenance, congestion, reliability and access.

The Executive recommends a total operating budget of \$477.3 million and 4,792.0 FTE positions, an increase of, respectively, \$9.96 million and 48 positions over FY 2008. The recommended funding will enable the Department of Transportation (ADOT) to:

- carry out its \$6.6 billion five-year transportation construction program for Fiscal Years 2008 through 2012,
- accelerate freeway construction projects that have been approved pursuant to STAN, and
- continue toward completion of the \$5.4 billion Maricopa Regional Freeway System.

The primary sources of ADOT's operating and construction budgets are the Federal Highway Trust Fund, bond proceeds, the State Highway User Revenue Fund (HURF), and Maricopa County Transportation Excise Tax revenues, which are deposited into the Regional Area Revolving Fund (RARF).

FY 2009 ADOT Financial Plan

Total Program: \$2.3 Billion

In millions of dollars

S O U R C E S

HURF	\$671	29%
Federal Funds	598	25%
RARF	250	11%
STAN	124	5%
Bonds	707	30%
HELP Fund	1	0%

U S E S

Capital Budget	\$1,506	65%
Debt Service	320	14%
Highways	178	8%
Maintenance	134	6%
MVD	116	5%
Administration	45	2%
Magazine	8	1%

Maricopa County Transportation.

In FY 2009, the Maricopa County excise tax is expected to generate \$429.5 million, an increase of 5.08% over estimated FY 2008. Since the excise tax is applied only in Maricopa County, RARF monies are exclusively dedicated to the Maricopa Regional Transportation System.

In 1985, Maricopa County voters approved Proposition 300, which established a 0.05% transportation excise (sales) tax for the construction of a regional freeway system within the county. The sales tax was approved for a period of 20 years and ended on December 31, 2005.

On November 2, 2004, Maricopa County's voters approved Proposition 400 to extend the 0.05% sales tax for another 20 years, through December 31, 2025. The sales tax extension is used for freeway construction; widening existing freeways and highways; improving the arterial street system, regional bus service and other special transportation services; and high-capacity transit services such as light rail, bus rapid transit and express buses.

The tax is levied on business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. ADOT administers the RARF for highway projects, while the Maricopa Association of Governments (MAG) oversees the arterial streets monies. The Valley Metro and Valley Metro Rail administer the Public Transportation Fund monies.

State Transportation Board. A.R.S. §§ 28-304 and -305 outline the responsibility of the State Transportation Board and identify requirements for the effective administration of Board powers, duties and responsibilities. The Board has broad authority to plan and develop Arizona's highways, airports and other State transportation facilities.

In addition to these general policy responsibilities the Board is responsible for development and oversight of the State's Five-Year Transportation Facilities Construction Program and for the development of policies and rules in the following areas: priority programs; establishing, altering or vacating highways; construction contracts; accelerated funding mechanisms (e.g., revenue bonds, HELP Loans, Board Obligations and GANS); local government airport grants; and designating or establishing scenic or historic highways.

Highway User Revenue Fund (HURF). The State taxes motor fuels and collects a variety of fees relating to the registration and operation of motor vehicles. These collections include gasoline and use fuel taxes, motor carrier fees, vehicle license taxes, motor vehicle registration fees, and other miscellaneous fees. The revenues are deposited in HURF and distributed to counties and municipalities and to the State Highway Fund, which is administered by ADOT. The taxes and fees represent the primary source of revenues available to the State for highway construction, improvements and other related expenses.

More than half (50.5%) of the monies flowing into HURF are shared with cities and counties, while the balance remains with ADOT to support statewide highway construction projects. In FY 2009, HURF is projected to receive \$1.5 billion, reflecting an increase of 4.8% over FY 2008.

Statewide Transportation Acceleration Needs. As was stated earlier, STAN provides monies to help expedite highway construction. The list of projects recommended by MAG and ADOT must receive final approval from the State Transportation Board. Under the STAN program, ADOT and regional transportation entities utilize resources to accelerate highway projects across the state and in the MAG region.

During the 2008 Legislative session, serious cooperative efforts will be needed for new financing measures to enable ADOT to move forward with highway construction and address local and statewide transportation needs.

Highway Construction. The statutory power to prioritize individual airport and highway projects is vested in the State Transportation Board, a seven-member panel appointed by the Governor and confirmed by the Legislature. Members of the panel serve six-year terms and represent different regions of the state. The Board presides over the establishment of priorities and oversees all highway contracts.

The State Transportation Board has approved a \$6.6 billion highway construction program as part of the Five-Year Transportation Facilities Construction Program for Fiscal Years 2008 through 2012. The construction program covers highways and airports under the "priority programming" law (A.R.S. § 28-6951), which sets guidelines in prioritizing projects. Included in the Highway Program are transportation corridors under both the national highway system and the statewide system. During the five-year program period, the Maricopa County urban freeway system will receive nearly \$3.2 billion of the expected funds. The primary source of this program is the Maricopa County transportation excise tax discussed earlier. Another portion of this program will be financed by 15% controlled access funds and federal funds dedicated to the MAG area.

Highway Program

FYs 2008-2012

In millions of dollars

MAG Regional Plan	3,851	59%
System Improvements	1,316	20%
System Preservation	1,022	16%
System Management	381	6%
Total	\$6,570	100%

Funding Recommendations. The Executive Recommendation supports a \$2.3 billion transportation infrastructure program for FY 2009. The funding level will provide \$1.5 billion for highway construction, \$320 million for debt service, and \$477.3 million for highway

maintenance, administration and motor vehicle services. In accordance with statutes, the actual expenditures levels are determined within the scope of the Five Year Highway Construction Program as approved by the State Transportation Board. The Recommendation includes the following funding initiatives.

Controlled Access Highways. The Executive recommends \$114.5 million from the distribution formula for dedicated highway revenues for the construction of urban freeways. The current allocation provides 75% to MAG and 25% to the Pima County Association of Governments (PAG).

The primary source of the MAG regional transportation program is the Maricopa County excise tax. Another portion of this program will be financed by 15% controlled access funds and federal funds dedicated to the MAG area.

For FY 2009, the Executive recommends \$114.5 million for the construction of urban freeways, from the distribution formula for dedicated highway revenues. The current allocation provides 75% to MAG and 25% to the Pima County Association of Governments (PAG).

Enhanced Driver Licenses. The FY 2009 Executive Recommendation includes \$3.6 million and 21.0 FTE positions from the State Highway Fund to establish an Enhanced Arizona Driver License/Identity (DL/ID) credential that will meet the standards of the Western Hemisphere Travel Initiative. The initiative implements a 9/11 Commission recommendation and Congressional mandate. The Enhanced Arizona DL/ID will provide proof of citizenship, identity, border crossing capability, and the privileges to operate a motor vehicle. During this Legislative session, ADOT will seek the necessary legal and administrative authority to implement this measure.

