

The Executive Budget

SUMMARY

FISCAL YEAR 2011

Janice K. Brewer
GOVERNOR



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STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

January 15, 2010

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

Today marks the most significant day of state budget reform and restructuring in Arizona's ninety-eight year history.

The Executive Recommendation for balancing the General Fund budgets for Fiscal Years 2010 and 2011 is built on a decisive, well-conceived plan that begins to correct our structural deficit, weans State government from one-time fixes and other fiscal gimmicks, rejects arbitrary or across-the-board funding cuts, and paves the way for future economic growth.

For Arizona, the middle of the last decade was a period of unprecedented growth and prosperity. With increased revenue streams, our State wisely and correctly lowered taxes, and today Arizona's tax burden, per \$1,000 of personal income, is at its lowest level in over 30 years. Arizona also increased services in every area of State government: Medicaid expansion provided health coverage for hundreds of thousands; expansions in our K-12 system provided a State-funded full-day kindergarten benefit; and our higher education system enjoyed unprecedented levels of support and expansion.

Those days of expanded government services are over. Since the start of the recession in December 2007, Arizona's unemployment rate has more than doubled, from 4.3% to 8.9%. More than 270,000 Arizonans have lost their jobs, and our job growth rate is next-to-last among the 50 states. Economists anticipate that we are four years away from returning to our 2007 peak in employment.

Compared to December 2007 – just over two years ago – Arizona's retail sales activity is down by nearly 20%, home prices have fallen by 42%, and construction is off by more than half.

The recession and State government's structural deficit – an institutionalized misalignment of revenues and expenditures – have combined to devastate the State's finances. Revenues have declined for three consecutive years, and, for Fiscal Year 2010, they are projected to be 34% less than in FY 2007. While revenues have decreased sharply, we have had to accommodate enrollment growth in our K-12, community college and university systems; extraordinary mandated growth in our Medicaid population; and continued obligations for public safety and general governmental services.

We have taken difficult action in the last 12 months – action that has impacted our citizens. We imposed the largest spending reductions – \$1.09 billion – in Arizona's history, eliminated State services and programs, and reduced the State workforce by almost 10%. Yet despite our efforts to

date, our job has just started. State government still must resolve a \$1.4 billion shortfall for our current fiscal year, and for FY 2011 we face a projected shortfall of \$3.2 billion.

In addressing these shortfalls, the Executive Budget Recommendation reflects my core principles.

First, public safety cannot be compromised, and my Recommendation honors that principle. I have tried to limit the impact of cuts to the Department of Public Safety and Department of Corrections. While they have not gone unscathed, they must remain positioned strongly against crimes and threats to our safety. Recognizing that budgets are strained at all levels of government, I will use \$20 million in discretionary federal stimulus dollars to fund grants for local public safety to help cities and towns struggling to provide these critical functions in these difficult economic times.

Further, education is fundamental to Arizona's societal and economic future, and we must protect it to the maximum practicable degree. While the Executive Recommendation reflects the reality that we cannot continue education spending at the rate of the last few years, we will protect total education funding at the State's FY 2006 funding levels. Reducing education expenditures to that standard will be difficult and require significant change, but the change is necessary. At the same time, dropping below the FY 2006 levels is not an option. Likewise, in light of the reductions in General Fund support – during this fiscal crisis I will oppose encroachment on locally raised education funding streams.

Third, taking on significant debt is not to be done casually, and it is appropriate only in extraordinary circumstances such as those that we face today. Unwise budget decisions in recent years have virtually made debt the fourth leg of State revenues. Relying on long-term debt obligations for current operations binds the State and will suffocate our long-term recovery. While debt is needed to help us through this current crisis, we must use it in a careful and limited fashion.

Finally, we must recognize State government's appropriate and critical role and confine our planning and spending to that role. Protecting our citizens, educating our youth and helping those who cannot help themselves are essential government functions. After we eliminate substantial components of State government, the surviving core components must focus on vital services, which require adequate funding.

To ensure that State government can perform its core functions at acceptable standards, I stand by my call for a temporary one-cent increase in the Transaction Privilege Tax (TPT). The increase, to go into effect in the fourth quarter of FY 2010 and continue through FY 2013, will generate additional revenues at the rate of \$1 billion per year.

I have maintained my support for the temporary revenue only after long, careful deliberation and concluding that the alternative – i.e., preventing the State from properly fulfilling even its essential functions – is no alternative at all.

Further, as an Arizonan, as a mother, and as a person who feels great compassion for the vulnerable and less fortunate, it is only with great reluctance that I advocate a number of deep reductions in funding, some of which are listed below. As Governor, I have a duty to preserve State government's fiscal integrity and to ensure Arizona's long-term health.

Consistent with the core principles stated above, we must make dramatic changes in the way State government fulfills its mission. Specifically, the Executive Budget Recommendation:

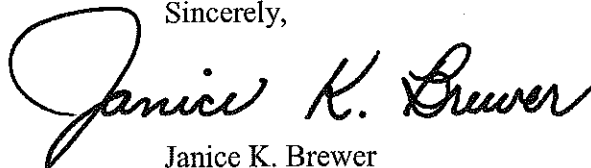
- maintains State support for K-12 education FY 2006 levels, despite reductions in federal support;
- maintains university funding at FY 2006 levels (75% of FY 2008 levels);
- reduces the AHCCCS rolls by 25%, or 310,000 individuals, and eliminates the KidsCare program, which provides health coverage for nearly 47,000 children;
- reduces services for 17,000 seriously mentally ill adults – approximately half of that population;
- eliminates cash assistance for 10,000 families;
- places a hard cap on day care assistance and eliminates services for more than 10,000 children of low-income working parents;
- closes the Department of Juvenile Corrections, transitioning the custody of minors to county detention centers and laying off an additional 900 State employees;
- reduces State employee pay by 5%; and,
- redirects Lottery revenue streams.

Even with these painful reductions, State government will have to borrow and defer \$1.5 billion. That reality underscores the undeniable necessity of my proposed tax increase.

In a few short years, this recession has pillaged what took decades to build, and years will pass before we fully undo its devastating effects. We must continue to display in the months and years ahead the fiscal discipline we demonstrated during calendar year 2009, when together we cut the size and scope of State government and worked to secure a sustainable path. And we must begin the long process of paying down our debt and undoing our fiscal tricks. Once this debris is cleared away, we will be left with a solid foundation for future prosperity.

The good news is that, together, we can solve this problem. Seasoned by the hard work we have performed in the last year, we are better prepared than before – and arguably better prepared than any preceding generation of Arizona's leaders – to guide our state through this fiscal valley and commit to an Arizona revival equal to the promise of her second century.

Sincerely,



Janice K. Brewer
Governor

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Budget Message

State Faces Record Budget Shortfall

After imposing the largest spending cuts in Arizona history, State government still faces a \$1.4 billion current-year deficit

Despite the continuous budget-balancing efforts of the Legislative and Executive branches during the past 12 months, there remains for the current fiscal year a budget deficit of \$1.4 billion and a projected FY 2011 deficit of \$3.2 billion.

Deficits persist, for both the current year and the next, in spite of unprecedented spending reductions, workforce downsizing, fund sweeps, asset sales, revenue enhancements, a massive amount of federal aid, and a significant deferral of obligations into future fiscal years.

As exhausting and stressful as those efforts have been, they clearly have not been enough. The FY 2011 Executive Budget contains a plan for decisively addressing these ongoing budget challenges. The discussion that immediately follows is a summary of the State's budget situation – where we stand and how we got here.

THE SITUATION

Four years ago this month, the State of Arizona was at the midpoint of a robust fiscal year that would amass a record-setting budget surplus of \$1.1 billion. One year later, State government was en route to setting another record: \$9.5 billion in revenues.

In stark contrast, just three years later, in the throes of the worst economic recession since World War II, the State teeters on the brink of fiscal collapse. State government faces a budget shortfall that, without any action, by June 30 will reach \$1.4 billion. The projected shortfall equals 36% of the remaining operating budget for the year and 46% of the expected remaining revenues to be received in the year.

The shift from comfortable budget surpluses to massive deficits did not occur overnight. It has unfolded over a period of years. Budget shortfalls began to emerge in FY 2008, as the early effects of the current recession were beginning to be felt. During this first year of budget problems, the State balanced its budget by relying on the "rainy day" fund (for \$560 million), fund sweeps (for \$290 million), reinstating the K-12 roll over (for \$272 million) and some budget reductions that, in hindsight, seem minor.

By FY 2009 the budget challenges had grown, and again the "rainy day" fund and other sources of one-time revenues were used (for \$580 million). In addition:

- the K-12 rollover was expanded and other agencies had their obligations deferred (totaling \$425 million);
- agency budgets were reduced (by \$550 million); and
- federal ARRA monies were employed (totaling \$667 million).

Nevertheless, FY 2009 ended with a \$480 million deficit.

FY 2010 has posed an even greater challenge. In addition to addressing the budget in the Regular Session, the Legislature has labored through the Third, Fourth and Fifth Special Sessions to address the budget, again using one-time revenue sources, rollovers, budget reductions and federal ARRA monies. Even with these efforts, a \$1.4 billion deficit remains.

As difficult as the remedial steps taken to date seemed to have been, they have failed to bridge the enormous budget gaps projected for the current fiscal year and the next. Even after depleting all of its cash reserves, after making \$1.1 billion in spending reductions, after sweeping all available funds, after eliminating programs, and after laying off or terminating one out of every ten State workers, State government has been reduced to the point of borrowing, every day.

By November 2009, the State's cash situation had deteriorated to the point that it was forced to secure a \$700 million line of credit from a bank. In total, the General Fund has available approximately \$2.7 billion in borrowing capacity, both internal and external to State government, but the cash situation is so critical that it is monitored daily. Whether that borrowing capacity will get the State through the year remains to be seen.

CAUSES

The State's massive budget shortfalls are attributable to both the nationwide recession and State government's "structural" deficit.

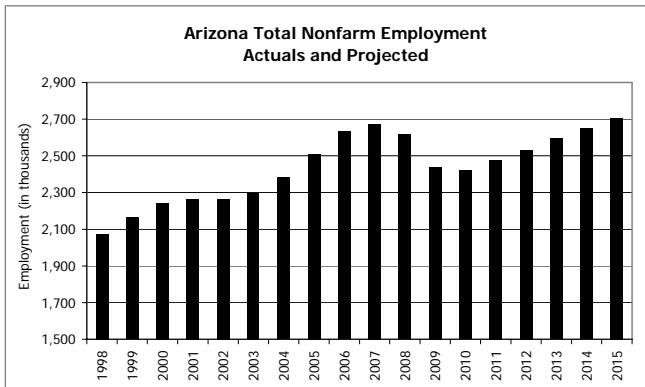
Recessionary Impacts. Clearly, the condition of the economy influences the condition of the budget. As has been confirmed through every economic cycle, when an economy grows slowly or is in a recession, tax revenues suffer and entitlement expenditures tend to rise. Taken together, these forces either create a deficit or make an existing deficit larger. While all states are to varying degrees suffering from the effects of the recession, Arizona ranks among the states hit hardest.

A discussion of the economy appears later in the Budget Message, but it is worth noting here the severity of the economic downturn.

For example, since the start of the recession in December 2007, Arizona's unemployment rate has more than doubled – from 4.3% to 8.9% – depriving more than 270,000 Arizonans of meaningful employment.

During the last 25 months, the rate of Arizona's job growth has plummeted from second place among the states to 49th, and the consensus among the State's economists is that the job picture may worsen before it shows real improvement. Looking forward, Arizona's employment is not expected to return to its 2007 high until 2014.

There are other indicators of how hard the recession has hit Arizona. Compared to December 2007, retail sales activity is down by 19.7%, home prices have fallen by 41.8%, and construction activity – historically one of the pillars of Arizona’s

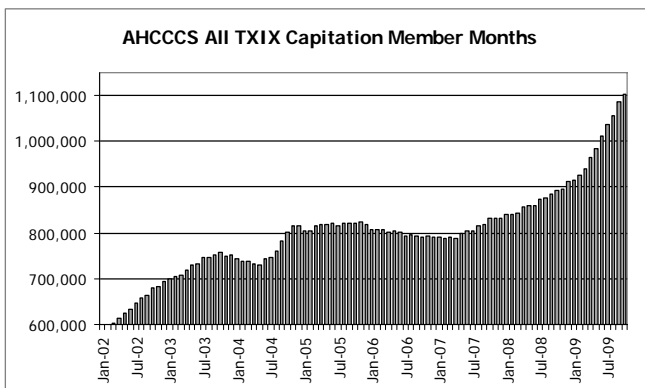


economy – is down by a staggering 51.8%.

The increase in demand for State services during a recession is best illustrated by enrollment growth in AHCCCS, the State’s Medicaid agency. Since the end of FY 2007 AHCCCS has added 312,400 new members; in calendar year 2009, over 203,000 members have enrolled in the program.

However, the bad economy is not the sole cause of the State’s budget woes.

Structural Deficit. While the recession is undeniably a significant factor in the current year deficit and in the deficits pro-



jected for the coming years, it is now obvious that the State has a fundamental misalignment between its revenues and its expenditures. In short, Arizona has a structural deficit.

It is difficult to segregate the respective contributions of the recession and the structural deficit to the FY 2010 and 2011 budget deficits, but there are clear indications that there is more to the current problems than just the recession. Among these factors are:

- reduced revenues,
- program expansions,
- continuing population growth,
- constraints imposed by voters, and
- the federal government.

Reduced Revenues. The recession has significantly contributed to the decline in State revenues, but the collections have also been reduced by a series of recent tax cuts in personal and corporate income taxes.

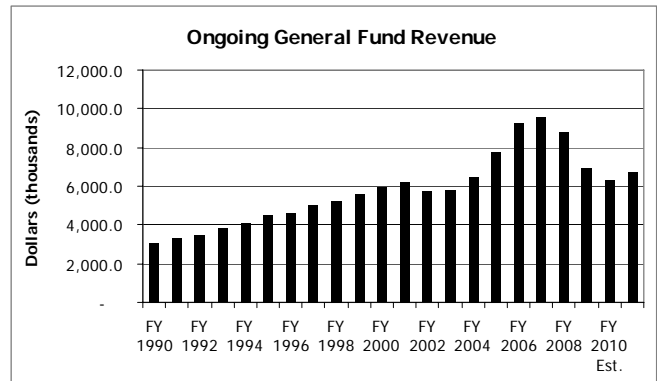
The most recent significant reduction for the corporate income tax occurred in 2005. This change (relating to the allocation of multi-state corporate income to Arizona) was estimated at the time of enactment to have, in FY 2011, a fully phased-in impact of \$120 million.

The most recent significant reduction to the individual income tax was enacted in 2006. This legislation provided for a 5% rate reduction in FY 2006 and an additional 5% rate reduction in FY 2007. The cumulative impact of these reductions was estimated at the time of enactment to be \$334 million per year.

The combined effects of the economic downturn and recent tax reductions have had a dramatic effect on the General Fund. After a three-year period of extraordinary growth, General Fund revenues have declined for three consecutive years. For the current fiscal year, General Fund revenues are projected to be 34% less than the State’s revenue “high water mark” reached in FY 2007.

The decline in revenues from FY 2007 extends across all three major tax sources:

- Transaction Privilege Taxes are lower by 22%,



- Personal Income Taxes are down by 38%, and
- Corporate Income Taxes are lower by 57%.

For perspective, it is worth noting that estimated General Fund revenues for FY 2010 will be \$119 million less than the revenues collected in FY 2004.

Program Expansions. Before the current recession started, the State – via legislation, judicial mandate or public vote – embarked on several costly programs and initiatives without identifying ways to pay for them. Examples of these initiatives include the following.

Property tax reform has gradually reduced the local property tax for schools – and shifted the funding requirement to the General Fund – from a 1998 level of \$4.40 per \$100 of assessed valuation to a 2010 level of \$2.74 per \$100. This local property tax reduction is estimated to have cost the State some \$700 million in FY 2010.

Court-ordered mandates to build and maintain public school facilities have not been accompanied by adequate funding

sources. In order to appreciate the impact that this requirement has had on the State General Fund, consider that, since FY 2001, the School Facilities Board has funded the construction of 289 new schools at a total cost of \$2.3 billion.

Maintenance for all existing schools represents another major State obligation. The formula used to calculate funding requirements for maintenance indicates that annual funding should be over \$231 million. However this obligation was not funded in FY 2009 or FY 2010, and the Executive is not recommending it be funded in FY 2011.

A voter initiative to expand AHCCCS eligibility imposed on the State health care responsibility for a population of low-income individuals that has grown to 325,600. The current yearly cost for the expansion has similarly grown to nearly \$800 million in State funds (excluding the impact of enhanced ARRA funding).

Expanding the AHCCCS rolls exemplifies the Catch-22 that state governments face when times get tough. The AHCCCS expansion strained the State's resources when the economy was strong and demand for services was relatively low; when the recession hit, job losses expanded the AHCCCS population further, creating a discordant convergence of high demand for services and shrinking capacity to meet that demand.

Population Growth. Since the end of World War II, Arizona has consistently ranked among America's fastest growing states. While that growth has fueled State revenues, it has also placed a growing demand on the State for a variety of services that include education, health care and corrections. Since FY 2004, the most recent year in which revenues were comparable to FY 2011 projections:

- Arizona has added 121,500 students and more than \$1 billion in annual costs to the K-12 system;
- enrollment in State universities has increased by 18,100 students, while costs have increased by \$393.5 million;
- the State's prison system has experienced a net growth of 10,800 prisoners and annual costs to the General Fund of \$405.4 million; and
- as was mentioned earlier, AHCCCS has added 475,000 members and annual costs of nearly \$1.5 billion.

Voter-Imposed Constraints. Two voter-approved initiatives have limited the ability of State government to manage revenues and expenditures and exercise budgetary control.

Prop. 108. In 1992, in order to make it more difficult for the Legislature to raise taxes or fees, Arizona voters approved Proposition 108. The measure requires a two-thirds vote of each house of the Legislature for any act that results in a "net increase" in State revenues.

Prop. 105. In 1998, the voters approved the Voter Protection Act (Proposition 105), which limits the Legislature's ability to change the provisions of voter-approved programs and forces the State to continue spending for those same programs without any consideration of current budget problems. In the current situation, the Proposition effectively bars the Legislature from modifying voter-approved revenues or spending on portions of AHCCCS, K-12 education, and the First Things First preschool program.

The Federal Government. The American Recovery and Re-investment Act of 2009 (ARRA) provided economic stimulus funding and federal assistance to state governments struggling to balance recession-depleted budgets.

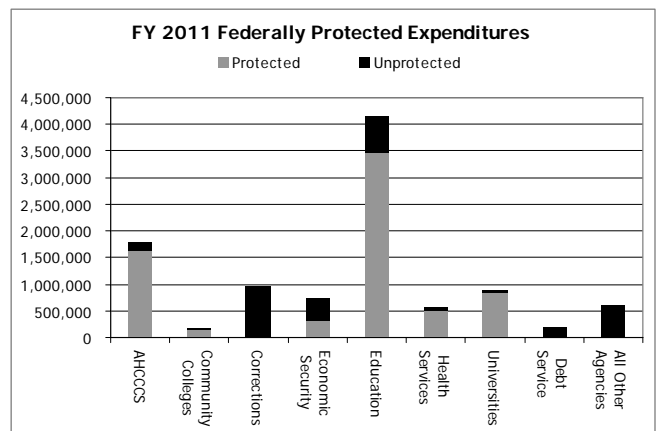
From FY 2009 through FY 2011, the State of Arizona is scheduled to receive approximately \$2.8 billion in ARRA funding that is a direct help to the General Fund, to be used largely for education and for health care for low-income persons.

