

The Executive Budget

SUMMARY

FISCAL YEARS 2010 AND 2011

Includes

Budget Management Plans

FISCAL YEARS 2009 AND 2010

Janet Napolitano

GOVERNOR



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JANET NAPOLITANO
GOVERNOR

STATE OF ARIZONA
OFFICE OF THE GOVERNOR
1700 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007

MAIN PHONE: 602-542-4331
FACSIMILE: 602-542-7601

January 2009

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

As the first regular session of the Forty-Ninth Legislature convenes, we face economic conditions that will test the mettle of elected officials in every state, in Washington, D.C., and throughout the world. The global recession has wreaked havoc on our economy, moved Congress and President Bush to provide billions of dollars to the financial industry and private companies, and inflicted unprecedented state budgetary shortfalls across the country. The causes of the downturn in Arizona mirror those in other states: depressed real estate markets, scarcity of credit, and low consumer confidence.

The consensus among economists is that the economic situation will not improve until, at the earliest, the second half of 2009. We can expect that, by that time, State government will begin to feel fiscal relief brought by federal economic stimulus programs and the benefits of our own budget management efforts.

As the Legislative and Executive branches work together to resolve the Fiscal Year 2009 General Fund shortfall and consider State agency budgets for FY 2010, it is essential that the solutions to the State's immediate fiscal challenges respect the need to safeguard and provide for Arizona's future. We must continue to pursue these critical objectives:

- Improve our education system, from early childhood education through the highest degree levels of our colleges and universities.
- Protect, to the maximum extent possible, our most vulnerable citizens.
- Maintain public safety throughout the state.
- Promote the long-term health of Arizona's economy.

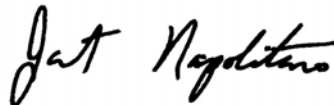
In order to meet these requirements for Fiscal Years 2009 and 2010, I propose a Budget Management Plan that will maximize our support of K-12 classroom education, minimize harmful impacts on the State's universities and community colleges, and preserve health and care services for needy children and adults. Further, we will ensure our citizens' safety by maintaining the strength of the Department of Public Safety and the Department of Corrections. It is also essential that we honor our commitment to support development of Arizona's bioresearch industry and make other key enhancements to our economic system.

This future-oriented perspective will be achieved without a general tax increase. As described in the Budget Management Plan for Fiscal Years 2009 and 2010, we can cut budgets, transfer non-General Fund revenues to the General Fund, and securitize Lottery and Tobacco Settlement revenue streams to benefit the General Fund. We should also count on the planned arrival, in the spring of this year, of federal economic stimulus funds that will provide an immediate and noticeable jump-start to Arizona's economy. The stimulus funds will reflect both the recession-related impacts on state government budgets and the need for investment in education, transportation and other infrastructure.

While this is not the time to fund new initiatives, it is a time for State government to position itself to move quickly and decisively as Arizona and the nation inevitably emerge from the current recessionary cycle. As revenue streams improve, we should use "trigger" protocols to restore suspended funding in programs critical to our future, including education and health and human services.

The Executive Budget Recommendation for Fiscal Years 2009, 2010 and 2011 provides a roadmap for navigating these very difficult economic times, and I encourage you to follow it as our branches develop sound solutions to meet the fiscal challenges of the next two fiscal years.

Yours very truly,

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

Janet Napolitano
Governor

JN/neh

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ACKNOWLEDGEMENT

DEDICATION

Budget Overview

U.S. Recession Leads to State Revenue Decline

Depressed real estate and construction sectors, tightness in credit markets, and low consumer confidence combined have impacted Arizona to a greater degree than most states

The nation in general and Arizona in particular are in the midst of a significant recession. As the Executive Budget Recommendation goes to print, the major headwinds interfering with growth are a depressed real estate sector, tightness in credit markets, and consumers who are concerned about the future of the economy. Consumer confidence, business confidence and investor confidence are at historical lows, and the impact is being felt around the world.

NATIONAL OUTLOOK

Economic growth in the fourth quarter of 2008 and through the first two quarters of 2009 will be negative, with some estimates suggesting negative growth will prevail in each quarter in 2009. The consensus economic forecast is for significant declines – 4% to 6% – in the fourth quarter, with slight improvements in the rate of decline throughout 2009.¹ For many, this recession will prove to be the worst they have experienced, and sectors dependent on the purchase of consumer durables – e.g., housing and automobiles – will be especially hard hit.

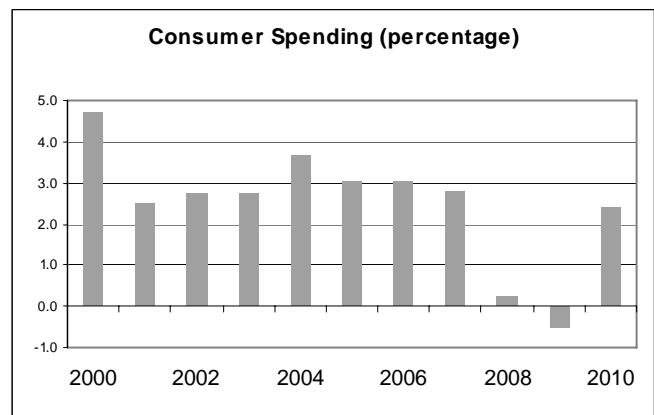
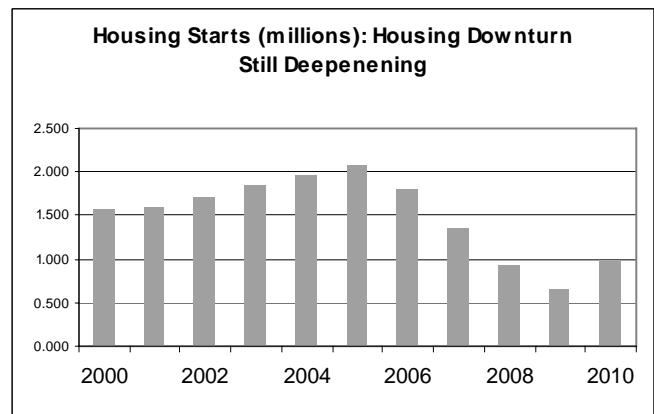
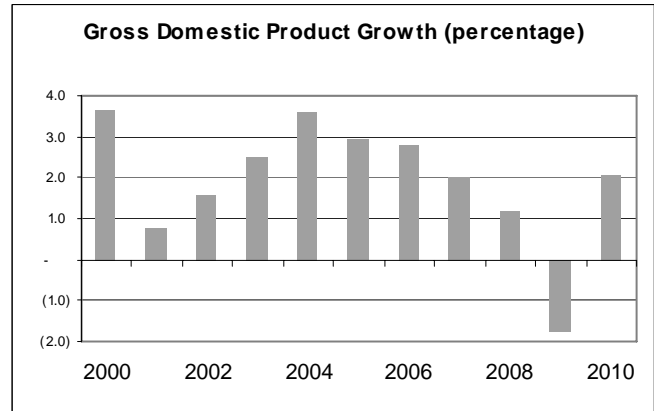
Gross Domestic Product. The U.S. economy has been in recession since December 2007. Real GDP growth was weak during 2008, at 1.2%, and is expected to turn negative in 2009, to (1.8%), before recovering to 2.1% in 2010.

Employment. Employment declined by 0.2% in 2008 and will decline further, by 1.9%, in 2009, due to a very weak housing sector and pressures in the credit market. Unemployment rates will reach upper single-digit levels, with manufacturing and construction at depressed levels and even service sector and health care jobs in decline.

Consumer Spending. Consumer spending is down amid continued declining home prices, a weak labor market and tighter credit. An anemic growth rate of 0.2% is expected for 2008, slipping to (0.5%) in 2009. A strong argument can be made that the mood of the buying public is even more negative than these weak aggregate numbers would suggest, as many consumers simply are not able to withstand pressures from the deterioration in housing equity and the collapse of equity prices despite the recent relief at the gas pump.

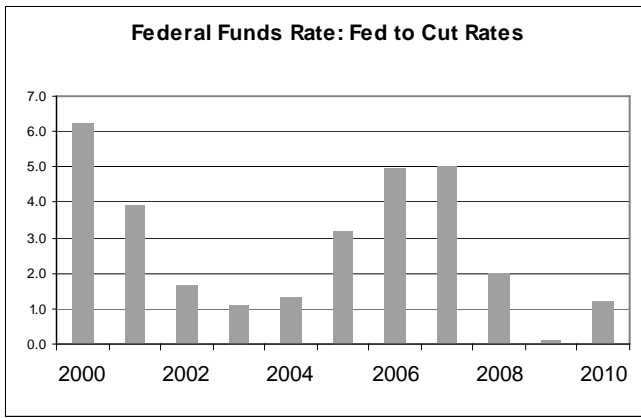
The Federal Reserve will continue to inject massive amounts of cash into the system, and federal stimulus packages will be introduced in an attempt to rekindle confidence. However, to truly regain requisite levels of confidence, a catalyst has to come from the private sector in the form of improved equity prices or some measure of stability in housing prices. Prior to September, capital gains and dividend returns from Wall Street helped buffer the lost equity accumulations in housing, but Wall Street offers no consolation today.

National Trends



Interest Rates. During 2009, one of the most aggressive easing programs in recent memory will occur, as central bankers confront the recession. Eventually, credit will find its way to borrowers and help counter the headwinds now faced by businesses and consumers, but it will take some time and near-zero interest rates for the markets to ease. Homeowners with non-conventional mortgage positions will find some relief, as long-

¹ Source: Global Insight



term rates will likely approach historical lows. As long as inflation rates remain low (the bigger concern in the short term is the threat of a deflationary spiral), the Fed should have considerable latitude to extend credit in hopes of stimulating the economy.

Business Spending. The corporate profit picture in 2009 will be markedly different from that of recent years, with double-digit declines projected. The erosion in business profitability is a major contributor to the length and severity of the recession, as it will limit the ability of businesses to invest in people, infrastructure and equipment. For 2009 overall, Global Insight forecasts that businesses will pull back on capital spending, and equipment spending will drop by 12.2%.

The Dollar. The value of the dollar will be very difficult to predict over the course of the next year. While the U.S. will see little economic strength, the rest of the world will also experience a slowdown. The relative severity of the recession around the globe will dictate how well the dollar fares, as the dollar has recently gained some strength as the global economy plunges. The strong dollar will make U.S. exports more expensive, likely causing a decline in exports in 2009. Eventually, as the recession ends, the downward pressure on the dollar is likely to return.

Fiscal Stimulus. As the private sector contracts, the federal government is likely to come forward with a large fiscal stimulus package, and a massive injection of funds could help to reignite the declining economy.

NATIONAL RISKS

Key indicators, such as the Purchasing Managers Index and the Index of Consumer Confidence, paint a dismal picture for the U.S. economy. Could it actually get much worse from here?

If the financial crisis worsens, the credit markets could remain clogged. Without access to credit, domestic spending could contract further, and the housing market could fall into an even deeper hole. If home prices fall much deeper, coupled with a slowdown in job growth and lower stock market wealth, consumer confidence could deteriorate, leading to further retrenching in consumer spending.

If confidence erodes further from current levels, the U.S. may experience massive job separations and a very long and deep recession. Consequently, any shock that depresses consumer, business and investor confidence could have a profound impact. Congress and the new administration will have their hands full in crafting a program designed to simultaneously boost spending and confidence, and continued debate and

angst about the proper course of action will make the task of confidence building all the more difficult.

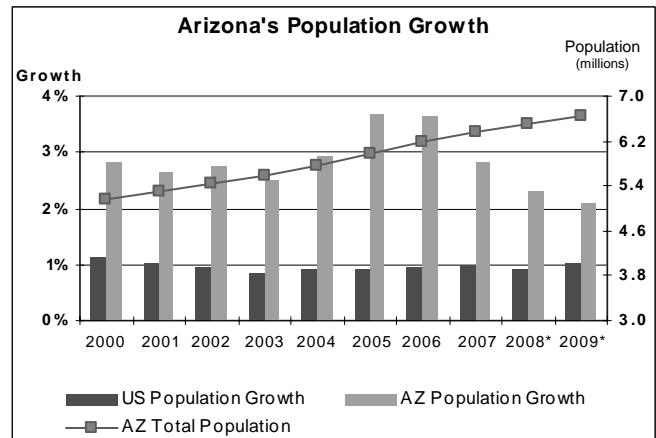
Perhaps the most positive aspect of the U.S. economy in 2009 is that, by the end of the year, economic conditions will almost certainly start to improve. As of now, there is no obvious catalyst in place that would suggest that the pace of improvement will be rapid.

ARIZONA OUTLOOK

Arizona business cycles typically have more amplitude – especially higher highs – than national cycles. The current situation is clearly an exception to that rule. The state normally enters recessions later, but this time is one of the first states, along with California, Nevada, and Florida – states that also participated in the recent housing bubble, to enter the recession.

In 2005 and 2006, the state’s job gains and income growth outpaced the nation. Now, the flip side of this cycle is clearly in place, and the only remaining question is: *How long will the down cycle persist?* The consensus view is that the Arizona economy will contract on a number of fronts in 2009.²

Population. Population growth remains a bright spot in Arizona’s economic picture. After Arizona’s population grew by 3.6% in 2006 and 2.8% in 2007, the growth rate slowed somewhat in 2008 to an estimated 2.3%, still the second-highest in the nation. In the process, Arizona passed Massachusetts and



Indiana to become the 14th-largest state.

For 2009, the state’s population growth rate is forecast to moderate even more, to about 2%.

Employment. In 2006, Arizona ranked fifth in job growth among all states. Since then, the decline in home construction helped drop Arizona to number 46 (in 2007) and then to 49 (in 2008). From November 2007 to November 2008, Arizona lost 83,100 jobs, with 35,500 of the lost jobs coming from the construction sector.

Arizona’s unemployment rate in November 2008 was 6.3%, compared to 6.7% for the nation. In November 2007, the state’s unemployment rate was 4.1%.

Job losses will probably continue to characterize the Arizona economy in 2009. Construction- and real estate-related employment will suffer the most, but no major sector of the

² Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, Arizona Department of Commerce. 2009 and 2010 are projections from Census Bureau, Global Insight, Arizona Commerce, Arizona Blue Chip, and ASU

economy will be immune. Overall, Arizona employment is estimated to decline by 1.3% in 2009 and 0.9% in 2010.

Personal Income. Aggregate personal income (PI) growth in Arizona, as reported by the Bureau of Economic Analysis, is also deteriorating. Arizona's 9.3% PI growth for 2006 ranked 4th in the nation before dropping to 4.5% in 2007 and 3.3% during the first three quarters of 2008.

Arizona PI is expected to grow at just 2.7% in 2008 and 1.7% in 2009 – the state's lowest level in 65 years. Disappointing prospects for aggregate income growth will act as a drag on consumer confidence.

Real Estate. Real estate activities, as measured by the volume of sales in the Phoenix metropolitan area, experienced losses in the last 10 quarters and are expected to decline further through the first half of 2009 before bottoming in the later part of the year. A large inventory of houses must be absorbed in order for homebuilding to get back on track and stimulate economic recovery.

Consumer Spending. Consumer spending in Arizona is estimated to have declined by 3% in 2008 and, according to the Arizona Blue Chip forecast, is expected to see very modest growth of 1% in 2009.

ARIZONA RISKS

Consistent with past recessions, the severe U.S. downturn will adversely affect Arizona, particularly in exporting, construction and hospitality. Risks to the Arizona economy are numerous, and there are few logical catalysts for growth in the state.

Arizona is more exposed than most states to the real estate cycle. The state 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. There are indications of a decline in the commercial construction sector as well.

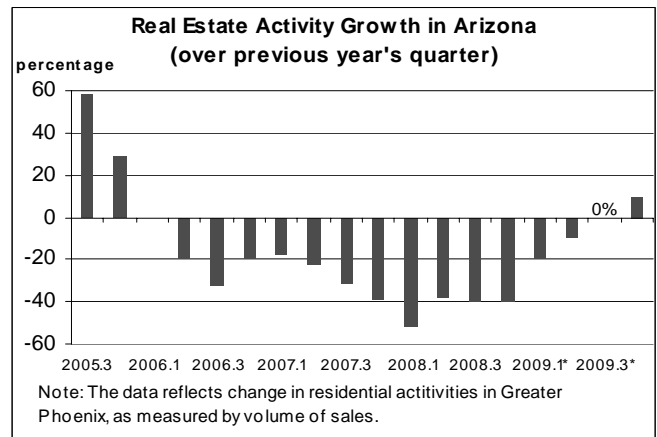
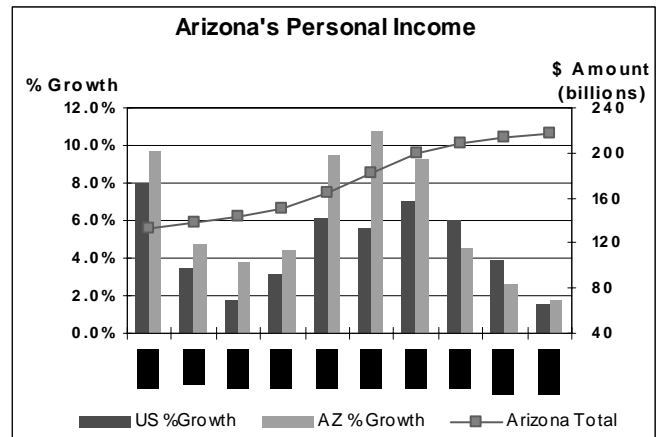
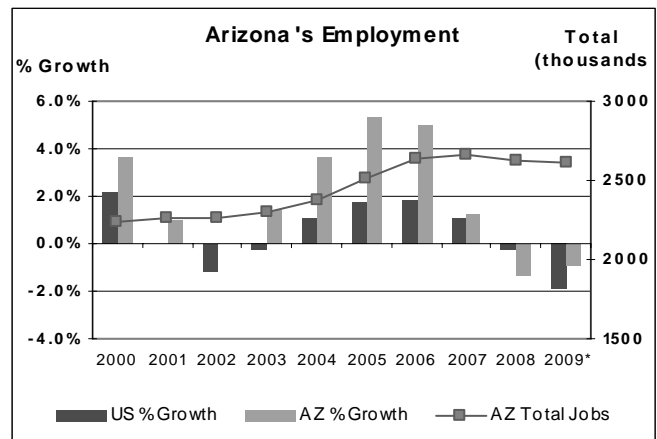
Upside Potential. With regard to direct federal intervention in the health of the economy, the nation is in largely uncharted waters. Federal funding for transportation and other forms of public infrastructure will provide an immediate and noticeable stimulus and help jump-start Arizona's economy.

Another catalyst may come from the only piece of good news about housing: affordability. Arizona has historically been a magnet for in-migration, and recent declines in housing prices may ensure that the housing market remains attractive for buyers considering relocation. While the state's economy is sluggish, it is no more so than in many areas of the Midwest and other parts of the country; therefore, Arizona remains – as it has been for many decades – an attractive ultimate destination.

IMPACT OF THE RECESSION ON REVENUE COLLECTIONS

Since the beginning of the recession in December 2007, consumer confidence has dropped sharply in response to job losses, further declines in home prices, tight credit, and declines in the value of investment portfolios. These factors have had a significant impact on State revenue collections in all categories.

Transaction Privilege Tax. The pace of Arizona retail sales activity has slowed considerably since the beginning of 2007, and Transaction Privilege Tax (TPT) collections are growing at a slower rate than that of the state's overall economy.



The slower growth is a predictable consequence of the high consumer spending of 2005 and 2006, when purchasing was boosted by home mortgage refinancing, easy access to credit, and aggressive rebates offered by auto manufacturers. Subsequently, consumers ratcheted back expenditures on automobiles and housing-related consumer durables.

Less predictable were the recent economic events that have driven many consumers to “no purchase” mode. For the rest of FY 2009 and through much of FY 2010, TPT collections are expected to grow at a relatively anemic rate, albeit from a very low base, that matches the weak growth of the economy in FY 2010. The silver lining is that pent-up demand should provide a catalyst for recovery when the economy turns around.

Other TPT Categories. Overall TPT collections are also strongly influenced by Use Tax collections, contracting collec-

tions, and utilities collections. The Use category is in turn buffeted by decisions of businesses to expand plants or stores and purchase new equipment, and by assessments on fuel purchased by utility companies. Consistent with forecasts for a slowly recovering construction sector, contracting collections will be very slow for the foreseeable future.