Highway Maintenance and Safety. The Recommendation also includes additional funding for highway maintenance and road safety, including:

- \$2.9 million and 10.0 FTE traffic signal technicians to help maintain the

State's transportation infrastructure, improve roadway conditions and ensure the safety of highway users; and

- \$2.1 million to accommodate cost increases of construction and maintenance materials (e.g., asphalt, concrete, fuel, steel, deicing materials) that have forced ADOT to reduce critical maintenance activities and that, in turn, reduces the useful life of pavement, jeopardizes motorist safety, and increases the State's liability.

Port-of-Entry Inspections. The recommendation includes \$308,300 and 5.0 Motor Vehicle Field Officer FTE positions to strengthen ADOT's efforts in enforcing State laws related to motor carriers and in collecting fees and charges from motorists using the State's highway system.

Adequate staffing at the fixed ports of entry and for mobile enforcement activities is essential in deterring commercial vehicle overloads, thus reducing infrastructure damage to pavements and structures. Adequate mobile enforcement is also critical in collecting revenues that are owed to the State and to mitigate the effect of tax avoidance.

Airport Development. Funding for the Five-Year Aviation Program totals \$1.36 billion and is financed through a combination of federal, State and local fund sources. Federal monies are derived primarily from taxes on airline tickets and, pursuant to the National Airport Improvement Act, are distributed by the Federal Aviation Administration to local airports. State funds come mainly from flight properly tax, lieu taxes on aircraft and aviation fuel taxes.

Federal grant monies will finance \$601 million of the program, while the State share is \$111 million. Local sponsors contribute another \$42.4 million.

Airport Development Program
In millions of dollars

Commercial/Reliever Airports	\$ 56.1
Public Airports	54.0
Total Airport Program	<u>\$110.1</u>

The FY 2009 Executive Recommendation provides \$28.9 million from the State Aviation Fund for development and improvement of State, county and municipal airports as approved by the State Transportation Board.

The Recommendation also appropriates to ADOT all monies in the State Aviation Fund that are in excess of amounts determined in the General Appropriation Act and the Capital Outlay Act for airport planning and development. Monies in the State Aviation Fund consist of receipts from a flight property tax, aircraft lieu tax, and revenues from the operations of Grand Canyon Airport.

ENVIRONMENTAL PROTECTION

Transportation activities have a significant environmental impact. Federal and State regulations require that ADOT implement and manage an effective environmental stewardship program covering all of its business areas.

Increased workloads and limited resources have jeopardized ADOT's compliance in several key environmental areas such as water, air quality and natural resources management. As a result, ADOT has had to enter into consent orders and is working to meet statutory compliance and reporting obligations. These consent orders address ADOT's role as an operator of public water systems and its planning function to better manage its activities and protect the environment and public health. The Executive recommendation includes \$382,700 to establish two Environmental Engineer and two Environmental Planner positions to help address workload increases, improve technical assessments and enable ADOT to comply with federal and State environmental laws. •

Other environmental protection initiatives intended to manage and preserve Arizona's natural resources are discussed in "Natural Resources."

Environmental Protection Measures to Boost Arizona's Economic Vitality

Effective, efficient management of Arizona's natural and agricultural assets is a key to smarter, sustainable growth

SINCE BEFORE STATEHOOD, Arizona's natural beauty has fueled its seemingly unending magnetism for tourism and growth. The state's continuing prosperity depends on maintaining that beauty. Arizona citizens, community organizations, businesses and government entities must provide more coordinated and responsible environmental stewardship, as exemplified by the following Executive initiatives.

Six agencies are at the forefront of the State's efforts to serve as faithful and effective stewards of the natural assets that have been entrusted to us: the Department of Water Resources (DWR), the Department of Agriculture, the Arizona Geological Survey, the State Land Department, the Department of Environmental Quality, and the State Parks Board.

WATER

Arizona owes its viability to its access to and wise management of water. To preserve our quality of life and promote our future economic vitality, it is imperative that we effectively manage our water resources to ensure that they are available now and well into the future.

Automated Groundwater Monitoring. Instances of drinking water degradation and other environmental problems pose growing threats to the state's economy and quality of life. To address those threats, the Department of Water Resources' budget for Fiscal Years 2008 and 2009 provides \$500,000 and two additional positions (in FY 2009) for automated groundwater monitoring.

Conservation and Drought Programs. In 2003, an Executive Order established the Arizona Drought Task Force and commissioned it to develop the State's first plan to deal with drought preparation and water conser-

vation. The enacted budget includes \$500,000 and six positions to constitute a new Conservation and Drought Office that will implement new and innovative conservation strategies statewide.

AGRICULTURE

Despite Arizona's trend toward urbanization, agriculture continues to be an essential part of the state's economy, and agricultural issues are inseparable from efforts to preserve our natural resources.

Ports of Entry. Arizona's ports of entry are the first line of defense against dangerous and costly pest infestations. A 2000 Auditor General performance review confirmed that port inspections help the State prevent expensive and hazardous pests from entering. To the extent potential eradication and health costs can be ameliorated by prevention, costs associated with port operations are a good investment for Arizona.

Pest infestations, once entrenched, can be extremely difficult and costly to manage. For example, in 1999, eradicating red imported fire ants at Yuma's Cibola High School cost \$750,000.

The Department of Agriculture estimates that 100,000 regulated trucks pass through the State's ports of entry without inspection. The FY 2009 Executive Recommendation provides a total of 20 positions (including 10 that were approved during the 2007 Legislative session) to open and staff inspections at two ports of entry on the California border (at I-10 Ehrenberg and Parker), as well as conduct round-the-clock inspections at Yuma. As a result of this initiative, pest interceptions are anticipated to increase from 12,185 in FY 2006 to 22,000 by FY 2009.

Food Safety and Meat Inspections. The Executive recommends \$594,300 and 10 positions to enhance the De-

partment of Agriculture's inspection programs. Included in the Recommendation are \$422,500 and 9.0 FTE inspector positions to address workload increases at the ports of entry.

The Recommendation also includes \$171,800 to fund two vacant positions and to hire an additional FTE inspector. The recommended funding strengthens the Meat Inspection Program, which is designed to ensure safe meat production and compliance with industry standards. The inspections involve general plant and equipment sanitation, safe and acceptable production practices, enforcement of slaughterhouse regulations, approved labeling, and laboratory sampling programs.

Pesticides. Commercial users of pesticide are required to dispose of unused pesticides and recycle large pesticide containers. The FY 2009 enacted budget includes \$100,000 to help pesticide users comply with this environmental protection requirement.

Laboratory. The enacted budget provides an additional \$336,000 to replace obsolete testing equipment and otherwise meet the growing burden of laboratory testing, and to hire a microbiologist and an entomologist.

The addition of the microbiologist will help protect Arizona residents and visitors from potentially dangerous bacteria such as *E. coli*, while the entomologist will help identify dangerous pests such as the red imported fire ant and handle increased demands for laboratory services from the ports-of-entry.

