

The Executive Budget

SUMMARY

FISCAL YEARS 2012 AND 2013

Janice K. Brewer
GOVERNOR



JANUARY 2011

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To the Honorable Members of the
50th Arizona Legislature:

Despite dramatic, courageous and successful budget-balancing efforts of the Legislative and Executive branches during our nation's protracted recession, Arizona continues to face an enormous budget deficit. At the deficit's core is the explosive growth in Medicaid spending, which, over the last four years, has soared by almost 65% and now consumes 29% of our State budget. If we are to regain control of State spending, we must reform Medicaid and free Arizona from the fiscal manipulation of the federal government.

Never during our nearly 100 years of Statehood has federal interference in Arizona's affairs been more blatant than in 2010. After we adopted a balanced State budget, Congress passed the Patient Protection and Affordable Care Act and, in essence, determined that we no longer have the authority to make our own decisions regarding the priorities of our state. Worst of all, Congress committed us to an unsustainable level of General Fund support for Arizona's Medicaid program, making our state coffers the financing mechanism for their dictates.

In Fiscal Year 2011, the federal government usurped our power to manage our finances, effectively seizing control of *every* major component of our General Fund budget except the State prison system. Spending for our K-12 education, spending for our Universities and Community Colleges, and spending for Medicaid fell under Washington's control. While the requirements for education-related appropriations are being lifted, federal standards for Medicaid spending continue. As a consequence, we cannot balance our budget without federal permission.

In 1788, Alexander Hamilton said:

"The State governments possess inherent advantages, which will ever give them an influence and ascendancy over the National Government, and will forever preclude the possibility of Federal encroachments. That their liberties, indeed, can be subverted by the federal head is repugnant to every rule of political calculation."

I, too, find the federal government's actions repugnant, and we will take appropriate action. Arizona can and will be a leader in the national fight to restore proper balance between state and federal authority, and we will reassume control of our affairs and our destiny and restore fiscal stability in ways that can be achieved only at the state level, free of the federal government's fiscal and political shackles.

State Government's daunting budget shortfalls for the current fiscal year and the next are part of a larger, long-evolving structural deficit. After eliminating one-time funding sources – e.g., debt, rollovers and federal stimulus funds – the remaining structural deficit is close to \$1.5 billion, or 16% of the continuing budget.

Arizona's FY 2011 budget cut the State's structural deficit by more than half. The Executive Recommendation for FY 2012 makes even greater progress, reducing the remaining structural deficit to just over \$100 million.

Once the structural deficit is overcome, we must take steps to ensure future budget stability. To that end, I am proposing a spending limit that will allow for natural budget growth while limiting our ability to use "bubble" revenues to expand government. The budget reforms I propose will help produce a more stable State Government, even in periods of economic uncertainty, and ensure that repaying the debts that we have incurred over that last few years remain among our highest priorities.

Funding stability must also be achieved in K-12 education. Last year we established a new baseline for State support. We fought hard for that expenditure level; the people of Arizona supported our effort, and we must recognize and honor the resulting mandate. Unfortunately, for the last two years the federal government has forced us to inflate our K-12 spending to a level that we cannot sustain. The federal funding that supported that spending will run out in FY 2012.

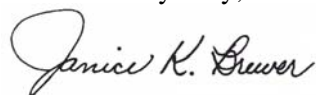
The loss of federal funding, while difficult to overcome, is no justification to shrink from our commitment to improve our educational outcomes. To that end, the Executive Branch, working with Arizona's education community, has developed a long-term plan to improve our education system. The first stages of these plans include establishing a P-20 entity that will track education outcomes from preschool all the way through our institutions of higher learning.

Similar to K-12, higher education has also been propped up by federal spending and expenditure mandates. I have long warned our higher education systems that their current funding models are unsustainable. To date, the leaders of our Universities have developed some successful lower cost models that, in time, will be expanded, refined and employed. Unfortunately, we can no longer wait for widespread implementation of these options. We must impose financial reform at the Universities now, and the Executive Recommendation reflects that necessity.

If there is any good to be found in the State of Arizona's ongoing budget struggles, it is the opportunity to redefine State Government's role and scope, and to make the General Fund budget a tool of efficiency and responsible stewardship. Our budget crisis has forced us to focus narrowly on those services that a state government must provide, and to provide them in the most effective and prudent manner possible.