While the ARRA funding has helped the State address its recent and expected deficits, it comes with "strings" attached. Most notably, as a condition of receiving ARRA funding, the State agreed to:

- maintain – through the end of FY 2011 – spending for K-12, community college and universities at the FY 2006 levels; and
- maintain – through December 2010 – AHCCCS eligibility criteria as of the date of ARRA's enactment, notwithstanding the fact that, since the enactment date, Arizona's AHCCCS enrollment has grown by 188,500 Arizonans.

For as long as it accepts AHCCCS-related ARRA funds, the State cannot reduce AHCCCS eligibility.

As a result of these ARRA "maintenance of effort" requirements, approximately \$6.8 billion – two-thirds of the State's \$9.9 billion "continuing service" budget for FY 2011 – is federally protected from spending reductions. State government is left with approximately \$3.1 billion in expenditures that are "available" for budget reductions, against a projected FY 2011 deficit of \$3.2 billion. The \$3.1 billion that is available for budget reductions includes close to \$1 billion that the State spends to



keep convicted felons in prison.

Another major ARRA-related challenge will occur in FY 2011 when the majority of the ARRA assistance will expire. If the State is forced to replace in FY 2011 all the funding that the federal government has provided in FY2010, demands on the General Fund would increase by approximately \$900 million.

SUMMARY

The Executive believes, and most economists agree, that the current recession will influence the State's budget for an extended period of time. Aggravating this situation is a structural deficit between the State's revenue and expenditure system.

These two factors leave the State in a position where hoping for a near-term recovery and searching for one-time patches to the budget are not viable solutions.

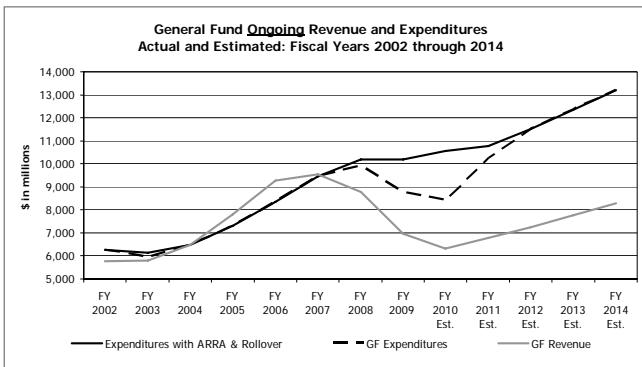
In considering the State's budget over the long term, it is important to understand two points:

First, there is a "new normal" in the economy: Both business and the consumer are expected to be much more conservative in their expenditures than they were in the recent past, both because of the length and depth of the recession, and because of the loss of wealth caused by the downturn in the stock market and the decline in home values. The implication of this new normal is that the long term trend line of State revenues has shifted downward.

Second, there are underlying causes to the budget deficit – the institutionalized misalignment of the State's revenues and expenditures – that are not the result of changes in the economic cycle.

The following chart depicts a simplified view of the situation in the absence of decisive action: a continuing misalignment of revenues and expenditures.

The projected FY 2011 budget deficit of \$3.2 billion reflects the current reality, and unless fundamental restructuring of the State's fiscal system is undertaken immediately, the deficits will continue.



Arizona has struggled through this misalignment for the past three years with a series of one-time budget actions that are extraordinary in their breadth. The table below depicts the one-time actions – separate and apart from the budget reductions – for FYs 2008 through 2010.

**Summary of One Time Budget Savings
Fiscal Years 2008 through 2010
(Thousands)**

Rainy Day Fund	\$ 710,000
"Midnight Reversion"	50,000
Fund Transfers	1,285,000
Funding DPS from HURF, SHF, VLT	254,000
AHCCCS Rollover	118,000
DES Rollover	67,000
University Rollover	100,000
K-12 Rollover	602,000
K-12 Local Balances	184,000
SFB New Const Recapture	344,000
SFB New Construction	237,000
Sale and Leaseback of State Assets	735,000
ARRA Funding	2,255,000
Total	\$ 6,941,000

These one-time fixes are mortgaging the State's future and must be avoided to the extent possible. Unfortunately, because of the short time remaining for FY 2010 and the constraints imposed on the State by the acceptance of ARRA funding, additional one-time budget savings will continue to be necessary. This reality is discussed elsewhere in the Budget Message.

While the situation that State government faces during the coming Legislative session is undeniably grave, it is also an opportunity to tackle the structural deficit and lay a foundation for lasting fiscal health in the years to come.

Modest Economic and Revenue Growth

While the recession might be near the end, Arizona's recovery is expected to lag behind the nation, and revenues will experience slow growth

While the nation as a whole is showing signs of emerging from its worst economic recession since the end of World War II, Arizona's recovery is not as evident.

As the Executive Budget Recommendation goes to print, the most encouraging economic news for Arizona is that job losses in the state may have bottomed out, other month-over-month declines may be nearing an end, and some of the national dynamics that historically have proven to be important for Arizona recoveries appear to be returning.

Unfortunately, part of the rationale for any optimism going forward is rooted in the depth of the downturn, with the corresponding belief that conditions have been so bad that they cannot get much worse.

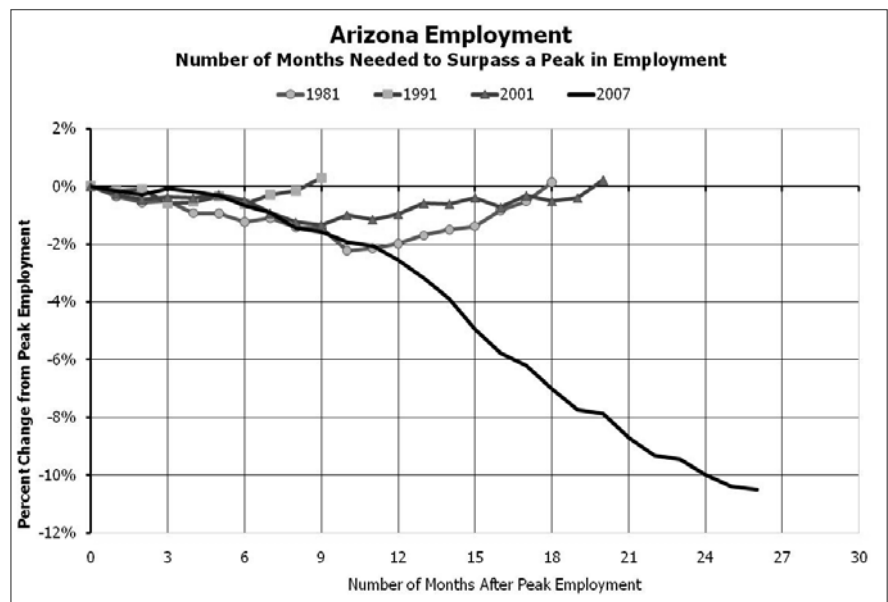
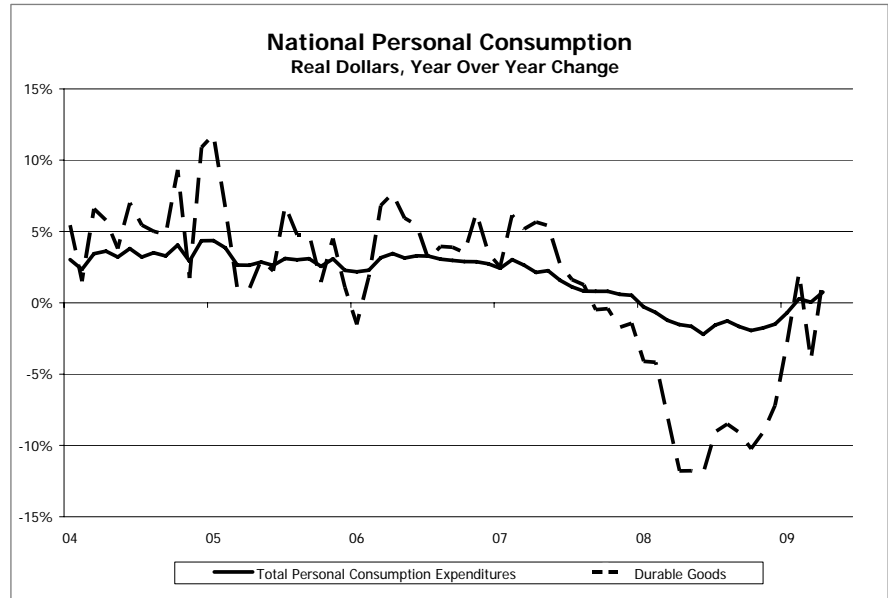
Of further concern is the reality that, even when the nation and state again start achieving moderate to robust growth, the current depth of the cycle is so severe that a return to income and spending levels comparable to the peak of the last cycle is still several years away.

In light of this tepid optimism and continuing concern about the strength and sustainability of the economic recovery, the Executive has adopted a conservative approach to forecasting revenues.

The following discussions examine the outlook for both the national and Arizona economies, as well as the Executive's forecast for General Fund revenues.

NATIONAL OUTLOOK

The most recent outlook from Global Insight suggests a rather flat recovery period through 2011, with real gross domestic product growth at sub-par levels – below 3% – until 2012.



Consumers will emerge from what was, for most, the worst recession of their lifetimes with cautious attitudes about – and little cash for – major outlays. As a result, purchases of consumer durables will pick up from 2009's low volume, but not with the vigor of prior recovery periods.

Employment. As 2009 came to an end, the national employment picture and net job creation began to stabilize. In early 2010, federal government employment will expand (thanks to the Census), with private sector job creation picking up by midyear.

As hiring picks up and out-of-work Americans re-enter the labor force, the resulting expansion of the labor force will mask any drop in the unemployment rate, which will end 2010 near current levels (10%).

Consumer Spending. Consumer confidence has been crushed by the severity of the downturn, as evidenced by the massive drop in the purchase of durables and the sharp decline in consumer credit.

Using Global Insight's most likely scenario, consumer confidence will slowly but steadily return over the next three years, resulting in only modest growth in demand for consumer durables.

As a result, most of the source of optimism in consumer spending is that even a slight improvement in attitudes toward acquiring durables will result in considerable increase in overall demand.

Interest Rates. Following a year of aggressive easing of interest rates, the Federal Reserve continues to indicate that it will not tighten credit in the near term. Indeed, there remains concern that, while bank balance sheets have improved dramatically, credit is still not finding its way to the consumers and businesses most in need.

It is noteworthy that Global Insight sees no significant inflation risk, regardless of its forecast scenarios.

Business Spending. The corporate profit picture in 2010 will be determined ultimately by the pace of the recovery. In late 2009, businesses benefited from historically low credit costs and a weak dollar. As 2010 progresses, businesses will be pressed to replenish what are currently very lean inventory levels. This inventory replacement will provide a boost to the economy; however, with only slow growth expected in consumer spending, only slow growth can be expected in inventory replacement.

Current Events and Risks. While many indicators of the U.S. economy are pointing to the slow, steady recovery scenario, Global Insight puts the chances of a "double dip" recession at an uncomfortably high 20%.

The "W" recession scenario could be triggered by any number of factors, such as a geopolitical or financial shock, with

the latter coming from the collapse of a major bank, municipality or developed country succumbing to pressures from real estate or some other external factor.

Any occurrence that shatters the fragile confidence of cautious consumers will put the nation at risk of another downturn.

On the flip side, confidence could independently revert to more normal levels and provide a boost that will be both self-fulfilling and reinforcing. Such a trend would place growth on the high side of Global Insight's range of forecasts.

Summary. While few economists doubt that the nation is starting to grow, a significant number believe that growth will be slow and a second recession is possible. Overall, the consensus is that growth will be slow but steady nationally, barring any unforeseen shocks.

ARIZONA OUTLOOK

Historically, Arizona has been one of the first states to emerge from a nationwide recession. The primary catalysts for cyclical growth in the state have been its semiconductor and aerospace-related service and manufacturing industries, along with what is typically a significant resurgence in domestic in-migration attributable to affordable housing and an attractive climate.

While those stimuli are still present, the absence of a fundamental component – job availability – will retard the state's economic comeback.

The "Loop." Since World War II, Arizona's job creation has fueled population growth, and, to a large degree, population growth has fueled job creation. People have come to Arizona for affordable housing and a job, and invariably many of those jobs are at businesses that depend on population growth.

Consequently, Arizona is in a "loop": we will not see significant job growth until in-migration occurs, and people won't move to Arizona *en masse* until the job outlook improves.

However, the state may escape this loop as retirees regain some of their lost wealth and begin to re-assume migration patterns at more normal levels – or

even above-normal, given that the baby boom generation is entering retirement.

A pick-up of retiree movement to Arizona will provide some population growth related employment opportunities, which will in turn attract workers of all ages, and the in-migration cycle that has characterized Arizona for decades will resume.

While migration related growth begins to pick up, the state's basic manufacturing and financial service industries will see some growth in concert with an improving national economy.

Employment. Job losses will moderate significantly in 2010, with some month-over-month gains to be expected. On a year-over-year basis, the consensus forecast is for a slight loss in jobs in the first part of the year before positive growth returns in late 2010.

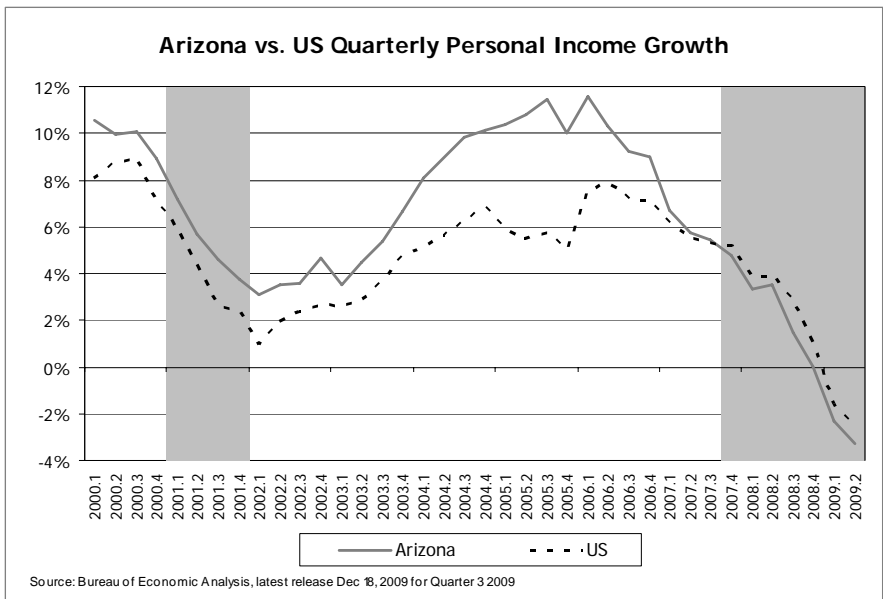
However, a return to normal 3%-4% year-over-year employment growth is probably several years out, and construction and real estate-related areas of employment will serve as headwinds to overall job creation.

Personal Income. When the final numbers are tabulated, Arizona aggregate personal income growth for 2009, as reported by the Bureau of Economic Analysis, will be negative for the first time in the post-war period. Expectations for 2010 are for positive, but low growth, i.e., in the low single digits.

As income growth returns, consumer confidence will likely rebound from historical low levels, and consumer durable purchases will improve from extremely low levels. This is not to suggest that incomes and spending will revert to anywhere near pre-recession levels, but some stability in spending will return.

Population Growth. As was mentioned above, domestic in-migration has long held the key to growth in Arizona, and, by all accounts, 2009 was likely Arizona's slowest year ever for new arrivals from other states.

The drop in the state's in-migration can be blamed on the national recession, the inability of would-be migrants to sell their homes in other states, and the massive drop in real estate and investment portfolio values that many poten-



tial movers suffered since the fall of 2008.

Still, many of the attributes that for decades have attracted people to Arizona remain in place today, and it is likely that in-migration rates will improve in 2010 and beyond. It is the pace of that resurgence that will be important for Arizona's growth trajectory.

Risks. While the risks to the Arizona economy remain significant, it is reasonable to assume that they are considerably lower than they were 12 months ago.

Part of the erosion in downside risk simply stems from the depth of the downturn in Arizona, and it is hard to envision economic activity being much worse under almost any circumstance.

Perhaps the most serious risk to Arizona comes from a scenario in which the nation falls back into recession. This will significantly delay recovery in Arizona, since it will damage our cyclically sensitive sectors while impeding in-migration.

Another aspect of risk is the significant exposure of Arizona's financial institutions and investor community to a collapse of commercial real estate.

Virtually all economists acknowledge that commercial real estate faces a huge uphill battle at this point and that there is little need for additional capacity anytime in the next seven to ten years. What remains to be seen is whether the sector will undergo another significant round of foreclosures and

defaults that will send more real estate-related shock waves through the financial system.

Also, geopolitical shocks could threaten Arizona's hospitality and travel industry, which is positioned to grow from very low current levels, and impact manufacturing, distribution and other sectors of the state's economy.

Upside Potential. A considerable share of Arizona's economic woes relate to the shattered psychology of the consumer, especially in the purchase of durables such as homes and automobiles. This erosion is likely linked to the sharp declines in real estate and investment portfolio wealth that have occurred over the last 15 months.

If the pace of improvement in the economy picks up, psychology can improve, and even modest improvement will serve as a significant catalyst in the pace of retail transactions. This improvement will help provide a reinforcing mechanism that stimulates more transactions, helps to thaw frozen credit lines, and prompts a return to more normal consumer behavior.

How quickly this chain of events occurs depend on a host of factors, such as the rate of foreclosures, the pace of the national economy, a resurgence in in-migration, and so on.

REVENUE FORECAST

In light of this view of the economy, the Executive has adopted a conserva-

tive approach to revenue forecasts for FY 2010 and FY 2011.

The experience of the past year, where actual revenue collections have consistently come in below forecast, made the already difficult task of balancing budgets seem impossible. Therefore, the Executive has adopted the maxim of planning for the (near) worst, and hoping for the best.

The personal income and employment growth projections used in the forecast are *below* the baseline scenario that is the consensus of most of the State's private and public economic forecasters.

The Base Revenue Summary that appears following this discussion contains the Executive's revenue assumptions for the budget. It assumes:

- for sales and use taxes, estimates that reflect the "baseline" forecast for FY 2010, and estimates for FY 2011 that are between the "baseline" and "pessimistic" forecasts;
- for individual income taxes, estimates for both fiscal years that are between the "baseline" and "pessimistic" forecasts; and
- for corporate income taxes, estimates for both fiscal years that reflect the "pessimistic" forecast.

Obviously, the conservative approach to estimating revenues for the Executive Budget will not guarantee that the revenues used in the consideration of the FY 2010 and FY 2011 budgets will not have to be revised. However, in adopting this approach, the Executive hopes that any such revision will be minimal.

The Base Revenue Summary is laid out with the following columns:

- "Actual FY 2009" reflecting actual receipts for the year;
- "JLBC Approp Rep FY 2010" that reflects the revenue estimates that were included in the JLBC's *Appropriations Report* for FY 2010, published in September of 2009. The inclusion of this data is intended to give a sense of how much revenues have deteriorated between the time the *Report* was published and the publication date of this Executive Budget;

- “Current Executive Estimate FY 2010” that contains the revenue estimate by source for FY 2010 that was used to develop this budget;
- “Executive Estimate FY 2011” that contains the revenue estimate by source for Fiscal 2011 that was used to develop this budget.

Revenue Forecast for FY 2010. The FY 2010 forecast is conservative, with estimates reflecting the level of collections that have not been experienced by State government since FY 2004.

The forecast indicates that total revenues (before deduction of the Urban Revenue Sharing) is 9.4% below FY 2009 revenues, and 10.2% below the estimates contained in the FY 2010 *Appropriations Report*.