Individual Income Tax. From FY 2003 through FY 2006, the state's Individual Income Tax collections displayed strong growth, fueled by solid wage and salary expansion and increases in capital gains and sole proprietor activity. In FY 2005, Individual Income Tax Collections grew by 28.9%, while personal income grew by 10.2%. Historically, Arizona capital gains collections have been bolstered by strong equity markets and strong real estate markets.

Employment losses, coupled with declining contributions from investor-driven real estate, have resulted in extremely weak collections in FY 2008 – a historically low growth rate of (8.8%). It is expected that Individual Income Tax collections will be very weak under the weight of the recession, with an estimated decline of (4.3%) in FY 2009 and 0.2% for FY 2010.

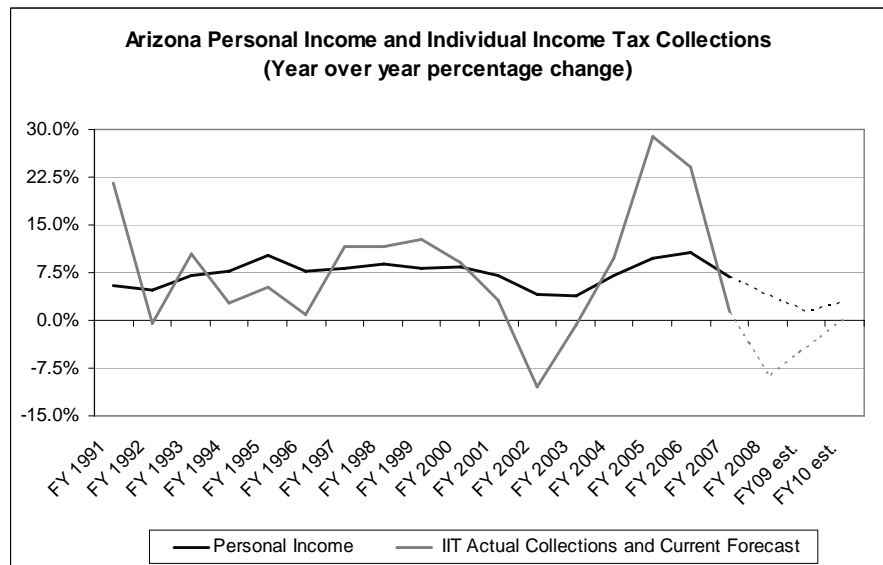
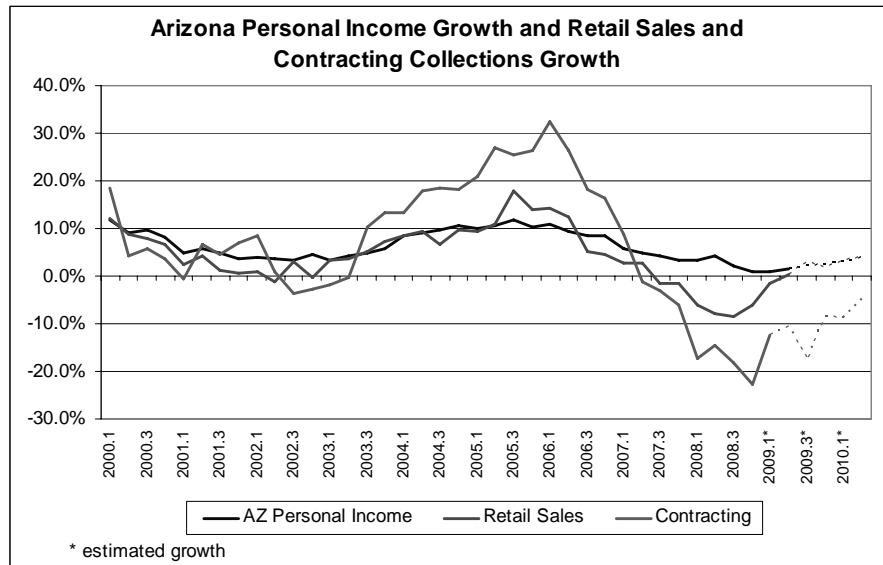
Corporate Income Tax. The corporate profit picture in calendar year 2009 will be markedly different from that of recent years, with large declines projected. Corporate Income Tax collections will be weak in FY 2009, with estimated decline of 16.3%, and will be very modest in FY 2010, with 3% growth despite a very low base.

Budget Impact. Revenues have deteriorated significantly in the past two years and will decline further in FY 2009, followed by virtually flat growth in FY 2010. Total General Fund collections in FY 2010 will not meet the FY 2006 level.

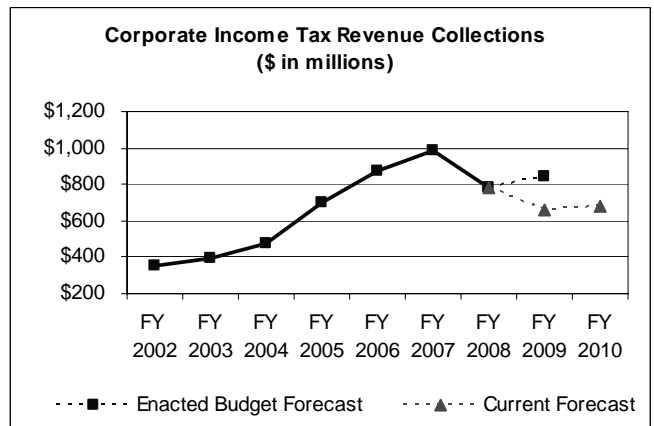
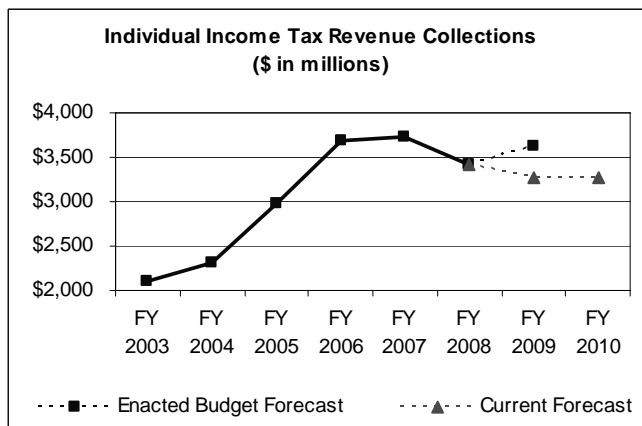
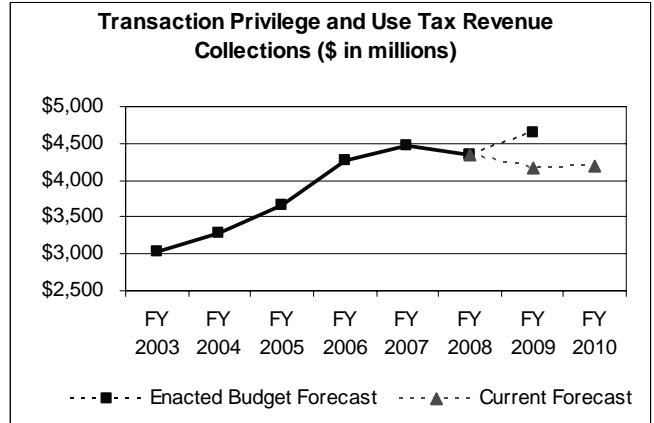
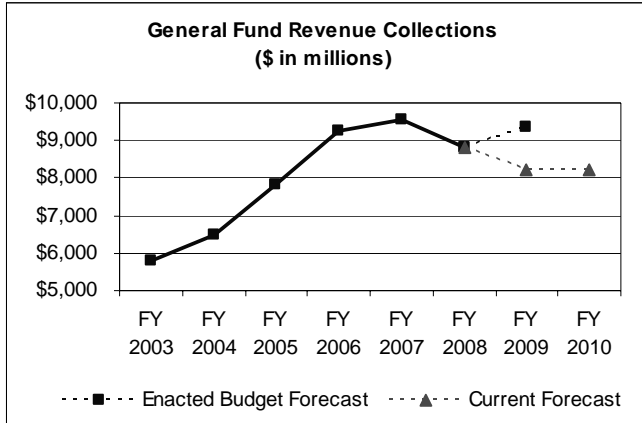
Meanwhile, as is generally the case in weak economic times, caseload growth in social services has placed sharply growing demands on the General Fund. In FY 2010, the AHCCCS caseload, K-12 enrollment, and the Department of Corrections

inmate population are expected to grow by 94,800 from FY 2009. This translates to an increased funding requirement, from FY 2009 to FY 2010, amounting to \$657 million.

Total caseload, enrollment and inflation growth for all agencies – including the Department of Economic Security, the Department of Health Services, and the universities and community colleges – will require \$884 million in additional funding. •



Arizona Trends



SOURCES AND USES OF FUNDS

BASELINE BUDGET

FY 2008 - FY2010

(\$ in thousands)

	FY 2008 Actual	FY 2009 Enacted Budget	FY 2009 Current Estimate	FY 2010 Current Estimate
SOURCES OF FUNDS				
Balance Forward	377,947.0	1,000.0	1,000.0	1,000.0
<i>Adjustment to Balance Forward</i>	11,768.5			
Base Revenues	9,474,101.4	10,062,092.6	8,966,221.5	8,956,772.0
<i>Urban Revenue Sharing</i>	(684,538.9)	(727,677.4)	(727,677.4)	(628,644.6)
Adjusted Base Revenues	8,789,562.5	9,334,415.2	8,238,545.1	8,328,128.4
Rainy Day (Budget Stabilization) Fund Transfer	560,036.5	20,000.0	20,000.0	
Agency Fund Transfers	290,186.0	280,867.7	264,463.1	
Local Government Fund Transfer Adjustment			45,793.3	
Other Adjustments	8,695.3			
Proceeds from prior year lease-purchase financing		344,000.0	344,000.0	
TOTAL SOURCES OF FUNDS	10,038,195.9	9,980,282.9	8,913,801.5	8,329,128.4
USES OF FUNDS				
<i>Operating Budget</i>				
Administration, AZ Department of	31,981.5	27,109.6	27,109.6	27,109.6
AHCCCS	1,273,797.0	1,425,272.3	1,425,272.3	1,773,699.5
Community Colleges, Arizona	168,912.4	147,679.8	147,679.8	148,445.6
Corrections, State Department of	890,813.9	947,476.0	947,476.0	1,024,285.0
Economic Security, Department of	796,905.1	808,328.1	808,328.1	917,296.3
Education, Department of	4,031,981.4	4,141,201.0	4,141,201.0	4,388,115.0
Health Services, Department of	578,383.1	611,507.2	611,507.2	686,744.6
Judiciary	126,867.6	126,324.4	126,324.4	126,324.4
Juvenile Corrections, Department of	80,353.7	74,700.4	74,700.4	78,400.4
Public Safety, Department of	134,533.1	63,459.7	63,459.7	63,101.2
School Facilities Board	481,557.4	101,217.2	101,217.2	204,237.5
Transportation, Department of	84.6	84.6	84.6	84.6
Universities	1,091,780.4	1,080,414.1	1,080,414.1	1,092,063.0
Subtotal - Other Agencies	432,532.2	406,919.0	406,919.0	416,228.5
OPERATING BUDGET SUBTOTAL	10,120,483.4	9,961,693.4	9,961,693.4	10,946,135.2
Agencywide Issues/ Unallocated Items	20,607.0	25,320.3	25,320.3	82,801.9 *
Total Operating Budget	10,141,090.3	9,987,013.7	9,984,513.7	11,028,937.1
Supplementals			195,314.3	
Capital	13,479.5	13,500.0	13,500.0	4,916.5
Statutory Revertments	(13,419.8)	(50,000.0)	(50,000.0)	-
Administrative Adjustments	90,715.8	55,200.0	136,000.0	82,320.0
Revertments	(194,669.9)	(97,000.0)	(117,600.0)	(132,347.2)
TOTAL USES OF FUNDS	\$10,037,196	\$9,908,714	10,161,728.0	10,983,826.4
ENDING BALANCE	1,000.0	71,569.2	(1,247,926.5)	(2,654,698.0)

*FY10 Adjustments: Health Insurance \$42m, Retirement -\$3.7m, COP \$17.4m, PLTO Rent \$0.1m, Risk Mgmt \$2m, AZ 21st Century \$25m.

SOURCES AND USES OF FUNDS
 BUDGET MANAGEMENT PLAN
 FY 2008 - FY2010
 (\$ in thousands)

	FY 2008 Actual	FY 2009 Enacted Budget	FY 2009 Budget Mgmt Plan	FY 2010 Budget Mgmt Plan
SOURCES OF FUNDS				
Balance Forward	377,947.0	1,000.0	1,000.0	56,073.9
<i>Adjustment to Balance Forward</i>	11,768.5			
Base Revenues	9,474,101.4	10,062,092.6	8,966,221.5	8,956,772.0
<i>Urban Revenue Sharing</i>	(684,538.9)	(727,677.4)	(727,677.4)	(628,644.6)
Adjusted Base Revenues	8,789,562.5	9,334,415.2	8,238,545.1	8,328,128.4
Rainy Day (Budget Stabilization) Fund Transfer	560,036.5	20,000.0	20,000.0	
Agency Fund Transfers	290,186.0	280,867.7	264,463.1	
Local Government Fund Transfer Adjustment			45,793.7	
Revenue Adjustments	8,695.3			
Proceeds from prior year lease-purchase financing		344,000.0	344,000.0	
<i>Budget Management Plan - Adjustments to Revenue</i>				
<i>Additional Rainy Day Fund Transfer</i>			120,000.0	
<i>Additional Agency Fund Transfers</i>			111,000.0	119,400.0
<i>Lottery Securitization</i>				500,000.0
<i>Tobacco Settlement Securitization</i>			400,000.0	400,000.0
<i>Revenue Adjustments</i>			50,000.0	258,300.0
<i>Federal Fiscal Relief</i>			100,000.0	675,000.0
TOTAL SOURCES OF FUNDS	10,038,195.9	9,980,282.9	9,694,801.9	10,336,902.3
USES OF FUNDS				
Operating Budgets	10,120,483.4	9,961,693.4	9,961,693.4	10,946,135.2
Agencywide Issues/ Unallocated Items	20,607.0	25,320.3	25,320.3	82,801.9 *
Total Operating Budget	10,141,090.3	9,987,013.7	9,984,513.7	11,028,937.1
Supplementals			195,314.3	
Capital	13,479.5	13,500.0	13,500.0	4,916.5
Statutory Revertments	(13,419.8)	(50,000.0)	(50,000.0)	-
Administrative Adjustments	90,715.8	55,200.0	136,000.0	82,320.0
Revertments	(194,669.9)	(97,000.0)	(117,600.0)	(132,347.2)
<i>Budget Management Plan - Adjustments to Spending</i>				
<i>Agency Operating Suspensions</i>			(300,000.0)	(675,100.0)
<i>Payment Schedule Deferrals</i>			(216,000.0)	6,000.0
<i>House of Reps Prior Year Excess</i>			(7,000.0)	
TOTAL USES OF FUNDS	10,037,195.9	9,908,713.7	9,638,728.0	10,314,726.4
ENDING BALANCE	1,000.0	71,569.2	56,073.9	22,175.9

*FY10 Adjustments: Health Insurance \$42m, Retirement -\$3.7m, COP \$17.4m, PLTO Rent \$0.1m, Risk Mgmt \$2m, AZ 21st Century \$25m.

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.

The *Sources and Uses Baseline Budget* presents the following:

- For FY 2008, the data reflect actual expenditures taken from the State’s Accounting and Financial Information System.
- For FY 2009, the Enacted Budget column reflects the revenue projections of taxes, fees and other General Fund sources and appropriations made by the Legislature, in the 2008 Legislative session, for FY 2009.
- The FY 2009 and FY 2010 Current Estimate columns reflect Governor’s Office of Strategic Planning and Budgeting (OSPB) revenue projections of taxes, fees and other General Fund sources, and the Executive’s estimate of the baseline budget, which includes only mandatory changes such as statutory requirement, caseload growth, and restoration of previous year’s one- time fund transfers.

The *Sources and Uses Budget Management Plan* presents the following:

- For FY 2008, the data reflect actual expenditures taken from the State’s Accounting and Financial Information System.
- For FY 2009, the Enacted Budget column reflects the revenue projections of taxes, fees and other General Fund sources and appropriations made by the Legislature, in the 2008 Legislative session, for FY 2009.
- The FY 2009 and FY 2010 Budget Management Plan columns reflect OSPB revenue projections of taxes, fees and other General Fund revenue sources, and the Executive’s proposal to balance the budget as revenue collections deteriorates under the impact of the recession.

SOURCES OF FUNDS

Revenue Projections. The OSPB revenue estimating process involves participation by representatives from the Department of Revenue, Department of Economic Security, the W.P. Carey School of Business at Arizona State University, 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.* This is done 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 \$195.3 million for FY 2009 General Fund supplemental appropriations for agencies. This estimate reflects projected shortfalls for the following departments:

AHCCCS	\$142,600,000
Economic Security, Dept. of	31,700,000
Health Services, Dept. of	15,700,000
Corrections, Dept. of	3,800,000
Cosmetology, Board of.....	400,000
Pharmacy, Board of	300,000
Psychologist Examiners, Board of.....	400,000
Veterinary Medical Examiners, Board of.....	300,000

Administrative Adjustments and Revertments. The Recommendation includes \$82.3 million for estimated administrative adjustments in FY 2010, reflecting funds that have been encumbered by agencies for payment of obligations in FY 2009 that are carried over into another fiscal year (FY 2010). Additionally, the Recommendation incorporates projections of unexpended or unencumbered funds to be reverted to the General Fund in FY 2010. These projections are based on historical experience. ●

**STATE OF ARIZONA
GENERAL FUND
REVENUE SUMMARY
FY 2008 THROUGH FY 2010
(in thousands of dollars)**

TAXES	<i>FY 2008 Actual</i>	<i>FY 2009 Estimate</i>	<i>FY 2010 Estimate</i>
Corporate Income Tax	784,510.9	656,550.0	676,000.0
Individual Income Tax	3,406,453.3	3,260,900.0	3,267,200.0
Property Taxes	20,041.3	20,000.0	20,000.0
Sales and Use Taxes	4,353,564.8	4,174,700.0	4,201,200.0
Luxury Taxes	61,037.2	61,000.0	62,220.0
Insurance Premium Taxes	407,043.0	404,400.0	412,900.0
Other Taxes	3,568.6	3,000.0	3,000.0
TOTAL TAXES	<u>9,036,219.1</u>	<u>8,580,550.0</u>	<u>8,642,520.0</u>
 OTHER REVENUES			
Licenses, Fees & Permits/Misc.	140,892.1	153,000.0	156,060.0
Interest Earnings	95,150.8	28,000.0	20,000.0
Lottery	48,449.6	46,500.0	46,500.0
Transfers & Reimbursements	34,067.7	20,000.0	20,000.0
Disproportionate Share	72,189.6	71,693.0	71,693.0
TOTAL OTHER REVENUES	<u>390,749.8</u>	<u>319,193.0</u>	<u>314,253.0</u>
 TOTAL REVENUES	 <u>9,426,968.9</u>	 <u>8,899,743.0</u>	 <u>8,956,773.0</u>
 ADJUSTMENTS			
Urban Revenue Sharing	(684,538.9)	(727,677.4)	(628,644.6)
Onetime Transfer/ Other Adjustments *	47,132.5	66,479.5	-
GRAND TOTAL REVENUES	<u><u>8,789,562.5</u></u>	<u><u>8,238,545.1</u></u>	<u><u>8,328,128.4</u></u>

* FY 08 revenue adjustments: \$47.1 million increase from Unclaimed Property

FY 09 One-time Legislative Changes: ALTCS Reversion: \$17.9 million, Local Contributions: \$29.7 million, VLT: \$8.4 million, Lottery: \$10.5 million

Budget Management Plan

Balancing the FY 2009, 2010 Budgets

Challenging times call for disciplined, prudent measures in addressing projected budget shortfalls for the current fiscal year and the next

FOR FISCAL YEARS 2009 and 2010, the State of Arizona finds itself in a position similar to that of most state and local governments. With the national and world economies in the midst of difficult recessions, State government faces very significant budget deficits for both FY 2009 and FY 2010. As the Executive Budget Recommendation went to print, the Baseline Sources and Uses projected a deficit of \$1.248 billion for FY 2009 and \$2.655 billion for FY 2010.