STATE LAND

The Land Department lacks the resources to work with communities and to plan for the appropriate sale and lease of State Trust lands, which will play a significant role in Arizona's growth. The

Executive proposes funding to help alleviate the factors associated with this problem.

The FY 2009 enacted budget includes 12 positions and \$775,100 to provide the Land Department with technical expertise needed to further enhance its revenue generation capabilities on behalf of the State Trust. The additional positions include two geologists, a water resource engineer, a hydrologist, a lease administrator, a billing auditor, a buyer, and a webmaster. The appropriation also provides for three additional legal professionals to (a) work on real estate and water matters that would increase the value of State Trust land and (b) actively prosecute entities that have adversely affected State Trust land values.

Document Processing and Security.

The Department has little electronic storage for its several million pages of documents, which date back to 1910 and contain information relating to the Trust since its inception. The FY 2009 enacted budget includes \$317,700 and four positions to modernize and computerize the Land Department's documentation system.

Wildfire Management. Wildland fire remains a threat to Arizona's landscape and its communities. The FY 2009 enacted budget includes resources to enhance the State's ability to manage and address the problem of wildfires and to respond to a variety of natural and man-made emergencies on a state-wide scale.

To ensure that wildfire issues are addressed at the Executive level, the FY 2009 enacted budget identifies the State Forestry Division as a budget unit and provides \$277,200 and four additional positions to support the Land Department's fire suppression efforts.

ENVIRONMENTAL QUALITY

The mission of the Arizona Department of Environmental Quality (ADEQ) is to protect public health and the environment through the enforcement of air, water and land quality standards. The FY 2009 budget includes several components designed to protect the environment and public health, including:

- a statutory funding transfer to the Water Quality Assurance Revolving

Fund (WQARF) to identify, assess and clean up groundwater contamination caused by the release of hazardous substances;

- increased funding of \$863,800 over the next two years to address permitting backlogs and workload increases in ADEQ's Water Quality Division;
- \$271,300 to strengthen the State's efforts to monitor cross-boundary hazardous waste shipments entering the state at Douglas, Nogales and San Luis;
- \$100,000 and one position for hazardous air emergency response;
- \$155,100 and two positions to oversee remediation along the Colorado River and help protect the water quality of the Colorado River against a hexavalent chromium plume caused by Pacific Gas & Electric near Topock;
- \$1 million and eight positions to strengthen regulation and address permit application backlogs related to public water system wells, treatment plants, distribution systems, line extensions and other drinking water infrastructure;
- \$150,000 and three positions to implement a recycling assistance program and to ensure compliance with applicable recycling regulation; and
- \$211,800 and three positions for air quality compliance support, to help with the enforcement of Title V air permits and related violations.

STATE PARKS

Arizona's State parks annually provide historical preservation, outdoor recreation and scenic beauty to over two million people, nearly half of whom visit from other states and countries.

The FY 2009 enacted budget includes \$1.5 million for parks' operating expenses, which will allow the State Parks Board to use a like amount from the Enhancement Fund for deferred maintenance costs. With this funding, the State will achieve environmental compliance, prevent deterioration of historical sites, and meet structural needs such as roofing, foundation and water system repairs.

GAME AND FISH

Stewardship of the state's wildlife is a key aspect of natural resources management. The Executive Recommendation provides a number of initiatives pertaining to the Department of Game and Fish.

OUI Reduction. Alcohol-related accidents on Arizona waterways continue to be a major problem. In a typical year, about 41% of Arizona's known boating accident deaths are related to alcohol consumption. A.R.S. § 5-311 established the Watercraft Operating Under the Influence (OUI) Reduction Program, and the Department continues to improve its desired outcomes. The FY 2009 budget includes \$1 million from the Watercraft Licensing Fund for the Watercraft OUI Reduction Program.

Watercraft and Boating Safety Education. The FY 2009 budget provides an increase of \$1.3 million to support the Department's efforts in furthering public information and boating safety education. The recommended funding will build on the progress made in this program and will enhance outreach activities to inform the public on alcohol consumption and related unsafe watercraft operations.

Vehicle Replacement. The Executive Recommendation includes \$1 million to provide for the replacement of field vehicles and to enable the Department to maintain its regular schedule for equipment replacement.

Information Technology. The enacted budget provides \$260,000 in FY 2009 for information technology enhancements. The recommended funding includes:

- \$30,000 for Internet connections for wildlife assignments; and
- \$230,000 to replace servers and personal computers to maintain a three-year replacement schedule.

Shooting Range Development. The 1,679-acre Ben Avery Shooting Range is the world's largest publicly operated recreational and competitive shooting sports complex. In September 2006, operational responsibility of the Clay Target Center shifted from a private entity to the Game and Fish Commission, requiring additional financial resources. The enacted budget includes

\$500,000 in FY 2009 for required funding.

Urban Fishing. The Urban Fishing Program is a unique partnership among the Department, municipalities, urban anglers, and fish suppliers to provide convenient and quality fishing recreation in urban areas. Higher fish production, the delivery of fish contracts, and the addition of new lakes to the program's inventory have driven up operating costs. The enacted budget provides an additional \$37,000 in FY 2009 to meet increased costs and demand for services.

Radio Communications. The enacted budget includes \$250,000 FY 2009 for the purchase of radio towers in the lower

and upper regions of the Colorado River. Establishing radio communication will enhance the Department's field operations network and support the State's enforcement and monitoring with other entities.

Lower Gila Wildlife Area. The enacted budget provides \$75,000 in FY 2009 to enhance the wildlife resources near the Lower Gila Wildlife Area. The Department plans to improve the area's irrigation capabilities and increase the acreage of croplands planted for wildlife food crops. Target species would include small game such as white-winged and mourning dove, quail and rabbits. Big

game would include javelina and mule deer.

Deer Restoration. The enacted budget includes \$200,000 from the Game and Fish Fund for the North Kaibab Deer Habitat restoration project. This initiative involves about 24,000 acres to mitigate the damages and restore the areas that were burned in 1996 Bridger Complex wildfire.

Watercraft Cost Transfer. Finally, the enacted budget provides an additional \$50,000 in FY 2009 to cover labor cost allocations and related increases due to wider enforcement areas and salary adjustments approved by the Legislature. ●

Proposed Legislative Changes

The following changes are necessary to implement the Executive Budget recommendation

AHCCCS

County Acute Care Contribution: *Laws 2007, Chapter 263, Sections 21 and 23.* Two session laws pertained to county contributions totaling \$52.9 million for Acute Care services within AHCCCS. The Executive Recommendation reduces the Acute Care county contribution by \$565,900 for the Maricopa County contribution reduction for changes in the GDP Price Deflator, per Laws 2007, Chapter 263, Section 21 (F).

Disproportionate Share Hospital Payments: *Laws 2007, Chapter 263, Section 19.* The Executive recommends that the Disproportionate Share payments for Fiscal Year 2009 be \$91,369,200 for the Maricopa special healthcare district, \$28,474,900 for the Arizona State Hospital, and \$26,147,900 for private hospitals.