The estimates for the major revenue sources reflect declines from FY 2009

levels of 28.1% for corporate income taxes, 10.2% for individual income taxes and 7.3% for sales and use taxes.

Revenue Forecast for FY 2011. The FY 2011 forecast reflects the moderate growth that is expected for the Arizona economy.

At first glance, the growth of total revenues at 4.1% looks robust when compared to the negative growth rates of FY 2010 and previous years.

However, as indicated above, the estimates adopted by the Executive for FY 2011 for all of the major revenue sources are below the baseline forecast and, in the case of corporate income taxes, at the pessimistic level.

The estimates for the major revenue sources reflect modest increases from FY 2010 levels of 4.9% for corporate income

taxes, 4.7% for individual income taxes and 3.9% for sales and use taxes.

Summary. While there is no chance of State revenues returning anywhere near the robust levels enjoyed in the latter part of the last decade, the Executive’s revenue estimate does show improvement for FY 2011.

The Executive believes that achieving the FY 2010 forecast will require little economic growth in the spring of 2010, and identifies the key factors to achieving the FY 2011 forecast to be the stabilization of employment and an improvement in consumer confidence.

The major risks to the forecast are a “double dip” recession, the failure of consumer confidence to stabilize and gradually improve, and major geopolitical or financial shocks.

**STATE OF ARIZONA
GENERAL FUND
BASE REVENUE SUMMARY
FY 2009 THROUGH FY 2011
(Dollars in thousands)**

	Actual FY 2009	JLBC Approp Rpt FY 2010	Current Executive			Executive	
			Estimate FY 2010	Change To FY09	Change To App Rpt	Estimate FY 2011	Change To FY10
<u>TAXES</u>							
Corporate Income	592,157.3	596,891.2	426,000.0	-28.1%	-28.6%	447,000.0	4.9%
Individual Income	2,568,095.6	2,576,557.0	2,306,500.0	-10.2%	-10.5%	2,414,500.0	4.7%
Property Taxes	18,244.5	17,000.0	20,000.0	9.6%	17.6%	20,000.0	0.0%
Sales and Use	3,756,407.1	3,800,345.2	3,481,000.0	-7.3%	-8.4%	3,617,500.0	3.9%
Luxury Taxes	57,878.2	60,377.3	59,035.8	2.0%	-2.2%	60,216.5	2.0%
Insurance Premium Taxes	411,048.9	425,000.0	397,300.0	-3.3%	-6.5%	412,600.0	3.9%
Estate Taxes	210.4		0.0			0.0	
Other Taxes	2,650.7	630.0	3,000.0	13.2%	376.2%	3,000.0	0.0%
TOTAL TAXES	7,406,692.6	7,476,800.7	6,692,835.8	-9.6%	-10.5%	6,974,816.5	4.2%
<u>OTHER REVENUES</u>							
Licenses, Fees & Permits/Misc.	136,571.0	141,523.1	135,539.0	-0.8%	-4.2%	142,315.9	5.0%
Interest Earnings	19,854.8	0.0	0.0			0.0	
Lottery	33,007.5	46,500.0	36,000.0	9.1%	-22.6%	36,000.0	0.0%
Transfers & Reimbursements	29,438.3	29,000.0	38,000.0	29.1%	31.0%	30,000.0	-21.1%
Disproportionate Share	67,687.5	67,687.5	67,665.6	0.0%	0.0%	69,436.0	2.6%
TOTAL OTHER REVENUES	286,559.1	284,710.6	277,204.6	-3.3%	-2.6%	277,751.9	0.2%
TOTAL REVENUES	7,693,251.7	7,761,511.3	6,970,040.4	-9.4%	-10.2%	7,252,568.4	4.1%
ADJUSTMENTS							
Urban Revenue Sharing	(727,677.4)	(628,649.1)	(628,644.6)	-13.6%	0.0%	(474,037.9)	-24.6%
GRAND TOTAL REVENUES	6,965,574.3	7,132,862.2	6,341,395.8	-9.0%	-11.1%	6,778,530.5	6.9%

Resolving the Budget Crisis

The Executive’s decisive plan addresses the current shortfall and attacks the structural deficit that, if not corrected, will cause continued budget shortfalls

The shortfalls for both Fiscal Year 2010 and FY 2011 are part of state government’s larger and ongoing structural deficit. After eliminating one-time funding sources – e.g., debt, rollovers and federal stimulus funds – the remaining structural deficit is close to \$4 billion, or 40% of the State budget.

The Executive believes that the structural deficit must be addressed and closed, but recognizes that such a process will take more than one year. Further, with federal expenditure mandates, the federal stimulus “cliff”, continued population growth, and the impact of prior-year temporary fiscal steps, there will be ongoing and future pressure on the State budget.

Therefore, the FY 2010 and FY 2011 Executive Budget Recommendation takes several important steps toward achieving permanent restructuring and addressing the long-term deficit. Out of necessity, the Executive employs some temporary and one-time steps for short-term relief and to close the State’s immediate gaps.

In developing the balance between permanent restructuring and the necessity of temporary actions, the Executive based its budget-planning decisions on the following principles:

- Public safety is the core function of State government.
- Education funding is the key to long-term societal and economic development.
- Temporary revenue enhancements should be used only to protect core areas of State government.
- Budget reductions should be strategic and not arbitrary or across-the-board.

SUMMARY OF SOLUTIONS

FY 2010: To address a projected shortfall of \$1.4 billion, the Executive recommendation includes the following:

Budget reductions.....	\$77 million
Rollovers	\$450 million
New debt.....	\$750 million
Additional fund transfers	\$16 million
Redirection of Lottery proceeds.....	\$30 million
5% salary reduction	\$15 million
Revenue increases.....	\$263 million

FY 2011: The projected shortfall is much larger at \$3.2 billion, and the Executive Budget plan for resolving this deficit is composed of the following major elements:

Budget reductions.....	\$1.14 billion
Redirecting Lottery proceeds	\$60 million
Borrowing funds from First Things First.....	\$260 million
Use of the Growing Smarter funds:.....	\$124 million
Fund transfers	\$84 million
Annualized 5% salary reduction:.....	\$60 million

Revenue increases	\$1.1 billion
Use of the FY 2010 ending balance.....	\$230 million

The discussion that follows highlights the major features of the Executive Plan for the remainder of FY 2010 and for FY 2011. The Executive’s Statement of Sources and Uses of Funds for the General Fund appears at the end of this discussion.

EXPENDITURE REQUIREMENTS

The primary focus of the Executive Budget is budget reductions. There are areas of the budget where increased expenditures are largely unavoidable. These include funding for AHCCCS to accommodate federally and voter mandated funding for growing Medicaid populations (\$490 million); The Department of Corrections for opening new state prisons (\$98.3 million); employee health care (\$12.7 million); and growing debt service (\$101.2 million).

Additionally, almost \$1 billion in federal stimulus funding provided in FY 2010 expires in FY 2011. The Executive recommends replacing less than half (\$441.5 million) with General Fund dollars.

PERMANENT RESTRUCTURING

The focus of the Executive Budget is one of government restructuring – the painful reductions that must be made to address our current fiscal reality. These reductions are required because the State can no longer afford the programs currently in place. As painful as these reductions will be, they must be made to re-align our revenues and expenditures. Major components of that plan are as follows:

K-12 Education. The Executive recommends eliminating State support of full-day kindergarten. (Local school districts may return to the former practice of offering full-day kindergarten supported by local funding streams.) Additionally, the Executive recommends eliminating the excess utility supplement. These two measures combined will save approximately \$315 million.

Health Care. The Executive recommends withdrawing General Fund support for the Prop. 204 population within Medicaid, and as a consequence, eliminating health coverage for childless adults who were added under Prop. 204, and capping the other Prop. 204 populations at a level adequate to be supported by the Tobacco Settlement. Because this funding is protected by both federal law and the Voter Protection Act (Proposition 105), the recommendation is based on a January 1, 2011 start date, after the federal protections have expired, the Medicaid waiver has been amended, and the recommendation is ratified by the voters.

This change will save \$382.5 million in FY 2011 and an estimated \$1 billion in FY 2012. The change will also cause approximately 310,000 Arizonans – 4.3% of the state’s population – to lose health care coverage.

KidsCare. Another recommendation pertaining to health care is the Executive proposal to eliminate, in July 2010, the KidsCare program, for a savings of \$22.9 million. Enrollment in that program was frozen in December 2009.

Behavioral Health. The Executive recommends that the statutory provisions underpinning the *Arnold v. Sarn* settlement be changed and funding for non-Title XIX seriously mentally ill (SMI) adults be largely eliminated. As part of this transition, the Executive recommends preserving funding for crisis services and medications. Additionally, the behavioral health funding for the non-Title XIX children, general mental health and substance abuse populations will also be largely eliminated, again protecting funding for crisis services. This recommendation will save \$35.9 million in FY 2011 and eliminate services for approximately 17,600 non-Title XIX SMI adults and for 22,000 other persons receiving behavioral health services.

Corrections Reform. The Executive recommends the elimination of the Department of Juvenile Corrections (DJC) and increasing the involvement of the counties and the courts in caring for, educating and rehabilitating juvenile offenders. Eliminating DJC will save \$63.3 million in FY 2011.

With adult corrections, the Executive recommends eliminating funding for out-of-state prisons (\$86.5 million), bringing jobs and dollars home to Arizona.

Self-Funding Agencies. The Executive proposes that the Department of Environmental Quality, Office of Tourism, Arizona State Veterans Home, and Department of Water Resources become self-sustaining through a combination of operational efficiencies and greater support from core constituencies. This recommended action will save the State \$26.1 million in FY 2011.

Lottery. The Executive calls for a 20-year extension of the Lottery, with the retroactive redirection of the major revenue streams to the General Fund. The Budget proposes redirecting the funds as of January 1, 2010 and will include the Local Transportation Assistance Fund (both the original Fund and Fund II), the County Assistance Fund, and the Heritage Fund. The redirection will provide \$29.8 million in FY 2010 and \$59.6 million in FY 2011.

TEMPORARY STEPS

The Executive proposes certain temporary measures pertaining to funding of State Parks and K-12 education, the community colleges and the universities.

Education. The Executive recommends a temporary \$180 million decrease in soft capital funding for school districts and a \$10 million reduction in Additional Assistance for charter schools. After accounting for that reduction and the elimination of State funding for full-day kindergarten, expenditures for the K-12, community college, and university systems will be protected at FY 2006 levels.

State Parks. While the State Parks Board is in the process of reviewing budget reductions and potential solutions, the Execu-

tive does not support a General Fund appropriation to keep State parks operational. The Executive supports preserving the park system for future use and will consider operational changes and resource needs that may be required to that end.

Salary Reductions. The Executive is also recommending an across-the-board salary reduction for all non-university State employees. The university employees are excluded from this reduction because federal law does not allow the state to reduce support of higher education below FY 2006 levels.

ONE-TIME STEPS

The Executive proposes the use of one-time funds for both FY 2010 and FY 2011.

New Debt. For FY 2010 the Executive recommends expanding the Sale/Leaseback program by \$300 million and issuing \$450 million in revenue bonds supported by Lottery revenues. For FY 2011 the Executive proposes a short-term borrowing of \$260 million from First Things First.

Fund Sweeps. The budget proposes additional fund sweeps of \$16 million in FY 2010 and \$184 million in FY 2011, including all remaining funds in the Land Conservation Fund.

Rollovers. In FY 2010, the Executive recommends an additional \$450 million in education rollovers, including the May K-12 payment and \$100 million in university payments.

REVENUE INCREASES

Temporary Revenue Changes. The Executive continues to recommend a temporary (March 1, 2010, through FY 2013) “one cent” increase to the Transaction Privilege Tax (TPT). The Executive also proposes expanding, during the same period, the TPT base to include repair services and eliminating the TPT accounting credit. These changes will raise \$215 million in FY 2010 and \$1.07 billion in FY 2011.

One-Time Revenue Changes. The Executive also proposes lowering the threshold for estimated TPT payments from the current level of \$1 million in TPT liability from the preceding year to \$100,000, the threshold as it existed until 2006. This change, while merely an acceleration of existing liability, will provide a one-time benefit of \$48 million in the current fiscal year.

Permanent Revenue Changes. The Executive proposes permanent changes to the Department of Revenue, including increasing the DOR audit and collections staffs and making several statutory changes to increase collection of tax liabilities. The Executive estimates these changes will improve collections by \$17.8 million in FY 2011.

Revenue Recommendations
Dollars in Thousands

Recommendation	FY 2010	FY 2011
Temporary		
One Cent Increase, TPT	202,000.0	898,000.0
Expand TPT tax base to repairs	13,000.0	156,200.0
Repeal TPT accounting credit		20,000.0
One Time		
Lower threshold on TPT estimated payments	48,000.0	
Permanent		
Change tax administration statutes		14,900.0
Addition of Auditors and Collectors		3,000.0
Total	263,000.0	1,092,100.0

IMPACT ON LOCAL GOVERNMENTS

The Executive Recommendation contains both additional support and additional burdens for local governments.

Recognizing that reduced revenues continue to impact local government, the Governor will use \$20 million of discretionary stimulus funds for a grant program to support local public safety. At the same time, local governments will be asked to provide additional support for sexually violent persons placed in the State hospital. Further, the elimination of DJC has the potential for placing additional burdens on counties. Finally, the redirection of Lottery funds will eliminate local transit programs, and the elimination of Heritage funds and the sweep of the Land Conservation Fund will impact local parks and land preservation efforts.

OUTCOMES

The Executive Budget Recommendation provides total General Fund expenditure levels of \$7.8 billion in FY 2010 and \$8.6 billion in FY 2011.

The \$800 million "increase" in FY 2011 is misleading; when federal stimulus funds and expenditure deferrals (rollovers) are included, the FY 2010 real expenditure level is \$9.91 billion and FY 2011 drops to \$9.19 billion.

Therefore, even with the required funding of \$562.6 million for FY 2011 Medicaid and correction population increases, the Executive Recommendation still reduces the size of State government by \$730 million, or 7%. Further, the recommendation will reduce the structural deficit to \$456.7 million in FY 2012.

General Fund Spending Change
in Thousands

Fund Source	FY 2010	FY 2011	Change
General Fund Expenditures	\$7,812,602.6	\$8,582,452.9	\$769,850.3
Federal Stimulus Funds	\$1,494,400.0	\$603,510.0	(\$890,890.0)
Rollovers	\$609,900	\$0.0	(\$609,900.0)
Total	\$9,916,902.6	\$9,185,962.9	(\$730,939.7)

FEDERAL ACTION

As Arizona faces the FY 2011 budget cycle, any of several outstanding issues on the federal level could have a major impact on the General Fund budget.

Jobs for Main Street Act. Congress is considering a new stimulus program known as the Jobs for Main Street Act ("Jobs Act"). This bill contains over \$78 billion in funding for state programs. Early estimates place the FY 2011 impact on the State's General Fund at approximately \$905 million, including:

- enhanced federal medical assistance percentage (FMAP) (\$424 million) and
- education jobs (\$481 million).

With respect to the enhanced FMAP feature of the Jobs Act, if the Act passes in its current form, it will extend both the federal restrictions on Medicaid eligibility changes and the enhanced FMAP through the entire FY 2011. The Executive recommendation for restructuring the funding for the Prop. 204 population would be rendered moot, but the Act will provide a net savings to Arizona's FY 2011 budget of \$41.5 million. However, in FY 2012, Arizona will face a "funding cliff" of \$934 million in the State's Medicaid program.

The Jobs Act's enhanced funding for education will have a positive impact for the State's K-12, community college and university systems.

The Executive is carefully monitoring the status of the Jobs Act and is poised to take full advantage of these opportunities should it pass.

Federal Health Care Reform. Unlike the Jobs Act, federal health care reform legislation (pending as this recommendation went to print) extends and ultimately increases the MOE requirement on the State's AHCCCS program indefinitely and without providing enhanced FMAP.

In addition to eliminating any potential savings from Medicaid eligibility reform as proposed by the Executive, the Senate bill will increase required Medicaid costs by an estimated \$400 million in FY 2014. These new costs will grow to over \$700 million per year by FY 2020. Further, because Arizona already has one of the most expansive Medicaid systems in the country, it will not receive the same level of federal Medicaid support as other states. This inequitable policy treatment results in over \$15 billion in costs to the State.

Finally the Senate bill establishes full federal control of the Medicaid program and eliminates any discretion or options for the State to meaningfully control the cost of the State's AHCCCS program.

If the Senate bill passes, the State will have to close the resulting budget shortfall with additional expenditure reductions and/or revenue enhancements.

SUMMARY

Major Components of the FY 2010 Plan

Shortfall (\$1.4 billion)

SOLUTIONS

K-12 Rollover of May Payment.....\$350 million

University Rollover\$100 million

Fund Transfers.....	\$253 million
Expand Sale Leaseback.....	\$300 million
Lottery Revenue Bonds	\$450 million
Sales Tax Increase.....	\$263 million
Employee 5% Salary Reduction.....	\$15 million
Education Non-Formula Programs.....	\$28 million
DES Program Reductions.....	\$23 million
Health Services Rate Adjustments	\$24 million
Redirect Lottery Revenue.....	\$29 million

Major Components of the FY 2011 Plan

Shortfall..... (\$3.2 billion)

SOLUTIONS

Debt Service Increases	(\$44 million)
Fund Transfers	\$84 million
Growing Smarter Elimination	\$124 million
Redirect Lottery Revenue.....	\$60 million
Borrow First Things First Balance	\$260 million
Sales Tax Increase.....	\$1,100 million
5% Salary Reduction	\$60 million
Prop. 204 Rollback.....	\$382 million
GME and Private DSH Reductions	\$21 million
AHCCCS Provider Rate Reduction.....	\$57 million
KidsCare Freeze/Elimination.....	\$23 million
Corrections out of State Bed Closure	\$86 million
Restrict Cash Assistance.....	\$17 million
DES Means Testing and Fees	\$8 million
Education Soft Capital Reduction	\$180 million
Eliminate Full Day Kindergarten	\$218 million
Eliminate Excess Utilities	\$100 million
Eliminate <i>Arnold v. Sarn</i>	\$36 million
SFB Debt Refinancing	\$60 million
Eliminate Dept. of Tourism GF.....	\$11 million
Eliminate Juvenile Corrections	\$63 million
Self-Fund Water Resources	\$6 million

SOURCES AND USES OF FUNDS

The General Fund Sources and Uses of Funds statement that follows summarizes the Executive Recommendation in tabular form. The Statement presents the following:

- The “FY 2009 Actual” column reflects actual revenues and expenditures for FY 2009 taken from the State’s Accounting

and Financial Information System. The fiscal year’s deficit of \$480.7 million is reflected as the ending balance.

- The “FY 2010 Current Enacted” column reflects the Executive’s FY 2010 revenue projections and appropriations made by the Legislature in the 2009 Legislative sessions for FY 2010. This column represents all Legislative actions through the 5th Special Session and includes the Executive recommendation for supplementals. The projected FY 2010 deficit of \$1.4 billion is reflected as the ending balance in this column.
- The “FY 2011 Executive Baseline” column reflects the Executive’s calculation of the State’s fiscal situation in the absence of the Executive’s FY 2011 restructuring plan. The projected \$3.2 billion deficit in the absence of the Executive recommendation is reflected as the ending balance in this column.
- The “FY 2010 Executive Recommendation” and “FY 2011 Executive Recommendation” columns reflect the Executive’s revenue projections and plan for balancing the budget. The plan results in ending balances of \$229 million in FY 2010 and \$31 million in FY 2011.