By the time our national and state economies regain their health, and State revenues provide budgetary breathing room, we will be able to look back with a measure of gratitude for the shared discipline that allowed us to emerge victorious not only from the worst economic threat of our adult lives, but also from the most daunting fiscal crisis that the State of Arizona has ever faced.

Yours very truly,



Janice K. Brewer
Governor

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Budget Message

The Budget Crisis: an Historical Perspective

Four years of balancing the budget in a major recession have redefined and reshaped State Government

CONTINUOUS REVENUE SHORTFALLS since FY 2007 have forced the State to evaluate the best use of its increasingly limited resources. This is especially challenging in light of the tremendous growth in mandatory populations, particularly Medicaid.

As a result of the growth in voter-protected and federally mandated programs, the remaining core functions of State government have endured unprecedented expenditure reductions.

K-12 education, Medicaid, the universities and adult corrections now compose over 88% of the State’s General Fund obligations.¹ In contrast, in the FY 2007 budget, those areas made up just 80% of total General Fund spending.

Because there is very limited capacity to reduce expenditures in those areas, the other areas of government have taken disproportionately large shares of the enacted budget reductions. Programs that fall within the “other” category include the Department of Public Safety (DPS), child care assistance, Child Protective Services (CPS), Behavioral Health Services, the Arizona State Hospital (ASH), transportation, all elected offices, and the Court system.

In developing a balanced budget for FY 2012, the Executive considered the reductions that were already enacted, including the following.

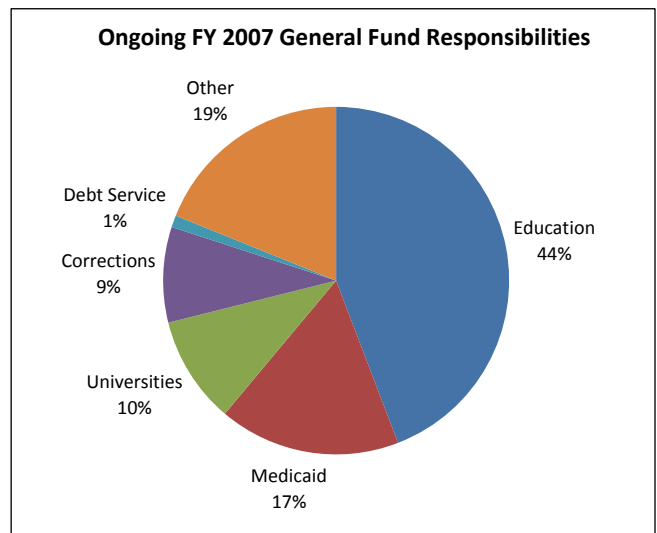
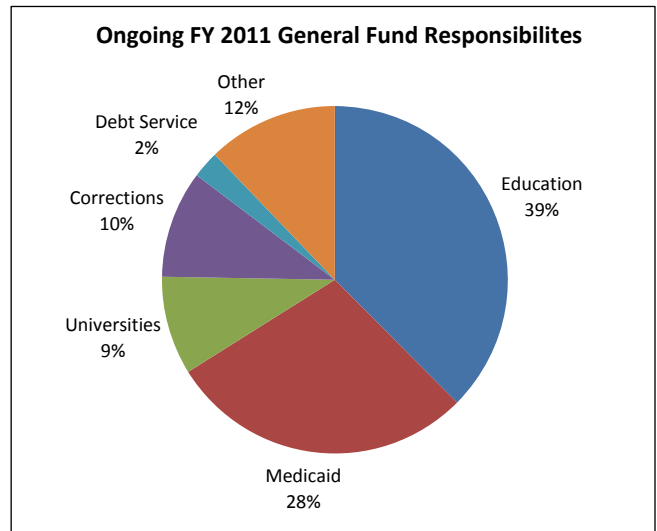
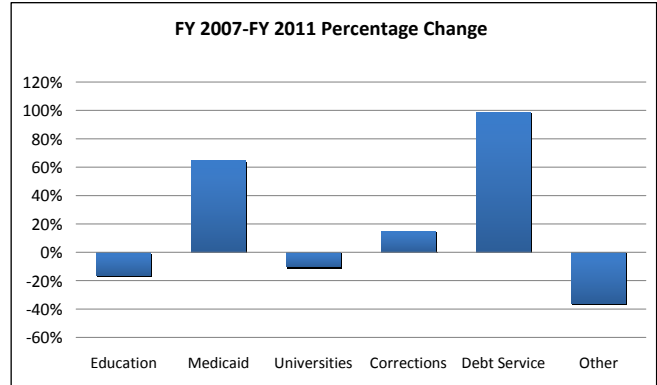
HEALTH AND WELFARE

AHCCCS. In the three-and-a-half years since the beginning of the budget crisis, the Arizona Health Care Cost Containment System (AHCCCS) has eliminated all State-only programs, seen its core administration cut by over 20%, and taken painful cuts in many program areas. At the same time, the AHCCCS capitated population has grown by 368,200, or 46%.