Family Planning IGA/ISA (Lottery) Funds Transfer: *New Session Law.* The Executive recommends transferring \$809,900 from the Department of Health Services IGA and ISA Fund to the newly established Family Planning Fund.

Family Planning Fund Establishment: *New Statute.* The Executive recommends the establishment of the Family Planning Fund as an appropriated fund to be administered by AHCCCS.

Family Planning Services Expansion. *A.R.S. § 36-2907.04.* The Executive recommends eliminating the eligibility requirement that a person must have been a member of the AHCCCS program for pregnant women to qualify for the family planning services program. The proposed change would allow all eligible Arizonans up to 150% FPL to access family planning services.

KidsCare Parents Program Continuation: *Laws 2007, Chapter 263, Section 27 and A.R.S. § 36-2981.* This program is legislated to end June 30, 2008. The Executive Recommendation reinstates KidsCare Parents health insurance coverage in permanent law.

KidsShare. *New Statute.* The Executive recommends the establishment in permanent law, effective July 1, 2009, of a buy-in program, entitled the Children's Health Share Program (KidsShare), for children under 350% FPL. The statute includes the establishment of a non-appropriated, non-lapsing Children's Health Share Fund consisting of member premiums.

DEPARTMENT OF ADMINISTRATION

AFIS II Collections Fund Revenues Cap Increase: *Laws 2007, Chapter 255.* The Executive recommends that the Department be allowed to collect an amount not to exceed \$5,541,500 from other funding sources, excluding federal funds, to recover *pro rata* costs of operating AFIS II. Any amounts left unspent from the Arizona Financial Information System line item shall revert to the General Fund.

Capital Outlay Stabilization Fund: *Session Law.* Notwithstanding any other law, in FY 2009, agencies occupying State-owned buildings shall pay an office square footage rate of \$24.00 and a storage square footage rate of \$10.00.

Capital Outlay Stabilization Fund: Amend current statutes to require all agencies occupying State buildings, including Legislative offices, to make payments at the applicable rates to the Capital Outlay Stabilization Fund.

Large Loss Support Unit: *Laws 2009 General Appropriations Act.* The Executive recommends appropriating in a special line item the Large Loss Support Unit recommendation. The special line item would have a double asterisk, indicating that the appropriation is non-lapsing until June 30, 2010.

Procurement and Purchasing System: *A.R.S. § 41-2511.* The Executive recommends giving the Department the authority to assess an annual fee on vendors, State agencies or political subdivisions to cover costs related to the acquisition and implementation of a new procurement and purchasing system.

Vehicle Replacement: *Laws 2007, Chapter 255.* The Executive recommends changing the footnote in the feed bill to increase the Department's authority to replace vehicles.

DEPARTMENT OF CORRECTIONS

Serving Short-term Sentences at Jails: The Executive recommends permanent changes to the Criminal Code to require those with less than 12 months of incarceration left to serve at the time of sentencing would be sentenced to jails rather than the State prisons.

State Education Fund for Committed Youth: Authorize the expenditure of all revenues received to the State Education Fund for Correctional Education.

DEPARTMENT OF EDUCATION

Teacher Certification Fund: *A.R.S. § 15-531.* The Executive proposes that the Teacher Certification Fund be established permanently in statute to avoid end-of-year fund reconciliation issues that are caused by the Fund's status as a sub-account of the General Fund.

Desegregation "Soft Cap" Extension FY 2009: *Session Law.* The Executive recommends extending into FY 2009 the desegregation "soft cap," which allows school districts to increase their desegregation budgets for increased enrollment and inflation.

Rapid Decline: *Session Law.* The Executive recommends continuing to fund adjustments in student count for rapid decline at fifty percent in FY 2009.

Excess Utilities: *Session Law.* The Executive recommends pro rata distribution of \$5 million in FY 2009 to districts that budgeted for excess utilities in FY 2008.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

Certificate of Participation for the Renovation and Expansion of the State Emergency Operations Center: (A) In accordance with the provisions of A.R.S. § 41-791.02, the adjutant general of the Department of Emergency and Military Affairs may enter into a lease purchase agreement for the issuance of certificates of participation in an amount not to exceed \$7.5 million for the purposes described in section B. The Department shall structure the agreement such that the first debt service payment does not occur until Fiscal Year 2010. (B) The Department of Emergency and Military Affairs shall use the proceeds from section A for the design, expansion and renovation of the State Emergency Operations Center. The project or projects shall include all related infrastructure and buildings. The proceeds of the certificates of participation may be considered State matching monies for any available federal monies.

DEPARTMENT OF FINANCIAL INSTITUTIONS

Loan Originator Licensing Program: Amend A.R.S. §§ 6-127-135 and related sections in Title 6 to eliminate the existing cap on fund balances for the Special Revolving Fund; establish a new revenue stream to support the new program, including registry and certification of loan originators; and set educational and professional standards. The Executive Recommendation includes the necessary changes to provide the legal authority to implement these measures.

Receivership Fund: Notwithstanding A.R.S. § 6-135.01 and any other law, in FY 2009 the Department of Financial Institutions may use from the Revolving Receivership Fund up to \$866,000 and 9.0 FTE for a loan originator licensing program and \$202,200 and 3.0 FTE for the mortgage examination program.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY

Public Safety Interoperability Communications System: The Executive Recommendation calls for a session law to authorize GITA to enter into a financing agreement as follows: (A) The director of the Government Information Technology Agency may enter into a 15-year lease purchase agreement for an amount not to exceed \$50 million for the purposes described in section B. The Department shall structure the agreement so that the first debt service payment does not occur until fiscal year 2009-2010. (B) The Government Information Technology Agency shall use the proceeds from section A for the design and construction of an interoperability communications system among public safety agencies in the state. The proceeds of the lease-purchase instruments may be considered State matching monies for any available federal monies.

DEPARTMENT OF HEALTH SERVICES

Restoration to Competency, County Reimbursements: *A.R.S. § 13-4512.* Notwithstanding A.R.S. § 13-4512 or any other law, all counties shall be required to reimburse the State for the costs of a defendant's inpatient competency restoration treatment at the Arizona State Hospital, with all counties with a population of 800,000 or more and all cities reimbursing 86% of the costs, and all counties with a population of less than 800,000 reimbursing 50% of the costs. The funds shall be deposited into the Arizona State Hospital Fund pursuant to A.R.S. § 36-545.08.

Emergency Medical Services Operating Fund Transfer: Notwithstanding A.R.S. § 36-2219.01 or any other law, \$2 million shall be transferred in FY 2009 from the Emergency Medical Services Operating Fund to the Arizona State Hospital Fund.

DEPARTMENT OF HOUSING

Housing Finance Authority Fund: A.R.S. § 41-3905. The Executive recommends giving the Housing Finance Authority its own fund, rather than using the Department of Housing ISA Fund.