The \$145.5 million included under the “FY 2010 Enacted” column for “Anticipated Supplementals” reflects the Executive recommendation for supplementals for FY 2010. The amount is included in the “Agencies Operating Budget” line in the “FY 2010 Executive Recommendation” column. The \$145.5 million is composed of the following amounts for the following agencies:

AHCCCS.....	\$87,165,400
Health Services, Dept. of	36,686,000
Corrections, Dept. of	20,000,000
Economic Security, Dept. of..	16,840,000
Administration, Dept. of	1,700,000
Board of Equalization	70,000

The FY 2011 Executive Recommendation includes a reserve of \$60 million for supplemental funding requirements in FY 2011.

The following sections of the Budget Message discuss the Executive Budget in more detail.

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

	FY 2009 Actual	FY 2010 Current Enacted	FY 2010 Executive Recommendation	FY 2011 Executive Baseline	FY 2011 Executive Recommendation
SOURCES OF FUNDS					
Balance Forward	1,000.0	(480,713.0)	(480,713.0)	0.0	229,227.0
Base Revenues	7,693,251.7	6,970,040.4	6,970,040.4	7,253,252.0	7,252,568.5
<i>Urban Revenue Sharing</i>	<u>(727,677.4)</u>	<u>(628,644.6)</u>	<u>(628,644.6)</u>	<u>(474,037.9)</u>	<u>(474,037.9)</u>
Adjusted Base Revenues	6,965,574.3	6,341,395.8	6,341,395.8	6,779,214.0	6,778,530.5
Rainy Day (Budget Stabilization) Fund Transfer	150,000.0		2,767.1		
Prison Concession		100,000.0	0.0		
Enacted Budget Fund Transfers	813,135.2	236,164.4	236,164.4		
5th Special Session (Dec '09) Fund Transfers		99,096.9	99,096.9		
4th Special Session Revenue Enhancements		48,007.0	48,007.0	9,988.1	9,988.1
Additional Fund Transfers			16,867.2		184,195.0
Enacted Lease-purchase financing	344,000.0	735,419.3	735,419.3		
Additional Lease-purchase			300,000.0		
Lottery Revenue Bonds			450,000.0		
Redirection of Lottery Fund Revenue			29,825.0		59,650.0
Borrowing from First Things First					260,000.0
Additional Revenue Increases			263,000.0		1,092,100.0
TOTAL SOURCES OF FUNDS	8,273,709.5	7,079,370.4	8,041,829.7	6,789,202.1	8,613,690.7
USES OF FUNDS					
Agencies Operating Budget	8,915,136.7	8,272,538.7	8,341,174.5	9,891,114.7	8,497,012.2
Supplementals				60,000.0	60,000.0
Health Insurance Increase Supplementals					12,728.3
5% Salary Reductions (Excluding Universities)			(15,000.0)		(60,000.0)
Rollovers			(450,000.0)		
Allowance for Debt Services				43,162.0	87,204.9
Total Operating Budget	8,915,136.7	8,272,538.7	7,876,174.5	9,994,276.7	8,596,945.4
Statutory Revertments	(54,882.1)				
Anticipated Supplementals		145,545.1			
Ad Hoc Revertments		(50,000.0)	0.0		
Anticipated Unrealized Savings		170,000.0			
4th & 5th Spec.Session One-time Reductions		(34,695.9)	(34,695.9)		
Capital	13,500.0	10,400.0	10,400.0	20,000.0	20,000.0
Capital Outlay Prior Year Reversion		(450.0)	(450.0)		
Administrative Adjustments	123,426.8	65,713.8	65,713.8	67,950.8	67,950.8
Revertments	<u>(242,758.9)</u>	<u>(104,539.8)</u>	<u>(104,539.8)</u>	<u>(119,211.3)</u>	<u>(102,443.3)</u>
TOTAL USES OF FUNDS	8,754,422.5	8,474,511.9	7,812,602.6	9,963,016.2	8,582,452.9
ENDING BALANCE	(480,713.0)	(1,395,141.6)	229,227.0	(3,173,814.1)	31,237.8
NOTE: Funds and Adjustments that Reduced General Fund Uses of Funds					
Deferred Payments (rollovers)	455,000.0	159,900.0	609,900.0	0.0	0.0
Federal Stimulus	667,380.0	1,494,400.0	1,494,400.0	603,510.0	603,510.0
Total Adjusted Uses Of Funds	9,876,802.5	10,128,811.9	9,916,902.6	10,566,526.2	9,185,962.9

FY 2010 Enacted is Post 5th Special Session and includes the most recent Executive revenue forecast.

Criminal Justice: Public Safety Must be Maintained

Arizona's budget crisis will test the strength of the State's criminal justice system

At a time when funding for many State agencies is, by necessity, being reduced in ways that encroach on those agencies' core missions, one area of State government in which the level of service and effectiveness must be preserved is public safety.

The Executive Recommendation for FY 2011 funds adjustments necessary to allow the Department of Corrections to fulfill their vital roles of protecting the people of Arizona.

DEPARTMENT OF CORRECTIONS

The Executive recommendation for the Department of Corrections (DOC) funds continuing operations and the opening of new prison beds. It also calls for the construction of additional prisons.

While budget constraints are harsh for all State agencies, it is imperative to keep convicted felons from endangering the public. But the cost of doing so during these times of limited funding will severely test the management and the infrastructure of Arizona prisons.

Maintaining the System. On December 31, 2009, the State prison population was 40,581, or 11% beyond the facilities' design capacity of 35,987 inmates. The 4,594 additional inmates are temporarily accommodated in emergency makeshift beds until more permanent facilities become available.

During FY 2011, the inmate population is expected to grow at the rate of 114 per month, for a net increase of 1,368 inmates.

The overcrowding situation will be alleviated initially by the opening of 6,000 new prison beds that the Legislature authorized in 2007. Two thousand beds in Kingman, operated by a private vendor, are scheduled to open in April 2010 at a cost of \$39.9 million, and 4,000 State-operated beds in Perryville (1000), Tucson (1000) and Yuma (2000) are due to start opening in July 2010 at a cost of \$58.4 million.

Nevertheless, the Executive estimates that, at the end of FY 2011, the prison population will be approximately 5,135 beyond capacity. That total will relentlessly test the infrastructure and management of the prison system.

This period of overcrowding is expected to last until the next 5,000 beds open. The 2009 Legislative sessions authorized the issuance of a request for proposals for 5,000 new in-state private beds to open in FY 2012. The Executive estimates that the system will be 5,819 prisoners over-capacity before those beds can open, leaving a bed deficit of 1,503 at the end of FY 2012.

Thereafter, overcrowding should be alleviated for at least a year, at which time additional beds will need to be available. To ensure adequate long-term planning for the growing prison population, the Executive is recommending the authorization of 4,000 new in-state private beds to be opened in FY 2013 and FY 2014.

Other demands on the State correctional system for FY 2011 include back-filling \$50 million in SFSF ARRA funding and replacing \$6 million in unrealized FY 2010 budgeted savings in correctional health programs.

Returning Investment Dollars to Arizona. The Executive is recommending the termination of Arizona's out-of-state contracts for housing prisoners in Colorado and Oklahoma. The dollar savings from these closures will amount to \$86.5 million, which can be used to fund future prison expansion and to pay wages to Arizona Corrections Officers and other prison staff, rather than shipping the State's money out of state.

On a net basis, the Executive Recommendation adds almost \$85 million to the corrections system in FY 2011.

LOCAL PUBLIC SAFETY

The Executive is concerned that, with the statewide downturn in revenues at all levels, police departments

and other local public safety agencies may be negatively impacted by budget cuts imposed by their respective jurisdictions. Those impacts have been worsened by State reductions to programs, grants and funding streams that flow to local jurisdictions.

To respond to this situation, the Executive is dedicating \$20 million of ARRA monies from the Governor's discretionary fund for FY 2011 local public safety grants. The grants, to be issued by DPS to county and city public safety agencies, are estimated to fund the equivalent of approximately 262 positions.

Funding Arizona Schools Amid Budget Turmoil

The Executive recommendation protects K-12 education, the community colleges and the universities from funding cuts that would reduce support below FY 2006 levels

No function of State government has a greater impact on Arizona’s long-term future than public education. Amid the unprecedented chaos of the current budget situation, the Executive recommendation preserves, to the maximum practicable extent, the State’s commitment to education excellence.

In 2009, to help budget-strapped states maintain adequate funding for education and health care, Congress passed the American Recovery and Reinvestment Act (ARRA). When the State of Arizona accepted the ARRA stimulus dollars, it also accepted the federal requirement to maintain State support for the Education system at FY 2006 levels. This federal requirement runs through FY 2011.

While there may be opportunities to change or partially exempt the State from those requirements, the Executive believes these funding commitments should be honored. Because Arizona has added 57,000 students since FY 2006, holding total State support at that level will reduce per pupil support by more than five percent. Coupled with the \$75 million reduction in Education 2000 tax collections and losses in local property value, the K-12 system is already under preferred funding levels. Therefore, the Executive recommendation protects K-12 education, the community colleges and the universities from funding cuts that would reduce support below FY 2006 levels.

K-12 OPERATIONS

Numerous changes in K-12 funding mechanisms over the last several years make it difficult to compare levels of State support from one year to another. For example, since FY 2006, changes in property taxation have partially shifted the allocation of support from local revenues to the State General Fund. Further blurring the actual impact of

funding support changes are the State’s use of deferred payments as a budget-balancing mechanism and the application of federal stimulus dollars.

A review of these changes, as well as population increases since FY 2006 provides context for the Executive recommendation.

Population. In the years just prior to FY 2006, the State’s K-12 population grew at a rate in excess of 3% per year. In FY 2006 the system added 27,200 new students, and statewide enrollment reached 998,200.

Since then, the growth rate has steadily declined. In FY 2009, growth in average daily membership was only 0.3% (3,269 ADM). In FY 2010, the system is projected to lose 2,250 students before returning to modest growth (0.9%, or 9,410 ADM) in FY 2011.

K-12 Student Growth, FY 2006-2011

FY	ADM	Growth	Rate
2006	998,221	27,236	2.8%
2007	1,024,401	26,180	2.6%
2008	1,044,785	20,384	2.0%
2009	1,048,054	3,269	0.3%
2010	1,045,804	-2,250	-0.2%
2011	1,055,220	9,416	0.9%

In total, between FY 2006 and FY 2011 the system will have added a net 57,000 ADM, the equivalent of 67 new schools.

Funding. Several significant K-12 funding changes were made between FY 2006 and FY 2011. Changes include:

- new weights for kindergarten and English language learners were added to the formula system;
- certain utility costs were shifted from local property taxes to a new General Fund program; and
- various other discretionary changes were made that both increased and decreased State support.

These and other changes have added more than \$400 million to General Fund

obligations beyond basic population and formula increases. This is reflected in the total General Fund support levels that, after adjusting for expenditure deferrals, grew from \$3,558 per pupil in FY 2006 to \$3,911 in FY 2009 – an increase of almost 21%.

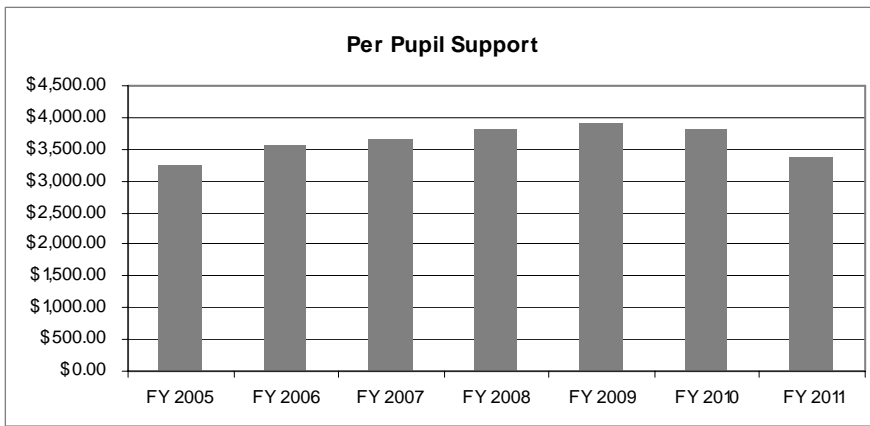
In addition to adding discretionary funds to the K-12 system, between FY 2006 and FY 2010 the State continued to shift funding support from local property taxes to the General Fund through the Truth in Taxation (TNT) law. TNT requires the State to lower local education property tax rates to adjust for market increases in local property values. Between FY 2006 and FY 2010, the rate dropped by 24%, from \$3.62 to \$2.75. Because of declining property values, the FY 2011 rate is expected to climb to \$2.86. In FY 2011, the adjustment since FY 2006 will cost the General Fund an estimated \$387 million.

TNT Impact on Local Tax Rates

FY	QTR Unified School District	% Change
2006	\$3.62	-4.4%
2007	\$3.48	-3.8%
2008	\$3.20	-7.9%
2009	\$2.92	-8.7%
2010	\$2.75	-6.1%
2011	\$2.86	4.2%

Federal Stimulus. Finally, since FY 2006, federal stimulus dollars have played an important role in funding for Arizona schools. In FY 2010, while the State reduced State support for schools to the FY 2006 levels, federal dollars replaced \$472 million of that funding reduction.

Executive Recommendation. The Executive recommends retaining K-12 General Fund support at FY 2006 levels. The Executive plans to offset this reduction with \$93 million in federal stimulus dollars. In FY 2011, school district operations will be impacted by the same changes discussed above. Student growth and inflation would have added



\$115 million in funding, the shift in excess utility support would have added \$100 million, and the replacement of federal stimulus dollars would have added \$472 million.

Offsetting that impact are two other changes. Truth in Taxation will increase local support by \$81.2 million, and the Executive will use an additional \$93 million in federal stimulus dollars to offset General Fund reductions. Overall, the net negative impact on school districts is \$513 million.

The recommended reduction eliminates the kindergarten funding weight (\$218 million), most of the remaining soft capital support (\$180 million), the excess utilities program (\$100 million) and early graduation (\$5 million), with the balance taken from charter school additional assistance per-pupil support levels (\$10 million). This reduction will leave total expenditures at approximately \$3,370 per pupil.

Non-Formula Programs. In addition to reductions in the K-12 formula programs, the Executive recommends eliminating all non-formula programs administered by the Department of Education, except for Achievement Testing, School Safety, the English Immersion Fund and administration, and Teacher Certification. The eliminated programs include, but are not limited to:

- AIMS Intervention
- Adult Education and GED
- Chemical Abuse
- Disabled Pupil Scholarships
- Compensatory Instruction Fund
- Gifted Support
- State Early Education Block Grant

- Vocational Education Block Grant
- Teacher Training

The Executive recommends that these programs be eliminated as of January 1, 2010. FY 2010 third quarter funds will be held until April 1, 2010, to allow the Legislature the opportunity to adopt this recommendation.

K-12 CAPITAL

New Construction. Despite the lack of K-12 growth statewide, some school districts continue to experience enrollment growth. Of the 218 active school districts, 92 experienced growth in FY 2009. Some of the fastest growing districts, which continue to qualify for new schools, are on the outskirts of Tucson and on the southwestern edge of the Phoenix area.

To meet these demands, in FY 2010, the School Facilities Board (SFB) was given finance authority of \$100 million to build new schools. This authority was limited to the federal bonding program, Qualified School Construction Bonds, which allows states and school districts to finance school construction with no (or limited) interest costs. In lieu of interest paid by the State, the bond holder receives a federal tax credit.

Unfortunately, the finance markets have yet to develop an effective market for these bonds. Instead of purchasing the bonds at no interest, investors are demanding supplemental interest, and the State's fiscal advisors believe that, to place the bonds, the State may have to pay as much as 3% in supplemental interest. Additionally, demand for these types of bonds has been tepid nation-

ally; there is a real possibility that SFB may not be able to place the bonds.

Because the bonds are supported by federal tax dollars, they are also subject to federal construction laws, including the Buy America Act and Davis-Bacon Act wage restrictions. The SFB estimates that these laws will add approximately 8% to the cost of construction while placing a high administrative burden on local school districts.

While the Executive believes SFB should continue to pursue this federal program, SFB should have the option to issue the bonds under other federal programs, such as Build America Bonds, or as traditional debt if those methods are more advantageous to the State.

Building Renewal. In FY 2011 the Building Renewal formula will require, per statute, \$231 million. However, the State has not fully funded this formula since FY 2002, and since FY 2009 funding for the formula was totally eliminated and is not recommended to be funded by the Executive in FY 2011.

In FY 2009, to replace the loss of the formula, the Legislature established a Building Renewal Grant program which allows the SFB to direct funds to the neediest areas. Funding for this program was reduced to \$3 million in FY 2010, and the Executive recommends increasing funding for this program to \$5 million in FY 2011.

HIGHER EDUCATION

Universities. Despite recent reductions in State support, the State's university system continues to provide a wide range of quality academic programs at a reasonable cost. In 2008, tuition costs were in the lower one-third among states – 17% less than the national average. Despite recent tuition increases Arizona university costs remain below national averages. As with K-12, the Executive recommendation is that funding for universities be held to FY 2006 levels.

Since FY 2006, student enrollment in Arizona's university system has grown by almost 15,000 new students. Retaining State expenditures at FY 2006 levels will reduce support to approximately \$7,100 per pupil. In comparison, the

student support level in FY 2006 was \$7,881 and peaked at \$9,480 in FY 2008.

The ongoing reduction in State support signals a major change in the funding system for higher education. As Arizona's university system continues to grow with limited State support, the system will need to find innovative methods to offer access to affordable higher education.

That effort received a boost in November 2009 when the Lumina Foundation awarded the State a \$1.5 million grant to help with a multi-year initiative to expand lower-cost options for delivery of bachelor's degree programs and to create a new State funding formula for higher education. The Executive anticipates that the universities will utilize opportunities such as the Lumina grant to discover ways to absorb General Fund reductions without relying exclusively on tuition hikes.

Community Colleges. Consistent with its recommendation for the K-12 and university systems, the Executive recommends maintaining support for the community college system at FY 2006 levels.

Compared with K-12 and university growth, community college enrollment levels are flat. While the system enjoyed rapid growth in the first half of the decade, since FY 2006 the community college system has an estimated growth rate of less than 1%. The major difference between FY 2006 funding levels and the Executive recommendation is the elimination of approximately \$20 million in capital funding.

Challenges of Fiscal Discipline in Serving the Needy

Making painful decisions about how to pay for and who will receive Health and Welfare services is critical to balancing the State budget

The Health and Welfare area of State government includes the Arizona Health Care Cost Containment System (AHCCCS), Department of Health Services (DHS) and Department of Economic Security (DES), along with a number of smaller agencies. Together, AHCCCS, DHS and DES account for more than a quarter of total General Fund expenditures for Fiscal Year 2010; therefore, reducing expenditures in these agencies is an important part of the Executive's effort to close the General Fund shortfall.

It is extremely difficult – in terms of both fiscal responsibility and compassion for the needy – to make budget reductions, steward scarce resources and tighten eligibility requirements at the same time that demand for State services has never been higher. Nevertheless, making painful decisions about how to pay for and who will receive Health and Welfare services is critical to balancing the State budget.

ARRA

In struggling to manage its enormous budget shortfall during the current nationwide recession, the State of Arizona has benefitted from federal American Recovery and Reinvestment Act (ARRA) funding, which is estimated to provide a total of \$2.8 billion in spending relief to the General Fund from FY 2009 through FY 2011. Approximately \$1.8 billion of these stimulus funds are used to enhance the Title XIX federal matching assistance program (FMAP) in the Health and Welfare agencies. In FY 2010, the ARRA FMAP enhancement has increased the federal match from 65.75% to 75.93%.