Among the cuts were:

- a freeze in new membership in the KidsCare program,
- elimination of non-mandatory benefits (including some organ transplants),
- removal of coverage for the parents of KidsCare children,
- elimination of dental coverage for long-term care patients, and
- elimination of the Social Security Disability Income Temporary Medical Coverage program, which provided AHCCCS coverage for the two-year gap between the time a person was declared disabled and the beginning of their medical insurance under Medicare.

AHCCCS has also stopped paying Medicare Part D co-payments for prescription drugs for members who are eligible for both Medicare and AHCCCS.



¹ This figure includes inter-agency fund transfers.

Hospitals have seen their reimbursement rates frozen for three years, while physicians and other healthcare providers have endured rate cuts of up to 5%. In April 2011, hospitals, physicians and other providers will receive another 5% rate cut.

Hospitals have also seen the elimination of State-funded Graduate Medical Education subsidies, elimination of the loan program that helped them start medical residency programs, and a reduction in outlier payments for high-cost individuals.

In its administration, AHCCCS has reduced staffing by 31.5%, or over 400 FTE, and suspended plans for an overdue replacement of a computer system.

Other Agencies and Programs. Outside of AHCCCS, there have been significant cuts to other health and welfare programs. Child care assistance for low-income working (LIW) families has been frozen, and there are more than 8,000 families with young children on the waiting list for this service. The number of LIW clients has been reduced by nearly 18,000 families since the implementation of the waiting list.

In FY 2010, the State reduced the duration of Cash Assistance eligibility from 60 months to 36 months and implemented tighter eligibility standards for households. As a result, nearly 19,000 families have stopped receiving this form of monthly assistance.

Reductions to Children Services have meant that CPS, which was already understaffed, no longer investigates 100% of reported incidents of abuse or neglect.

Individuals who suffered from serious mental illness and did not qualify for Medicaid lost supplemental treatments previously provided by General Fund programs. They now receive prescription drug assistance and crisis services only if they become a danger to themselves or others.

Additionally, State support for community health centers was eliminated, as was funding for several smaller programs such as Summer Youth Employment, Diabetes Prevention and Control, and State support for vaccines. When possible, programs were shifted to a self-funding arrangement, often resulting in client fees many times higher than those previously subsidized by the General Fund.