DEPARTMENT OF JUVENILE CORRECTIONS

State Education Fund for Committed Youth: Authorize the expenditure of all revenues received to the Education Fund for Committed Youth.

LOTTERY COMMISSION

Limit on Advertising: *Laws 2007, Chapter 255.* The Executive recommends that the Lottery's section of the Laws 2007 feed bill (Section 59) be amended to strike the language that sets an \$11 million limit on advertising.

DEPARTMENT OF PUBLIC SAFETY

Highway Patrol: Notwithstanding A.R.S. § 28-6993, the statutory cap limiting the level of State Highway Fund monies available to fund Department of Public Safety Highway Patrol costs is suspended for FY 2009.

DPS Photo Enforcement Fund: Amend A.R.S. § 28-1554 to direct to the DPS Photo Enforcement Fund all fees, fines, forfeitures and civil penalties generated by DPS photo enforcement systems and collected by any municipal or justice court. The DPS Photo Enforcement Fund shall be established within the DPS enabling statutes (A.R.S. § 41-1701 *et. seq.*). The Fund shall be subject to annual Legislative appropriation and shall be used to support DPS operating costs. The definition of "photo enforcement system" (A.R.S. § 28-601) shall be modified to include violations within Title 28, Chapter 3, Article 7 to allow for the possible use of photo enforcement systems to detect violations of high-occupancy vehicle lane restrictions.

DEPARTMENT OF REAL ESTATE

Revision of Fees: Notwithstanding A.R.S. § 32-2103(B), the Real Estate Commissioner shall not revise fees in FY 2009 for the purposes of meeting the requirement to recover at least 95% but not more than 110% of the Real Estate Department's appropriated budget.

DEPARTMENT OF REVENUE

TPT Estimated Payment Threshold: Amend A.R.S. § 42-5014(D) to read, "If the business entity under which a taxpayer reports and pays income tax under Title 43 has an annual total tax liability, under this article, Article 6 of this chapter, and Chapter 6, Article 3 of this title, of ~~one million~~ ONE HUNDRED THOUSAND dollars or more, based on the actual tax liability in the preceding calendar year, regardless of the number of offices at which the taxes imposed by this article, Article 6 of this chapter or Chapter 6, Article 3 of this title are collected, or if the taxpayer can reasonably anticipate such liability in the current year, the taxpayer shall report on a form prescribed by the Department and pay an estimated tax payment each June."

Revenue Generating Measures

Automate the Bank Matching/Levy Process: Amend A.R.S. § 42-1207 to provide legal authority to allow the Department to enter into an agreement with a vendor to conduct data matching electronically. The Department currently has the statutory authority to conduct levies on a debtor's bank account; however, the process is a manual one and very time consuming.

Outsource Select Collections Inventory: Amend A.R.S. § 42-1004 to eliminate the existing \$500 cap and allow the Department to engage private collection agencies to maximize its collections efforts. Current statute permits outsourcing only of Arizona accounts with liability of \$500 or less; small dollar amounts typically less attractive to private collection agencies.

Increase Statute of Limitations: Amend A.R.S. §§ 42-1114, -1151, -1201 and -2066 to increase the statute of limitations to 10 years, which is the same limit imposed by the IRS for the collection of federal taxes. Until 1994, the Department did not have a limitation on the length of time it had to collect taxes.

Increase License Fees: Amend A.R.S. § 42-5005 to adopt a \$50 license fee to be renewed every two years. The Department charges a \$12 one-time fee to taxpayers applying for a TPT license, and that fee amount has been in place for at least 20 years.

Modify Informational Returns Penalty: Amend A.R.S. § 42-1125 to authorize the Department to eliminate the current \$500 flat fee and establish a graduated penalty structure similar to the IRS system, which requires a penalty of \$100 for each month or a fraction of a month.

SCHOOL FACILITIES BOARD

Kindergarten as Full ADM: *A.R.S. § 15-2011.* The School Facilities Board counts kindergarten students as 1/2 ADM for new construction purposes. To avoid unlawful funding discrepancies among school districts, kindergarten students must be counted as full ADM in all school funding formulas, including new construction. The Executive recommends counting kindergarten students as full ADM for new construction purposes, which will allow districts to develop facilities to accommodate full-day kindergarten.

New Construction Lease-to-Own Authority: *A.R.S. § 15-2006.* The Executive recommends \$471.3 million in lease-to-own authority for the School Facilities Board for new school construction. Since current statute prohibits the School Facilities Board to enter into any lease-to-own transactions after May 15, 2006, and sets a maximum of \$200 million annually for these transactions, a notwithstanding provision is needed to allow for the authority.

School Safety Recommendations Expenditures for New Construction: *A.R.S. § 15-2041.* The Executive Recommendation includes allowing each school awarded an additional 1.6% above the current new construction formula funding that may only be used to fund school safety improvements.

STATE CAPITAL POST-CONVICTION PUBLIC DEFENDER

Caseload Enhancement: Amend A.R.S. § 41-4301(G)(2) to read as follows “Employ not more than four deputies and not more than nine other employees and establish and operate any offices as needed for the proper performance of the duties of the office.”

TREASURER

Budget Stabilization Fund – Transfer: Notwithstanding A.R.S. § 35-144, the sum of \$196,558,000 shall be transferred from the Budget Stabilization Fund to the General Fund in FY 2009.

Capital Outlay

Funding for Asset Maintenance and Preservation

The Capital Outlay Budget provides funding from the General Fund and Other Appropriated Funds for two main categories of projects: Building Renewal and New Construction

FUNDING FOR CAPITAL PROJECTS is typically made through the Capital Outlay Bill, but it may also be approved through other Legislative enactments. The Capital Budget may also include recommendations for advanced appropriations.

For the purposes of capital planning and management, in accordance with A.R.S. § 41-793, State Government provides for three building systems:

- the Arizona Department of Administration (ADOA) Building System,
- the Arizona Department of Transportation (ADOT) Building System, and
- the Arizona Board of Regents (ABOR) Building System.

Annually, and no later than October 15, each building system develops its Capital Improvement Plan to include capital spending on land acquisition, capital projects, energy management systems and Building Renewal. The ADOA Building System reports a current inventory of 3,243 structures and comprises all State buildings except for ADOT and the Board of Regents, the latter of which oversees the three State universities.

The FY 2009 request for New Construction capital from State agencies within the ADOA Building System exceeded \$513.3 million, while their Building Renewal request was estimated at \$95.6 million.

ADOT requested \$101.4 for New Construction and \$8.3 million for Building Renewal.

ADOA BUILDING SYSTEM CAPITAL IMPROVEMENTS

The Executive recommends \$11.5 million in FY 2009 for capital improvements and major maintenance projects. The recommendation includes:

- \$3.2 million (General Fund) for Phase III to secure and replace non-working prison cell doors and locks throughout the Corrections system;
- \$5.8 million (General Fund) to repair and replace building systems, including fire, emergency, air ventilation and electrical systems at buildings used by the:
 - Department of Juvenile Corrections
 - Department of Administration
 - Department of Economic Security
 - Department of Revenue
- \$2 million (Other Appropriated Funds) for the Department of Game and Fish.