Guiding Principles. The Executive Budget Recommendation for FY 2009 and FY 2010 includes this comprehensive plan to mitigate the impact of the recession, while:

- Maintaining our commitment to efficiency and ensuring that the integral functions of State government are not compromised;
- Constructing a fiscally prudent, balanced budget that maximizes the efficient use of State resources and does not raise taxes;
- Recommending spending reductions on an agency-by-agency and program-by-program basis, not across the board;
- Invoking prudent fiscal measures that are necessary, given the extraordinary circumstances we face;
- Protecting Arizona’s children and vulnerable populations; and
- Reinforcing our commitment to education, families, economic development, natural resources, and border security.

BUDGET MANAGEMENT PLAN FOR FY 2009

Most of the elements of this plan were presented by the Executive during October 2008 discussions with Legislative leaders.

Summary: FY 2009 Budget Management Plan	
SHORTFALL (in millions)	(\$1,247.9)
SAVINGS FROM BALANCING OPTIONS	
Tobacco Settlement Securitization	400.0
Agency Operating Suspensions	300.0
Payment Schedule Deferrals	216.0
Rainy Day Fund	120.0
Agency Fund Transfers	111.0
Federal Fiscal Relief	100.0
Revenue Adjustment	50.0
House of Representatives Excess Balance	7.0
Total Savings	1,304.0
Net Surplus/(Shortfall)	\$56.1

Tobacco Settlement Securitization: \$400 million. At least 21 states and counties have securitized Tobacco Settlement payments. These entities have taken their contractually obligated payment stream of Tobacco Settlement Payments and sold the payment stream to an entity in exchange for an up-front, lump-sum payment.

For Arizona, it is projected that, barring restrictions, as much as \$900 million could be generated through securitization. However, due to Proposition 204 and voter protection, the funding generated from Tobacco Settlement Securitization must be used to cover the AHCCCS (Arizona Health Care Cost Containment System) population that was expanded by Arizona voters in 2000. In FY 2009, the General Fund requirement to support the AHCCCS Proposition 204 expansion is projected to be \$400 million.

Additional information regarding this recommendation can be found in *Securitization: Overview and Analysis*, starting on page 16.

Agency Operating Suspensions: \$300 million. The Executive has identified a number of areas in which to reduce spending in the current fiscal year. A list of the proposed reductions can be found in *FY 2009 and FY 2010 Recommended Expenditure Suspensions* starting on page 20. Included in the savings to be achieved from these suspensions is the following:

- *Other Human Resources Suspensions: \$25 million.* All agencies, including elected officials and universities, will be required to return to the General Fund a total of \$18.75 million in personnel-based savings (\$15.625 million for non-university agencies and \$3.125 million for the universities) and \$6.25 million in performance pay reductions.

Payment Schedule Deferrals: \$216 million General Fund. The Executive proposes using three additional payment timing opportunities that exist for AHCCCS, the Department of Economic Security (DES), and the State Universities. When the economy recovers and State government realizes excess revenue, these deferral payments will need to be reversed. The following is a detailed description of each of these payment schedule deferrals:

- *AHCCCS: \$100 million General Fund.* AHCCCS has proposed that the June capitation payment to health plans be suspended to a future date. This would require contract changes with the health plans, and the proposal would be structured in such a manner that smaller plans would defer a half-month while larger plans would defer a full month. This approach will require interest payments be made at a cost of \$6 million in FY 2010. The Executive recommends an interest rate of 2%. The federal government will not share in interest costs on the portion of federal funds deferral, which will place the effective interest rate above 6%. The deferred capitation payments would need to be made within the next

24 months. The proposal would also involve deferring some fee-for-service payments for up to one month.

- **DES: \$41 million General Fund.** The DES payment deferral would push the payments of June 2009 expenses in Child-care, Children Services, and Developmental Disabilities into July of FY 2010, rather than administratively adjusting them in the FY 2009 budget. The amount being deferred is approximately \$41 million. It could be continued indefinitely, pushing the payments from the last month of a fiscal year into July of the following year. There is no impact on clients or providers, because they are already paid on a reimbursement basis.
- **Universities: \$75 million General Fund.** The State universities receive their appropriation in monthly allotments, with the final allotment disbursed in June of each fiscal year. The Budget Management Plan would defer the June 2009 payment until July 2009, resulting in a one-time savings for FY 2009.

Rainy Day Fund: \$120 million. The Executive recommends that part of the FY 2009 shortfall be resolved by transferring \$120 million from the Budget Stabilization Fund. After the transfer, the Fund balance will be approximately \$10 million.

Agency Fund Transfers: \$111 million. The Executive has identified more than \$100 million in fund transfers that can be made to assist with balancing the FY 2009 budget. A list of these funds can be found on page 18.

Federal Fiscal Relief: \$100 million. During the most recent economic downturn, which occurred from 2001 to 2003, the federal government provided significant relief to the states, in the form of enhanced federal participation in Medicaid and block grants. President-Elect Obama has already endorsed the need for a large stimulus package to be enacted shortly after he takes office. In addition, economists have testified before Congress on the importance of a federal stimulus and the benefit of assisting states. Recently, economist Dr. Mark M. Zandi, chief economist and co-founder of Moody's *Economy.com*, testified before Congress that support of programs like unemployment and Medicaid have a much better stimulus impact on the gross domestic product than further tax cuts.

Recent discussions have indicated that the overall stimulus plan could be substantial – as large as \$800 billion or more, with estimates of up to \$100 billion being targeted for state Medicaid programs. Arizona's share could be \$1 billion or more, which would be used to meet the needs of AHCCCS clients, support education, and create jobs through transportation and other infrastructure projects. For purposes of the Budget Management Plan, the Executive has assumed that federal relief would be \$775 million, with \$100 million for the current fiscal year and \$675 million for FY 2010.

Revenue Adjustment: \$50 million. For FY 2009, there will be a monthly average of 64 photo radar cameras in place. Based on the number of citations during October, the first month of operation, the Executive projects about 420,000 paid citations during FY 2009, generating approximately \$50 million in deposits to the General Fund after expenses.

House of Representatives Prior-Year Appropriation Excess Balance: \$7 million. Given the significant budget crisis being

faced by the State, all excess funding sources should be utilized to help sustain important governmental operations. The Executive recommends that the sizable House balance be transferred to the General Fund.

BUDGET MANAGEMENT PLAN FOR FY 2010

Summary: FY 2010 Budget Management Plan	
SHORTFALL (in millions)	(\$2,654.7)
SAVINGS FROM BALANCING OPTIONS	
Balance Carried Forward	55.1
Tobacco Settlement Securitization	400.0
Agency Operating Suspensions	675.1
Interest Expense re: Payment Schedule Deferrals	(6.0)
Lottery Securitization	500.0
Agency Fund Transfers	119.4
Federal Fiscal Relief	675.0
Revenue Adjustments	258.3
Total Savings	2,676.9
Net Surplus/(Shortfall)	\$22.2

Agency Operating Suspensions: \$675.1 million. The Executive Budget contains a number of significant operating suspensions that will be necessary to balance the budget for FY 2010. Education, health care and public safety have been priorities of the Administration over the last six years. While totaling more than \$675 million, this overall plan tries to spread the impact across State government without having a debilitating effect on the provisions of critical services upon which the citizens depend.

The guiding principle in developing the recommendations is that, as a community, all Arizonans will have to share in the sacrifice in order to preserve the critical functions that government provides. A detailed list of these proposals and a brief description of each item can be found in the next section, *FY 2010 Spending Reductions* on page 14.

Federal Fiscal Relief: \$675 million. As discussed above in the FY 2009 Budget Management Plan, the Executive Budget incorporates a funding estimate associated with proposed federal fiscal relief. For FY 2010 the budget anticipated additional federal assistance of \$675 million, which is expected to create a corresponding savings to the General Fund.

Lottery Securitization: \$500 million. The Executive proposes that the net General Fund revenues from the Lottery be leveraged so that a lump-sum amount would be received in exchange for the annual revenue stream. The State would still maintain control of the Lottery operations. Under the plan, agencies and programs receiving Lottery proceeds will be held harmless and not impacted by the securitization. The same protection will apply to funds dedicated to repayment of the nearly \$1 billion bond package for construction and major maintenance at the State's universities. Additional detail on this recommendation can be found in the *Securitization: Overview and Analysis* section, starting on page 16.

Tobacco Settlement Securitization: \$400 million. As was detailed in the FY 2009 Budget Management Plan, the Executive recommends that a second year of funding be made available to support the AHCCCS Proposition 204 program for FY 2010. In Arizona it is projected that up to \$900 million could be generated through securitization, and the Budget Management Plan utilizes \$400 million in both FY 2009 and FY 2010 to support AHCCCS coverage. An additional approximate \$100 million will be used in FY 2010 to make up for the Tobacco Settlement monies that would be required for debt service.

Additional information regarding this recommendation can be found in *Securitization: Overview and Analysis*, starting on page 16.

Agency Fund Transfers: \$119.4 million. The Budget Management Plan also provides relief to the General Fund through more than \$119 million in agency fund transfers:

- *Continue County Contributions: \$28 million.* The Executive continues the increased funding from Maricopa County and Pima County for FY 2010. Originally, this funding was utilized for the AHCCCS program, but, due to anticipated federal stimulus restrictions, the Executive recommends that funding be deposited into the County Contribution Fund for transfer to the General Fund.
- *STAN Account of the State Highway Fund: \$75 million.* Laws 2006, Chapter 344, appropriated \$245 million from the General Fund to the Statewide Transportation Acceleration Needs (STAN) Account. Given the current economic conditions and the almost \$3 billion FY 2010 shortfall, the Budget Management Plan incorporates a transfer of \$75 million from the STAN back to the General Fund. Most, if not all, of this transfer may be reversed after the State receives the federal economic stimulus funds referenced earlier in this section.

Other funds have been identified for providing assistance to the General Fund in FY 2010. Additional detail on this recommendation can be found on page 14.

Revenue Adjustments: \$258.3 million. The Budget Management Plan incorporates four modest revenue proposals for FY 2010, none of which is a general tax increase.

- *Continuation of State Equalization Property Tax Suspension.* The Executive Budget allows the suspension of the cost to the State of the equalization property tax to end in 2010 as provided by law. This provision was enacted in 2004 per agreement between the Executive and the Legislature at a time when the state enjoyed a \$1 billion surplus. The end of the suspension will save approximately \$250 million for the state general fund budget in FY 2010. However, if the legislature elects to extend the suspension, the \$250 million impact to the general fund budget can be offset thereby making it fiscally neutral. As an example, the Executive offers the following proposal for consideration: first, the suspension of the Motion Picture Tax Credit would save about \$17 million in general fund revenues and, second, the establishment of an Energy Conservation Assessment at the rate of \$0.001 per KWH of electric power generated in Ari-

zona would raise about \$233 million, much of which would be exported to other states. This option could protect critically needed revenues while suspending a marginally effective tax credit and implementing a conservation-based assessment.

- *Estimated Payment Threshold Change: \$55 million.* The Transaction Privilege Tax estimated June payment is required for businesses that have more than \$1 million in State TPT tax liability in the prior calendar year. If the \$100,000 threshold (which applied until FY 2007) were reinstated, an estimated additional 4,965 businesses would be required to make the June estimated payment.
- *Fee Increase: \$55.9 million.* The Budget Management Plan includes a number of proposed user fees and licenses (*see table*) that should be increased to reflect the true cost of providing services and to more properly reflect the market value associated with these transactions. Many agencies that exist to regulate specific industries would assess higher fees to ensure adequate cost coverage of providing a service.

Agriculture, Department of	\$10,000,000
Corporation Commission	4,800,000
Environmental Quality, Department of	4,800,000
Health Services, Department of	8,200,000
Insurance, Department of	1,800,000
Liquor Licenses and Control, Department of	11,600,000
Racing, Department of	800,000
Radiation Regulatory Authority	700,000
State Land Department	11,000,000
Weights and Measures, Department of	2,200,000
	<hr/>
	\$55,900,000

- *Private Prison Fee: \$20 million.* The Executive proposes that a \$5 per day per inmate assessment be imposed on private prisons. Based on the number of out-of-state prisoners housed in Arizona, this proposal would generate a net increase of approximately \$20 million in FY 2010 if implemented by July 1, 2009.
- *DOR Revenue Generation Proposal: \$52.4 million.* The Executive proposes that 112.0 new FTE positions be authorized for the Department of Revenue, at an annual cost of \$9 million, to pursue delinquent taxpayers. This proposal does not involve new fees or taxes, but it does provide the resources to ensure that all citizens and corporations are paying their fair share.
- *Photo Radar: \$75 million.* Similar to FY 2009, the Executive Budget continues the Photo Radar safety enforcement efforts and recognizes the revenue based on early trends that have occurred since implementation.

Department of Revenue: Revenue Generation Proposal Plus 40 New Staff Starting April 1, 2009		
Revenue Generating Options	FTE	Net Revenue
Staff Increase	40	\$19,864,691
Standard Revenue Generation	49	6,616,183
Collections Delinquency Project	23	11,976,119
Automated Bank Match	0	7,550,000
Increase Statutes of Limitations	0	4,204,200
Increase License Fees	0	292,501
Non-Residential Withholding	0	1,859,026
	112	\$52,362,720

FY 2010 SPENDING SUSPENSIONS

FY 2010 Recommended Agency Operating Suspensions (In Millions)	
Incorporate Proposed FY 2009 Reductions Ongoing	229.2
AHCCCS: Freeze Hospital Rates	16.1
AHCCCS: Reduce Provider Rates by 5%	54.6
AHCCCS: Reduce Plan Risk Contingency and Administration	29.7
AHCCCS: Acute Plan Reinsurance Changes	10.1
DHS: Reduce Provider Rates by 5% for Behavioral Health	17.0
DES: Reduce Provider Rates by 5% for Dev. Disabled	12.0
AHCCCS: Impact of Federal Increase in Medicaid Funding	(17.6)
ADE: Delay Funding of Excess Utilities	46.0
ADE: Reduce Capital Outlay Revenue Limit 25%	61.0
ADE: Fund 50% of Soft Capital	104.0
Commerce: Reduce 21st Century Fund Contribution	10.0
SFB: Reduce Building Renewal for FY10	43.0
SFB: Suspend Part of Building Renewal Grant (in Base)	-
DOC: Delay Openings (in Base)	-
DOC: County Responsibility for Short-Term Offenders	55.0
Suspend Statutory DWR Water Protection Fund Deposit	5.0
<i>Total</i>	675.1

FY 2009 Ongoing Budget Suspensions: \$229.2 million. The Executive Budget for FY 2010 continues \$229.2 million in operating reductions that were recommended as part of the FY 2009 Budget Management Plan. Attached is a listing of the adjustments made by agency in FY 2009 that will continue into FY 2010.

AHCCCS – Hospital Rate Freeze: \$16.1 million. The Executive Budget recommends that the rate freeze, put in place for FY 2009 for both inpatient and outpatient hospital services, continue into FY 2010. It is assumed that these savings will also be incorporated in the health plan capitation rates at the start of the next contract period.

AHCCCS – Provider Rate Reduction: \$54.6 million. The Executive Budget recommends that AHCCCS reduce all fee-for-service rates by 5%. The only categories of service exempt from this proposal are Hospice, which is required by federal law to use Medicare rates, and Pharmacy. The recommendation as-

sumes that these savings will also be incorporated into the various health plan capitation rates at the start of the next contract cycle. Given the dramatic slowdown in the economy and the increase in unemployment, there will be no wage pressures on staffing, and this level of reduction is not anticipated to have an impact on access to services.

AHCCCS – Reduce Plan Risk Contingency and Administration Funding: \$29.7 million. The Executive Budget recommends that the Risk Contingency for rate setting be reduced by 50% for all Managed Care Organizations (MCOs). The recommendation would also impose a reduction of 5.88% on all MCO administration funding levels. These reductions would be applied to the following:

- acute care program (MCOs),
- long-term care (MCOs),
- developmentally disabled MCO (DES) and its acute care contractors,
- Behavioral Health (DHS) and the Regional Behavior Health Authorities (RBHAs),
- Children’s Rehabilitative Services (DHS) and its contracted MCO, and
- Children’s Medical and Dental Plan (DES).

AHCCCS – Acute Plan Reinsurance: \$10.1 million. The Budget Management Plan provides for lowering by one level the reinsurance thresholds for the Acute Care plan for the contract year ending 2010. This would result in a one-time saving from the timings of payments as dollars are moved from capitation to reinsurance. The current thresholds from which plans can choose are \$20,000, \$35,000 and \$50,000.

Department of Health Services – 5% Provider Rate Reduction: \$17 million. Consistent with the changes made in the AHCCCS program, the Budget Management Plan incorporates a reduction of 5% for Behavioral Health providers. The savings estimate anticipates a July 1, 2009, start date and that the reductions would be incorporated into the capitation rates for all RBHAs.

Department of Economic Security – 5% Provider Rate Reduction: \$12 million. Consistent with the changes made in the AHCCCS program, the Budget Management Plan incorporates a reduction of 5% for all Developmentally Disabled (DD) program providers. The savings estimate anticipates a July 1, 2009, start date and that the reductions would be incorporated into the capitation rates for the DD program and the contracted health plans.

COST: Impact of Federal Increase in Medicaid Funding: (\$17.6 million). The Budget Management Plan incorporates the potential impact of enhanced federal funding that is anticipated to be included in the next federal stimulus package. However, the \$140 million in Medicaid savings identified above for FY 2010 assumes no change in the federal match rate. An increase of 4.0% in federal matching funds would reduce the size of the savings by \$17.6 million.

Department of Education (ADE) – Expenditure Adjustments: \$211 million. The Executive Budget protects education to the greatest extent possible. However, with the State facing a shortfall of almost \$3 billion in FY 2010, some modest reductions are prerequisites for balancing the budget. The proposals

below are aimed at protecting teacher salaries and classroom sizes.

- *ADE Delay Funding of Excess Utilities: \$46 million.* Due to the significant nature of the State's funding shortfall, the Executive Budget does not include funding for the excess utilities fund shift that was planned to transition from the property tax in FY 2010.
- *ADE Reduce Capital Outlay Revenue Limit 25%: \$61 million.* The Executive Budget reduces Capital Outlay Revenue Limit (CORL) funding by 25%, which is approximately the amount that has remained in place for capital funding.
- *ADE Fund 50% of Soft Capital: \$104 million.* The Executive Budget recommends that Soft Capital funding for K-12 be reduced by 50%. This funding is outside the Proposition 301 voter protection requirements. During very difficult financial times, all districts will need to reduce these types of expenditures.

Arizona 21st Century Fund Deposit: \$10 million. The FY 2010 Budget Management Plan reduces the commitment to the 21st Century Fund from the FY 2010 appropriated level of \$25 million to \$15 million. The Executive believes that, in light of the benefits to the general public and the fact that income is

being generated, a deposit of at least \$15 million is needed, even in these challenging fiscal times.

School Facilities Board – Building Renewal Reduction: \$43 million. Due to limited resources, the Executive Budget provides half of the Building Renewal Funding that was appropriated for FY 2007 and FY 2008. This provides a total of \$43 million for school district to meet important building maintenance needs in FY 2010.

Department of Corrections – County Responsibility for Short-Term Offenders: \$55 million. The FY 2010 Budget Management Plan would require that any inmate who has a term of one year or less be sentenced to the counties and not the Arizona Department of Corrections. The proposed shifting of incarceration of short-term offenders is consistent with a practice employed by many other states.

Department of Water Resources – Suspend Statutory Deposit to Water Protection Fund: \$5 million. Current statute requires a \$5 million annual appropriation to the Water Protection Fund, which is administered by the Department of Water Resources. Due to the economic challenges facing the State, the FY 2010 Budget Management Plan suspends this allocation. •

Securitization: Overview and Analysis

Securitization of tobacco settlement payments and Lottery proceeds allows State government to put future revenues to work in relieving pressure on the General Fund

TOBACCO SETTLEMENT

Arizona is one of 45 states that receive payments from tobacco companies pursuant to a Master Settlement Agreement (MSA). The MSA provides that the states will be collectively compensated annually with an approximate \$8 billion payment for their health and social services related costs attributable to the use of tobacco.