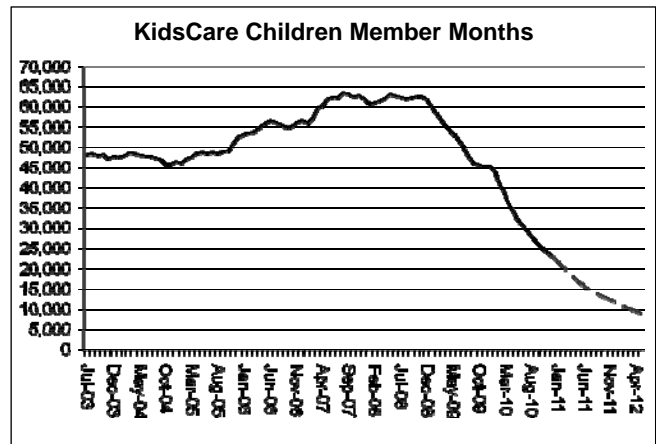
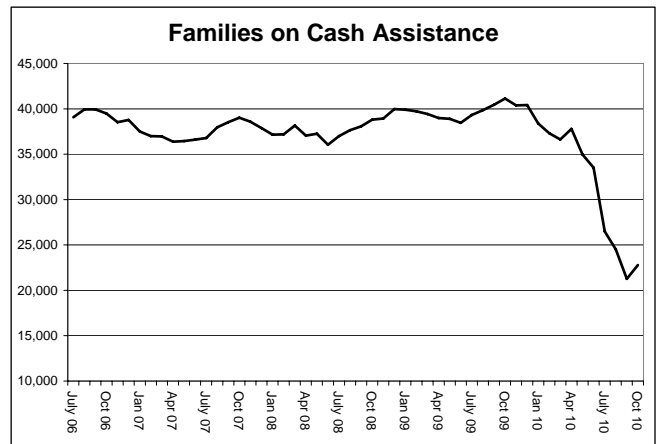
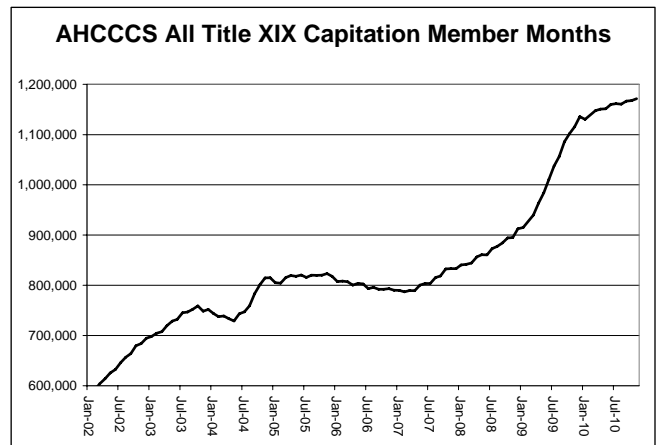
EDUCATION

K-12. Federal Maintenance of Effort (MOE) requirements, which require State formula funding at or above FY 2006 levels, have spared K-12 education from reductions proportional to those experienced elsewhere in State government.

However, there were still significant reductions, including the elimination of funding for Full Day Kindergarten and the elimination of funding for non-formula programs such as Adult Education, Chemical Abuse, and Early Childhood. The locally funded Excess Utilities provision was also abolished during this period. To date, many of the reductions to K-12 have been offset by increased federal stimulus funding, but those additional dollars will no longer be available beginning in FY 2012.

Universities. Federal MOE requirements also protected higher education from cuts below FY 2006 levels. During this period, State support for the University system shrank by 20%.

In response to State funding cuts, the Board of Regents allowed the universities to increase tuition rates by an equivalent



amount to make up for the resulting shortfalls. Even with the tuition increases, however, the universities have reduced staffing by hundreds of positions, eliminated programs and reduced class offerings.

After reaching peak levels of funding from the General Fund in FY 2008, in excess of \$1.1 billion, funding decreased to \$890 million for FY 2010 and FY 2011. While State funding has declined, other revenue sources have continued to grow. Projected total revenues, all sources, for FY 2011 are \$750 million greater than FY 2008. For FY 2009 and FY 2010, the universities received approximately \$225 million in State Fiscal Stabilization Fund monies to offset portions of State funding cuts.

School Construction. The School Facilities Board (SFB), which funds new school construction and building renewal projects, saw its non-debt service General Fund support reduced from \$338 million in FY 2007 to \$4.1 million in FY 2011. Of that reduction, \$250 million was related to new construction, which experienced natural decline and was replaced with debt. However, the reductions in Building Renewal funding have led school districts to defer critical maintenance projects.

PUBLIC SAFETY

As the core function of state government, the State has prioritized public safety expenditures. However, efficiencies throughout the public safety system have been identified and implemented. The **Department of Corrections (DOC)** inmate population has grown since FY 2007 while staff has been reduced, leading to an overcrowding of prison complexes. Early in FY 2011, DOC opened 6,000 new beds, enabling all inmates housed out-of-state to occupy Arizona correctional facilities and returning \$86 million of State spending back to the Arizona economy.

DOC has very limited capacity to reduce expenditures further, due chiefly to safety concerns. However, a few initiatives have produced savings:

- DOC pegged reimbursements for outside medical treatments at AHCCCS rates, saving an estimated \$6 million in the first year of implementation. Prior to pegging the DOC medical services rate to AHCCCS rates, the Department was paying up to 310% of AHCCCS rates for inmate health-care.
- Private prison per-diem rates were renegotiated, generating a savings.
- DOC has eliminated over 150 FTE administrative positions.

The **Department of Public Safety (DPS)** has largely been spared cuts because Highway Fund dollars have been diverted from the Department of Transportation to offset General Fund reductions within DPS.