During prior Legislative sessions, the Legislature approved General Fund expenditures of \$1.5 million for DPS communications systems (Laws 2006, Chapter 345) and \$4.7 million for capital projects (Laws 2007, Chapter 257).

GENERAL FUND

Department of Corrections

Prison Cell Doors and Locks. The Executive recommends an annual commitment of \$3.2 million for Phase III of an eight-year replacement schedule designed to replace cell doors and locks at State prisons. The project’s magnitude and the complexity of relocating inmates during construction require that the work be performed in phases. Funding to address these public safety needs has been requested in several budget cycles.

Deferring support for this project will continue to compromise security through the prison system and increase liability and personal risks to officers and other personnel. Additionally, the cost to maintain the useful lives of the buildings is increasing, which forces the Department to face broken and dysfunctional components on an emergency basis rather than as part of a planned system replacement. This approach is disruptive to management and leads to higher operating costs and inefficient systems.

Department of Juvenile Corrections

Fire Sprinklers. The Executive recommends \$1 million to evaluate the installation of fire sprinkler protection systems to housing units at the Adobe Mountain, Black Canyon and Catalina School housing units. While the fire and life safety code requires fully operational fire sprinkler systems in housing units, there are no fire suppressions systems. Moreover, the

FY 2009 CAPITAL PROJECT REQUESTS, BY AGENCY

AGENCY	New Construction	Building Renewal
Administration	\$184,700,500	\$10,411,200
State Courts	1,450,000	3,200,000
Corrections	204,487,800	70,393,600
Economic Security	11,631,100	1,353,500
Emergency & Military Affairs	8,760,000	3,552,000
Health Services	37,015,800	2,084,700
Game and Fish	2,031,000	474,000
Juvenile Corrections	9,109,800	1,425,000
Schools for the Deaf & Blind	2,162,900	750,000
Parks	6,075,000	250,000
Public Safety	45,977,400	1,669,400
Transportation	<u>101,354,600</u>	<u>8,260,800</u>
Total Needs - Request	\$614,755,900	\$103,824,200
DOA Building System	513,401,300	95,563,400
ADOT Building System	101,354,600	8,260,800

building exits are typically locked at all times, which raises this funding recommendation at the highest priority.

Department of Administration

Fire Alarms. The Executive Recommendation includes \$1.2 million (General Fund) to replace obsolete and industry-unsupported fire alarm systems at various facilities under the ADOA building system. Working fire alarms are an essential and mandatory requirement for office buildings, and deferring their replacement would carry a significant risk of liability to the State.

Fourteen office buildings and two supporting mechanical buildings on the Capitol Mall – including those occupied by the State Senate and the House of Representatives, State Land Department, the Department of Health Services, and the Department of Corrections – are equipped with eight- to ten-year-old Thorn Auto Call fire alarm systems. Their maintenance is difficult and costly, as replacement parts are no longer available on the market (the manufacturer, the Grinnell Company, has been out of business for several years). Further, when fire alarm systems are out of commission for extended repair times, the State must employ 24-hour fire watch personnel, usually on an overtime basis.

Procurement of professional services to develop a non-proprietary fire alarm system standard and specification will require at least three consecutive years of capital appropriations. Non-proprietary fire alarm systems cannot be designed and installed in the identified buildings within the two-year period that the Legislature has set for Building Renewal appropriations.

Department of Economic Security

Chiller Replacement. The Executive recommends \$2.25 million to replace two 16-year-old, 590-ton chillers at the 1789 West Jefferson building, which is occupied by over 800 DES staff. The programs and services delivered from this location would be significantly impacted if either chiller failed. The recommended funding will replace the chillers, which use thousands of pounds of R-12 refrigerant that is no longer manufactured due to its environmentally damaging composition.

Department of Revenue

Elevator Renovation. The Executive Recommendation includes \$1.35 million to replace the elevators at the Department of Revenue. The elevators are more than 15 year old, and their maintenance costs increase every year. Due to frequent failure, they are no longer reliable for the visiting public or for the Department's employees.

OTHER FUNDS

Game and Fish Department

The Executive recommends \$2 million from Other Funds in FY 2009 for Game and Fish Department projects. This amount includes \$1.4 million from the Capital Improvement Fund, \$237,000 from the Game and Fish Fund, and \$440,000 from the Watercraft Licensing Fund. This recommendation provides for:

- *Yuma Regional Office Remodel/Expansion:* \$954,000 from the Game and Fish Capital Improvement Fund to develop ap-

proximately 1,800 square feet of office and file storage space to alleviate space concerns in the Regional Office. The available space will be configured to create an adequate work environment and provide suitable space for activities and events.

- *Mesa Regional Office Equipment Storage:* \$250,000 from the Capital Improvement Fund to improve compliance with local dust control ordinances, address on-site drainage issues, and expand the existing paving in the fleet and equipment area at the Mesa Regional Office.
- *Shooting Range Access Improvements:* \$150,000 from the Capital Improvement Fund to continue a phased approach to resurfacing selected roadways at the Ben Avery Shooting Facility. Additionally, the Department's four other shooting ranges are remote and accessible only by poorly maintained roadways. This funding will allow the Department to continue its efforts in providing long-term access improvements to shooting ranges.
- *Boat Registration Kiosks:* \$240,000 from the Watercraft Licensing Fund to establish automated boat registration at convenient locations throughout the state to accommodate customer and business demands in remote areas.
- *Emergency Maintenance and Repairs:* \$30,000 from the Game and Fish Fund as a continuing appropriation to enable the Arizona Game and Fish Commission to address emergency facility repairs that require immediate attention. This allocation is separate from Building Renewal projects and is used for all statewide facilities.
- *DPS Microwave Tower:* \$207,000 from the Game and Fish Fund to upgrade the communication system maintained by DPS. The Legislature appropriated \$207,000 per year in FYs 2007, 2008 and 2009.
- *Covered Storage for Equipment:* \$120,000 from the Watercraft Licensing Fund to construct shade canopies at various regional offices to protect various equipment and machinery.
- *Construction Cost Headquarters:* \$80,000 from the Watercraft Licensing Fund to enable the program to pay its share of the construction of the Department new office building. The construction of this project has been approved.

ADOA BUILDING SYSTEM BUILDING RENEWAL

The Executive Recommendation provides \$11.6 million for Building Renewal, including:

- \$2 million from the General Fund,
- \$7.3 million from the Capital Outlay Stabilization Fund,
- \$1.8 million from the Exposition and State Fair Fund,
- \$474,000 from the Game and Fish Fund, and
- \$68,000 from the State Lottery Fund.

Building Renewal – Inadequate Funding Mechanism. Pursuant to Laws 1986, Chapter 85, appropriations for Building Renewal in Arizona are based on a formula approved by the Joint Committee on Capital Review. The formula takes into account a building's replacement value, age and life cycle. The

formula does not consider deferred maintenance resulting from less than 100% funding in prior years.