Arizona’s share of this \$8 billion aggregate annual tobacco settlement revenue stream is an estimated \$120 million. In theory, states could receive these annual distributions in perpetuity, as no ending point is contained in the MSA. Arizona has historically dedicated the entire \$120 million to meet the state funds matching requirement for AHCCCS, Arizona’s Medicaid program. The use of the match for this purpose is mandated by statutory provisions that were enacted by voter initiative in 2000. This initiative is subject to voter protection provisions contained within the Arizona constitution that prohibit the Legislature from amending an initiative unless the amendment (a) furthers the initiative’s purpose and (b) is approved by a three-fourths majority vote of the Legislature.

Securitization in Concept. To help balance the FY 2009 and FY 2010 budgets, the State would issue bonds totaling \$900 million in fiscal year 2009 that would be “securitized” through a pledge of \$90 million of the \$120 million annual MSA payment for annual debt service payments on the issued bonds. The term of the bonds is anticipated to be 15 to 20 years, depending upon market conditions, interest rates and other factors. It is intended that:

- \$400 million of the proceeds of the bond sale will be used to assist in balancing the FY 2009 budget and
- \$500 million will be used for budget-balancing purposes in FY 2010.

The \$500 million used in FY 2010 will generate a net General Fund savings of \$410 million, since approximately \$90 million will be used to replace the Tobacco Settlement funds that will be utilized for debt service.

Securitization in Practice. In order to make this concept work in the financial markets and the policymaking arena, there are certain conditions or understandings that must be prerequisite to a successful financing of the tobacco settlement funds:

1. The structure of the financing should provide for no debt service in FY 2009 and full debt service payments in FY 2010, the latter to be partially offset by interest earnings on the unused principle amount.
2. By amortizing \$900 million of the MSA revenue stream, the General Fund will need to provide the \$90 million matching requirement for AHCCCS in FY 2010 and thereafter.
3. Given current bond market conditions, investors will require a “backstop” source of revenue to make the bonds

marketable. Specifically, the backstop revenue will ensure that if MSA annual revenues should diminish below the debt service requirement level of \$90 million, a second source of revenue will be available to meet the State’s debt service obligations.

Using General Fund revenues as the backstop in the unlikely event that the MSA revenues prove insufficient in any year may violate Arizona’s Constitutional restriction on the State’s ability to issue general obligation debt. To avoid this potential problem, it is proposed that the State use the Vehicle License Tax (VLT) as the backstop revenue source because it is not a General Fund revenue source.

The portion of the VLT tax revenue that is deposited in the Highway User Revenue Fund (HURF) for use by the State is more than double (\$192 million in FY 2008) the debt service requirement under this proposal. If, in any fiscal year, the VLT had to be used to make any payments on the bonds secured by the tobacco MSA, payments from the General Fund would be used to offset the lost revenue to the HURF.

LOTTERY PROCEEDS

Each year, the Arizona Lottery disburses approximately \$100 million: to the General Fund (approximately \$46.5 million) and to a number of non-General Fund beneficiaries, including the Arizona Heritage Fund, local transportation funds, county assistance, and various health programs.

After the above-mentioned recipients receive their statutory distributions, any surplus flows to the General Fund. It is forecast that, within 10 years, the surplus will exceed \$40 million.

Anticipated Beneficiary Distribution, FY 2010

General Fund	\$46 million
Local Transportation Funds	23 million
Healthy Arizona	22 million
Heritage Fund	20 million
University Capital.....	13 million
Mass Transit.....	10 million
County Assistance.....	7 million
Economic Development.....	4 million
Homeless Services.....	1 million
Water Supply	0
Community Protection.....	0

Securitization in Concept. Securitizing the existing General Fund cash flow stream would provide up to \$500 million of one-time capital. To accomplish this financing approach, Lottery revenues would be pledged to the holders of the Lottery bonds, similar to other revenue bonds issued by State agencies such as ADOT. Such a securitization would reduce annual General Fund revenues by the bond payment amount of approximately \$45 million per year, which would start in the fiscal year following the issuance. While Lottery revenues would be

pledged to bondholders, this bond structure would not require changing the order of distribution of Lottery revenues currently in statute.

Securitization in Practice. The strongest credit, and the lowest borrowing cost, would be achieved through the issuance of Lottery revenue bonds that are secured by a first lien on, and pledge of, all Lottery proceeds received by the State, except for Lottery proceeds to be distributed pursuant to the Healthy Arizona initiative. This distribution was voter-created after 1998 (and therefore subject to the provisions of Prop. 105) and cannot be subordinated without a three-fourths vote of the Legislature.

While the bonds would be secured by a lien on all unprotected Lottery revenues, the bond issue would be structured and sized conservatively so as to be payable only from the portion of revenues distributed to the General Fund. Specifically, the proposal would be to limit the annual debt service payment on the bonds to no more than \$45 million per year, well within the annual amount distributed to the General Fund. As a result, under this proposal, none of the statutory distribu-

tions of Lottery revenues that occur prior to the distribution to the General Fund would be put in jeopardy, and the State would be able to issue Lottery revenue bonds with the highest possible credit rating and, therefore, the lowest borrowing cost. For purposes of this proposal, the bond assumptions include a 20-year term, a 6% interest rate, and debt payments of \$45 million.

Legislative Changes. Issuance of the Lottery revenue bonds would require Legislative authorization. The legislation would be similar to current statutory language authorizing the issuance of revenue bonds by other State agencies, such as ADOT for its Highway User Revenue Bonds.

Senior Lien Lottery Bonds – Anticipated Proceeds. Based on an assumed annual debt payment of \$45 million over a 20-year financing term, approximately \$500 million of bond proceeds could be obtained. The bonds are assumed to be issued on a tax-exempt basis, subject to meeting the various rules and requirements under the federal Tax Code.

FY 2009 Recommended Fund Transfers

Fund Name	Transfer Amount
AHCCCS Intergovernmental Service Fund	1,500,000
Air Quality Fund	200,000
Arizona Arts Endowment Expend Trust Fund	5,000,000
Arizona Water Banking Fund	700,000
Arizona Water Protection Fund	400,000
Arson Detection Reward Fund	35,000
Auditor General - Audit Services Fund	200,000
Arizona Scholarships for Pupils with Disabilities	729,000
Behavioral Health Examiners Fund	400,000
Board of Respiratory Care Examiners Fund	150,000
Child/Family Services Training Program Fund	300,000
Citizens Clean Election Fund	5,000,000
Commerce Development Bond Fund	100,000
Constable Ethics Standards and Training Fund	150,000
Criminal Justice Enhancement Fund	400,000
DEQ Emissions Inspection Fund	100,000
DOR Estate & Unclaimed Fund	200,000
ATP - Phoenix Closure Fund	2,700,000
Displaced Pupils Choice Grant Fund	1,755,700
DOR Liability Setoff Fund	20,000
DPS Peace Officers Training Fund	150,000
Drug and Gang Prevention Fund	305,000
Drug Treatment and Education Fund - Parents Commission	1,000,000
E-Learning Fund	2,997,200
Gift Shop Revolving Fund	50,000
Greenfields Program Fund	165,000
Industrial Commission Revolving Fund	50,000
Information Technology Fund	150,000
Juvenile Corrections - CJEF Distributions Fund	37,000
Library/Archives Miscellaneous Collections Fund	50,000
Livestock Board Seizure Fund	50,000
Off-Highway Vehicle Recreation Fund	400,000
Pipeline Safety Revolving Fund	200,000
Radiation Certification Fund	9,000
Real Estate Recovery Fund	75,000
Receivership Revolving Fund	200,000
Records Services Fund	150,000
Recycling Fund	335,000
Registrar of Contractors Fund	400,000
Residential Contractors Recovery Fund	200,000
Residential Utility Consumer Office Revolving Fund	44,800
Risk Management Fund	9,000,000
School Facilities Revenue Bond Debt Service Fund	2,290,000
State Highway Fund	70,000,000
State Parks Enhancement Fund	100,000
State School Trust Revenue Bond Debt Service Fund	990,000
Teacher Certification Fund	1,000,000
Technical Registration Board Fund	25,000
Underground Storage Tank Revolving Fund	200,000
Voluntary Vehicle Repair Fund	50,000
Water Quality Assurance Revolving Fund	200,000
Water Quality Fee Fund	50,000
Wine Commission Fund	25,000
TOTAL	110,987,700

FY 2010 Recommended Fund Transfers

Fund Name	Transfer Amount
Agriculture Commercial Feed Fund	25,000
Agriculture Dangerous Plants Fund	25,000
Agriculture Fertilizer Materials Fund	25,000
Agriculture Seed Law Fund	15,000
AHCCCS Fund	2,000,000
Aquaculture Fund	5,000
Arizona Department of Housing Program Fund	700,000
Board of Fingerprinting Fund	100,000
Breeders Award Fund	100,000
Child Fatality Review Fund	300,000
Clean Water Revolving Fund	201,400
Community-Based Marriage & Communication Fund	8,300
Budget Neutrality Compliance Fund	28,000,000
DHS Substance Abuse Treatment Fund	500,000
Domestic Violence Shelter Fund	700,000
DPS FBI Fingerprinting Fund	81,000
Drug and Gang Prevention Fund	100,000
Fingerprint Clearance Card Fund	100,000
Livestock Board Seizure Fund	50,000
Military Installation Fund	4,000,000
Motorcycle Safety Fund	100,000
Naturopathic Board Fund	110,000
Off-Highway Vehicle Recreation Fund	100,000
Postsecondary Education Voucher Fund	800,000
Racing/Betterment Fund	200,000
Receivership Revolving Fund	2,000,000
Spinal and Head Injuries Trust Fund	800,000
State Highway Fund	75,000,000
State Parks Enhancement Fund	100,000
Student Tuition Recovery Fund	500,000
Technical Registration Board Fund	25,000
Telecommunication for the Deaf Fund	500,000
Victims' Rights Implementation Fund	1,500,000
Vital Records Electronic Systems Fund	600,000
TOTAL	119,370,700

FY 2009 and FY 2010 Recommended Expenditure Suspensions

	FY 2009 Recommended Expenditure Suspensions	FY 2009 Recommended Expenditure Suspensions Continued into FY 2010
Accountancy Board		
Other Funds	164,507	0
Acupuncture Board		
Other Funds	9,044	9,044
Department of Administration		
General Fund	1,417,200	1,505,922
Other Funds	3,650,000	1,950,000
Office of Administrative Hearings		
General Fund	140,000	140,000
Other Funds	111,870	111,870
Department of Agriculture		
General Fund	600,000	600,000
Other Funds	446,957	446,957
Arizona Health Care Cost Containment System		
General Fund	11,920,600	10,320,600
Commission on the Arts		
General Fund	200,000	180,000
Other Funds	115,948	0
Attorney General - Department of Law		
General Fund	606,790	606,790
Other Funds	950,973	950,973
Auditor General		
General Fund	927,600	927,600
Other Funds	118,993	118,993
Barber Examiners		
Other Funds	28,280	28,280
Behavioral Health Examiners		
Other Funds	95,750	95,750
Chiropractic Board		
Other Funds	36,428	36,428
Capital Post Conviction Public Defender Office		
General Fund	50,000	50,100
State Board for Charter Schools		
General Fund	41,100	41,100
Department of Commerce		
General Fund	319,400	319,400
Other Funds	2,316,634	1,011,956
Community Colleges		
General Fund	16,000,000	24,000,000
Corporation Commission		
General Fund	400,000	400,000
Other Funds	0	400,000

	FY 2009 Recommended Expenditure Suspensions	FY 2009 Recommended Expenditure Suspensions Continued into FY 2010
Department of Corrections		
General Fund	6,000,000	0
Other Funds	6,284,670	5,000,000
Criminal Justice Commission		
Other Funds	1,134,413	1,134,413
Schools for the Deaf and the Blind		
General Fund	369,000	369,000
Deaf and the Hard of Hearing		
Other Funds	210,739	460,000
Dental Examiners		
Other Funds	77,667	10,000
Dispensing Opticians		
Other Funds	5,888	5,888
Drug and Gang Prevention Resource Center		
Other Funds	44,730	44,730
Department of Economic Security		
General Fund*	22,324,700	19,431,300
Other Funds	726,500	271,000
Department of Education		
General Fund	26,773,700	4,108,400
Other Funds	797,174	
Department of Emergency and Military Affairs		
General Fund	1,389,000	2,628,600
Other Funds	22,379	22,379
Department of Environmental Quality		
General Fund	1,500,000	1,500,000
Other Funds	9,173,100	3,597,500
Governor's Office for Equal Opportunity		
General Fund	30,000	30,000
Board of Executive Clemency		
General Fund	40,900	40,900
Department of Financial Institutions		
General Fund	200,000	0
Other Funds	101,031	101,031
Department of Fire, Building and Life Safety		
General Fund	400,000	400,000
Other Funds	44,860	0
Office of the State Forester		
General Fund	192,600	152,600
Other Funds	1,653,813	1,653,813
Funeral Directors and Embalmers		
Other Funds	12,000	12,000
Game and Fish		
Other Funds	1,402,900	1,402,900
Arizona Geological Survey		
General Fund	120,000	120,000

	FY 2009 Recommended Expenditure Suspensions	FY 2009 Recommended Expenditure Suspensions Continued into FY 2010
Government Information Technology Agency		
General Fund	250,000	250,000
Other Funds	349,124	349,124
Governor's Office		
General Fund	475,000	475,000
Governor's Office of Strategic Planning and Budgeting		
General Fund	75,000	75,000
Department of Health Services		
General Fund	5,982,700	5,982,700
Other Funds	878,600	878,600
Arizona Historical Society		
General Fund	400,000	400,000
Other Funds	40,782	40,782
House of Representatives		
General Fund	723,600	723,600
Housing		
Other Funds	3,229,499	3,229,499
Commission of Indian Affairs		
Other Funds	24,000	24,000
Industrial Commission		
Other Funds	1,404,137	2,808,274
Department of Insurance		
General Fund	222,600	264,000
Other Funds	30,622	40,000
Joint Legislative Budget Committee		
General Fund	152,500	152,500
Judiciary		
General Fund	10,000,000	10,000,000
Department of Juvenile Corrections		
General Fund	2,500,000	3,000,000
Other Funds	37,002	37,002
Land Department		
General Fund	10,000,000	15,000,000
Other Funds	18,200	18,200
Legislative Council		
General Fund	287,000	287,000
Library, Archives and Public Records		
General Fund	351,400	351,400
Other Funds	13,300	13,300
Department of Liquor Licenses and Control		
General Fund	335,900	387,000
Other Funds	48,664	84,400
Medical Board		
Other Funds	417,017	417,017

	FY 2009 Recommended Expenditure Suspensions	FY 2009 Recommended Expenditure Suspensions Continued into FY 2010
Board of Medical Student Loans		
General Fund	120,000	120,000
Mine Inspector		
General Fund	54,000	54,000
Naturopathic Board		
Other Funds	20,000	20,000
Navigable Streams Adjudication Commission		
General Fund	20,000	20,000
Nursing		
Other Funds	289,443	81,843
Nursing Care Administrators Board		
Other Funds	11,839	11,839
Occupational Therapy Examiners		
Other Funds	17,143	17,143
Office of Pest Management		
Other Funds	194,373	194,373
State Parks Board		
General Fund	0	0
Other Funds	6,283,054	3,200,000
Power Authority		
Other Funds	2,189,747	2,189,747
Personnel Board		
General Fund	40,100	40,100
Commission for Postsecondary Education		
General Fund	1,000,000	1,000,000
Other Funds	103,000	6,000
Prescott Historical Society		
General Fund	50,000	50,000
Department of Public Safety		
General Fund	14,750,000	7,852,400
Other Funds	4,746,000	3,653,196
Department of Racing		
General Fund	250,000	300,000
Other Funds	186,462	186,462
Radiation Regulatory Agency		
General Fund	200,000	180,000
Department of Real Estate		
General Fund	320,000	350,000
Other Funds	3,850	5,000
Board of Regents		
General Fund	1,500,000	1,500,000

	FY 2009 Recommended Expenditure Suspensions	FY 2009 Recommended Expenditure Suspensions Continued into FY 2010
Registrar of Contractors		
Other Funds	606,500	400,000
Residential Utility Consumer Office		
Other Funds	122,003	0
Respiratory Care Examiners		
Other Funds	18,312	18,312
Department of Revenue		
General Fund	1,000,000	1,000,000
Other Funds	42,500	60,000
School Facilities Board		
General Fund	12,755,899	200,000
Secretary of State - Department of State		
General Fund	70,000	70,000
Senate		
General Fund	478,900	478,900
Board of Tax Appeals		
General Fund	30,000	30,000
Technical Registration		
Other Funds	22,164	40,000
Office of Tourism		
General Fund	2,000,000	2,000,000
Department of Transportation		
General Fund	10,000	0
Other Funds	7,089,100	3,150,000
State Treasurer		
General Fund	70,000	70,000
Universities		
General Fund	50,000,000	50,000,000
Veterans' Services		
Military Installation Fund	1,729,126	1,729,126
Department of Water Resources		
General Fund	4,000,000	4,000,000
Other Funds	500,000	80,000
Department of Weights and Measures		
General Fund	160,000	160,000
Capital Outlay Appropriations		
General Fund	2,000,000	0
HR Related Suspensions	<u>25,000,000</u>	<u>12,600,000</u>
Totals	300,000,000	229,155,056

*These proposed cut figures were originally based on one half of a year's appropriation. Beginning January 1, for each month that passes without a Legislative mandate to reduce or eliminate these programs, 1/6 of the proposed cut amount will no longer be available. These programs cannot be reduced or eliminated without legislation.