Accompanying these funds is a limitation, referred to as the “maintenance of effort” (MOE), that makes a state ineligible for stimulus money “... if eligibility standards, methodologies or procedures ... are more restrictive than

the eligibility standards, methodologies or procedures ... in effect on July 1, 2008.” This stipulation has meant that the non-Title XIX portions of DHS and DES have seen significant reductions, while AHCCCS expenditures, which are almost entirely for Title XIX, have been largely protected. Since the original 2008 appropriation, the non-Title XIX portion of funding for DES and DHS have been reduced by, respectively, 32% and 19%.

Because the MOE requirement expires with the ending of the stimulus funding on December 31, 2010, any reduction in Title XIX eligibility would have to go into effect after that date in order to preserve the federal stimulus funds.

AHCCCS

Proposition 204 Rollback. From FY 1999 to FY 2009, the Health and Welfare agencies have grown from 20.2% to 26.8% of the State's operating budget. This growth has largely been due to the 2000 passage of Prop. 204, which expanded AHCCCS eligibility to include all Arizonans up to 100% of the Federal Poverty Level.

When voters passed Prop. 204 in 2000, the question on the ballot stated, “A ‘yes’ vote shall have the effect of ... increasing health care coverage eligibility for Arizona's working poor at the federal poverty level ... using the tobacco litigation settlement money.”

Since FY 2003, the Tobacco Settlement funds have been inadequate to fund the Prop. 204 expansion. To support the expansion in FY 2011, the General Fund is forecast to provide \$740 million (excluding the offset from the federal stimulus funds).

As part of a restructuring of State government to address the current-year deficit and the State's structural deficit, the Executive recommends:

- eliminating health coverage for childless adults who were added under Prop. 204, and
- capping the other Prop. 204 populations at a level adequate to be supported by the Tobacco Settlement, effective January 1, 2011.

This action is expected to save \$382.5 million in FY 2011 – \$358.5 million in AHCCCS and \$24 million in DHS – but will cost the State \$737.6 million in federal matching funds.

Under this proposal, 310,500 Arizonans – 4.3% of the state's population and 25% of its projected FY 2011 AHCCCS enrollment – will lose their AHCCCS health insurance. In addition, an estimated 3,000 seriously mentally ill (SMI) individuals will lose coverage. In FY 2012, this action will be in effect for the entire year, saving the State an estimated \$1 billion General Fund at a cost of \$1.9 billion in federal match.

It is the Executive's position that, because Prop. 204 was passed after the Voter Protection Act (Prop. 105 in 1998), any modification would require voter approval.

Pending federal legislation would extend stimulus funds through the end of State FY 2011 and would extend the MOE. In FY 2011, while the Prop. 204 rollback is estimated to save the General Fund \$382.5 million, the extension of stimulus funds would benefit the General Fund by an estimated \$424 million. However, in FY 2012, Arizona will face a \$934 million funding “cliff,” as the stimulus money will no longer be available to help support the State's Medicaid program. The ongoing MOE requirement will severely limit the State's ability to address this cliff by prohibiting the State from making reductions to the AHCCCS program. (The health care legislation is discussed in the Budget Message section, “Budget Plan.”)

Graduate Medical Education and Disproportionate Share Hospitals. The Executive proposes to eliminate State funding for both the Graduate Medical Education (GME) and the private hospital Disproportionate Share Hospital (DSH) payments, leaving \$500,000 of DSH private hospital payments.

In FY 2009, GME payments provided \$38.5 million to hospitals to support extraordinary and uncompensated costs incurred in the training of medical residents. Medicaid and Medicare each provide partial funding for 1,360 medical residents in 15 hospitals, of which the Medicaid portion is equivalent to 455 fully-funded residents. Because the federal government pays two-thirds of the cost of Medicaid GME payments (a 2:1 match), eliminating this funding will save the General Fund \$14.6 million.

In FY 2009, the \$26.1 million in total fund DSH payments were distributed to 41 hospitals that serve a large number of low-income patients, such as people on Medicaid and the uninsured. As these payments are also subject to a 2:1 match, the General Fund savings of \$8.8 million will cost the State \$16.9 million in federal match.

Provider Rate Reductions. In its continuation budget estimate, the Executive includes a 5% increase for capitation rates for FY 2011. However, the Executive proposes that AHCCCS take actions that will lead to holding capitation rate growth to zero in FY 2011. These actions will likely consist of freezes and reductions in provider rates of up to 5% in order to offset growth in the utilization of medical services.

KidsCare Elimination. The Executive proposes that, after freezing new KidsCare enrollment since December 2009, the program be entirely eliminated in July 2010.

In November 2009 (the last month before the enrollment freeze went into effect), the KidsCare program served 46,800 children. Because the federal government matches State funding at a 3:1 rate, Arizona health care providers will lose \$119.4 million, while the General Fund will benefit by \$22.9 million.

HEALTH SERVICES

Transfer of Behavioral Health to AHCCCS. In an October 2009 court filing, the Governor called for integration of physical and behavioral health care to reduce barriers that prevent individuals with behavioral health needs from obtaining quality and comprehensive care.

As part of its behavioral health reform proposal, the Executive proposes that AHCCCS, instead of DHS, serve Title XIX-eligible non-SMI adults. This shift will help DHS focus more of its efforts on serving the SMI and children populations. To support that proposal, the Executive recommends transferring \$43.1 million General Fund and \$3.6 million in Tobacco Tax funds to AHCCCS.

Further, the Governor has called for a task force to outline the scope of a pilot program to provide integrated care to a voluntary population of Title XIX-eligible Maricopa County SMI residents. The result of that pilot program will dictate future plans for making improvements to Arizona's behavioral health system.

Arnold v. Sarn Elimination. The Executive recommends statutory changes that would remove the requirement for the State to serve individuals with serious mental illness under the *Arnold v. Sarn* settlement. The terms of the settlement require the State to provide services, including housing and residential services, to all SMI persons, regardless of whether they qualify for Title XIX funding.

Reduced Funding for Non-Title XIX SMI. The Executive recommends the reduction and restructuring of funding for the Non-Title XIX SMI population. This recommendation would eliminate most of the services for 14,600 Non-Title XIX SMI adults. It will also affect 3,000 SMI adults who are currently covered by Title XIX and will lose Title XIX eligibility because of the rollback of Proposition 204, thus increasing the State-only SMI population to 17,600. The Recommendation preserves \$37.4 million for medications. The elimination of services (inpatient, residential and outpatient) would likely result in increased utilization of crisis services,

emergency room visits, and uncompensated care at hospitals.

The funding for the Court Monitor would also be eliminated under this recommendation.

Non-Title XIX Behavioral Health Consolidation. In addition to reducing Non-Title XIX SMI services, the Executive recommends reducing and restructuring all Non-Title XIX programs for children and the general mental health and substance abuse populations. The remaining funding for non-Title XIX behavioral health services would be consolidated into a single "crisis system" program that would serve as a safety net for individuals with behavioral health conditions.

Provider Rates. In the caseload issues for Title XIX Behavioral Health Services the Executive includes a 5% capitation rate increase in FY 2011. However, the Executive proposes a separate recommendation to make changes that will allow the capitation rates to remain unchanged in FY 2011.

While the number of enrollees on which capitated payments is made has continued to increase at a rapid rate, the number of clients actually accessing services has not kept pace. The difference between the number of individuals eligible to receive services and those who actually utilize those services can be calculated and then reduced from the DHS budget. This calculation largely offsets the increased capitation rate, resulting in no net growth in capitation rates in FY 2011.

ECONOMIC SECURITY

Cash Assistance Restriction. Cash Assistance is a maximum stipend of \$278 per month, for a needy family of three, to help pay living expenses. This amount was reduced from \$347 in the FY 2009 budget reductions. The federal government provides a 60-month maximum lifetime limit of benefits, though states may include more stringent timelines.

The Executive recommends reducing the lifetime benefit to 36 months, which would immediately disqualify approximately 10,000 families from receiving further benefits.

Means Testing and Fee Increases.

The Executive recommends statutory changes to achieve \$7.6 million in General Fund savings annually in the DES budget.

First, in child-only cash assistance, only the child's income is measured to determine if the child qualifies for cash assistance. Under the Executive recommendation, DES would means-test the entire household to determine income eligibility and eliminate recipients who no longer qualify for assistance.

Second, the Executive proposes making the Child Support Clearinghouse a self-funded program.

Currently, for each child support payment made, the clearinghouse collects \$2.25. At that rate, total fees collected cover only about 60% of the program's costs. Federal law allows DES to

collect fees necessary to cover 100% of the cost of operating the clearinghouse, and increasing the fee to \$5.00 would make the program self-funded.

Third, the Executive recommends a series of cost-saving measures within the Division of Developmental Disabilities, including:

- increasing charges from the current 70% to the 88% of a client's Supplemental Security Income (SSI) benefits to reimburse the State for services provided (the 88% charge is currently used by other agencies, including AHCCCS);
- denying services to families that refuse to provide required billing information;
- billing adoption subsidies of disabled children currently residing in residential placements in much the

same way as DES currently bills SSI benefits; and

- no longer exceeding the cost-effectiveness limit of \$138,500 per client per year, unless families pay the additional costs.

Child Care Waiting List. The Executive Recommendation continues the child care waiting list through FY 2011. The majority of these savings will be utilized to offset the TANF shortfall.

In the FY 2009 budget reductions, DES implemented a waiting list for child care assistance, a monthly subsidy that offsets child care costs for low-income working families. To date, over 10,000 children have been placed on the waiting list. DES will likely turn away over 17,000 children by the end of FY 2010.

Reforming Arizona's Juvenile Justice System

Eliminating the Department of Juvenile Corrections benefits the General Fund and enhances the rehabilitation of juvenile offenders

While the Executive recommends maintaining the fiscal status quo at the Department of Public Safety and the Department of Corrections, it believes the time is now for reform of the State's Juvenile Justice System. This reform is part of a restructuring of State government to address the current-year deficit and the State's structural deficit, and is an opportunity to enhance the rehabilitation of juvenile offenders.

JUVENILE CORRECTIONS

The Department of Juvenile Corrections (DJC) has a State budget of \$70 million and, as of January 9, 2010, housed 447 juveniles. Of these, almost 300 are being held beyond their court-ordered minimum stay.

At this time of significant budget shortfalls, it is appropriate to reconsider DJC's mission, scrutinize the probability of achieving desired outcomes, and seek to minimize duplication of functions. As a consequence of this examination, the Executive recommends the closure of DJC and all of its secure-care facilities.

When DJC was created, it housed juveniles who had committed serious violent offenses. After voters approved the Juvenile Justice Initiative in 1996, the DJC population slowly shifted from a previous population of violent offenders to a new population consisting of substance abuse and property crime offenders. The population has also shifted toward higher mental and behavioral health needs.

Approximately 9% of juveniles sentenced by the courts are assigned to DJC secure-care facilities. As was mentioned earlier, on January 9, 2010, there were 447 juveniles housed at the four DJC locations. In addition, 462 juveniles were on parole. The annual cost to the State was \$70 million.

The cost is growing disproportionately faster than the growth of the juve-

nile population it serves, as the number of juveniles sentenced to DJC has decreased in recent years.

DJC Secure-Care Facility Population

FY	Avg. Daily Population	Funding	Per Capita
1999	957	\$71,384,200	\$74,592
2000	945	69,351,600	73,388
2001	941	72,982,900	77,559
2002	887	73,140,300	82,458
2003	818	68,942,700	84,282
2004	747	67,961,200	90,979
2005	618	72,132,000	116,718
2006	617	76,048,100	123,255
2007	593	84,266,800	142,103
2008	603	85,920,700	142,489
2009	595	82,370,400	138,438
2010	494	70,622,500	143,067

Regionalization. Extensive studies show that keeping juvenile offenders in their own communities, closer to their families and support systems, offers better opportunities for more successful rehabilitation. Consistent with that finding, the national trend in incarcerating juvenile offenders is moving toward regionalization.

Research also indicates that the involvement of the family in the delinquent youth's treatment leads to better outcomes. Having juveniles remain within the county in which they reside will increase the likelihood of success for them and their families and enhance public safety.

Research further demonstrates that large complexes of several hundred juveniles are less effective than smaller facilities of about 50 juveniles. DJC operates four large facilities in only three locations, with capacities of 164, 156, 300 and 431. DJC's current operation does not readily support the best practice of family participation. The distance families must travel to attend treatment discussions during the juve-

nile's incarceration prevent many from participating.

The need for change is also supported by the redundancies in the juvenile justice system. Many of DJC's programs for juveniles are similar to programs available at the counties. There are also redundant administrative services. For example, before a juvenile is sentenced to DJC, the juvenile, while in county custody, is tested, evaluated and treated by the county. If a juvenile is sent to DJC, DJC starts over and duplicates many of the same tests, evaluations and treatments. There is also duplication after the juvenile is released from DJC secure care. Juvenile offenders on county probation receive treatment services in their communities; after their release from DJC, youth often return to these same providers and programs.

Through this restructuring, Arizona's courts and county governments will comprise the State's entire juvenile justice system. The role of the counties is a logical extension of the key role they already play, as counties have for many years provided the bulk of the treatment and rehabilitative services that a juvenile offender receives before being assigned to a State secure-care facility. Thirteen counties have detention centers, and the other two without detention centers have contracts with Counties that do. Removing the State's secure-care option does not eliminate the counties' ability to house juveniles in secure detention.

The aggregate capacity of county detention centers by county is displayed on the following table:

County	Beds
Apache	13
La Paz	0
Pinal	96
Cochise	43
Maricopa	406
Santa Cruz	20
Coconino	44
Mohave	30

Yavapai	57
Graham	48
Navajo	40
Yuma	80
Greenlee	0
Pima	306
Total	1,183

In FY 2008, according to the Annual Report of the Courts, there were 69,907 referrals to juvenile court. County prosecutors filed 28,906 petitions in juvenile court (the juvenile version of filing charges). Juvenile courts sentenced 926 juveniles to DJC and sentenced 9,196 juveniles to either regular or intensive probation and to one or more treatment programs.

The Executive's recommendation for closure of DJC will place the entire juvenile corrections system into the hands of the counties and the courts and will require legislative action to conform the appropriate statutes.

Correcting Deficiencies in the State's Fiscal System

The Executive recommends four Constitutional changes and one statutory change

The State's budget difficulties of the past three years have exposed deficiencies in the Constitutional, statutory and operational aspects of State government's fiscal system. In response, the Executive recommends four Constitutional changes and one statutory change to the provisions governing the system.

CONSTITUTIONAL REFORMS

Balanced Budget Provision. It is a long-standing belief that the Arizona Constitution requires a balanced budget. In apparent support of that view are two sections of Article 9:

- Section 3 requires the Legislature to "provide by law for an annual tax sufficient, with other sources of revenue, to defray the necessary ordinary expenses of the state for each fiscal year."
- Section 4 states: "Whenever the expenses of any fiscal year shall exceed the income, the legislature may provide for levying a tax for the ensuing fiscal year sufficient, with other sources of income, to pay the deficiency, as well as the estimated expenses of the ensuing fiscal year."

However, as has become evident with the \$480 million Fiscal Year 2009 deficit, if the budget is not balanced, there is neither a remedy nor a legal consequence for a budget deficit.

The Executive regards this as a dangerous development with respect to the State's long-term fiscal management and, therefore, recommends that a balanced budget provision be referred to the voters. The provision should assign accountability and chart a clear course of consequences should the State's budget be in a deficit.

Budget Stabilization Fund. The State has had a statutory Budget Stabilization Fund (BSF) since 1990. In the two recessions that have hit Arizona since its enactment, the BSF has proven to be largely inadequate to buffer the effects

of a recession, and it has been used for inappropriate purposes.

The BSF's inadequacy in providing a shield against recessionary downturns stems largely from its limited size. As currently configured, the BSF has a cap of 7% of General Fund revenues – a level that provides little real relief for recessionary downturns in revenue.

Since the BSF's inception, the Legislature has on several occasions suspended provisions regarding transfers from the Fund. In both 2002 and 2008, the Legislature authorized transfers from the Fund despite the fact that the economy was performing at higher levels than the criteria established for such transfers. Additionally, the State has used the Fund to partially finance renovations to the Arizona State Hospital and to pay taxpayer refunds associated with the alternate fuels debacle.

Expenditure Limitation. In addition to serving as a buffer for economic recessions, a properly designed BSF would serve as a deterrent to the growth of future structural deficits. If excess funds are required to be deposited into the BSF in times of bountiful revenues, those funds would not be available to tempt policy makers to expand or create State expenditure programs.

To ensure that the State's fiscal system has a viable buffer for economic recessions, to avoid the inappropriate use of the BSF, and to serve as an obstacle to further growth of a structural deficit, the Executive recommends referring to the voters the creation of a Constitutional Budget Stabilization Fund. The Fund should have a cap of 15% of General Fund revenues and be subject to provisions that ensure timely, mandatory deposits and protect against inappropriate withdrawals.

Prop. 105 Relief. The Voter Protection Act (Proposition 105 in 1998) bars the Legislature from modifying programs established by the voters, regardless of the State's fiscal situation. This

situation can produce inappropriate fiscal priorities.

For example, in the midst of the State's current fiscal problems:

- funding for K-12 and university education is being reduced on a per-student basis;
- services to seriously mentally ill adults are being dramatically curtailed; and
- cash assistance to needy families has been reduced or eliminated

In contrast, two voter-approved programs are largely unaffected by the State's problems: First Things First and the AHCCCS population expansion.

With respect to First Things First (which provides services for pre-school children), the program continues to receive revenues from a dedicated Tobacco Tax and has cash reserves well in excess of \$250 million. No reductions have occurred to this program during the time of the State's budget struggles, and the State cannot access the fund balance without gaining voter approval.

With respect to AHCCCS (particularly the portion of the program that, pursuant to Proposition 204 in the 2000 election, extended eligibility to all Arizonans below 100% of the Federal Poverty Level), the provisions of Proposition 105 have prevented the Legislature from stopping new enrollment in the program, much less scaling back the size of the program.

The Executive Budget does recommend dramatically reducing the population served through the voter-approved provisions of the AHCCCS program. This recommendation is being made for two reasons: first and most obvious, because of the condition of the State's budget; and, second, because the program has grown dramatically beyond the level that was represented to the voters in 2000. In 2000, the voters were told that the eligibility expansion would be fully funded from the proceeds of the

Tobacco Settlement. In fact, the eligible population has grown to the point that the General Fund must subsidize the program by approximately \$740 million in FY 2011 (ignoring the effects of the enhanced ARRA federal matching dollars).

In order to put the State's fiscal house in order it is imperative that the provisions of Proposition 105 be reformed. The Constitution must recognize circumstances where the Legislative and Executive branches can modify the provisions of a voter-approved measure to appropriately manage the State's fiscal system. Therefore, the Executive recommends that an amendment to Proposition 105 be referred to the voters to allow the Legislature, under specific conditions, to modify the provisions of a voter approved program.

Executive Authority to Reduce Appropriations. While the Executive recognizes the necessity and value of the separation of powers under our State Constitution, the current fiscal situation has revealed circumstances where conferring explicit powers to the Executive with respect to appropriations and expenditures are warranted.

For example, it is the nature of legislative bodies to be deliberative and sometimes slow to take action. At various points during our current fiscal struggles it has been apparent to all observers that revenues were insufficient to sustain authorized appropriations. Nevertheless, it took time for the Legislature to act, either due to the difficulties in scheduling a special session or because the legislative bodies were deliberating a course of action.

Another example exists with respect to the management of the State's cash position. As indicated earlier in this

Budget Message, the State is currently in such a dire position that it is managing its cash resources on a daily basis. While there is a degree of flexibility in the State's ability to manage cash, there are also instances where the management is "trumped" by statutory provisions – e.g., the statutory provisions that dictate the date when State aid payments must be made to school districts. The lack of flexibility to shift these dates without a statutory change can have dramatic ripple effects.