Historically, the ADOA Building System has been funded through a combination of appropriations from the State General Fund and the Capital Outlay Stabilization Fund (COSF). Since funding is dependent on Legislative appropriation, it must compete for funding during each budget cycle. In recent years, including FY 2008, funding for Building Renewal consisted of Legislative appropriations from the COSF only. This makes for an inadequate level of funding that does not ensure that the State's assets are properly maintained and preserved.

The COSF consists of payments from approximately 36 buildings within the ADOA system; however, there are 2,973 facilities within the System that are supported by Building Renewal monies. Since not all buildings make payments into the COSF, the Fund is unable to support Building Renewal needs for the entire ADOA Building System. Unless an alternative funding source can be identified, the General Fund should provide support to maintain and preserve the State's assets. The COSF continues to be strained because, statutorily, it is used to fund utilities, preventive maintenance and a portion of ADOA's operating budget.

It is recommended that the upcoming Legislative session amend the current funding mechanism by adopting the following measures:

- Adjust the rate per square foot from \$19.50 to \$24 for office space and from \$8 to \$10 for storage space.
- Require that all State-owned buildings, including Legislative facilities, be required to contribute and pay into the COSF to allow the Fund to continue to pay for utilities, repairs and maintenance in a timely and regular manner. Although the current revenue stream provides limited proceeds, the COSF is required to cover these expenses for non-contributing agencies.
- Appropriate monies from the General Fund to help correct the significant backlog of deferred capital maintenance.
- In order to sustain the current condition of the ADOA Building System and slow the rate of deterioration of critical assets, the full funding or 100% of the formula would be needed in each fiscal year.

The State has not fully funded the formula in recent years, and deferred maintenance costs have risen to approximately \$249 million for the ADOA Building System. The Executive Recommendation focuses on some of the highest priorities to protect life and safety, ensure business continuity and to preserve State's asset.

GENERAL FUND

The Executive Recommendation provides \$2 million to enable ADOA to address its highest priorities in major maintenance and repair of State-owned buildings. Since Building Renewal is dependent on appropriation from the Legislature, it must compete for funding during each budget cycle.

In FY 2008, the Legislature did not appropriate General Fund monies for Building Renewal. Analysis and review of the State's buildings indicate that conditions are deteriorating, costs

to maintain them continue to increase, and inadequate funding for Building Renewal has created threats to building reliability and safety.

While the General Fund recommendation is only at about 6.5% of the formula funding, it is directed at meeting a variety of deferred maintenance and deficiencies that have become a high priority.

CAPITAL OUTLAY STABILIZATION FUND (COSF)

The Executive recommends \$7.3 million in COSF monies for Building Renewal. This funding level is at 24.2% of formula funding and is at the same level of funding that was approved in FY 2008.

Please refer to the earlier discussion of the inadequacy of COSF revenue sources in "Building Renewal – Inadequate Funding Mechanism."

OTHER FUNDS

The Executive Recommendation includes \$2,336,300 for Building Renewal, reflecting 100% formula funding for each agency within the ADOA Building System that has its own funding source. The funding includes \$1,794,300 from the Exposition and State Fair Fund, \$474,000 from the Game and Fish Fund, and \$68,000 from the State Lottery Fund.

ADOT BUILDING SYSTEM

CAPITAL IMPROVEMENTS

ADOT's inventory of 1,264 buildings and structures total 3.3 million square feet and have a replacement value estimated at \$604.9 million. The Executive recommends \$11.5 million for the Department's new capital improvement projects. The amount includes \$10.9 million from the State Highway Fund and \$600,000 from the Safety Enforcement and Transportation Infrastructure Fund.

For Building Renewal, the Executive recommendation provides \$4.5 million, or 54.8% of the formula funding. Included in the Recommendation is \$4.4 million from the State Highway Fund and \$156,900 from the State Aviation Fund.

STATE HIGHWAY FUND

The Executive Recommendation for appropriations from this Fund consist of the following:

Surprise Customer Services Center: \$2.4 million to build a 14,500-square-foot Motor Vehicle Division service center in Surprise. The current MVD customer facility is inadequate and cannot accommodate the business volume from the area's growing population. The Department needs to expand capacity to meet the area's service needs and comply with business and public safety standards.

Vehicle Wash System, Statewide Program: \$2.2 million to install five vehicle wash systems that meet EPA and ADEQ regulations for controlled water distribution.

Southeast Valley Maintenance Facility: \$3.2 million for the construction of a four-bay vehicle maintenance shop to be located within the new multi-use facility and to replace the current Mesa vehicle maintenance shop. The current structure no longer meets the region's highway maintenance demands.

De-Icing Materials Storage Buildings: \$1.51 million to build storage facilities to house bulk sand, cinders and materials used for highway de-icing operations. Some of these materials are being stored outside, where exposure to moisture and freezing temperatures makes their use difficult.

Asphalt Storage Tanks. \$1.3 million to purchase and install five 10,000-gallon asphalt storage tanks with containment. The existing tanks are old, deteriorating or defective and have become environmental concerns. To ensure protection of surface and groundwater, environmental regulation requires that the Department replace these tanks and attain compliance.

ADOT Business Headquarters: \$250,000 to prepare specifications for a new administrative building on the current Phoenix site between 17th and 18th Avenues and between Madison Street and the railroad tracks. The current ADOT administrative complex is comprised of five buildings whose average age is nearly 55 years. The existing structure poses safety and health concerns. The Capitol Mall Centennial Plan also supports this project.

DPS Microwave Communications System: \$826,000 from the State Highway Fund to ADOT for the DPS Microwave Communications System that was authorized in Laws 2006, Chapter 345 (Capital Outlay Act). Chapter 345 appropriated \$826,000 for each of FY 2007, FY 2008 and FY 2009 to ADOT for distribution to DPS.

SETIF

Arizona Mexico Border Agreements: Continuation in FY 2009 of the \$600,000 from the Safety Enforcement and Transportation Infrastructure Fund (SETIF) that the Legislature approved in FY 2008, to enable the Department to enter into agreements and provide funding to the Arizona-Mexico Commission, Department of Homeland Security, and Arizona International Development Authority.

HIGHWAY CONSTRUCTION

The Executive Recommendation supports a \$2.3 billion transportation infrastructure program for FY 2009. The funding level would provide \$1.5 billion for highway construction, \$320 million for debt service and \$452 million for highway maintenance, administration and motor vehicle services. In accordance with statutes, the actual expenditures levels are determined within the scope of the Five-Year Highway Construction Program as approved by the State Transportation Board.

The Executive Recommendation provides for:

- *Controlled Access Highways:* \$114.5 million from the distribution formula for dedicated highway revenues for the construction of urban freeways. The current allocation provides 75% to the Maricopa Association of Governments (MAG) and 25% to the Pima County Association of Governments (PAG).
- *Debt Service:* \$98.7 million from the State Highway Fund for the appropriated portion of the debt service on bonds in FY 2009. The Legislature has authorized the Department to issue bonds against the Highway User Revenue Fund (HURF). These bond payments are the sole obligation and enforceable only from the HURF.