Budget Summary

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- priation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
Arizona Department of Administration	35,359.3	27,109.6	0.0	27,109.6	N/A	N/A
Office of Administrative Hearings	1,284.7	1,284.7	0.0	1,284.7	0.0	1,284.7
Arizona Department of Agriculture	11,903.8	11,640.4	0.0	11,640.4	0.0	11,640.4
Arizona Health Care Cost Containment System	1,219,660.1	1,425,272.3	348,427.2	1,773,699.5	N/A	N/A
Arizona Commission on the Arts	2,023.4	1,930.8	0.0	1,930.8	0.0	1,930.8
Attorney General - Department of Law	23,964.8	23,107.4	668.3	23,775.7	668.3	23,775.7
State Capital Post-Conviction Public Defender Office	779.2	870.9	0.0	870.9	0.0	870.9
State Board for Charter Schools	811.3	828.7	0.0	828.7	0.0	828.7
Department of Commerce	13,470.4	7,385.2	2,431.8	9,817.0	2,431.8	9,817.0
Arizona Community Colleges	167,744.8	147,679.8	765.8	148,445.6	N/A	N/A
Corporation Commission	5,655.6	4,791.7	0.0	4,791.7	0.0	4,791.7
Department of Corrections	884,274.5	947,476.0	76,809.0	1,024,285.0	N/A	N/A
Arizona Criminal Justice Commission	1,067.7	1,172.0	0.0	1,172.0	0.0	1,172.0
Arizona State Schools for the Deaf and the Blind	20,226.8	22,011.7	0.0	22,011.7	0.0	22,011.7
Department of Economic Security	785,264.1	808,328.1	108,968.2	917,296.3	N/A	N/A
Department of Education	3,943,009.3	4,141,201.0	246,914.0	4,388,115.0	N/A	N/A
Department of Emergency and Military Affairs	10,814.0	13,920.3	387.0	14,307.3	1,349.2	15,269.5
Department of Environmental Quality	17,323.1	24,080.2	5,000.0	29,080.2	5,000.0	29,080.2
Governor's Office for Equal Opportunity	249.2	249.3	0.0	249.3	0.0	249.3
State Board of Equalization	638.9	656.2	0.0	656.2	0.0	656.2
Board of Executive Clemency	1,097.2	1,097.6	0.0	1,097.6	0.0	1,097.6
State Department of Financial Institutions	3,882.7	3,809.3	0.0	3,809.3	0.0	3,809.3
Department of Fire, Building and Life Safety	3,609.8	3,586.8	0.0	3,586.8	0.0	3,586.8
Arizona State Forester	8,227.5	6,921.9	0.0	6,921.9	0.0	6,921.9
Arizona Geological Survey	1,101.3	1,102.5	0.0	1,102.5	0.0	1,102.5
Government Information Technology Agency	1,744.9	3,455.7	0.0	3,455.7	0.0	3,455.7
Office of the Governor	6,621.1	7,136.0	0.0	7,136.0	0.0	7,136.0
Governor's Office of Strategic Planning and Budgeting	2,230.7	2,198.5	0.0	2,198.5	0.0	2,198.5
Department of Health Services	577,756.1	611,507.2	75,237.4	686,744.6	N/A	N/A
Arizona Historical Society	4,430.2	4,430.9	0.0	4,430.9	0.0	4,430.9
Prescott Historical Society of Arizona	762.6	762.8	0.0	762.8	0.0	762.8
Arizona Commission of Indian Affairs	212.2	234.4	0.0	234.4	0.0	234.4
Department of Insurance	7,233.1	7,369.7	25.4	7,395.1	25.4	7,395.1
Judiciary	126,611.4	126,324.4	0.0	126,324.4	N/A	N/A
Department of Juvenile Corrections	80,019.3	74,700.4	3,700.0	78,400.4	N/A	N/A
State Land Department	17,828.7	16,438.5	25.0	16,463.5	25.0	16,463.5
Law Enforcement Merit System Council	76.8	76.9	1.4	78.3	1.4	78.3
Auditor General	17,480.1	17,502.6	0.0	17,502.6	0.0	17,502.6
House of Representatives	12,152.1	13,653.4	0.0	13,653.4	0.0	13,653.4
Joint Legislative Budget Committee	727.8	2,877.0	0.0	2,877.0	0.0	2,877.0

	FY 2008 Expendi- tures	FY 2009 Appro- priation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
Legislative Council	5,299.1	5,414.7	0.0	5,414.7	0.0	5,414.7
Arizona State Library, Archives & Public Records	7,445.9	7,378.9	0.0	7,378.9	0.0	7,378.9
Senate	7,531.5	9,036.2	0.0	9,036.2	0.0	9,036.2
Department of Liquor Licenses and Control	3,464.1	3,474.8	0.0	3,474.8	0.0	3,474.8
Board of Medical Student Loans	1,500.0	1,121.0	0.0	1,121.0	0.0	1,121.0
State Mine Inspector	1,635.1	1,568.4	0.0	1,568.4	0.0	1,568.4
Department of Mines and Mineral Resources	924.5	947.8	0.0	947.8	0.0	947.8
Arizona Navigable Stream Adjudication Commission	217.6	180.8	0.0	180.8	0.0	180.8
State Board of Nursing	125.4	167.3	0.0	167.3	0.0	167.3
Arizona Board of Osteopathic Examiners	0.0	0.0	411.9	411.9	0.0	0.0
State Parks Board	27,784.5	28,463.2	0.0	28,463.2	0.0	28,463.2
Personnel Board	349.0	372.4	0.0	372.4	0.0	372.4
Arizona Pioneers' Home	1,123.9	24.0	0.0	24.0	0.0	24.0
Commission for Postsecondary Education	3,725.3	4,377.4	(400.0)	3,977.4	(400.0)	3,977.4
State Board of Psychologist Examiners	0.0	0.0	463.0	463.0	0.0	0.0
Department of Public Safety	118,648.7	63,459.7	(358.5)	63,101.2	2,023.8	65,483.5
Arizona Department of Racing	2,673.7	2,623.3	0.0	2,623.3	0.0	2,623.3
Radiation Regulatory Agency	1,548.6	1,775.3	(20.0)	1,755.3	(20.0)	1,755.3
Arizona Rangers' Pension	13.4	13.7	0.3	14.0	0.6	14.3
Department of Real Estate	4,365.5	4,236.5	40.0	4,276.5	40.0	4,276.5
Department of Revenue	74,391.8	73,918.6	122.4	74,041.0	122.4	74,041.0
School Facilities Board	73,789.5	101,217.2	103,020.3	204,237.5	N/A	N/A
Department of State - Secretary of State	7,047.4	6,980.7	(3,270.0)	3,710.7	600.0	7,580.7
State Board of Tax Appeals	269.4	310.6	0.0	310.6	0.0	310.6
Arizona Office of Tourism	15,488.0	15,022.9	982.0	16,004.9	1,800.0	16,822.9
Department of Transportation	75.7	84.6	0.0	84.6	N/A	N/A
State Treasurer	21,000.3	5,075.3	0.0	5,075.3	0.0	5,075.3
Arizona Board of Regents	19,706.2	20,342.4	0.0	20,342.4	N/A	N/A
ASU - Tempe	404,668.4	396,428.7	3,135.6	399,564.3	N/A	N/A
ASU - Polytechnic	25,471.1	30,489.2	565.4	31,054.6	N/A	N/A
ASU - West	52,739.0	53,279.7	738.5	54,018.2	N/A	N/A
Northern Arizona University	159,465.1	161,560.9	5,712.4	167,273.3	N/A	N/A
University of Arizona - Main Campus	351,637.2	340,316.6	1,497.0	341,813.6	N/A	N/A
University of Arizona - Health Sciences Center	80,548.0	77,996.6	0.0	77,996.6	N/A	N/A
Department of Veterans' Services	8,758.1	8,399.5	0.0	8,399.5	0.0	8,399.5
Department of Water Resources	22,330.8	17,858.1	2,450.0	20,308.1	7,582.6	25,440.7
Department of Weights and Measures	1,603.4	1,593.6	(9.0)	1,584.6	(9.0)	1,584.6
General Fund Operating Total	9,526,695.8	9,961,693.4	984,441.8	10,946,135.2	21,241.5	491,620.2

**STATE OF ARIZONA
OTHER APPROPRIATED FUNDS *
REVENUE SUMMARY
FY 2008 THROUGH FY 2010
(in thousands)**

<u>TAXES</u>	<i>FY 2008 Actual</i>	<i>FY 2009 Estimate</i>	<i>FY 2010 Estimate</i>
Motor Fuel Taxes	689,272.4	729,991.3	713,955.0
Property Taxes	21,238.6	22,917.0	20,160.0
Sales and Use Taxes	13,545.6	13,286.4	12,972.1
Luxury Taxes	209,158.6	145,466.8	145,629.3
Insurance Premium Taxes	42,959.3	36,211.4	34,293.6
Motor Carrier License Tax	20,677.6	21,670.6	26,389.2
Vehicle License Tax	373,876.9	380,112.3	433,825.0
Other Taxes	42,104.7	38,086.2	37,855.6
TOTAL TAXES	<u>1,412,833.7</u>	<u>1,387,742.0</u>	<u>1,425,079.8</u>
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits	340,297.3	336,553.5	367,182.1
Charges for Service	1,628,154.1	1,653,573.1	1,749,365.9
Interest Earnings	91,004.7	98,370.1	97,431.8
Miscellaneous Revenues	330,507.7	459,485.5	435,348.3
Lottery	212,881.5	481,900.0	481,900.0
TOTAL OTHER REVENUES	<u>2,602,845.3</u>	<u>3,029,882.2</u>	<u>3,131,228.1</u>
 OTHER FINANCING SOURCES			
Transfers & Reimbursements	<u>1,837,704.1</u>	<u>1,553,332.8</u>	<u>1,591,440.0</u>
 GRAND TOTAL REVENUES	 <u>5,853,383.1</u>	 <u>5,970,957.0</u>	 <u>6,147,747.9</u>

* 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.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- priation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>State Board of Accountancy</u>						
Accountancy Board Fund	1,488.4	2,350.1	(458.0)	1,892.1	(458.0)	1,892.1
<u>Acupuncture Board of Examiners</u>						
Acupuncture Board of Examiners Fund	120.1	129.2	0.0	129.2	12.9	142.1
<u>Arizona Department of Administration</u>						
Personnel Division Fund	17,798.6	18,418.0	(1,118.0)	17,300.0	N/A	N/A
Capital Outlay Stabilization Fund	11,975.9	13,000.6	0.0	13,000.6	N/A	N/A
Corrections Fund	700.4	732.3	0.0	732.3	N/A	N/A
Air Quality Fund	573.9	850.1	0.0	850.1	N/A	N/A
Special Employee Health Fund	4,784.4	5,487.3	0.0	5,487.3	N/A	N/A
Highway User Revenue Fund	145.0	0.0	0.0	0.0	N/A	N/A
Motor Pool Revolving Fund	11,575.1	12,726.8	0.0	12,726.8	N/A	N/A
State Surplus Property Fund	2,709.5	4,258.0	0.0	4,258.0	N/A	N/A
Admin - Surplus Property/Federal Fund	151.0	449.3	0.0	449.3	N/A	N/A
Risk Management Fund	73,245.7	93,491.1	6,722.1	100,213.2	N/A	N/A
Automation Operations Fund	23,261.8	24,087.5	0.0	24,087.5	N/A	N/A
Telecommunications Fund	4,103.3	7,891.8	0.0	7,891.8	N/A	N/A
Agency Total	151,024.6	181,392.8	5,604.1	186,996.9	0.0	0.0
<u>Office of Administrative Hearings</u>						
Healthcare Group Fund	14.4	14.5	0.0	14.5	0.0	14.5
<u>Arizona Department of Agriculture</u>						
Agricultural Consulting/Training Program Fund	104.8	106.7	0.0	106.7	0.0	106.7
Agriculture Commercial Feed Fund	298.7	300.3	0.0	300.3	0.0	300.3
Egg and Egg Product Control Fund	671.1	897.8	102.9	1,000.7	102.9	1,000.7
Pesticide Fund	371.6	386.2	20.8	407.0	20.8	407.0
Agriculture Dangerous Plants Fund	0.0	40.0	60.0	100.0	60.0	100.0
Agriculture Seed Law Fund	54.7	54.3	35.5	89.8	35.5	89.8
Livestock Custody Fund	52.2	79.4	40.6	120.0	40.6	120.0
Fertilizer Materials Fund	307.7	306.1	182.2	488.3	182.2	488.3
Citrus, Fruit, and Vegetable Revolving Fund	873.1	1,087.0	0.0	1,087.0	0.0	1,087.0
Aquaculture Fund	6.8	9.2	0.0	9.2	0.0	9.2
AZ Protected Native Plant Fund	110.4	194.7	(30.7)	164.0	(30.7)	164.0
Agency Total	2,851.1	3,461.7	411.3	3,873.0	411.3	3,873.0
<u>Arizona Health Care Cost Containment System</u>						
Tobacco Tax and Health Care Fund	60,727.2	62,886.2	(10,487.1)	52,399.1	N/A	N/A
Tobacco Products Tax Fund	24,205.2	25,716.5	(3,756.5)	21,960.0	N/A	N/A
Children's Health Insurance Program Fund	133,887.4	145,970.9	(7,163.0)	138,807.9	N/A	N/A
Budget Neutrality Compliance Fund	9,709.9	48,634.3	(45,671.8)	2,962.5	N/A	N/A
Healthcare Group Fund	5,088.1	6,526.8	0.0	6,526.8	N/A	N/A
Temporary Medical Coverage Fund	1,975.4	3,247.2	(3,247.2)	0.0	N/A	N/A

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Arizona Health Care Cost Containment System</u>						
Agency Total	235,593.2	292,981.9	(70,325.6)	222,656.3	0.0	0.0
<u>State Board of Appraisal</u>						
Board of Appraisal Fund	607.5	621.8	0.0	621.8	0.0	621.8
<u>Attorney General - Department of Law</u>						
Consumer Protection/Fraud Revolving Fund	2,134.8	3,948.7	0.0	3,948.7	0.0	3,948.7
Attorney General Antitrust Revolving Fund	142.6	239.9	0.0	239.9	0.0	239.9
Attorney General Collection Enforcement Fund	3,640.0	4,916.3	0.0	4,916.3	0.0	4,916.3
Attorney General Agency Services Fund	13,127.6	13,378.8	0.0	13,378.8	0.0	13,378.8
Victims Rights Fund	3,242.9	3,277.4	0.0	3,277.4	0.0	3,277.4
Risk Management Fund	9,138.5	9,771.5	0.0	9,771.5	0.0	9,771.5
Attorney General Legal Services Cost Allocation Fund	6,669.8	6,682.9	0.0	6,682.9	0.0	6,682.9
Agency Total	38,096.2	42,215.5	0.0	42,215.5	0.0	42,215.5
<u>Automobile Theft Authority</u>						
Automobile Theft Authority Fund	5,435.3	6,016.7	0.0	6,016.7	0.0	6,016.7
<u>Board of Barber Examiners</u>						
Barber Examiners Board Fund	272.1	328.2	0.0	328.2	21.0	349.2
<u>Board of Behavioral Health Examiners</u>						
Behavioral Health Examiners Fund	1,342.4	1,367.2	72.9	1,440.1	78.9	1,446.1
<u>Arizona Biomedical Research Commission</u>						
Health Research Fund	0.0	500.0	0.0	500.0	0.0	500.0
<u>State Board of Chiropractic Examiners</u>						
Chiropractic Examiners Board Fund	617.1	520.4	(45.6)	474.8	(55.6)	464.8
<u>Department of Commerce</u>						
Lottery Fund	279.0	286.2	0.0	286.2	0.0	286.2
Commerce Development Bond Fund	140.4	144.7	0.0	144.7	0.0	144.7
Commerce and Economic Development Fund	1,881.8	3,068.7	(250.0)	2,818.7	(250.0)	2,818.7
Oil Overcharge Fund	0.0	184.9	0.0	184.9	0.0	184.9
Agency Total	2,301.2	3,684.5	(250.0)	3,434.5	(250.0)	3,434.5
<u>Registrar of Contractors</u>						
Registrar of Contractors Fund	11,671.1	12,147.0	16.8	12,163.8	76.5	12,223.5
<u>Corporation Commission</u>						
Utility Regulation Revolving Fund	13,444.8	14,467.9	0.0	14,467.9	0.0	14,467.9
Pipeline Safety Revolving Fund	47.4	0.0	0.0	0.0	0.0	0.0
Security Regulatory and Enforcement Fund	3,652.6	3,946.0	0.0	3,946.0	0.0	3,946.0
Public Access Fund	3,783.4	4,832.0	(454.0)	4,378.0	(810.0)	4,022.0
Securities Investment Management Fund	924.8	928.6	0.0	928.6	0.0	928.6

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Corporation Commission</u>						
Arizona Arts Trust Fund	47.9	51.1	0.0	51.1	0.0	51.1
Agency Total	21,900.9	24,225.6	(454.0)	23,771.6	(810.0)	23,415.6
<u>Department of Corrections</u>						
Corrections Fund	27,799.1	29,054.8	0.0	29,054.8	N/A	N/A
State Education Fund for Correctional Education Fund	451.5	424.0	0.0	424.0	N/A	N/A
DOC - Alcohol Abuse Treatment Fund	555.4	599.3	0.0	599.3	N/A	N/A
Transition Office Fund	180.0	180.0	0.0	180.0	N/A	N/A
Transition Program Drug Treatment Fund	387.3	600.0	0.0	600.0	N/A	N/A
Prison Construction and Operations Fund	17,535.3	15,050.0	(3,600.0)	11,450.0	N/A	N/A
Penitentiary Land Earnings Fund	2,585.4	2,254.9	(1,500.0)	754.9	N/A	N/A
State Charitable, Penal & Reformatory Land Earnings Fund	562.0	4,062.5	(4,062.5)	0.0	N/A	N/A
Agency Total	50,056.0	52,225.5	(9,162.5)	43,063.0	0.0	0.0
<u>Board of Cosmetology</u>						
Cosmetology Board Fund	1,827.3	1,747.8	46.3	1,794.1	68.0	1,815.8
<u>Arizona Criminal Justice Commission</u>						
Criminal Justice Enhancement Fund	896.2	785.2	25.0	810.2	0.0	785.2
Victim Compensation and Assistance Fund	4,011.3	3,800.0	0.0	3,800.0	0.0	3,800.0
State Aid to County Attorneys Fund	1,052.5	1,052.5	0.0	1,052.5	0.0	1,052.5
State Aid to Indigent Defense Fund	997.8	999.2	0.0	999.2	0.0	999.2
Agency Total	6,957.8	6,636.9	25.0	6,661.9	0.0	6,636.9
<u>Arizona State Schools for the Deaf and the Blind</u>						
Schools for the Deaf and Blind Fund	14,299.5	14,695.4	0.0	14,695.4	0.0	14,695.4
<u>Commission for the Deaf and the Hard of Hearing</u>						
Telecom for the Deaf Fund	4,472.5	5,441.1	0.0	5,441.1	0.0	5,441.1
<u>State Board of Dental Examiners</u>						
Dental Board Fund	1,097.8	1,102.8	3.8	1,106.6	12.0	1,114.8
<u>Arizona Drug and Gang Prevention Resource Center</u>						
Drug and Gang Prevention Resource Center Fund	257.3	302.4	0.0	302.4	0.0	302.4
Intergovernmental Agreements and Grant Funds Fund	243.3	336.6	0.0	336.6	0.0	336.6
Agency Total	500.6	639.0	0.0	639.0	0.0	639.0
<u>Department of Economic Security</u>						
Tobacco Tax and Health Care Fund	119.0	200.0	0.0	200.0	N/A	N/A
Workforce Investment Grant Fund	35,758.4	55,938.3	0.0	55,938.3	N/A	N/A

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- priation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Department of Economic Security</u>						
Temporary Assistance for Needy Families (TANF) Fund	229,260.3	281,716.1	(11,746.2)	269,969.9	N/A	N/A
Child Care and Development Fund	109,494.7	112,159.0	(1,738.4)	110,420.6	N/A	N/A
Special Administration Fund	1,466.4	1,574.4	161.0	1,735.4	N/A	N/A
Child Support Enforcement Administration Fund	14,679.4	15,126.4	904.2	16,030.6	N/A	N/A
Domestic Violence Shelter Fund	1,700.0	1,700.0	0.0	1,700.0	N/A	N/A
Child Abuse Prevention Fund	39.4	1,576.9	0.0	1,576.9	N/A	N/A
Children and Family Services Training Program Fund	83.1	209.6	0.0	209.6	N/A	N/A
Public Assistance Collections Fund	268.2	516.6	0.0	516.6	N/A	N/A
Department Long-Term Care System Fund	22,064.5	26,468.5	4,457.9	30,926.4	N/A	N/A
Spinal and Head Injuries Trust Fund	2,337.3	2,565.7	0.0	2,565.7	N/A	N/A
Utility Assistance Fund	500.0	0.0	0.0	0.0	N/A	N/A
Risk Management Fund	271.5	271.5	0.0	271.5	N/A	N/A
Indirect Cost Recovery Fund	0.0	1,000.0	0.0	1,000.0	N/A	N/A
Reed Act Fund	516.5	3,495.7	0.0	3,495.7	N/A	N/A
Agency Total	418,558.7	504,518.7	(7,961.5)	496,557.2	0.0	0.0
<u>Department of Education</u>						
Teacher Certification Fund	2,084.0	2,572.8	0.0	2,572.8	N/A	N/A
School Accountability Fund Prop 301 Fund	7,626.2	7,000.0	0.0	7,000.0	N/A	N/A
Golden Rule Special Plate Fund	28.1	0.0	0.0	0.0	N/A	N/A
Public Institution Permanent School Earnings Fund	45,220.7	45,220.7	0.0	45,220.7	N/A	N/A
Agency Total	54,959.0	54,793.5	0.0	54,793.5	0.0	0.0
<u>Department of Emergency and Military Affairs</u>						
Emergency Response Fund	55.6	132.7	0.0	132.7	0.0	132.7
<u>Department of Environmental Quality</u>						
DEQ Emissions Inspection Fund	33,375.3	37,470.7	0.0	37,470.7	0.0	37,470.7
Hazardous Waste Management Fund	189.1	795.0	0.0	795.0	0.0	795.0
Air Quality Fund	5,567.4	5,227.5	0.0	5,227.5	0.0	5,227.5
Clean Water Revolving Fund	0.0	5,000.0	(5,000.0)	0.0	(5,000.0)	0.0
Underground Storage Tank Revolving Fund	3.3	22.0	0.0	22.0	0.0	22.0
Recycling Fund	1,939.6	2,325.8	0.0	2,325.8	0.0	2,325.8
Permit Administration Fund	5,710.6	5,992.3	313.6	6,305.9	313.6	6,305.9
Solid Waste Fee Fund	928.6	1,503.1	0.0	1,503.1	0.0	1,503.1
Used Oil Fund	10.4	137.8	0.0	137.8	0.0	137.8
Water Quality Fee Fund	3,763.3	5,887.0	0.0	5,887.0	0.0	5,887.0
Indirect Cost Fund	12,230.1	12,748.2	0.0	12,748.2	0.0	12,748.2
Agency Total	63,717.8	77,109.4	(4,686.4)	72,423.0	(4,686.4)	72,423.0