Research to date indicates that, in over 20 states, the Executive has some form of explicit authority to reduce appropriations after enactment. The states vary however, as to whether the authority is time-limited and whether the authority could be exercised over specific appropriations or only "across the board."

The Executive recommends that an amendment to the Constitution be referred to the voters to allow the Governor, under specific conditions, to modify appropriations – including appropriations required under a voter-approved program – during periods of fiscal emergency.

STATUTORY REFORMS

Fee Setting Commission. When compared to other jurisdictions, Arizona ranks relatively low in its reliance on fees and user charges to support governmental functions. This relative under-reliance means that many governmental services that should properly be funded by charges on the users of those services are in fact being subsidized by taxpayers generally.

In light of this, the Executive is recommending that several agencies become self-sustaining through a combina-

tion of operational efficiencies and greater support from the constituencies they serve. This recommendation is specifically directed to the activities of the Department of Environmental Quality and Department of Water Resources. Additionally, there are numerous functions of State government that have traditionally used, or are beginning to use, fees and charges.

Unfortunately, the expertise does not always exist in the various State agencies to develop appropriate fees. Further, there is no "in-house" resource for agencies to consult when setting fees, and there has been no State-wide articulation of the philosophy, methodology or appropriateness of fee-setting activities. Additionally, there has been no comprehensive inventory of the activities of State government that are, can be or should be supported by fees and charges. Finally, there is no review process to ensure that fees that are set are appropriate and achieve the objective for which they are intended.

Therefore, the Executive recommends the establishment of the Arizona Fee Review Commission to be supported by additional staff provided to the Governor's Office of Strategic Planning and Budgeting. The purpose of the Commission and staff will be to:

- expand the use of fees and charges throughout State government,
- review and develop methodologies that should be used by agencies when establishing fees and charges,
- assist agencies in determining fees, and,
- on a specified schedule, to review and rebase all fees imposed by the State.

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 3,567 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 2011 capital requests for major projects and new construction submitted to ADOA for consideration in the FY 2011 ADOA Building System CIP totaled \$433.9 million. The ADOA request for Building Renewal is \$33.9 million, based on statutory formula. Neither ADOT nor the Board of Regents has requested any new funds for New Construction. For Building Renewal, ADOT has requested \$8.9 million and the Board of Regents requests \$88.9 million.

ADOA BUILDING SYSTEM: NEW CONSTRUCTION

The Executive recommends \$7.9 million in FY 2011 for new construction and major maintenance capital projects. The Recommendation includes:

- \$5.7 million of unused COP debt proceeds to replace the Yuma Complex Cheyenne Kitchen Roof
- \$2.2 million from other appropriated funds for the Game and Fish Department.

GENERAL FUND

The Executive does not recommend any General Fund appropriations for new construction projects for the State's Building Systems.

OTHER FUNDS

Department of Corrections: Yuma Complex Cheyenne Kitchen and Building 13 Roof

In June 2009, the roof of the Yuma Complex Cheyenne Kitchen and adjacent laundry facility was determined to be unsound and no longer safe for use. Since then the Department

of Corrections (DOC) has been utilizing paper goods to feed the 1,200 inmates in the Cheyenne unit and has been trucking their heavy laundry to the Lewis facility in Buckeye. The annual costs of the paper goods and trucking of the laundry is estimated to cost the Department \$547,600.

The Executive recommends the shoring and repair of the existing roof at the Yuma Complex Cheyenne Kitchen and the adjacent Building 13 (Heavy Duty Laundry Facility). The cost of shoring and repair is estimated to be \$5.7 million.

The Department has a \$16 million special line item for the debt service payment on the 4,000 new state beds. Currently, Laws 2009, Fifth Special Session, Chapter 1 requires the Department to revert \$11 million of their General Fund appropriation back to the General Fund in FY 2010. This is not possible, as only \$4.6 million in debt service payments remain to be made in FY 2010.

In FY 2011, the remaining \$6.9 million in COP proceeds will be used to offset the General Fund debt service expenditure, freeing up money in the Department's budget. Of this offset, \$5.7 million will be used to cover the costs of repairing the roofs.

Game and Fish Department: Major Projects

The Executive recommends \$2.2 million from Other Funds in FY 2011 for Game and Fish Department projects. This amount includes \$1.8 million from the Capital Improvement Fund, \$290,000 from the Game and Fish Fund, and \$100,000 from the Waterfowl Conservation Fund.

Silver Creek Hatchery Remodel Project. The Executive recommends \$1 million in FY 2011 from the Game and Fish Capital Improvement Fund to complete the renovation and modernization of the Silver Creek Hatchery facility. This is the second phase of a two-phase project to reconfigure the facility to allow the reuse of as much 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.

Shooting Range Infrastructure Improvements. The Executive recommends \$800,000 from the Game and Fish Capital Improvement Fund to continue a multi-year renovation of the Ben Avery Shooting 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.

Shooting Range Access Improvements. The Executive Recommendation includes \$200,000 from the Game and Fish Fund to

continue resurfacing selected roadways at Ben Avery Shooting Facility and other facilities statewide.

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.

Yuma Office – Paving Project. The Executive recommends \$60,000 from the Game and Fish Fund to pave the surface east of the existing gravel parking lot. This will improve compliance with local dust control ordinances, address on-site drainage issues and provide better storage for the equipment at the Yuma Regional Office.

Migratory Waterfowl Habitat Restoration. The Executive recommends \$100,000 from the Waterfowl Conservation Fund to develop migratory waterfowl habitat and to conduct associated research and wildlife management.

ADOA BUILDING SYSTEM: BUILDING RENEWAL

The Executive Recommendation provides \$21.6 million for Building Renewal for the Arizona Department of Administration (ADOA) system, including \$20 million of General Fund, \$1 million from the Capital Outlay Stabilization Fund, \$506,800 from the Game and Fish Fund, and \$75,600 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.

GENERAL FUND

The Executive recommends \$20 million General Fund for urgent Building Renewal needs for the ADOA Building System.

The State has not fully funded the Building Renewal formula in recent years, and deferred maintenance costs have risen to approximately \$317 million for the ADOA Building System. ADOA building inspectors report that “a majority of structures have exceeded their useful lives, with building components that routinely fail and require annual emergency replacements of major equipment[.] ... Many aged and decrepit building components and major structural systems are rusted, energy inefficient, unreliable and in danger of imminent failure.”

ADOA cites a National Academy of Science report that governments defer maintenance because “in the short term, operations will continue without an obvious immediate decline in services to the general public. As maintenance is deferred over the longer term ... it has been estimated that the cost relationship is between \$4 and \$5 in capital liability created for each \$1 of deferred maintenance.”

CAPITAL OUTLAY STABILIZATION FUND (COSF)

The Executive recommends \$1 million in COSF monies for Building Renewal in the ADOA Building System. The COSF consists of rents paid from 36 buildings within the ADOA system. However, there are 3,567 facilities within the System that

CERTIFICATES OF PARTICIPATION

Balloon Payments. In FY 2011, the final balloon payment for COP 2002B will come due. This COP was used to pay for the Tucson 400 W. Congress building, the Department of Economic Security (DES) and Department of Administration (DOA) parking garages, the Food Services Building at the Deaf & Blind School, the Supreme Court building, and the museum at Papago Park. The cost will be \$14.3 million more than the FY 2010 payment – a 122% increase. While DES, the Judiciary and the Historical Society will see the largest dollar increases in their rent, a total of 23 agencies will be affected, as follows:

Agency	Increase
Administration.....	\$782,900
Agriculture.....	\$47,200
Attorney General.....	\$43,000
Auditor General.....	\$68,200
Corporation Commission.....	\$89,400
Economic Security.....	\$4,792,700
Education.....	\$82,100
Environmental Quality.....	\$165,800
Fire, Building and Life Safety.....	\$54,200
Gaming.....	\$22,000
Governor’s Office.....	\$51,200
Health Services.....	\$195,600
Historical Society.....	\$1,690,400
Insurance.....	\$19,300
Judiciary.....	\$5,387,400
Liquor Licenses and Control.....	\$36,800
Pest Management.....	\$6,600
Real Estate.....	\$39,200
Registrar of Contractors.....	\$58,900
Secretary of State.....	\$9,300
State Schools for the Deaf and Blind.....	\$510,900
Water Resources.....	\$122,900
Total	\$14,276,000

are supported by Building Renewal monies. With so few buildings making rent payments into the COSF, the Fund is unable to support Building Renewal needs for the entire ADOA Building System.

The ADOA Building System has historically been funded through a combination of the General Fund and the Capital Outlay Stabilization Fund (COSF). COSF continues to be strained because it is also used to fund utilities and an increasing portion of ADOA’s operating budget. For FY 2009 and FY 2010 an additional \$5.2 million ADOA operating expenses was shifted from the General Fund to COSF. In FY 2009, another \$1.6 million was transferred from COSF to the General Fund.

OTHER DEDICATED FUNDS

The Executive Recommendation includes 100% Building Renewal formula funding for Game and Fish and the Lottery, each of which has its own funding sources. The funding includes \$506,800 from the Game and Fish Fund and \$75,600 from the State Lottery Fund.

BOARD OF REGENTS BUILDING SYSTEM

The three universities (Arizona State University, Northern Arizona University and the University of Arizona) supervised by the Board of Regents include an inventory of 1,670 buildings and structures that have a total area of approximately 37.2 million square feet and a replacement value estimated at \$9.1 billion. As noted previously, the Board has not requested any new construction projects but has requested \$88.9 million in Building Renewal. The Executive does not recommend any funding for this request.

ADOT BUILDING SYSTEM

The Arizona Department of Transportation (ADOT) includes an inventory of 1,257 buildings and structures that have a total area of approximately 3.2 million square feet and a replacement value estimated at \$618.9 million. As noted previously, the agency has not requested any new Building System construction projects, though highway construction continues.

For Building Renewal, ADOT has requested \$8.9 million. The Executive Recommendation provides a total of \$1,050,000: \$1 million from the State Highway Fund and \$50,000 from the State Aviation Fund.

STATE HIGHWAY FUND

Highway Construction. As is detailed in the table “FY 2011 Highway Construction Program Costs,” the Executive Recommendation supports a \$1.8 billion transportation infrastructure program for FY 2011. The funding level would provide \$145.8 million for highway construction and \$135 million for pavement preservation maintenance.

FY 2011 Highway Construction Program Costs

Construction ¹	\$ 145,847,000
Pavement Preservation Maintenance.....	135,000,000
Other ²	139,911,000
MAG Regional Program ³	970,324,000
Debt Service ⁴	<u>363,850,000</u>
	\$1,754,932,000

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 \$94,763,000 for State Highway Fund statewide construction bonds; \$60,967,000 for HURF and Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$107,551,000 for Maricopa Regional Area Road Fund bonds; and \$100,569,000 for Grant Anticipation Notes.

In accordance with statutes, the actual expenditure levels are determined within the scope of the Five-Year Highway Construction Program as approved by the State Transportation Board.

Debt Service. The recommendation provides \$363.9 million for debt service for existing ADOT construction bonds.

Building Renewal. The Executive recommends \$1 million for Building Renewal from the State Highway Fund.

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.

Building Renewal. The Executive recommends \$50,000 for Building Renewal from the State Aviation Fund.

Budget Summary

BUDGET IN A FLASH

EXECUTIVE RECOMMENDATION SUMMARY

FISCAL YEAR 2011 - GENERAL FUND (\$millions)

Major Highlights of FY 2011

\$591.8 AHCCCS Caseload and Inflation	(\$14.2) K-12 Additional State Aid
\$472.1 K-12 Federal Backfill	(\$17.0) Restrict DES Cash Assistance Eligibility
\$146.6 Behavioral Health Services	(\$21.1) GME and DSH Reductions
\$101.3 Backfill Expiring Federal Stimulus for DES	(\$36.0) Consolidate Non-Title XIX Behavioral Health
\$59.3 K-12 Basic State Aid	(\$46.3) K-12 Program Reduction
\$98.4 Expanding Prisons	(\$63.3) Consolidation of Juvenile Justice System
\$50.0 Backfill Expiring Federal Stimulus for Corrections	(\$79.0) Provider and Capitation Rate Reductions
\$28.5 DES Developmental Disabilities Caseload	(\$86.5) Closing Out-of-State Prisons
\$63.5 New School Construction Debt Service	(\$100.0) K-12 Excess Utilities
\$13.1 Childrens' Rehabilitative Services	(\$218.0) Eliminate Full Day Kindergarten
(\$10.6) Office of Tourism	(\$220.0) K-12 Lump Sum Reduction
(\$12.9) KidsCare Freeze	(\$382.5) Proposition 204 Rollback

Operating Budgets

Sources and Uses FY 10 - FY 11

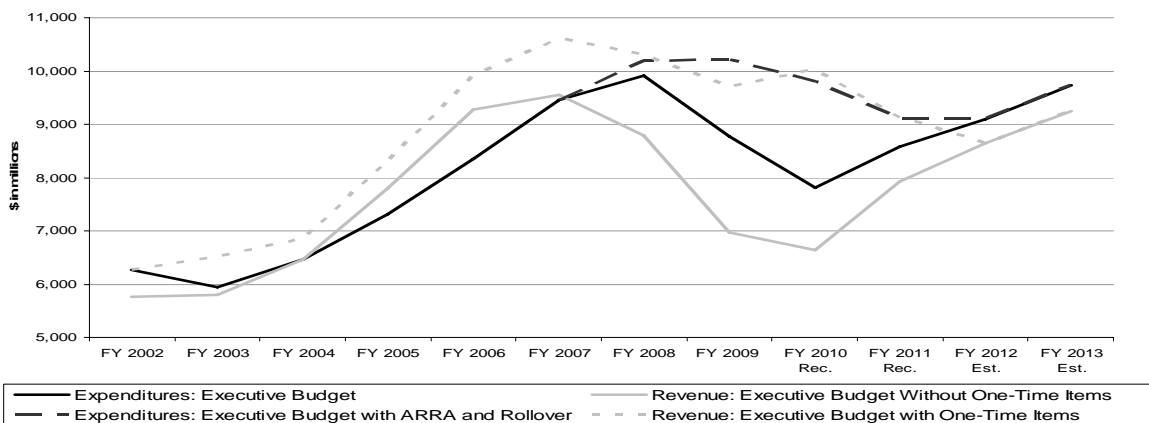
	FY 10 Approp	Change from FY 10	FY 11 Recomm.		FY 10 Approp	FY 10 Recomm.	FY 11 Recomm.
Dept. of Education	3,534.0	(43.9)	3,490.1	Balance Forward	(480.7)	(480.7)	229.3
AHCCCS	1,178.0	164.7	1,342.7	Revenue Estimate	6,341.4	6,341.4	6,778.5
University System	883.1	0.0	883.1	Revenue Increases	48.0	311.0	1,161.7
Dept. of Corrections	879.9	84.7	964.6	Budget Stabilization Fund		2.8	
Dept. of Economic Security	546.1	132.9	679.0	Agency Fund Transfers	236.2	236.2	184.2
Dept. of Health Services	444.2	26.8	471.0	Other Transfers	99.1	99.1	0.0
Community Colleges	135.3	0.0	135.3	Other Adjustments		46.7	260.0
School Facilities Board	113.1	(43.2)	69.9	Lease-Purchase/Revenue Bonds	<u>835.4</u>	<u>1,485.4</u>	<u>0.0</u>
Department of Juvenile Corrections	63.3	(63.3)	0.0	TOTAL SOURCES OF FUNDS	<u>7,079.4</u>	<u>8,041.9</u>	<u>8,613.7</u>
Dept. of Revenue	37.6	7.6	45.2				
Dept. of Water Resources	16.9	(9.7)	7.2	Operating Budgets	8,272.5	8,341.2	8,497.0
Dept. of Environmental Quality	12.8	(5.8)	7.0	Supplementals			60.0
Secretary of State	12.0	(5.0)	7.0	One-time Reductions/Rollovers	(34.7)	(484.7)	
Dept. of Tourism	10.7	(10.7)	0.0	Health Insurance Increase			12.7
Dept. of Agriculture	8.6	(0.7)	7.9	5% Salary Reductions		(15.0)	(60.0)
Dept. of Racing	5.7	(1.4)	4.3	Total Operating Budgets	8,237.8	7,841.5	8,509.7
Post-Secondary Education	4.0	(2.8)	1.2	Capital Outlay Appropriations	10.4	10.4	20.0
Department of Administration	17.8	0.2	18.0	Allowances for Debt Service			87.2
Dept. of Public Safety	43.6	2.5	46.1	Statutory Revertments	(50.4)	(0.5)	
Judiciary	119.6	4.3	123.9	Administrative Adjustments	65.7	65.7	68.0
Parks Board	20.0	(20.0)	0.0	Revertments	<u>(104.5)</u>	<u>(104.5)</u>	<u>(102.4)</u>
All Others	<u>186.2</u>	<u>4.3</u>	<u>190.5</u>	USES OF FUNDS	8,159.0	7,812.6	8,582.5
Total	<u>8,272.5</u>	<u>221.5</u>	<u>8,494.0</u>	ENDING BALANCE	<u>(1,079.6)</u>	<u>229.3</u>	<u>31.3</u>

FY 2010 Recommendations

AHCCCS-Caseload and Inflation	87,165.0	DES-Community Services Reductions	(2,350.0)
DHS-Behavioral Health Services	25,397.0	DES-Means Testing and Fee Increases	(4,900.0)
DOC-Medical Expenses at AHCCCS Rates	20,000.0	DES-Reduce or Eliminate Children Youth and Families Programs	(5,300.0)
DHS-Technical Adjustment-Tobacco Tax Shortfall	5,904.0	DHS-County Contributions for Sexually Violent Persons	(7,738.0)
DHS-Children's Rehabilitative Services	5,384.0	DES-Restrict Cash Assistance Eligibility to 36 months	(9,000.0)
DOA-AG Legal Services Federal Repayment	<u>1,700.0</u>	DHS-Consolidate non TXIX Behavioral Health Programs	(14,892.0)
		Total FY 2010 GF Recommendations	<u>113,883.0</u>

Arizona General Fund Revenue and Expenditures FY 2002 to FY 2013

General Fund Revenue and Expenditures with Balancing Plan Solutions



One-time items refers to fund transfers, asset sales, Federal stimulus, and rollovers.
Revenue and expenditures grow after FY 2011 at a projected rate of 7%.