FY 2009 Highway Construction Program Costs

Construction ¹	\$ 175,614
Pavement Preservation Maintenance	128,000
Other ²	180,054
MAG Regional Program ³	704,632
Debt Service ⁴	280,891
Total	\$ 1,469,191

¹ Includes corridor improvements, major capacity/operational spot improvements, minor capacity/operational spot improvement, and roadside facilities improvements.

² Includes bridge preservation, operational facilities, public transit, roadside facilities, safety program, development support, operational support and program contingencies.

³ Includes costs for Proposition 400, MAG Regional Plan – Phase I.

⁴ Includes \$98,695,000 for HURF statewide construction bonds; \$59,290,000 for HURF, Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$78,261,000 for Maricopa Regional Area Road Fund bonds; and \$44,643,000 for Grant Anticipation Notes.

STATE AVIATION FUND

Grand Canyon Airport Infrastructure Improvement. The Executive recommends \$156,900 for repairs of building systems and general maintenance at the Grand Canyon Airport.

Airport Planning and Development. The Executive Recommendation provides \$28.9 million from the State Aviation Fund for development and improvement of State, county and municipal airports as approved by the State Transportation Board. The Recommendation also supports appropriating to ADOT all monies in the State Aviation Fund that are in excess of amounts determined in the General Appropriation Act and the Capital Outlay Act for airport planning and development. Monies in the State Aviation Fund consist of receipts from a flight property tax, aircraft lieu tax, and revenues from the operations of Grand Canyon Airport.

BOARD OF REGENTS BUILDING SYSTEM

Enrollment growth and dynamic educational program development in the State’s university system has placed enormous demands on the universities’ infrastructure and created unprecedented demands for capital improvements. The Executive recognizes the critical capital needs of all the universities, and those needs are addressed in a separate capital financing package discussed in *Capital Outlay: Education*. ●

Enrollment Growth Demands Capital Investment

The Executive Recommendation provides long-term funding solutions to build K-12 schools and meet the capital needs of the universities

ARIZONA'S POPULATION GROWTH, economic expansion, the diversification of its economic base, the ascent of the State's universities to the upper echelon of colleges and universities, and expectations for future prosperity combine to require a commitment to providing the highest quality education for Arizona's youth and its university population.

K-12

Providing our public schools with the infrastructure required to accommodate known and anticipated enrollment growth starts from the ground up – with the school facilities themselves.

The Executive recommends a five-year commitment to financing new school construction to provide the steady foundation upon which Arizona's children can grow and build better lives and better communities.

The School Facilities Board (SFB) funds the construction of approximately 34 schools per year. Since 1999, paying for school construction has been accomplished utilizing both cash (i.e., General Fund appropriations) and lease-to-own financing. By financing the estimated \$2.6 billion in school construction needed through 2013, the cost to the General Fund for debt service during the five-year period is expected to be approximately \$341 million. This is a financially sound strategy, particularly during lean economic times.

Cost of New School Construction 2009-2013

Fiscal Year	Cost ¹
2009	\$460 million
2010	\$493 million
2011	\$513 million
2012	\$534 million
2013	\$557 million

UNIVERSITIES

In order to effectively compete in today's global economy, Arizona requires a highly educated and skilled workforce. The state's universities play a critical role in meeting this need and have done an excellent job in managing the resources available to them.

The universities' role becomes more important in the coming years as they develop the knowledge-based workers needed to drive Arizona's economic growth. Their ability to meet the needs of an ever-growing population base, by continuing to expand and enhance their physical capacity and course offerings, is a critical component.

In recent years, our universities made significant investments in new capital facilities designed to address growth and to expand their research capabilities. The traditional funding sources for these initiatives are tuition and fee revenue, research dollars, and significant donor contributions. The State has also played a role and made significant contributions toward research infrastructure specifically.

Two-Phase Approach. Continuing to meet the universities' needs for new facilities and capital improvements and maintenance will rely on a two-phase approach.

Phase I of meeting the universities' capital needs consists of construction of the Medical Education Building and Arizona Biomedical Collaborative II at the Phoenix Biomedical Campus. The \$470 million construction of these two research and education buildings is a joint venture of the three universities, which will share the facility in conducting related programs (e.g., the medical school, allied health programs, bioinformatics and biotech research activities). Completion of this phase requires Legislative authorization to issue \$470 million in bonds, structured to allow debt service payments to begin in FY 2010.

In Phase II, the remaining capital needs to be addressed on each university campus include building renewal, major renovations and years of deferred maintenance. By maintaining existing buildings at their fullest capacity, major expenditures in building replacement will be avoided. Additionally, as Arizona grows, the universities need additional classroom space and infrastructure to accommodate enrollment growth. The table below illustrates the costs related to projects at each university.

Project	Cost (Millions)
UA Deferred Maintenance and Building Renewal	\$130.7
UA Environment & Natural Resources Building	70.0
UA Social & Behavioral Sciences Building	44.0
UA Engineering Research Building	70.0
UA Centennial Hall Renovation	12.0
NAU Deferred Maintenance and Building Renewal	169.0
NAU Health Professions Facility Expansion	100.0
NAU Undergraduate Classroom Building	41.0
ASU Deferred Maintenance and Building Renewal	226.0
ASU Enrollment Growth Infrastructure	80.0
ASU School of Construction	23.8
TOTAL	\$966.5

Completion of the projects that comprise Phase II requires Legislative authorization to issue \$966.5 million in bonds, structured to allow debt service payments to begin in FY 2011.

CAPs. The Executive recommends establishing a Capital Acceleration Program (CAPs) to create a pool of funds that the universities can leverage to meet these immediate needs.

¹ Estimates assume current minimum adequate standards for new school construction, 4.2% annual inflation for an average of 34 schools per year with a 5.5% interest rate.

As outlined above, it will require significant funding merely to meet the universities' needs pertaining to the medical campus initiative and to address maintenance needs that have been deferred for far too long. Providing the needed funding will require developing one or more sources of revenue to establish or seed the CAPs program. These funding sources might include:

- the State's General Fund
- university tuition and registration fees
- indirect cost recovery monies generated from university research grants
- student housing revenues
- other user-related fees
- sales of university assets
- additional revenue generators.

The monies from these various revenue sources would be used as a dedicated revenue source to fund the CAPs program. These monies would be deposited into a special CAPs Fund to be used solely for financing the capital infrastructure needs at the State's universities. As repayments are made on the bonds issued to accelerate capital infrastructure, they would be statutorily required to be re-deposited into the CAPs program to meet future capital needs.

By creating the funding mechanism under the CAPs program, the State will establish a long-term funding solution to meet the deferred maintenance and capital requirements of Arizona's university system and to continue laying the groundwork for the state's future. ●

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