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	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Arizona Exposition & State Fair</u>						
Coliseum and Expo Center Fund	14,748.3	16,299.6	0.0	16,299.6	0.0	16,299.6
<u>State Department of Financial Institutions</u>						
Banking Department Revolving Fund	0.0	0.0	2,387.0	2,387.0	1,346.0	1,346.0
Agency Total	0.0	0.0	2,387.0	2,387.0	1,346.0	1,346.0
<u>State Board of Funeral Directors & Embalmers</u>						
Funeral Directors and Embalmers Fund	349.8	350.0	0.0	350.0	0.0	350.0
<u>Arizona Game & Fish Department</u>						
Game and Fish Fund	28,211.4	31,178.5	3,620.9	34,799.4	3,520.9	34,699.4
Watercraft Licensing Fund	5,629.8	3,974.4	2,049.8	6,024.2	2,070.7	6,045.1
Game/Non-game Fund	234.5	329.9	0.0	329.9	0.0	329.9
Waterfowl Conservation Fund	21.1	43.4	0.0	43.4	0.0	43.4
Wildlife Endowment Fund	0.0	16.0	0.0	16.0	0.0	16.0
Wildlife Habitat Restoration and Enhancement Fund	1,891.7	0.0	0.0	0.0	0.0	0.0
Agency Total	35,988.5	35,542.2	5,670.7	41,212.9	5,591.6	41,133.8
<u>Department of Gaming</u>						
Lottery Fund	300.0	300.0	0.0	300.0	0.0	300.0
Permanent Tribal-State Compact Fund	1,887.2	2,247.2	(287.5)	1,959.7	(287.5)	1,959.7
Arizona Benefits Fund	10,278.1	14,013.8	(3,138.0)	10,875.8	(2,064.6)	11,949.2
Agency Total	12,465.3	16,561.0	(3,425.5)	13,135.5	(2,352.1)	14,208.9
<u>Government Information Technology Agency</u>						
Information Technology Fund	3,296.9	3,682.6	0.0	3,682.6	0.0	3,682.6
State Web Portal Fund	348.6	5,000.0	(4,850.0)	150.0	(4,850.0)	150.0
Agency Total	3,645.5	8,682.6	(4,850.0)	3,832.6	(4,850.0)	3,832.6
<u>Department of Health Services</u>						
Tobacco Tax and Health Care Fund	30,666.6	35,824.8	(5,204.1)	30,620.7	N/A	N/A
Capital Outlay Stabilization Fund	1,558.8	1,578.0	0.0	1,578.0	N/A	N/A
Child Care and Development Fund	811.7	829.2	0.0	829.2	N/A	N/A
Health Research Fund	1,000.0	1,000.0	0.0	1,000.0	N/A	N/A
Emergency Medical Services Operating Fund	4,949.2	5,983.1	0.0	5,983.1	N/A	N/A
Newborn Screening Program Fund	5,238.2	6,805.3	0.0	6,805.3	N/A	N/A
Substance Abuse Services Fund	2,500.0	2,500.0	0.0	2,500.0	N/A	N/A
Nursing Care Institution Protection Fund	360.0	38.0	0.0	38.0	N/A	N/A
Environmental Lab License Revolving Fund	752.6	970.6	0.0	970.6	N/A	N/A
Child Fatality Review Fund	99.1	99.1	0.0	99.1	N/A	N/A
Vital Records Electronic Systems Fund	471.1	499.7	0.0	499.7	N/A	N/A
Hearing and Speech Professionals Fund	339.8	340.2	0.0	340.2	N/A	N/A
The Arizona State Hospital Fund	5,660.9	6,032.6	(1,000.0)	5,032.6	N/A	N/A

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(Dollars in Thousands)

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<u>Department of Health Services</u>						
DHS State Hospital Land Earnings Fund	276.2	1,150.0	(400.0)	750.0	N/A	N/A
DHS - Indirect Cost Fund	9,165.9	9,075.7	0.0	9,075.7	N/A	N/A
Agency Total	63,850.1	72,726.3	(6,604.1)	66,122.2	0.0	0.0
<u>Arizona Historical Society</u>						
Capital Outlay Stabilization Fund	193.2	194.2	0.0	194.2	0.0	194.2
<u>Board of Homeopathic Medical Examiners</u>						
Homeopathic Medical Examiners Fund	95.1	117.3	10.5	127.8	7.8	125.1
<u>Arizona Department of Housing</u>						
Housing Trust Fund	886.5	944.8	0.0	944.8	0.0	944.8
<u>Industrial Commission of Arizona</u>						
Industrial Commission Admin Fund	18,440.0	19,859.7	0.0	19,859.7	0.0	19,859.7
<u>Department of Insurance</u>						
Tobacco Tax and Health Care Fund	102.1	0.0	0.0	0.0	0.0	0.0
<u>Judiciary</u>						
Supreme Court CJEF Disbursements Fund	10,604.2	10,071.7	0.0	10,071.7	N/A	N/A
Judicial Collection - Enhancement Fund	15,140.7	15,425.3	0.0	15,425.3	N/A	N/A
Defensive Driving Fund	3,614.4	5,393.6	0.0	5,393.6	N/A	N/A
Court Appointed Special Advocate Fund	2,675.7	3,449.2	0.0	3,449.2	N/A	N/A
Confidential Intermediary Fund	428.3	484.6	0.0	484.6	N/A	N/A
Drug Treatment and Education Fund	500.0	500.0	0.0	500.0	N/A	N/A
State Aid to Courts Fund	3,919.7	2,945.3	0.0	2,945.3	N/A	N/A
Photo Enforcement	0.0	4,056.6	0.0	4,056.6	N/A	N/A
Agency Total	36,883.0	42,326.3	0.0	42,326.3	0.0	0.0
<u>Department of Juvenile Corrections</u>						
Juvenile Corrections CJEF Dist Fund	686.5	686.6	0.0	686.6	N/A	N/A
State Education Fund for Committed Youth Fund	2,337.4	2,684.8	0.0	2,684.8	N/A	N/A
Endowments/Land Earnings Fund	1,790.4	4,298.6	(3,700.0)	598.6	N/A	N/A
Agency Total	4,814.3	7,670.0	(3,700.0)	3,970.0	0.0	0.0
<u>State Land Department</u>						
Environmental Special Plate Fund	260.0	260.0	0.0	260.0	0.0	260.0
Due Diligence Fund	0.0	500.0	0.0	500.0	0.0	500.0
Agency Total	260.0	760.0	0.0	760.0	0.0	760.0
<u>Arizona State Library, Archives & Public Records</u>						
Records Services Fund	596.2	675.9	0.0	675.9	0.0	675.9
<u>Arizona State Lottery Commission</u>						
Lottery Fund	67,114.5	80,257.3	235.6	80,492.9	166.6	80,423.9

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(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Arizona Medical Board</u>						
Medical Examiners Board Fund	5,650.6	5,822.6	146.1	5,968.7	146.1	5,968.7
<u>Board of Medical Student Loans</u>						
Med Student Loan Fund	118.5	309.8	(302.1)	7.7	(302.1)	7.7
<u>State Mine Inspector</u>						
Aggregate Mining Reclamation Fund	278.9	0.0	155.8	155.8	7.5	7.5
<u>Naturopathic Physicians Board of Medical Examiners</u>						
Naturopathic Board Fund	591.5	604.3	0.0	604.3	0.0	604.3
<u>State Board of Nursing</u>						
Nursing Board Fund	3,871.2	4,134.9	0.0	4,134.9	0.0	4,134.9
<u>Nursing Care Ins. Admin. Examiners</u>						
Nursing Care Institution Admin/ACHMC Fund	315.3	377.7	0.0	377.7	0.0	377.7
<u>Board of Occupational Therapy Examiners</u>						
Occupational Therapy Fund	225.3	244.9	0.0	244.9	0.0	244.9
<u>State Board of Dispensing Opticians</u>						
Dispensing Opticians Board Fund	121.4	124.3	0.0	124.3	0.0	124.3
<u>State Board of Optometry</u>						
Board of Optometry Fund	187.7	202.2	0.0	202.2	0.0	202.2
<u>Arizona Board of Osteopathic Examiners</u>						
Osteopathic Examiners Board Fund	698.4	698.7	0.0	698.7	0.0	698.7
<u>State Parks Board</u>						
Reservation Surcharge Revolving Fund	347.5	548.0	0.0	548.0	0.0	548.0
Capital Outlay Stabilization Fund	0.5	0.0	0.0	0.0	0.0	0.0
Boating Safety Fund	2,274.3	1,092.7	0.0	1,092.7	0.0	1,092.7
State Parks Enhancement Fund	7,328.0	7,259.0	64.7	7,323.7	64.7	7,323.7
Agency Total	9,950.3	8,899.7	64.7	8,964.4	64.7	8,964.4
<u>Office of Pest Management</u>						
Structural Pest Control Fund	2,518.0	2,774.3	(129.0)	2,645.3	(129.0)	2,645.3
<u>Arizona State Board of Pharmacy</u>						
Pharmacy Board Fund	2,664.7	1,920.9	0.0	1,920.9	0.0	1,920.9
<u>Board of Physical Therapy Examiners</u>						
Physical Therapy Fund	466.8	360.2	0.0	360.2	0.0	360.2
<u>Arizona Pioneers' Home</u>						
Pioneers' Home State Charitable Earnings Fund	3,483.7	3,663.5	90.4	3,753.9	90.4	3,753.9
Pioneers' Home Miners' Hospital Fund	1,670.5	2,987.6	(90.4)	2,897.2	(90.4)	2,897.2
Agency Total	5,154.2	6,651.1	0.0	6,651.1	0.0	6,651.1

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>State Board of Podiatry Examiners</u>						
Podiatry Examiners Board Fund	108.3	143.6	0.0	143.6	0.0	143.6
<u>Commission for Postsecondary Education</u>						
Postsecondary Education Fund	2,686.1	3,852.7	0.0	3,852.7	0.0	3,852.7
<u>State Board for Private Postsecondary Education</u>						
Private Postsecondary Education Fund	304.4	334.7	0.0	334.7	0.0	334.7
<u>State Board of Psychologist Examiners</u>						
Psychologist Examiners Board Fund	367.6	407.9	0.0	407.9	0.0	407.9
<u>Department of Public Safety</u>						
State Highway Fund	51,770.0	41,050.5	0.0	41,050.5	0.0	41,050.5
Arizona Highway Patrol Fund	19,917.1	22,223.3	(3,560.6)	18,662.7	(3,560.6)	18,662.7
Safety Enforcement and Transportation Infrastructure Fund	1,557.2	1,615.6	0.0	1,615.6	0.0	1,615.6
Crime Laboratory Assessment Fund	5,857.8	5,847.9	0.0	5,847.9	0.0	5,847.9
Auto Fingerprint Identification Fund	2,714.4	3,293.4	128.5	3,421.9	188.0	3,481.4
DNA Identification System Fund	4,557.7	4,604.6	(980.0)	3,624.6	2,504.0	7,108.6
Motorcycle Safety Fund	0.0	205.0	0.0	205.0	0.0	205.0
Parity Compensation Fund	3,398.3	3,539.5	0.0	3,539.5	0.0	3,539.5
Highway User Revenue Fund	9,955.8	84,949.5	0.0	84,949.5	0.0	84,949.5
Criminal Justice Enhancement Fund	3,275.7	3,292.1	0.0	3,292.1	0.0	3,292.1
Risk Management Fund	312.8	296.2	0.0	296.2	0.0	296.2
Highway Photo Radar	0.0	22,534.3	(752.4)	21,781.9	(752.4)	21,781.9
Agency Total	103,316.8	193,451.9	(5,164.5)	188,287.4	(1,621.0)	191,830.9
<u>Arizona Department of Racing</u>						
Racing Administration Fund	62.7	66.8	0.0	66.8	0.0	66.8
County Fair Racing Fund	440.2	446.8	0.0	446.8	0.0	446.8
Agency Total	502.9	513.6	0.0	513.6	0.0	513.6
<u>Radiation Regulatory Agency</u>						
State Radiologic Technologist Certification Fund	288.0	288.8	0.0	288.8	0.0	288.8
<u>Residential Utility Consumer Office</u>						
Residential Utility Consumer Office Revolving Fund	1,141.5	1,302.0	0.0	1,302.0	0.0	1,302.0
<u>Board of Respiratory Care Examiners</u>						
Board of Respiratory Care Examiners Fund	229.0	261.6	0.0	261.6	0.0	261.6
<u>Arizona State Retirement System</u>						
Retirement System Appropriated Fund	20,115.9	21,247.0	(586.0)	20,661.0	(761.1)	20,485.9
LTD Trust Fund	2,749.8	2,800.0	0.0	2,800.0	0.0	2,800.0
Agency Total	22,865.7	24,047.0	(586.0)	23,461.0	(761.1)	23,285.9

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- priation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Department of Revenue</u>						
Tobacco Tax and Health Care Fund	628.2	662.8	0.0	662.8	0.0	662.8
DOR Unclaimed Property Fund	5,555.9	3,404.0	0.0	3,404.0	0.0	3,404.0
DOR Liability Setoff Fund	284.4	422.0	0.0	422.0	0.0	422.0
Risk Management Fund	1,886.4	0.0	0.0	0.0	0.0	0.0
Agency Total	8,354.9	4,488.8	0.0	4,488.8	0.0	4,488.8
<u>Department of State - Secretary of State</u>						
Election Systems Improvement Fund	2,648.4	4,002.0	0.0	4,002.0	0.0	4,002.0
Professional Employer Organization Fund	0.0	98.2	(98.2)	0.0	0.0	98.2
Agency Total	2,648.4	4,100.2	(98.2)	4,002.0	0.0	4,100.2
<u>State Boards Office</u>						
Special Services Fund	263.9	284.7	0.0	284.7	0.0	284.7
<u>State Board of Technical Registration</u>						
Technical Registration Board Fund	1,476.1	1,745.2	82.0	1,827.2	107.5	1,852.7
<u>Department of Transportation</u>						
State Aviation Fund	2,586.0	2,337.0	110.0	2,447.0	N/A	N/A
State Highway Fund	408,356.9	420,035.8	6,834.6	426,870.4	N/A	N/A
Transportation Department Equipment Fund	34,554.1	38,960.4	(5,163.0)	33,797.4	N/A	N/A
Safety Enforcement and Transportation Infrastructure Fund	2,108.1	2,158.0	0.0	2,158.0	N/A	N/A
Air Quality Fund	71.8	71.7	0.0	71.7	N/A	N/A
Vehicle Inspection and Title Enforcement Fund	1,665.3	1,682.5	0.0	1,682.5	N/A	N/A
Motor Vehicle Liability Insurance Enforcement Fund	2,254.1	2,419.5	0.0	2,419.5	N/A	N/A
Driving Under Influence Abatement Fund	143.3	143.3	0.0	143.3	N/A	N/A
Highway User Revenue Fund	583.7	617.0	0.0	617.0	N/A	N/A
Agency Total	452,323.3	468,425.2	1,781.6	470,206.8	0.0	0.0
<u>State Treasurer</u>						
State Treasurer's Management Fund	33.8	1.3	0.0	1.3	0.0	1.3
<u>ASU - Tempe</u>						
ASU Collections - Appropriated Fund	211,496.9	260,679.0	0.0	260,679.0	N/A	N/A
<u>ASU - Polytechnic</u>						
ASU Collections - Appropriated Fund	21,324.2	27,120.2	0.0	27,120.2	N/A	N/A
Technology and Research Initiative Fund	2,000.0	2,000.0	0.0	2,000.0	N/A	N/A
Agency Total	23,324.2	29,120.2	0.0	29,120.2	0.0	0.0
<u>ASU - West</u>						
ASU Collections - Appropriated Fund	23,325.9	27,573.2	0.0	27,573.2	N/A	N/A
Technology and Research Initiative Fund	1,600.0	1,600.0	0.0	1,600.0	N/A	N/A
Agency Total	24,925.9	29,173.2	0.0	29,173.2	0.0	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2008 Expendi- tures	FY 2009 Appro- piation	FY 2010 Changes and Adjustments	FY 2010 Executive Budget	FY 2011 Changes and Adjustments	FY 2011 Executive Budget
<u>Northern Arizona University</u>						
NAU Collections - Appropriated Fund	47,823.2	52,620.5	0.0	52,620.5	N/A	N/A
<u>University of Arizona - Main Campus</u>						
U of A Main Campus - Collections - Appropriated Fund	145,537.8	153,973.0	0.0	153,973.0	N/A	N/A
<u>University of Arizona - Health Sciences Center</u>						
U of A College of Medical - Collections - Appropriated Fund	14,068.2	16,102.6	0.0	16,102.6	N/A	N/A
<u>Department of Veterans' Services</u>						
Veterans' Conservatorship Fund	677.3	747.5	0.0	747.5	0.0	747.5
State Home for Veterans Trust Fund	13,577.3	13,743.8	0.0	13,743.8	0.0	13,743.8
Agency Total	14,254.6	14,491.3	0.0	14,491.3	0.0	14,491.3
<u>State Veterinary Medical Examining Board</u>						
Veterinary Medical Examiners Board Fund	449.5	468.3	0.0	468.3	0.0	468.3
<u>Department of Water Resources</u>						
Arizona Water Banking Fund	0.0	6,900.0	(3,450.0)	3,450.0	(8,900.0)	(2,000.0)
Assured and Adequate Water Supply Administration Fund	4.7	1,119.1	0.0	1,119.1	0.0	1,119.1
Agency Total	4.7	8,019.1	(3,450.0)	4,569.1	(8,900.0)	(880.9)
<u>Department of Weights and Measures</u>						
Air Quality Fund	1,488.0	1,542.9	(19.1)	1,523.8	(19.1)	1,523.8
Motor Vehicle Liability Insurance Enforcement Fund	133.2	324.0	(1.1)	322.9	(1.1)	322.9
Agency Total	1,621.2	1,866.9	(20.2)	1,846.7	(20.2)	1,846.7
Other Appropriated Funds Operating Total	2,463,500.3	2,897,256.0	(104,959.0)	2,792,297.0	(17,077.1)	661,450.2

Caseload and Technical Changes to Enacted FY 2009 Appropriations

SUMMARY

AGENCY	AMOUNT
AHCCCS.....	\$142,627,800
Department of Commerce.....	180,000
Department of Corrections.....	3,825,272
Department of Economic Security.....	31,733,900
Department of Financial Institutions.....	866,000
Game and Fish Department.....	2,000,000
Department of Health Services.....	15,664,300
Mine Inspector.....	177,700
Board of Cosmetology.....	400,000
Board of Pharmacy.....	300,000
Psychologist Examiners.....	463,000
Veterinary Medical Examining Board.....	300,000

AHCCCS

Caseload Increases **\$96.8 million**

The Executive Budget includes a FY 2009 supplemental for AHCCCS in the amount of \$96.8 million. The majority of the increase is associated with an updated projection of membership growth of 9.1% overall for the program. The original budget for FY 2009 was predicated on population growth of 2.6%. Additional funding for the current year was also required as a result of capitation rates coming in slightly above budgeted levels. The FY 2009 budget assumed capitation rate increases of 6%, while actual increases for the Acute and ALTCS program were a weighted average of 8.7%.

County Contributions **\$45.8 million**

In current law, \$24.2 million from Maricopa County and \$3.8 million from Pima County is transferred to the Budget Neutrality Compliance Fund (BNCF). Additionally, \$17.8 million of prior-year reversions from the Arizona Long Term Care System Fund, rather than being refunded to counties per A.R.S. § 11-292(M), is mandated in session law to be deposited in the BNCF. These monies are appropriated to AHCCCS as state match for the Arizona Long-Term Care System in place of General Fund.

In past fiscal relief bills, the federal government has required that, as a condition of the receipt of federal relief by the states, the proportion of state match expenses incurred by local governments be no higher than it was in the year preceding the current year. Assuming that this language is also included in the current year fiscal relief bill, this shift of expenses from the General Fund to the BNCF would likely put Arizona in violation of that requirement. Accordingly, the Executive proposes changing the session law so that the transfer is deposited directly into the State General Fund.