MAJOR CHANGES IN FY 2011 GENERAL FUND BUDGETS (Increases to FY 2010 Appropriations)

Department of Education		Department of Economic Security	
	FY 2011		FY 2011
Federal Backfill	472.1	Federal Funds Backfill	101.3
Basic State Aid FY 2011	59.3	TXIX Developmental Disabilities Caseload Growth	28.5
Additional State Aid	(14.2)	TANF Shortfall	18.4
Program Reduction	(46.3)	Technical Adjustments	17.0
Lump Sum Reduction	(10.0)	Temporary Federal Funding Offset	4.5
Excess Utilities	(100.0)	COP Balloon Payment	4.0
Soft Capital Reduction	(180.0)	Reduce Adult Services	(1.6)
Eliminate Full Day Kindergarten	(218.0)	Community Services Reductions	(2.4)
Other Adjustments	(6.8)	Reduce State-Only Developmental Disability Service	(3.7)
TOTAL	(\$43.9)	Reduce or Eliminate Division of Children Youth and Families Program	(5.3)
		Means Testing and Fee Increases	(7.6)
		Restrict Cash Assistance Eligibility to 36 Months	(17.0)
		Other Adjustments	(3.2)
		TOTAL	\$132.9
Department of Water Resources		AHCCCS	
	FY 2011		FY 2011
LTO Debt Service Refinance	(60.0)	Caseload and Inflation	591.8
Building Renewal	5.0	Transfer of BHS to AHCCCS	43.1
Other Adjustments	11.8	DOA Data Center	1.0
TOTAL	(\$43.2)	Fraud Reduction Staffing	(0.5)
		County Hold Harmless	(4.8)
		Optional Benefits Reduction	(6.3)
		KidsCare Elimination	(10.0)
		5th Special Session KidsCare Freeze	(12.9)
		GME and Private DSH Reductions	(21.1)
		Provider Rate Reductions	(57.1)
		Prop 204 Rollback	(358.5)
		TOTAL	\$164.7
School Facilities Board		Department of Health Services	
	FY 2011		FY 2011
New Construction Lease-to-Own Debt Service	63.5	Behavioral Health Services	146.6
Building Renewal	5.0	Children's Rehabilitative Services	13.1
Technical Adjustment	(111.7)	Equity Distribution for at Risk Contracts	9.0
TOTAL	(\$43.2)	Capitation Rate Adjustments	(21.9)
		Prop 204 Rollback	(24.0)
		Consolidate Non-TXIX Behavioral Health Programs	(36.0)
		Transfer of Behavioral Health to AHCCCS	(43.1)
		Other Adjustments	(16.9)
		TOTAL	\$26.8
Department of Corrections		Department of Agriculture	
	FY 2011		FY 2011
Backfill of One-Time Federal Stimulus Funding	50.0	Annualization of 5th Special Session Reductions	(0.7)
Bed Plan: 4,000 New State Beds Operating Costs	44.3	Other Adjustments	0.0
Bed Plan: 2,000 New Private Prison Beds	40.0	TOTAL	(\$0.7)
Bed Plan: New Beds Start-Up Costs	14.1		
No Inflationary Adjustments	(5.9)		
Administrative Reduction	(7.9)		
Bed Plan: Closure of Provisional Beds	(86.5)		
Other Adjustments	36.6		
TOTAL	\$84.7		
Department of Juvenile Corrections		Department of Environmental Quality	
	FY 2011		FY 2011
Consolidation of Juvenile Justice at Counties	(63.3)	Special Session Adjustment	0.5
TOTAL	(\$63.3)	Self Funding	(6.3)
		TOTAL	(\$5.8)
Department of Public Safety		Department of Revenue	
	FY 2011		FY 2011
Backfill CJEF Shortfall	3.1	Increase Audit Staff	4.4
Continue GIITEM at FY 2010 Funding Level	0.8	BRITS Internal Support	2.0
Operating Budget Reduction	(1.4)	Special Session: Backfill	0.9
TOTAL	\$2.5	Increase Collections Staff	0.3
		TOTAL	\$7.6
Department of Racing		Secretary of State	
	FY 2011		FY 2011
Special Session Adjustment	0.5	FY 2011 State Election	3.4
Reduction in Racing Industry Awards	(1.8)	One-Time Special Election Funding	(8.3)
TOTAL	(\$1.3)	TOTAL	(\$4.9)
Parks Board			
	FY 2011		
Growing Smarter Reform	(20.0)		
TOTAL	(\$20.0)		
Office of Tourism			
	FY 2011		
Eliminate General Fund Support	(10.6)		
TOTAL	(\$50.6)		
Post-Secondary Education			
	FY 2011		
Postsecondary Education Financial Assistance Program	(0.4)		
Postsecondary Education Grant Program	(2.4)		
TOTAL	(\$2.8)		

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
Arizona Department of Administration	2,306,680.9	17,830.3	19,028.5	17,967.1	136.8
Office of Administrative Hearings	1,118.1	934.3	934.3	934.3	0.0
Arizona Department of Agriculture	10,161.2	8,584.9	8,584.9	7,917.0	(667.9)
Arizona Health Care Cost Containment System	1,186,487.6	1,178,047.5	1,265,212.9	1,342,722.7	164,675.2
Arizona Commission on the Arts	1,507.1	895.9	823.2	680.1	(215.8)
Attorney General - Department of Law	21,483.0	17,987.5	17,987.5	18,028.8	41.3
State Capital Post-Conviction Public Defender Office	753.3	647.0	647.0	818.3	171.3
State Board for Charter Schools	998.7	823.9	823.9	823.9	0.0
Department of Commerce	4,012.6	6,512.0	6,512.0	6,512.0	0.0
Arizona Community Colleges	147,679.8	135,344.3	135,344.3	135,344.3	0.0
Corporation Commission	4,213.9	637.6	637.6	727.0	89.4
Department of Corrections	916,412.7	879,927.0	899,927.0	967,597.6	87,670.6
Board of Cosmetology	293.3	0.0	0.0	0.0	0.0
Arizona Criminal Justice Commission	1,054.8	0.0	0.0	0.0	0.0
Arizona State Schools for the Deaf and the Blind	23,411.7	21,268.4	21,268.4	21,544.4	276.0
Department of Economic Security	639,786.7	546,076.6	522,676.6	678,951.2	132,874.6
Department of Education	3,712,194.7	3,533,990.9	3,506,431.5	3,490,087.3	(43,903.6)
Department of Emergency and Military Affairs	9,466.0	10,491.9	10,491.9	10,541.9	50.0
Department of Environmental Quality	19,673.5	12,779.1	12,779.1	7,000.0	(5,779.1)
Governor's Office for Equal Opportunity	218.6	196.6	196.6	196.6	0.0
State Board of Equalization	602.2	602.5	672.5	674.5	72.0
Board of Executive Clemency	1,044.5	880.2	880.2	964.8	84.6
State Department of Financial Institutions	3,304.2	2,973.0	2,973.0	2,973.0	0.0
Department of Fire, Building and Life Safety	3,112.8	2,185.0	2,185.0	2,062.0	(123.0)
Arizona State Forester	3,525.4	3,201.1	3,201.1	6,016.6	2,815.5
Arizona Geological Survey	961.5	801.4	801.4	801.4	0.0
Government Information Technology Agency	1,064.9	757.3	757.3	760.8	3.5
Office of the Governor	6,750.3	7,043.9	7,043.9	7,095.1	51.2
Governor's Office of Strategic Planning and Budgeting	2,147.3	1,993.5	1,993.5	2,195.4	201.9
Department of Health Services	538,479.8	444,195.9	457,369.8	471,030.0	26,834.1
Arizona Historical Society	4,017.1	3,870.7	3,870.7	5,561.1	1,690.4
Prescott Historical Society of Arizona	657.9	692.0	692.0	692.0	0.0
Arizona Commission of Indian Affairs	208.2	117.1	117.1	63.8	(53.3)
Department of Insurance	6,866.7	5,625.8	5,625.8	5,184.1	(441.7)
Judiciary	121,453.4	119,520.4	119,520.4	123,930.3	4,409.9
Department of Juvenile Corrections	71,832.2	63,331.2	63,331.2	0.0	(63,331.2)
State Land Department	14,021.7	4,020.6	4,020.6	4,294.4	273.8
Law Enforcement Merit System Council	76.8	71.9	71.9	71.9	0.0
Auditor General	14,902.4	16,546.7	16,546.7	16,614.9	68.2
House of Representatives	11,990.1	13,000.9	13,000.9	13,000.9	0.0
Joint Legislative Budget Committee	874.5	2,548.3	2,548.3	2,548.3	0.0
Legislative Council	4,643.0	4,856.2	4,856.2	4,856.2	0.0

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
Senate	7,724.5	8,244.8	8,244.8	8,244.8	0.0
Department of Liquor Licenses and Control	3,029.8	702.7	702.7	0.0	(702.7)
Board of Medical Student Loans	1,001.0	801.9	801.9	402.9	(399.0)
State Mine Inspector	1,341.5	1,161.7	1,161.7	1,072.6	(89.1)
Department of Mines and Mineral Resources	882.0	858.7	858.7	828.5	(30.2)
Arizona Navigable Stream Adjudication Commission	124.9	136.3	136.3	136.3	0.0
State Board of Nursing	97.5	0.0	0.0	0.0	0.0
State Parks Board	23,610.0	20,000.0	20,000.0	0.0	(20,000.0)
Personnel Board	328.0	0.0	0.0	0.0	0.0
Arizona Pioneers' Home	0.0	0.0	0.0	2,195.3	2,195.3
Commission for Postsecondary Education	4,302.3	4,042.0	4,042.0	1,220.8	(2,821.2)
Department of Public Safety	54,152.2	43,589.2	43,589.2	46,053.9	2,464.7
Arizona Department of Racing	2,278.9	5,677.7	4,338.1	4,341.5	(1,336.2)
Radiation Regulatory Agency	1,605.2	1,417.9	1,417.9	1,417.9	0.0
Arizona Rangers' Pension	13.7	14.0	14.0	14.2	0.2
Department of Real Estate	3,685.4	3,021.4	3,021.4	3,060.6	39.2
Independent Redistricting Commission	256.2	0.0	0.0	300.0	300.0
Department of Revenue	64,758.1	37,612.0	37,612.0	45,202.9	7,590.9
School Facilities Board	100,762.2	113,111.8	113,111.8	69,918.2	(43,193.6)
Department of State - Secretary of State	6,413.5	11,961.6	11,961.6	7,024.0	(4,937.6)
Arizona State Library, Archives & Public Records	6,213.4	6,441.7	6,441.7	6,338.5	(103.2)
State Board of Tax Appeals	263.0	258.8	258.8	259.5	0.7
Arizona Office of Tourism	15,777.2	10,655.2	10,655.2	0.0	(10,655.2)
Department of Transportation	69.7	58.4	58.4	53.7	(4.7)
State Treasurer	20,689.0	3,607.5	3,607.5	3,607.5	0.0
Arizona Board of Regents	18,435.8	18,598.3	18,598.3	18,598.3	0.0
ASU - Tempe	344,192.8	330,087.2	330,087.2	330,087.2	0.0
ASU - Polytechnic	26,471.9	25,388.8	25,388.8	25,388.8	0.0
ASU - West	46,259.2	44,438.9	44,438.9	44,438.9	0.0
Northern Arizona University	140,256.0	134,642.8	134,642.8	134,642.8	0.0
University of Arizona - Main Campus	288,471.2	274,423.1	274,423.1	274,423.1	0.0
University of Arizona - Health Sciences Center	74,073.7	74,073.7	74,073.7	74,073.7	0.0
Department of Veterans' Services	7,641.9	7,602.5	7,002.5	5,456.5	(2,146.0)
Department of Water Resources	10,285.5	16,879.9	16,879.9	7,206.4	(9,673.5)
Department of Weights and Measures	1,379.2	1,216.9	1,216.9	1,216.9	0.0
General Fund Operating Total	11,096,991.5	8,272,538.7	8,341,174.5	8,497,012.2	224,473.5