In the AHCCCS appropriation, the Executive recommends that the BNCF appropriation be reduced by (\$45.8 million)

and the General Fund supplemental appropriation be increased by \$45.8 million. The transfer from the counties will be implemented, but it will be reflected as a revenue increase to the General Fund.

DEPARTMENT OF HEALTH SERVICES

Behavioral Health – State Match **\$15.7 million**

The Executive recommends \$15.7 million from the General Fund for a supplemental in FY 2009 for Behavioral Health Services - Title XIX State Match. The Department of Health Services is responsible for behavioral health services to Title XIX eligible clients from the Seriously Mentally Ill (SMI), General Mental Health/Substance Abuse, and Children’s Behavioral Health populations. The original budget for FY 2009 was developed based on the assumption that overall population growth would be 4%. This estimate has been updated to an increase of 7% which largely can be attributed to the overall slowdown in the state and national economy.

DEPARTMENT OF ECONOMIC SECURITY

Adoption Subsidy **\$1.6 million**

The shortfall in the Adoption Services program is a function of an underestimation of the caseload. According to the JLBC Appropriations Report, the appropriation assumes an average monthly caseload of 11,950, while the Department is projecting 12,369. Individuals who adopt a child from the child welfare system are provided a subsidy to allow them to financially support that child. The Executive projects a funding shortfall of \$2.7 million in this program in FY 2009 which is offset by a federal bonus of \$1.1 million.

Children’s Services **\$14.1 million**

Children’s Services costs have grown primarily due to the expansion and enhancement of in-home services, though some of the increase is a result of caseloads and costs in out-of-home care. Once a child has been removed from a home and placed in the custody of the State, the State has an obligation to fund the placement of that child; consequently, there are limited opportunities to reduce out-of-home costs. Without adequate funding for the program, reductions would have to occur in in-home services, which could potentially lead to higher instances of abuse or neglect.

Child Care **\$4.7 million**

A child care shortfall was expected when the FY 2009 budget was enacted. In recognition of the deficit, a footnote was included in the appropriations act that stated, “It is the intent of the Legislature to fully fund child care caseloads and not create a wait list.” The shortfall is driven by growing caseloads across the program. Without this funding, it is estimated that the waiting list would grow to approximately 5,500 children by the end of the fiscal year.

Developmentally Disabled **\$6.3 million**
 The Arizona Long Term Care System (ALTCS) for individuals with developmental disabilities is an entitlement under Arizona's Medicaid plan. This Medicaid-funded program must provide services to all eligible individuals. The original FY 2009 budget estimated an overall increase of 1% in capitation, while the final rate increased by 3.3%.

Children, Youth and Families **\$5 million**
 The Executive recommends \$5 million General Fund to offset the shortfall in the Division of Children, Youth and Families (DCYF), which operates Child Protective Services (CPS). Increasing in-home and out-of-home caseloads and reports of abuse and neglect of children drives the operating budget of this Division. In FY 2008, workloads exceeded the Arizona-specific caseload standards by 21%. The FY 2009 budget included funding for the first of a three-year plan to achieve the standard. Even when staff members are hired, caseloads are estimated to exceed the standards by 14% this year.

GENERAL FUND - OTHER AGENCIES

Board of Cosmetology **\$400,000**
 Based on current appropriations and revenue forecasts, the Board of Cosmetology will not have sufficient funds to meet requirements for the current year and will be an estimated \$225,000 short by the end of FY 2009. The Executive Budget recommends that the FY 2009 transfer be reduced by \$400,000.

Board of Pharmacy **\$300,000**
 The FY 2009 budget includes a fund transfer in the amount of \$549,700 from the Board of Pharmacy Fund. The Board is projected to have a negative fund balance of about \$480,000 before fees are paid in October and November of 2009. The Executive recommendation reduces the FY 2009 fund transfer by \$300,000.

Board of Psychologist Examiners **\$463,000**
 The FY 2009 budget included a fund transfer of \$563,000 from the Board of Psychologist Examiners Fund. It is projected that, by the end of FY 2010, the Fund will have a deficit balance of \$300,000. The Fund's total deficit will reach over \$450,000 in FY 2011. The Executive Budget reduces the FY 2009 transfer by \$463,000.

Veterinary Medical Examining Board **\$300,000**
 The FY 2009 Budget included a fund transfer of \$613,800 from the Veterinary Medical Examining Board. The fund is projected to have a deficit of at least \$150,000 by the end of FY 2010. By December 2010, the deficit will exceed \$250,000. The Executive Budget reduces the FY 2009 transfer by \$300,000.

OTHER FUND SUPPLEMENTALS, FEE INCREASES

Department of Commerce **\$180,000**
 The Executive Budget recommends that \$180,000 be restored from the Motion Picture Income Tax Credit. This funding transfer was an error in drafting H.B. 2462 (Laws 2008, Chapter 291, Section 4).

Department of Environmental Quality **\$0**
 The Executive Budget recommends that the Clean Water Revolving Fund Transfer of \$10.7 million and the Drinking Wa-

ter Revolving Fund transfer of \$5 million be repealed. In order to limit the impact on the General Fund, the Executive recommends that \$15.7 million be transferred from the Underground Storage Tank Fund.

Department of Financial Institutions **\$866,000**
 S.B. 1028 was enacted during the 2008 Legislative session, creating the Loan Originator Licensing program. However, no funding was included in the bill or in the budget. The Executive recommends using excess funds in the Receivership Revolving Fund to cover start-up costs prior to the program becoming self-sufficient.

Game and Fish Department **\$2 million**
 The Executive recommends that \$2 million in expenditure authority to the Watercraft Licensing Fund be restored in FY 2009. Laws 2008, Chapter 285, Section 20 reduced by \$2 million the FY 2009 appropriation to the Watercraft Licensing Fund. This cut was not intended or agreed to as part of the overall budget.

Mine Inspector **\$177,700**
 The Mine Inspector requires language authorizing the expenditure of monies from the Aggregate Mining Reclamation Fund. Currently there is no authority to spend money from Fund. The Executive Budget recommends that \$177,700 be authorized from the Aggregate Mining Reclamation Fund to pay reclamation costs.

Nursing Board **\$0**
 The Board of Nursing receives most of its revenues each year between April and June. Since the bulk of its revenues come at the end of the fiscal year, the Board requires a substantial fund balance in order to operate without a deficit. It is projected that the Board will have insufficient funding to operate during FY 2010. The Executive recommends that the Board receive emergency authority to implement a one-year fee increase for license renewals.

Examiners of Nursing Care Institution Administrators **\$0**
 The Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers is operating with a declining balance and will be have a deficit of \$4,300 by the end of FY 2010. The Executive recommends that the Board receive authority to increase fees to meet budget requirements. Without these increases, the Board will not be able to operate and carry out its mission to license and regulate nursing care administrators.

RECOMMENDED SUPPLEMENTAL FOR FY 2008

Department of Corrections **\$3.8 million**
 During fall 2008, the Department of Corrections received additional health care invoices totaling \$6.5 million for services rendered during FY 2008. The Department's Health Care appropriation of \$80.5 million for FY 2008 has been completely expended. The Department has \$2.6 million from non-appropriated funds that can be used to reduce the health care liability. For the remaining \$3.8 million, a supplemental appropriation is recommended from the General Fund. •

Proposed Legislative Changes

The following changes are necessary to implement the Executive Budget Recommendation, including changes that must go into effect in Fiscal Year 2009

DEPARTMENT OF ADMINISTRATION

AFIS II Collections Fund Revenues Cap Increase. *Laws 2008, Chapter 285.* The Executive recommends that the Department be allowed to collect an amount not to exceed \$5,517,500 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. Amend current statutes to require all agencies that occupy 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, 2011.

Vehicle Replacement. *Laws 2008, Chapter 285.* The Executive recommends changing the footnote in the feed bill to increase the Department's authority to replace vehicles.

DEPARTMENT OF AGRICULTURE

Specialty Fertilizer License and Pesticide Registration. Notwithstanding A.R.S. §§ 3-272(C) and 3-351(D) or any other law, allow the Department to adjust the Specialty Fertilizer License and Pesticide Registration in FY 2010 to absorb costs from related Department services. Further, exempt the agency from the rulemaking requirement of A.R.S. Title 41, Chapter 6, for the purpose of adjusting fees pursuant to this section for a period of one year.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

County Transfers – FY 2009. *Laws 2008, Chapter 288, Section 10.* The currently effective session law requires Pima County and Maricopa County to transfer, respectively, \$3,794,400 and \$24,168,400 to the Budget Neutrality Compliance Fund.¹ These funds are used to offset General Fund expenses in AHCCCS. The Executive proposes modifying this language so that these monies are deposited directly into the General Fund. (*Must go into effect in FY 2009.*)

County Transfers – FY 2009. *Laws 2008, Chapter 288, Section 11.* The currently effective session law requires \$17,830,500 that would otherwise be transferred to counties to be deposited in

the Budget Neutrality Compliance Fund.¹ These funds are used to offset General Fund expenses in AHCCCS. The Executive proposes modifying this language so that these monies are deposited directly into the General Fund. (*Must go into effect in FY 2009.*)

County Transfers – FY 2010. *Laws 2008, Chapter 288, Section 10.* As Session Law, require Pima County and Maricopa County to transfer, respectively, \$3,794,400 and \$24,168,400 to the Budget Neutrality Compliance Fund. In its list of fund transfers, the Executive will transfer the entire \$28 million to the State General Fund.

AHCCCS Payment Schedule Deferral. *New Session Law.* Delinquent payments to contractors, under A.R.S. §§ 8-512 and 36-261, -554, -2906, -2942, -2944 and -2988, and to regional behavioral health authorities, under Title 36, Chapter 34, Article 1, due on or after June 1, 2009, and before July 1, 2009, shall bear interest at the rate of 2% per annum notwithstanding §§ 35-342 and 44-1201. Without this change, the State would have to pay an effective interest rate of 12% per annum for deferred payments. (*Must go into effect in FY 2009.*)

Temporary Medical Coverage Suspension. *Laws 2008, Chapter 288, Section 12.* Continue for FY 2010 the Session Law that suspended the temporary medical coverage program that was established by A.R.S. § 36-2930 for FY 2009.

Disproportionate Share Hospital Payments. *Laws 2008, Chapter 288, Section 13.* Disproportionate Share payments for FY 2010 shall be:

- \$89,877,700 for the Maricopa Special Healthcare District,
- \$28,474,900 for Arizona State Hospital, and
- \$26,147,900 for private hospitals.

County Acute Care Contribution. *Laws 2008, Chapter 288, Section 14.* The Session Law pertains to county contributions totaling \$49.6 million for Acute Care services within AHCCCS. The Executive Recommendation reduces the Acute Care county contribution by \$327,600. This reduction reflects A.R.S. § 11-292(Q), which reduces the Maricopa County contribution by inflation, as measured by the GDP Price Deflator.

County Long-Term Care Contribution. *Laws 2008, Chapter 288, Section 15.* The Session Law assigns county contributions totaling \$277 million for Long-Term Care services within AHCCCS, per A.R.S. §§ 11-292(B) and -292(C).

AHCCCS Hospital Reimbursement Rates Freeze. *Laws 2008, Chapter 288, Section 20.* Continue the hospital rate freeze – in effect for the contract year ending September 30, 2009 – to the contract year ending September 30, 2010.

ATTORNEY GENERAL

Collection Enforcement Revolving Fund. Amend A.R.S. §§ 41-191.03(B) and 41-191.03(E) to allow the Attorney General to use the Collection Enforcement Revolving Fund for operating

¹ The federal government has previously required that, as a condition of the receipt of federal relief to the states, the proportion of state match expenses incurred by local governments be no higher than in the year preceding the current year. Assuming that this language is also included in the current fiscal relief bill, this transfer would likely put Arizona in violation of that requirement.

expenses and to increase the beginning balance of the Fund at the beginning of each fiscal year from \$100,000 to \$500,000.

Tobacco Master Settlement Agreement. Amend Laws 2008, Chapter 285, to exempt from lapsing the \$1.7 million appropriation from the Consumer Fraud Revolving Fund for Tobacco Master Settlement Agreement arbitration. *(Must go into effect in FY 2009.)*

Consumer Fraud Revolving Fund. Notwithstanding A.R.S. § 44-1531.01(C), the Attorney General may use the Consumer Fraud Revolving Fund for any cost or expense related to the Tobacco Master Settlement Agreement in Fiscal Years 2010 and 2011.

Legal Services Cost Allocation Fund. The Executive recommends that, notwithstanding any law, if the amount deposited in the Legal Services Cost Allocation Fund pursuant to A.R.S. § 41-191.09 is less than the prorated appropriation for the same time period, the Attorney General's General Fund appropriation will be increased by a formulaic amount.

Interagency Service Agreement. The Executive recommends that, notwithstanding any other law, if an interagency service agreement is cancelled or reduced during fiscal year 2009 with the Department of Law so that the agreement falls below the contracted amount for FY 2009, the Department's General Fund appropriation will be increased by a formulaic amount. *(Must go into effect in FY 2009.)*

DEPARTMENT OF COMMERCE

Motion Pictures. Notwithstanding A.R.S. § 41-1517, subject to annual Legislative authorization, from income tax credits pursuant to A.R.S. § 41-1517.01(J), \$517,700 is allocated each year to the Department of Commerce for up to six full-time equivalent positions dedicated solely for the purposes of §§ 41-1517 and 1517.01. If the income tax credits terminate pursuant to §§ 41-1517(A) and -1517.01(A), the authorization under this subsection and any positions dedicated for those purposes would also terminate.

Military Installation Fund. A.R.S. § 41-1512. Specify in the General Appropriation Act the annual appropriation from the General Fund to the Military Installation Fund for FY 2010 and FY 2011.

CORPORATION COMMISSION

FY 2009 Fund Shift. Specify that, with any reduction in the Corporation Commission's FY 2009 General Fund appropriation (a) there will be a corresponding increase in the Commission's FY 2009 appropriation from the Utility Regulation Revolving Fund, and (b) the additional FY 2009 appropriation from the Utility Regulation Revolving Fund will not be greater than \$400,000. *(Must go into effect in FY 2009.)*

DEPARTMENT OF CORRECTIONS

State Education Fund for Committed Youth. Authorize the expenditure of all revenues deposited into the Education Fund for Correctional Education.

EDUCATION

Rapid Decline Funding. As Session Law, continue to suspend adjustments in student count for rapid decline funding for FY 2010.

Excess Utilities. As Session Law, suspend additional funding for excess utilities scheduled to begin in FY 2010 per Laws 2008, Chapter 287.

Desegregation Funding. As Session Law, continue the soft cap on desegregation funding into FY 2010.

Basic State Aid. As Session Law, continue to defer \$602.6 million in Basic State Aid payments for FY 2010 until FY 2011.

Soft Capital. As Session Law, fund soft capital at 50%.

Capital Outlay. As Session Law, reduce funding for the capital outlay revenue limit by 25%.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

Emergency Fund Reduction. Amend A.R.S. § 35-192 to reduce the aggregate amount of liabilities for emergencies that can be incurred in FY 2010 to \$3.9 million.

NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS BOARD

Increase Fee Caps and Allow Emergency Authority to Raise Fees. Amend A.R.S. § 36-446.12 to raise fee caps to ensure the Board's fiscal solvency. Grant the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers emergency authority to bypass rulemaking to allow immediate fee increases. *(Must go into effect in FY 2009.)*

DEPARTMENT OF FINANCIAL INSTITUTIONS

Loan Originator Licensing Program. Amend A.R.S. §§ 6-127 and 6-135 and related sections in Title 6 to:

- eliminate the existing cap on fund balances for the Special Revolving Fund;
- establish a 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. §§ 6-127, -135, -135.01 and any other law, in FY 2009 authorize the Department of Financial Institutions to use, from the Revolving Receivership Fund, up to \$866,000 and 9.0 FTE for a loan originator licensing program.

Receivership Fund. In FY 2010 and beyond, authorize the Department to use monies in the Revolving Receivership Fund to supplement costs associated with the loan originator licensing program, if such expenditures are required to ensure a good-faith effort to comply with the federal SAFE Act. *(Must go into effect in FY 2009.)*

FUNERAL DIRECTORS AND EMBALMERS BOARD

Increase Fee Caps. Amend A.R.S. § 32-1309 to increase licensing and renewal fees to replace lost interest income attributable to the \$496,000 FY 2009 Legislative fund transfer. The current fee structure has been in place since May 1998. *(Must go into effect in FY 2009.)*

DEPARTMENT OF HEALTH SERVICES

Restoration to Competency, County Reimbursements. 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 and all cities reimbursing 86% of the costs. The funds shall be deposited into the Arizona State Hospital Fund pursuant to A.R.S. § 36-545.08.

DEPARTMENT OF INSURANCE

Voluntary Plans Assessment Cap. Amend A.R.S. § 20-2201(D) to increase the maximum annual assessment to \$400 per insurer.

Managed Care Oversight. Include the Managed Care and Dental Plan Oversight special line item as part of the Department's lump sum appropriation in Laws 2009, General Appropriations Act.

Fee and Assessment Adjustment Suspension. Notwithstanding A.R.S. §§ 20-167(F) and -466(J), the Director of Insurance shall not revise fees or assessments in FYs 2010 and 2011 for the purposes of meeting the requirement to recover at least 95% but not more than 110% of the Department of Insurance's appropriated budget.

DEPARTMENT OF JUVENILE CORRECTIONS

State Education Fund for Committed Youth. Authorize the expenditure of all revenues deposited into the Education Fund for Committed Youth.

MINE INSPECTOR

Aggregate Mine Reclamation Fund. Notwithstanding A.R.S. § 27-1233(B), monies collected by the Mine Inspector for submission of reclamation projects between January 1, 2006, and July 1, 2010, are appropriated to the Mine Inspector for reclamation plan review and evaluation. *(Must go into effect in FY 2009.)*

NURSING BOARD

Increase Fee Caps and Allow Emergency Authority to Raise Fees. Amend A.R.S. § 32-1643 to raise fee caps to ensure the Board's fiscal solvency. Grant the Board of Nursing emergency authority to bypass rulemaking to allow a one-year fee raise for license renewals. *(Must go into effect in FY 2009.)*

DEPARTMENT OF PUBLIC SAFETY

GIITEM Lapsing Date. Amend, in the footnote in the General Appropriations Act, the lapsing date to June 30, 2010, for the \$10 million appropriation in the GIITEM special line item for immigration enforcement grants.

Photo Enforcement. Amend A.R.S. § 41-1722(D) to authorize the reporting, to the Department of Transportation, of photo enforcement violations committed by drivers holding a commercial driver's license. *(Must go into effect in FY 2009.)*

REAL ESTATE DEPARTMENT

Fee Adjustment Suspension. Notwithstanding A.R.S. § 32-2103(B), the Real Estate Commissioner shall not revise fees in FYs 2010 and 2011 for the purposes of meeting the requirement

to recover at least 95% but not more than 110% of the Department of Real Estate's appropriated budget.

DEPARTMENT OF REVENUE

Business Re-engineering/Integrated Tax System Contract Extension; Retroactivity. Notwithstanding any other law, before executing any extension or modification of the current business re-engineering/integrated tax system contract with a fiscal impact that increases the contractor's share of gain-sharing proceeds from State revenues during FY 2010, the Department of Revenue shall submit the proposed changes to the Joint Legislative Budget Committee for its review.

Data Center Charges. Notwithstanding any other law, the Department of Revenue may utilize up to \$1,922,000 of General Fund revenue deposits to pay Data Center charges after review of an expenditure plan by the Joint Legislative Budget Committee.

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."

SCHOOL FACILITIES BOARD

Building Renewal. As Session Law, Building Renewal funding shall be as specified in the General Appropriations Act.

Lease-to-Own. As Session Law, suspend A.R.S. § 15-2006(B) to permit the School Facilities Board to enter into lease-to-own transactions of up to \$200 million in the aggregate for FY 2010.