The FY 2010 and FY 2011 Executive Budget columns include much of the Governor's Executive Recommendation for budget balancing incorporated into the individual agency operating budgets.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>State Board of Accountancy</u>					
Accountancy Board Fund	1,432.7	1,902.4	1,902.4	1,904.8	2.4
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners Fund	112.9	129.7	129.7	129.7	0.0
<u>Arizona Department of Administration</u>					
Personnel Division Fund	16,357.9	14,884.7	13,259.7	14,080.4	(804.3)
Capital Outlay Stabilization Fund	14,952.2	17,411.8	17,411.8	17,411.8	0.0
Corrections Fund	536.0	568.9	568.9	568.9	0.0
Air Quality Fund	597.8	714.1	714.1	714.1	0.0
Special Employee Health Fund	4,224.9	5,249.8	5,249.8	5,249.8	0.0
Motor Pool Revolving Fund	7,795.4	10,530.5	9,684.5	9,684.5	(846.0)
State Surplus Property Fund	2,203.4	3,618.5	2,406.1	2,406.1	(1,212.4)
Admin - Surplus Property/Federal Fund	112.3	453.3	105.3	105.3	(348.0)
Risk Management Fund	77,163.1	92,472.2	92,472.2	92,818.8	346.6
Automation Operations Fund	19,870.6	19,195.9	19,195.9	21,252.3	2,056.4
Telecommunications Fund	4,539.5	6,509.9	1,796.2	1,796.2	(4,713.7)
Agency Total	148,353.1	171,609.6	162,864.5	166,088.2	(5,521.4)
<u>Office of Administrative Hearings</u>					
Healthcare Group Fund	14.5	14.5	14.5	14.5	0.0
<u>Arizona Department of Agriculture</u>					
Agricultural Consulting/Training Program Fund	107.4	0.0	0.0	0.0	0.0
Agriculture Commercial Feed Fund	263.3	302.0	302.0	305.2	3.2
Egg and Egg Product Control Fund	704.3	904.4	904.4	913.8	9.4
Pesticide Fund	463.0	388.3	388.3	342.3	(46.0)
Agriculture Dangerous Plants Fund	40.0	40.0	40.0	40.0	0.0
Agriculture Seed Law Fund	51.2	54.6	54.6	54.6	0.0
Livestock Custody Fund	54.3	79.4	79.4	79.4	0.0
Fertilizer Materials Fund	270.7	307.7	307.7	310.9	3.2
Citrus, Fruit, and Vegetable Revolving Fund	932.6	1,028.7	1,028.7	956.7	(72.0)
Aquaculture Fund	7.4	9.2	9.2	9.2	0.0
AZ Protected Native Plant Fund	72.7	197.7	197.7	150.0	(47.7)
Agency Total	2,966.9	3,312.0	3,312.0	3,162.1	(149.9)
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Tax and Health Care Fund	50,803.3	53,738.1	46,882.5	50,710.8	(3,027.3)
Tobacco Products Tax Fund	22,131.8	23,331.8	20,263.4	20,521.1	(2,810.7)
Children's Health Insurance Program Fund	121,935.9	114,978.2	89,482.2	0.0	(114,978.2)
Budget Neutrality Compliance Fund	2,130.8	2,993.5	2,993.5	3,119.8	126.3
Healthcare Group Fund	3,724.4	6,179.7	6,179.7	5,246.1	(933.6)
Temporary Medical Coverage Fund	3,138.0	0.0	0.0	0.0	0.0
Agency Total	203,864.2	201,221.3	165,801.3	79,597.8	(121,623.5)
<u>State Board of Appraisal</u>					
Board of Appraisal Fund	607.2	624.2	624.2	624.2	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Attorney General - Department of Law</u>					
Consumer Protection/Fraud Revolving Fund	2,499.9	3,513.7	3,513.7	3,513.7	0.0
Attorney General Antitrust Revolving Fund	189.1	242.8	242.8	242.8	0.0
Attorney General Collection Enforcement Fund	2,625.1	3,313.4	3,313.4	3,313.4	0.0
Attorney General Agency Services Fund	12,364.4	13,440.4	13,440.4	13,440.4	0.0
Victims Rights Fund	3,204.1	3,248.2	3,248.2	3,248.2	0.0
Risk Management Fund	8,392.3	9,037.4	9,037.4	9,037.4	0.0
Attorney General Legal Services Cost Allocation Fund	6,346.6	5,651.6	5,651.6	5,651.6	0.0
Agency Total	35,621.5	38,447.5	38,447.5	38,447.5	0.0
<u>Automobile Theft Authority</u>					
Automobile Theft Authority Fund	4,775.1	5,140.2	5,140.2	5,140.2	0.0
<u>Board of Barber Examiners</u>					
Barber Examiners Board Fund	276.4	329.9	329.9	351.0	21.1
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiners Fund	1,243.7	1,378.8	1,378.8	1,453.2	74.4
<u>Arizona Biomedical Research Commission</u>					
Health Research Fund	1,500.0	500.0	500.0	500.0	0.0
<u>State Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board Fund	459.3	476.6	476.6	453.2	(23.4)
<u>Department of Commerce</u>					
Lottery Fund	252.0	268.1	268.1	268.1	0.0
Commerce Development Bond Fund	124.6	145.4	145.4	145.4	0.0
Commerce and Economic Development Fund	2,229.7	4,074.7	4,074.7	4,074.7	0.0
Oil Overcharge Fund	0.0	185.7	185.7	185.7	0.0
Agency Total	2,606.3	4,673.9	4,673.9	4,673.9	0.0
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	10,362.9	12,232.7	12,232.7	12,291.6	58.9
<u>Corporation Commission</u>					
Utility Regulation Revolving Fund	14,568.7	14,539.8	14,539.8	14,539.8	0.0
Security Regulatory and Enforcement Fund	3,708.7	4,765.8	4,765.8	4,765.8	0.0
Public Access Fund	4,242.0	6,784.7	6,784.7	6,784.7	0.0
Securities Investment Management Fund	2,377.2	769.5	769.5	769.5	0.0
Arizona Arts Trust Fund	51.1	51.8	51.8	51.8	0.0
Agency Total	24,947.7	26,911.6	26,911.6	26,911.6	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Department of Corrections</u>					
Corrections Fund	25,504.4	29,017.6	29,017.6	24,284.7	(4,732.9)
State Education Fund for Correctional Education Fund	231.0	507.5	507.5	507.5	0.0
DOC - Alcohol Abuse Treatment Fund	392.6	554.4	554.4	496.4	(58.0)
Juvenile Corrections CJEF Dist Fund	0.0	0.0	0.0	556.0	556.0
Transition Office Fund	177.6	380.0	380.0	380.0	0.0
Transition Program Drug Treatment Fund	270.2	1,055.0	1,055.0	1,055.0	0.0
Prison Construction and Operations Fund	13,929.2	11,499.4	11,499.4	9,317.6	(2,181.8)
Endowments/Land Earnings Fund	0.0	0.0	0.0	1,098.6	1,098.6
Penitentiary Land Earnings Fund	1,418.8	979.2	979.2	375.2	(604.0)
State Charitable, Penal & Reformatory Land Earnings Fund	1,208.7	360.0	360.0	360.0	0.0
Agency Total	43,132.5	44,353.1	44,353.1	38,431.0	(5,922.1)
<u>Board of Cosmetology</u>					
Cosmetology Board Fund	1,377.4	1,759.5	1,759.5	1,759.5	0.0
<u>Arizona Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	763.9	684.1	684.1	632.8	(51.3)
Victim Compensation and Assistance Fund	4,026.3	4,100.0	4,100.0	4,100.0	0.0
State Aid to County Attorneys Fund	886.7	973.6	973.6	973.6	0.0
State Aid to Indigent Defense Fund	841.7	924.3	475.1	924.3	0.0
Agency Total	6,518.6	6,682.0	6,232.8	6,630.7	(51.3)
<u>Arizona State Schools for the Deaf and the Blind</u>					
Schools for the Deaf and Blind Fund	14,695.0	14,806.6	14,806.6	14,806.6	0.0
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecom for the Deaf Fund	3,794.4	4,079.2	4,079.2	3,997.2	(82.0)
<u>State Board of Dental Examiners</u>					
Dental Board Fund	1,081.5	1,106.5	1,106.5	1,166.4	59.9
<u>Arizona Drug and Gang Prevention Resource Center</u>					
Drug and Gang Prevention Resource Center Fund	431.3	235.2	235.2	0.0	(235.2)
Intergovernmental Agreements and Grant Funds Fund	23.2	344.4	344.4	344.4	0.0
Agency Total	454.5	579.6	579.6	344.4	(235.2)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Department of Economic Security</u>					
Tobacco Tax and Health Care Fund	0.0	200.0	200.0	0.0	(200.0)
Workforce Investment Grant Fund	40,666.4	55,954.8	55,954.8	55,954.8	0.0
Temporary Assistance for Needy Families (TANF) Fund	250,068.6	283,150.7	252,650.7	224,265.1	(58,885.6)
Child Care and Development Fund	118,865.8	130,448.6	130,448.6	130,448.6	0.0
Special Administration Fund	1,046.3	1,135.3	1,135.3	1,135.3	0.0
Child Support Enforcement Administration Fund	14,384.4	15,352.7	15,877.7	16,494.9	1,142.2
Domestic Violence Shelter Fund	2,153.9	2,220.0	2,090.8	2,090.8	(129.2)
Child Abuse Prevention Fund	793.1	1,459.1	1,459.1	1,459.1	0.0
Children and Family Services Training Program Fund	165.1	178.2	178.2	178.2	0.0
Public Assistance Collections Fund	182.7	377.0	377.0	377.0	0.0
Department Long-Term Care System Fund	25,493.2	27,069.4	28,944.4	31,119.4	4,050.0
Spinal and Head Injuries Trust Fund	2,079.7	1,875.4	1,875.4	1,875.4	0.0
Risk Management Fund	181.0	271.5	271.5	271.5	0.0
Indirect Cost Recovery Fund	2,000.0	1,000.0	1,000.0	1,000.0	0.0
Reed Act Fund	3,443.7	3,524.2	3,524.2	3,524.2	0.0
Agency Total	461,523.9	524,216.9	495,987.7	470,194.3	(54,022.6)
<u>Department of Education</u>					
Teacher Certification Fund	2,549.4	2,468.8	2,468.8	2,468.8	0.0
School Accountability Fund Prop 301 Fund	5,736.2	7,000.0	7,000.0	6,819.7	(180.3)
Statewide Compensatory Instruction Fund	(14.1)	0.0	0.0	0.0	0.0
Public Institution Permanent School Earnings Fund	45,220.7	46,475.5	46,475.5	46,475.5	0.0
Agency Total	53,492.2	55,944.3	55,944.3	55,764.0	(180.3)
<u>Department of Emergency and Military Affairs</u>					
Emergency Response Fund	132.7	132.7	0.0	0.0	(132.7)
Agency Total	132.7	132.7	0.0	0.0	(132.7)
<u>Department of Environmental Quality</u>					
DEQ Emissions Inspection Fund	28,154.3	33,427.9	33,427.9	33,427.9	0.0
Hazardous Waste Management Fund	163.2	800.5	800.5	800.5	0.0
Air Quality Fund	5,016.8	5,152.9	5,152.9	5,152.9	0.0
Clean Water Revolving Fund	4,637.1	5,000.0	5,000.0	5,000.0	0.0
Underground Storage Tank Revolving Fund	1.3	22.0	22.0	22.0	0.0
Recycling Fund	2,078.5	0.0	0.0	0.0	0.0
Permit Administration Fund	5,752.2	5,681.4	5,681.4	5,681.4	0.0
Solid Waste Fee Fund	1,011.0	1,250.5	1,125.5	1,125.5	(125.0)
Used Oil Fund	0.7	138.3	138.3	138.3	0.0
Water Quality Fee Fund	4,086.2	5,632.6	5,632.6	5,632.6	0.0
Indirect Cost Fund	12,424.2	11,224.5	11,224.5	11,494.2	269.7
Agency Total	63,325.5	68,330.6	68,205.6	68,475.3	144.7
<u>Arizona Exposition & State Fair</u>					
Coliseum and Expo Center Fund	11,563.9	13,753.0	10,150.0	10,250.0	(3,503.0)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>State Department of Financial Institutions</u>					
Financial Services Fund	0.0	0.0	0.0	809.7	809.7
<u>Arizona State Forester</u>					
AZ Parks Board Heritage Fund	0.0	3,075.0	3,075.0	0.0	(3,075.0)
<u>State Board of Funeral Directors & Embalmers</u>					
Funeral Directors and Embalmers Fund	334.4	351.2	351.2	351.2	0.0
<u>Arizona Game & Fish Department</u>					
Game and Fish Fund	27,884.0	35,063.8	35,063.8	34,439.3	(624.5)
Watercraft Licensing Fund	2,306.2	4,468.8	4,118.8	4,118.8	(350.0)
Game/Non-game Fund	292.6	332.0	332.0	332.0	0.0
Waterfowl Conservation Fund	18.6	43.4	43.4	43.4	0.0
Wildlife Endowment Fund	0.0	16.0	16.0	16.0	0.0
Agency Total	30,501.4	39,924.0	39,574.0	38,949.5	(974.5)
<u>Department of Gaming</u>					
Lottery Fund	300.0	300.0	300.0	300.0	0.0
Permanent Tribal-State Compact Fund	1,891.1	1,986.2	1,986.2	1,986.2	0.0
Arizona Benefits Fund	9,652.6	10,895.7	10,895.7	10,929.0	33.3
Agency Total	11,843.7	13,181.9	13,181.9	13,215.2	33.3
<u>Government Information Technology Agency</u>					
Information Technology Fund	3,004.8	3,236.7	3,236.7	3,236.7	0.0
State Web Portal Fund	645.5	3,900.0	250.0	3,900.0	0.0
Agency Total	3,650.3	7,136.7	3,486.7	7,136.7	0.0
<u>Department of Health Services</u>					
Service Fees Increase Fund	521.8	4,493.4	4,493.4	7,582.4	3,089.0
Tobacco Tax and Health Care Fund	29,534.8	37,324.8	31,254.5	31,406.7	(5,918.1)
Capital Outlay Stabilization Fund	1,572.5	1,578.0	1,578.0	1,578.0	0.0
Child Care and Development Fund	797.8	832.2	832.2	832.2	0.0
Health Research Fund	1,000.0	0.0	0.0	0.0	0.0
Emergency Medical Services Operating Fund	4,835.6	5,154.8	5,154.8	5,154.8	0.0
Newborn Screening Program Fund	5,384.1	6,812.7	6,812.7	6,812.7	0.0
Substance Abuse Services Fund	2,375.0	2,250.0	2,250.0	2,250.0	0.0
Nursing Care Institution Protection Fund	0.0	38.0	38.0	38.0	0.0
Environmental Lab License Revolving Fund	821.3	935.2	935.2	935.2	0.0
Child Fatality Review Fund	92.7	99.1	99.1	99.1	0.0
Vital Records Electronic Systems Fund	630.8	433.7	433.7	433.7	0.0
Hearing and Speech Professionals Fund	351.1	321.9	321.9	321.9	0.0
The Arizona State Hospital Fund	4,211.4	11,159.5	18,898.4	18,898.4	7,738.9
DHS State Hospital Land Earnings Fund	1,039.1	1,150.0	1,150.0	1,150.0	0.0
DHS - Indirect Cost Fund	8,433.7	7,827.5	7,827.5	7,827.5	0.0
Agency Total	61,601.7	80,410.8	82,079.4	85,320.6	4,909.8
<u>Arizona Historical Society</u>					
Capital Outlay Stabilization Fund	194.2	194.2	194.2	194.2	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners Fund	117.1	104.9	104.9	117.9	13.0
<u>Arizona Department of Housing</u>					
Housing Trust Fund	911.3	949.6	949.6	949.6	0.0
<u>Industrial Commission of Arizona</u>					
Industrial Commission Admin Fund	17,591.2	19,983.1	19,983.1	19,983.1	0.0
<u>Judiciary</u>					
Supreme Court CJEF Disbursements Fund	8,585.7	10,639.1	10,639.1	10,639.1	0.0
Judicial Collection - Enhancement Fund	14,488.0	21,541.4	21,541.4	20,328.0	(1,213.4)
Defensive Driving Fund	5,041.6	5,331.0	5,331.0	5,331.0	0.0
Court Appointed Special Advocate Fund	2,713.7	2,949.9	2,949.9	2,949.9	0.0
Confidential Intermediary Fund	320.0	488.7	488.7	488.7	0.0
Drug Treatment and Education Fund	494.9	500.0	500.0	500.0	0.0
Photo Enforcement Fund	2,369.9	4,056.6	4,056.6	4,056.6	0.0
State Aid to Courts Fund	2,847.5	2,945.5	2,945.5	2,945.5	0.0
Agency Total	36,861.3	48,452.2	48,452.2	47,238.8	(1,213.4)
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Dist Fund	614.9	556.0	556.0	0.0	(556.0)
State Education Fund for Committed Youth Fund	2,424.0	2,466.0	2,466.0	0.0	(2,466.0)
Endowments/Land Earnings Fund	6,157.2	1,098.6	1,098.6	0.0	(1,098.6)
Agency Total	9,196.1	4,120.6	4,120.6	0.0	(4,120.6)
<u>State Land Department</u>					
Environmental Special Plate Fund	260.0	260.0	260.0	260.0	0.0
AZ Parks Board Heritage Fund	0.0	390.0	390.0	0.0	(390.0)
Due Diligence Fund	0.0	500.0	500.0	500.0	0.0
Trust Land Management Fund	0.0	9,820.4	9,820.4	9,405.4	(415.0)
Agency Total	260.0	10,970.4	10,970.4	10,165.4	(805.0)
<u>Department of Liquor Licenses and Control</u>					
Liquor License Fund	0.0	1,926.3	1,926.3	2,665.8	739.5
<u>Arizona State Lottery Commission</u>					
Lottery Fund	74,334.0	74,374.2	74,374.2	74,624.2	250.0
<u>Arizona Medical Board</u>					
Medical Examiners Board Fund	5,552.0	5,853.4	5,853.4	5,853.4	0.0
<u>Board of Medical Student Loans</u>					
Med Student Loan Fund	456.2	47.0	47.0	29.0	(18.0)
<u>State Mine Inspector</u>					
Aggregate Mining Reclamation Fund	57.1	155.8	155.8	114.0	(41.8)
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board Fund	584.3	604.8	604.8	604.8	0.0
<u>State Board of Nursing</u>					
Nursing Board Fund	3,943.2	4,153.9	4,153.9	4,153.9	0.0
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Admin/ACHMC Fund	275.3	379.6	379.6	379.6	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	209.1	246.5	263.5	266.9	20.4
<u>State Board of Dispensing Opticians</u>					
Dispensing Opticians Board Fund	128.7	125.2	125.2	129.4	4.2
<u>State Board of Optometry</u>					
Board of Optometry Fund	183.2	203.4	203.4	203.4	0.0
<u>Arizona Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board Fund	591.2	702.0	702.0	715.5	13.5
<u>State Parks Board</u>					
Reservation Surcharge Revolving Fund	248.1	455.0	455.0	207.6	(247.4)
Boating Safety Fund	1,863.8	1,092.7	1,092.7	1,092.7	0.0
State Parks Enhancement Fund	8,959.4	7,831.2	7,831.2	8,502.5	671.3
Agency Total	11,071.3	9,378.9	9,378.9	9,802.8	423.9
<u>Personnel Board</u>					
Personnel Division Fund	0.0	329.1	329.1	377.6	48.5
<u>Office of Pest Management</u>					
Structural Pest Control Fund	2,228.1	2,663.2	2,298.3	2,669.8	6.6
<u>Arizona State Board of Pharmacy</u>					
Pharmacy Board Fund	1,617.0	1,931.4	1,931.4	1,931.4	0.0
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	334.5	362.0	362.0	362.0	0.0
<u>Arizona Pioneers' Home</u>					
Pioneers' Home State Charitable Earnings Fund	3,423.7	3,725.0	3,725.0	2,160.0	(1,565.0)
Pioneers' Home Miners' Hospital Fund	2,643.6	2,998.3	2,998.3	2,368.0	(630.3)
Agency Total	6,067.3	6,723.3	6,723.3	4,528.0	(2,195.3)
<u>State Board of Podiatry Examiners</u>					
Podiatry Examiners Board Fund	133.6	144.5	144.5	144.5	0.0
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	3,172.1	3,854.8	3,854.8	3,854.8	0.0
<u>State Board for Private Postsecondary Education</u>					
Private Postsecondary Education Fund	357.1	337.1	337.1	337.1	0.0
<u>State Board of Psychologist Examiners</u>					
Psychologist Examiners Board Fund	325.0	401.8	401.8	401.8	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Department of Public Safety</u>					
State Highway Fund	41,050.5	41,256.0	41,256.0	41,256.0	0.0
Arizona Highway Patrol Fund	19,290.3	18,554.9	18,554.9	18,554.9	0.0
Safety Enforcement and Transportation Infrastructure Fund	1,615.6	1,504.6	1,504.6	1,504.6	0.0
Crime Laboratory Assessment Fund	5,101.9	5,115.6	5,115.6	3,597.2	(1,518.4)
Auto Fingerprint Identification Fund	3,262.5	3,021.3	3,021.3	2,179.3	(842.0)
DNA Identification System Fund	3,760.9	4,022.4	4,022.4	3,526.5	(495.9)
Photo Enforcement Fund	6,738.0	22,534.3	22,534.3	5,236.4	(17,297.9)
Motorcycle Safety Fund	76.6	205.0	205.0	205.0	0.0
Parity Compensation Fund	3,539.5	3,023.3	3,023.3	3,023.3	0.0
Highway User Revenue Fund	84,949.5	78,626.2	78,626.2	78,626.2	0.0
DPS Criminal Justice Enhancement Fund	3,292.1	2,695.9	2,695.9	2,468.3	(227.6)
Risk Management Fund	292.8	296.2	296.2	296.2	0.0
Crime Laboratory Operations	0.0	7,620.0	7,620.0	10,400.0	2,780.0
Agency Total	172,970.2	188,475.7	188,475.7	170,873.9	(17,601.8)
<u>Arizona Department of Racing</u>					
Racing Administration Fund	58.9	0.0	0.0	0.0	0.0
County Fair Racing Fund	427.7	0.0	0.0	0.0	0.0
Agency Total	486.6	0.0	0.0	0.0	0.0
<u>Radiation Regulatory Agency</u>					
State Radiologic Technologist Certification Fund	245.4	269.3	269.3	269.3	0.0
Agency Total	245.4	269.3	269.3	269.3	0.0
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving Fund	1,080.5	1,243.4	1,243.4	1,246.1	2.7
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners Fund	290.9	263.1	263.1	269.6	6.5
<u>Arizona State Retirement System</u>					
Retirement System Appropriated Fund	19,587.8	20,430.1	20,430.1	20,514.1	84.0
LTD Trust Fund	2,800.0	2,800.0	2,800.0	2,800.0	0.0
Agency Total	22,387.8	23,230.1	23,230.1	23,314.1	84.0
<u>Department of Revenue</u>					
Tobacco Tax and Health Care Fund	661.7	667.3	667.3	667.3	0.0
DOR Unclaimed Property Fund	2,099.9	0.0	0.0	0.0	0.0
Department of Revenue Administrative Fund	0.0	22,662.5	22,662.5	24,016.9	1,354.4
DOR Liability Setoff Fund	407.7	401.2	401.2	401.2	0.0
Agency Total	3,169.3	23,731.0	23,731.0	25,085.4	1,354.4
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	306.0	7,722.8	7,722.8	7,082.0	(640.8)
Professional Employer Organization Fund	0.0	98.9	0.0	98.9	0.0
Agency Total	306.0	7,821.7	7,722.8	7,180.9	(640.8)
<u>Arizona State Library, Archives & Public Records</u>					
Records Services Fund	626.8	678.8	678.8	628.6	(50.2)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>State Boards Office</u>					
Special Services Fund	284.6	285.2	285.2	285.2	0.0
<u>State Board of Technical Registration</u>					
Technical Registration Board Fund	1,402.9	1,756.4	1,756.4	1,756.4	0.0
<u>Department of Transportation</u>					
State Aviation Fund	2,269.7	1,748.3	1,748.3	1,606.5	(141.8)
State Highway Fund	363,659.7	398,222.3	398,222.3	402,253.7	4,031.4
Transportation Department Equipment Fund	23,678.0	27,791.8	23,219.7	25,250.4	(2,541.4)
Safety Enforcement and Transportation Infrastructure Fund	2,118.9	2,009.9	1,479.0	1,846.9	(163.0)
Air Quality Fund	71.7	72.7	72.7	72.7	0.0
Vehicle Inspection and Title Enforcement Fund	1,508.1	1,578.7	1,140.0	1,461.0	(117.7)
Motor Vehicle Liability Insurance Enforcement Fund	2,122.8	2,032.7	1,242.4	1,077.6	(955.1)
Driving Under Influence Abatement Fund	143.3	145.4	145.4	145.4	0.0
Highway User Revenue Fund	617.0	620.4	620.4	620.4	0.0
Agency Total	396,189.2	434,222.2	427,890.2	434,334.6	112.4
<u>State Treasurer</u>					
State Treasurer's Management Fund	0.0	88.3	88.3	88.3	0.0
<u>ASU - Tempe</u>					
ASU Collections - Appropriated Fund	254,243.1	316,565.2	316,565.2	316,565.2	0.0
<u>ASU - Polytechnic</u>					
ASU Collections - Appropriated Fund	27,037.1	29,612.3	29,612.3	29,612.3	0.0
Technology and Research Initiative Fund	2,000.0	2,000.0	2,000.0	2,000.0	0.0
Agency Total	29,037.1	31,612.3	31,612.3	31,612.3	0.0
<u>ASU - West</u>					
ASU Collections - Appropriated Fund	25,713.7	28,307.4	28,307.4	28,307.4	0.0
Technology and Research Initiative Fund	1,600.0	1,600.0	1,600.0	1,600.0	0.0
Agency Total	27,313.7	29,907.4	29,907.4	29,907.4	0.0
<u>Northern Arizona University</u>					
NAU Collections - Appropriated Fund	52,620.5	73,068.9	73,068.9	73,068.9	0.0
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated Fund	173,913.8	215,379.2	215,379.2	215,379.2	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A College of Medical - Collections - Appropriated Fund	16,736.1	21,380.0	21,380.0	21,380.0	0.0
<u>Department of Veterans' Services</u>					
Veterans' Conservatorship Fund	740.0	751.8	751.8	751.8	0.0
State Home for Veterans Trust Fund	12,762.4	13,830.8	13,830.8	16,834.6	3,003.8
Agency Total	13,502.4	14,582.6	14,582.6	17,586.4	3,003.8
<u>State Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board Fund	371.0	470.4	470.4	470.4	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2009 Expenditures	FY 2010 Appropriation	FY 2010 Executive Budget	FY 2011 Executive Budget	FY 2011 Changes and Adjustments
<u>Department of Water Resources</u>					
Arizona Water Banking Fund	7,900.0	0.0	0.0	0.0	0.0
Assured and Adequate Water Supply Administration Fund	1,011.8	951.6	951.6	951.6	0.0
Agency Total	8,911.8	951.6	951.6	951.6	0.0
<u>Department of Weights and Measures</u>					
Air Quality Fund	1,518.1	1,424.2	1,424.2	1,424.2	0.0
Motor Vehicle Liability Insurance Enforcement Fund	293.3	323.5	323.5	323.5	0.0
Agency Total	1,811.4	1,747.7	1,747.7	1,747.7	0.0
Other Appropriated Funds Operating Total	2,562,820.6	2,936,132.2	2,850,317.8	2,726,146.0	(209,986.2)

BUDGET

The following budget resources are available at www.ospb.state.az.us

- FY 2011 Executive Budget - Summary
- FY 2011 Executive Budget – State Agency Budgets
- FY 2011 Executive Budget - Appendix
- Statement of Federal Funds for Fiscal Years 2007 through 2009
- Calculation of the Appropriation Limit for Fiscal Years 2008 through 2010

STRATEGIC PLANNING

The following planning resources are available at www.ospb.state.az.us

- MASTER LIST OF STATE GOVERNMENT PROGRAMS for Fiscal Years 2008 through 2010
- Five-Year Strategic Plans for Annual Budget Units
- Managing for Results, 1998 Strategic Planning and Performance Measurement Handbook (recognized by the Council of State Governments as an Exemplary State Management Program)

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