TREASURER

Budget Stabilization Fund – Transfer. Notwithstanding A.R.S. § 35-144, \$120 million shall be transferred from the Budget Stabilization Fund to the General Fund in FY 2009. *(Must go into effect in FY 2009.)*

UNIVERSITIES AND THE BOARD OF REGENTS

Personnel Changes. As Session Law, notwithstanding any Board or university rule or policy, authorize the president of each State university to implement personnel changes – including reductions in force pursuant to institutional reorganization, department or program consolidation, reduction, elimination, or other budget management measures – as the president deems in the best interests of the university and the State of Arizona. Existing Board and university policies for employee termination regarding payout of accrued annual leave, ASRS benefits, and access to and disclosure of employment records are exempt and shall be followed as prior to the effective date of this act.

Arizona Financial Aid Trust. As Session Law, notwithstanding A.R.S. § 15-1642, State funding for the Arizona Finan-

cial Aid Trust shall be as specified in the General Appropriations Act.

DEPARTMENT OF WATER RESOURCES

Water Protection Fund. *A.R.S. § 45-2112.* Specify in the General Appropriation Act the annual appropriation from the General Fund to the Water Protection Fund for FY 2010 and FY 2011.

PERTAINING TO MULTIPLE AGENCIES

Fees for Providing Services; Increases; Fiscal Year 2009-2010; Intent; Appropriations; Exemption from Rule Making.

A. Notwithstanding any other law, authorize the directors of the following agencies to raise fees in FY 2010 for services provided by the agencies, with fees not to exceed the limits noted:

1. Department of Public Safety,
2. Department of Agriculture,
3. Department of Environmental Quality,
4. Department of Health Services,
5. State Land Department, and
6. Radiation Regulatory Agency.

B. Per Legislative intent, the additional revenue generated by the fee increases shall not exceed the amounts listed below:

1. Department of Public Safety: \$7,800,300.
2. Department of Agriculture: \$1,100,000.
3. Department of Environmental Quality: \$600,000.
4. Department of Health Services: \$600,000.
5. State Land Department: \$600,000.
6. Radiation Regulatory Agency: \$400,000.

C. Monies generated from any fees raised pursuant to subsection A are appropriated to the respective agencies.

D. The agencies listed in subsection A are exempt from the rule-making requirements of Title 41, Chapter 6, Arizona Revised Statutes, for the purpose of raising fees pursuant to this section for a period of one year from the effective date of this act. •

Funding for Essential Maintenance, Preservation

The need to maintain critical infrastructure and other capital assets does not lessen with downturns in the economy and State revenues

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 be approved as well 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:

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

Annually, and no later than October 15, each building system develops its Capital Improvement Plan (CIP), to include capital spending on land acquisition, capital projects, energy management systems and building renewal. The ADOA Building System reports a current inventory of 3,282 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 2010 capital requests for major projects and new construction submitted to ADOA for consideration in the FY 2010 ADOA Building System CIP totaled \$433.8 million, including \$15 million in capital project requests from the Game and Fish Department and Arizona State Parks. The request for Building Renewal request was estimated at \$35.4 million. ADOT requested \$94.6 million for New Construction and \$4.6 million for Building Renewal.

FY 2010 CAPITAL PROJECT REQUESTS, BY AGENCY

AGENCY	NEW CONSTRUCTION
Administration, Department of.....	\$ 157,387,400
Arizona Health Care Cost Containment System.....	194,500
Corrections, Department of	179,296,200
Deaf and the Blind, Arizona State Schools for the.....	2,713,900
Economic Security, Department of	11,631,100
Emergency & Military Affairs, Department of.....	11,247,000
Game and Fish Department	4,115,000
Health Services, Department of	2,500,000
Juvenile Corrections, Department of.....	1,865,600
Mines and Mineral Resources, Department of.....	1,601,400
Public Safety, Department of	48,865,800
State Courts.....	1,550,000
State Parks Department	10,888,500
Transportation, Department of.....	94,662,800
Total Request	\$528,519,200
DOA Building System	\$ 418,852,900
Other Funds.....	109,666,300

ADOA BUILDING SYSTEM: NEW CONSTRUCTION

The Executive recommends \$9.0 million in FY 2010 for new and major maintenance capital projects. The Recommendation includes:

- \$3.2 million from the General Fund for Phase IV to secure and replace non-working cell locks and doors throughout the prison system;
- \$1.7 million to repair and replace building systems, including fire emergency systems, air ventilation and electrical systems at various public buildings; and
- \$4.1 million from other appropriated funds for the Game and Fish Department.

GENERAL FUND

Department of Corrections: Prison Cell Doors and Locks

The Executive recommends an annual commitment of \$3.2 million for Phase IV 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 make it virtually impossible to carry out the project without phasing the work.

Funding to address these public safety needs has been requested in several budget cycles. Deferring support for this project will continue to compromise security throughout the prison system and increase liability and personal risks to officers and other personnel. Additionally, the cost to maintain the useful life of the buildings is increasing, which forces the Department to face broken and dysfunctional components on an emergency basis rather than through system replacement. This approach is disruptive to management and leads to higher operating costs and creates inefficient systems.

Department of Juvenile Corrections: Fire Sprinklers

The Executive recommends \$828,300 to evaluate the installation of fire sprinkler protection systems to housing units at the Catalina Mountain School, which was constructed to codes of 1967 and has received Fire Code violations from the State Fire Marshal. While the fire and life safety code requires fully operational fire sprinkler systems in housing units, there are no fire suppressions systems. Moreover, the building exits are typically locked at all times, which elevates this funding recommendation to a top priority level.

Department of Administration: Fire Alarm Systems

The Executive Recommendation includes \$888,200 from the 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 replacement would carry a significant risk of liability to the

State should alarms fail to operate correctly in the event of a fire emergency.

Fourteen office buildings and two supporting mechanical buildings on the Capitol Mall, including those occupied by the Senate, House of Representatives, State Land Department, Department of Health Services and Department of Corrections are currently equipped with eight- to 10-year-old Thorn Auto Call fire alarm systems. Their maintenance is difficult and costly as replacement parts are no longer available.

OTHER FUNDS

Game and Fish Department: Major Projects

The Executive recommends \$4.1 million from Other Funds in FY 2010 for Game and Fish Department projects. This amount includes \$3.7 million from the Capital Improvement Fund, \$285,000 from the Game and Fish Fund, and \$80,000 from the Watercraft Licensing Fund.

Silver Creek Hatchery Remodel Project. The Executive recommends \$1.9 million in FY 2010 and \$1 million in FY 2011 from the Game and Fish Capital Improvement Fund to renovate and modernize the Silver Creek Hatchery facility. The current structure is outdated and provides inefficient fish culture operations. The project will reconfigure the facility to allow the staff to reuse as many as six times the spring water before nitrates and nitrites become toxic. This change alone will provide a five-fold increase in fish production and allow for the creation of an Apache Trout broodstock program.

Kingman Regional Office Remodel/Expansion. The Executive recommends \$889,500 from the Game and Fish Capital Improvement Fund to allow the Department to develop approximately 1,800 square feet of office space and file storage to alleviate space concerns in the Regional Office. The available space will be configured to create adequate work environment and provide suitable space for Region-sponsored activities and events.

Shooting Range Access Improvements. The Executive Recommendation includes \$950,000 from the Game and Fish Capital Improvement Fund to continue a phased approach to resurfacing selected roadways at Ben Avery Shooting Facility and another \$150,000 from the Game and Fish Fund to initiate a multi-year renovation of the facility.

As part of the new Ben Avery Master Plan, the water system and septic systems will be replaced with water distribution and wastewater collection systems that would be connected to public utilities and compliant with all public and environmental requirements. This funding will allow the Department to continue its efforts in providing long-term improvements at the shooting range and allowing greater access and increased customer satisfaction.

Watercraft Fund: Headquarter Construction Cost. The Executive recommends \$80,000 from the Watercraft Licensing Fund to enable the program to pay its share of the construction of the Department's new office building. Watercraft activities as performed by the Department were not eligible under the funding source that allowed the construction of the new office building. The recommended funding will allow the Watercraft Licensing Fund to pay for the share of the space occupied for watercraft activities.

Emergency Maintenance and Repairs. The Executive recommends \$30,000 from the Game and Fish Fund as a continuing appropriation to enable the 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.

Pinetop Office: Covered Storage for Equipment. The Executive recommends \$30,000 from the Game and Fish Fund to construct shade canopies at the Pinetop Regional Office to protect equipment and machinery.

Pinetop Office: Paving Project. The Executive recommends \$75,000 from the Game and Fish Fund to pave the surface on the south, east and west sides of the building. This will improve compliance with local dust control ordinances, address on-site drainage issues, and expand the existing paving for the fleet and equipment area at the Pinetop Regional Office.

ADOA BUILDING SYSTEM: BUILDING RENEWAL

The Executive Recommendation provides \$3.5 million for Building Renewal, including \$2.8 million from the Capital Outlay Stabilization Fund for the Arizona Department of Administration (ADOA), \$75,000 from the Exposition and State Fair Fund, \$531,000 from the Game and Fish Fund, and \$71,400 from the State Lottery fund.

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.

The ADOA Building System historically has been funded through a combination of the General Fund and the Capital Outlay Stabilization Fund (COSF), which consists of rent payments on about 36 State-owned buildings. Since funding is dependent on Legislative appropriation, it must compete for funding during each budget cycle.

The State has not fully funded the formula in recent years, and deferred maintenance costs have risen to approximately \$279.3 million for the ADOA Building System. The Executive Recommendation addresses some of the highest priorities to protect life and safety, ensure business continuity, and preserve the State's asset.

CAPITAL OUTLAY STABILIZATION FUND (COSF)

The Executive recommends \$2.8 million in COSF monies for Building Renewal. As was mentioned above, the COSF consists of rents paid from about 36 buildings within the ADOA system. However, there are about 3600 facilities within the System that are supported by Building Renewal monies. Since not all buildings make rent 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.

OTHER DEDICATED FUNDS

The Executive Recommendation includes \$2.4 million for Building Renewal, reflecting 100% formula funding for each agency within the ADOA Building System that has its own funding source. The funding includes \$1.8 million from the Exposition and State Fair Fund, \$531,000 from the Game and Fish Fund, and \$71,400 from the State Lottery Fund.

ADOT BUILDING SYSTEM

The Arizona Department of Transportation (ADOT) includes an inventory of 1,268 buildings and structures that have a total area of approximately 3.3 million square feet and a replacement value estimated at \$615.4 million. The Executive recommends \$12.7 million to ADOT for new capital improvement projects. The amount includes \$11.9 million from the State Highway Fund, \$600,000 from the Safety Enforcement and Transportation Infrastructure Fund, and \$181,900 from the State Aviation Fund.

For Building Renewal, the Executive Recommendation provides \$4.5 million, including \$4.4 million from the State Highway Fund and \$162,900 from the State Aviation Fund.

STATE HIGHWAY FUND

Highway Construction. As is detailed in the table “FY 2010 Highway Construction Program Costs,” the Executive Recommendation supports a \$1.6 billion transportation infrastructure program for FY 2010. The funding level would provide \$970.3 million for highway construction, \$282 million for debt service, and \$339.5 million for pavement preservation 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.

Surprise Customer Services Center. The Executive recommends \$2.3 million in additional funding to construct, in Surprise, a 14,500-square-foot Motor Vehicle Division service center and an adjacent 880-square-foot vehicle inspection facility. The current 6,200-square-foot MVD center 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.

The Legislature appropriated, for FY 2007, \$2.7 million to purchase 6.2 acres of land for the new facility and, for FY 2008, \$3.9 million to begin construction. This appropriated amount was underestimated, and current construction costs are at \$9.3 million. The recommended funding of \$2.3 million is the additional amount that is needed to complete this project.

Vehicle Wash System, Statewide Program. The Executive recommends \$2.6 million to install five new vehicle wash systems that meet EPA and ADEQ regulations regarding controlled water distribution.

Southeast Valley Maintenance Facility. The Recommendation provides \$3.3 million for the construction of a four-bay vehicle maintenance shop that will be located within the new multi-use facility and replace the current Mesa vehicle maintenance shop. The current structure no longer meets the func-

FY 2010 Highway Construction Program Costs

Construction ¹	\$ 266,190,000
Pavement Preservation Maintenance.....	130,000,000
Other ²	209,549,000
MAG Regional Program ³	704,068,000
Debt Service ⁴	<u>282,007,000</u>
	\$ 1,591,814,000

¹ Includes corridor improvements, major capacity/operational spot improvements, minor capacity/operational spot improvements 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 \$101,813,000 for HURF statewide construction bonds; \$60,702,000 for HURF and Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$69,571,000 for Maricopa Regional Area Road Fund bonds; and \$49,921,000 for Grant Anticipation Notes.

tional and support needs for highway maintenance in the Southeast Valley and its vicinity.

De-Icing Materials Storage Buildings. The Executive recommends \$2.7 million to build five storage facilities and five liquid tanks to house bulk sand, cinders and de-icer materials. Some of these materials are being stored outside, where exposure to moisture and freezing temperatures makes their use difficult. De-icer materials must be stored in specially designed structures that meet public health and environmental regulations.

Ethanol Fuel Stations. The Recommendation provides \$720,000 to install nine self-standing ethanol 85% (E85) refueling depots to support the State’s current and future ethanol-capable fleet vehicles. Currently, the State owns only one E85 refueling depot, which is located near the Capitol Mall. The Recommendation will enable the fleets to expand the use of ethanol and renewable fuel.

ADOT Business Headquarters. The Recommendation includes \$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 is inadequate. The Capitol Mall Centennial Plan also supports this project.

SAFETY ENFORCEMENT AND TRANSPORTATION INFRASTRUCTURE FUND

Arizona Mexico Border Agreements. The Recommendation continues for FY 2010 the same \$600,000 funding amount from the Safety Enforcement and Transportation Infrastructure Fund that the Legislature approved in FY 2008 to enable the Department to enter into agreements with and provide funding to the Arizona-Mexico Commission, Department of Homeland Security, and Arizona International Development Authority.

STATE AVIATION FUND

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.

Grand Canyon Airport Infrastructure Improvement. The Executive recommends an additional \$181,900 to complete the repairs of building systems, general maintenance and renovation of terminal restrooms at the Grand Canyon Airport. In FY 2008, the Department was appropriated \$210,000, but the construction costs ultimately exceeded the approved funding. The recommended amount will allow for the completion of this renovation project.

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 the Department 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 as provided in statutes. •

State Agency Innovations Produce Major Savings

By challenging agency management to find ways to reduce costs while improving services, the Efficiency Review process gains particular importance when State revenues are underperforming

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.

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.

STRUCTURE

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

In addition, OSPB 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 and mailing consolidation.

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

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:

- Maximizing Energy Efficiency
- Expanding use of Web Conferencing
- Attracting & Retaining Volunteers
- Expanding Electronic Licensing
- Use of Inmate Services
- Operation Efficiencies
- "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.

STATEWIDE INITIATIVES

Statewide initiatives implemented in 2003 continue to produce savings and are projected to contribute over \$100 million in FY 2009 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 2008 from fully and partially implemented projects totaled approximately \$200.0 million. The following table – *FY 2010 Efficiency Review Initiatives* – identify estimated savings by agency for FY 2009 and FY 2010; actual savings from FY 2004 through FY 2008; and estimates for projects scheduled for FYs 2009 and 2010.

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 \$1.2 billion.

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 2008 and is estimated to save the State approximately \$2.3 million more by the end of FY 2009. 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.

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,
- seizing 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 2010 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			568.0
Fleet Consolidation			929.9
Leasing/Space Utilization			400.0
Statewide E-Procurement			<u>24,717.0</u>
<i>Total for Statewide Initiatives</i>			85,614.9
Agency Initiatives			
Arizona Department of Administration	1,327,201.3	1,324,547.4	2,653.9
Arizona Department of Agriculture	30,287.9	29,150.0	1,137.9
Arizona Health Care Cost Containment System	10,014,970.4	9,751,622.7	263,347.7
Department of Commerce	86,427.6	86,049.3	378.3
Department of Corrections	1,223,531.1	1,217,782.2	5,748.9
Department of Economic Security	4,096,621.6	4,011,088.3	85,533.3
Department of Emergency and Military Affairs	82,583.8	82,427.9	155.9
Department of Environmental Quality	334,265.8	334,041.7	224.1
Governor's Office for Equal Opportunity	320.5	317.3	3.2
State Department of Financial Institutions	10,010.6	9,982.7	27.9
Arizona Game and Fish Department	104,167.8	104,101.8	66.0
Department of Gaming	13,512.8	13,135.1	377.7
Department of Health Services	2,395,534.4	2,383,078.0	12,456.4
Department of Homeland Security	48,867.6	48,797.9	69.7
Arizona Department of Housing	123,064.7	122,818.5	246.2
Department of Insurance	21,753.4	21,386.2	367.2
Department of Juvenile Corrections	88,183.8	87,874.1	309.7
State Land Department	21,806.5	21,651.3	155.2
Department of Liquor Licenses and Control	4,467.0	4,443.3	23.7
Arizona State Lottery Commission	744,552.1	741,181.1	3,371.0
State Parks Board	114,783.3	110,443.8	4,339.5
Department of Public Safety	352,208.2	348,592.1	3,616.1
Department of Real Estate	4,990.8	4,757.5	233.3
Residential Utility Consumer Office	1,360.5	1,319.3	41.2
Department of Revenue	180,672.8	179,843.5	829.3
Department of Transportation	3,099,615.9	3,098,210.9	1,405.0
Department of Veterans' Services	29,524.9	29,052.3	472.6
Department of Weights and Measures	3,714.1	3,483.6	<u>230.5</u>
<i>Total for Agency Initiatives</i>			<u>387,821.4</u>
Total for FY 2010 - All Initiatives for All Agencies and Statewide			473,436.3

Efficiency Review Initiatives - Seven-Year Summary

	2004 Actual + 2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 OSPB Est.	2010 OSPB Est.	Seven-Year Total
Statewide Initiatives							
Employee Benefits	0.0	25,000.0	48,000.0	59,000.0	59,000.0	59,000.0	250,000.0
Energy Conservation	442.8	205.0	205.0	205.0	382.4	568.0	2,008.2
Leasing/Space Utilization	1,543.0	1,200.0	0.0	0.0	400.0	400.0	3,543.0
Fleet Consolidation	922.0	1,074.9	922.0	922.0	929.9	929.9	5,700.7
Statewide E-Procurement	15,700.0	22,295.0	45,000.0	45,000.0	24,717.0	24,717.0	177,429.0
<i>Total for Statewide Initiatives</i>	18,607.8	49,774.9	94,127.0	105,127.0	85,429.3	85,614.9	438,680.9
<i>Total for Agency Specific Initiatives</i>	<u>117,421.9</u>	<u>166,414.7</u>	<u>88,589.8</u>	<u>94,880.8</u>	<u>334,914.9</u>	<u>387,821.4</u>	<u>1,190,043.5</u>
Total for All Initiatives	136,029.7	216,189.6	182,716.8	200,007.8	420,344.2	473,436.3	1,628,724.4

Acknowledgement

Governor Napolitano gratefully acknowledges
the skilled and dedicated efforts of the staff of the
Governor's Office of Strategic Planning and Budgeting

<i>Director</i>	James J. Apperson
<i>Assistant Directors</i>	Marcel Benberou Bret Cloninger Bill Greeney
<i>Chief Economist</i>	Norm Selover
<i>Team Leader</i>	Stacey Morley
<i>Budget Analysts</i>	Matt Gottheiner Chris Hall Melissa Harto Patrick Makin Brandon Nee Kris Okazaki Illya Riske Thomas Soteros-McNamara Jennifer Uharriet
<i>Economist</i>	Duong Nguyen
<i>Senior Systems Analyst</i>	Richard Sietz
<i>Systems Analyst</i>	Joy Su
<i>Office Manager</i>	Pamela Ray

IN MEMORY OF JON K. HOBERG



The Governor's Office of Strategic Planning and Budgeting dedicates this budget book to the memory of Jon Hoberg.

Jon joined the OSPB staff in 1997. During his years as a systems analyst he served with a passion to automate State Government's budget and planning functions, and much of his work was focused on improving data collection processes for OSPB and all State agencies. Jon was instrumental in the evolution of the budget development tool known as BUDDIES, as well as the AZIPS strategic planning tool.

Jon will be remembered as an inspirational and tireless man who spent long hours finding the right solution to data management issues. Jon brought a wonderful sense of humor and intellectual curiosity that endeared him to his colleagues.

Jon's contributions and strength of character enriched many lives. He will be greatly missed.