However, there were a few reductions of note. Through attrition and layoffs, DPS has reduced its workforce by 130 FTE positions. As a result, the Crime Lab has been slower to process cases, and certain units (e.g., Aviation) have not been able to respond to as many emergencies as in the past.

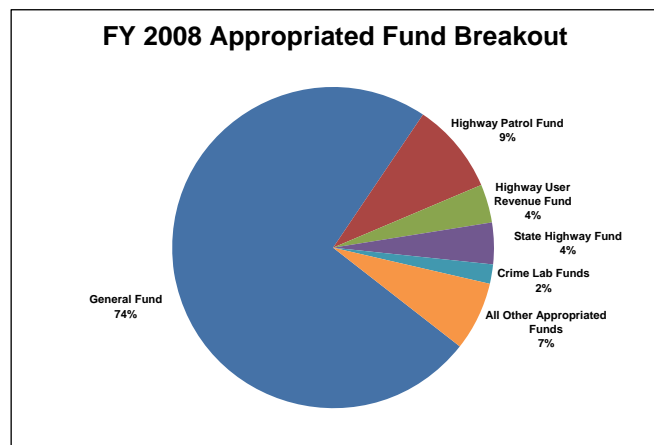
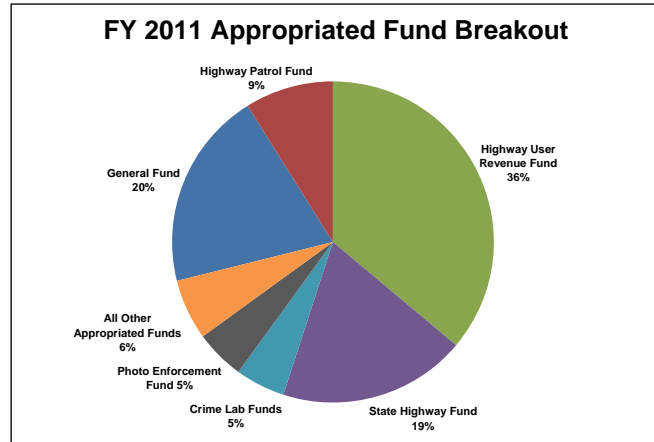
Funding for replacement equipment was also reduced, which has resulted in an aging vehicle inventory. Almost half of all highway patrol cars in use will have more than 100,000 miles by the end of FY 2011.

Finally, the **Arizona Criminal Justice Commission** shifted \$4.1 million in General Fund obligations onto higher Court-derived penalties and fees.

NATURAL RESOURCES AND INFRASTRUCTURE

Over the last two years, the Executive has employed a fee for service strategy for Government oversight of natural resources. In FY 2007, Arizona’s natural resource programs received approximately \$60 million General Fund support. By FY 2011, support had waned to \$17.2 million from the General Fund and to \$19 million from new, self-funding sources such as

DPS Funding Sources



the Land Trust and Water Resources Funds.

The **Land Department** has sustained a 27% reduction to its operating budget and, as a result, anti-trespassing and anti-dumping activities were hindered. The Department is now heavily reliant on local law enforcement to protect the nine million acres of State Trust lands. Further, planning and engineering studies for undeveloped land were reduced over this period.

The **Department of Water Resources (DWR)** has sustained a 40% budget cut since FY 2007 and, as a consequence, its workforce was cut in half. DWR has closed four regional offices and plans to conduct fewer water level measurements.

A handful of **State Parks** have been closed since 2007. Of the parks that remain open, two out of three rely on outside support and are subject to closure if that support disappears.

The **Department of Environmental Quality (DEQ)**, through budget reductions and increased reliance on user fees, has eliminated over \$25 million in General Fund obligations.

While the **Department of Transportation (ADOT)** does not receive General Fund dollars, significant transfers from its dedicated funds have necessitated dramatic changes. For example, \$99.9 million in funding dedicated to local and statewide transportation is transferred annually to DPS to offset cuts within that agency (see the DPS section above). As a result, since FY 2007, 13 of ADOT’s 18 highway rest stops and 12 of 61

Motor Vehicle Division (MVD) offices have been closed. State revenues are insufficient for State participation in highway construction, slowing the maintenance and construction of Arizona thoroughfares.

PERSONNEL

Personnel reductions, attrition and limited hiring during the past three years reduced the State’s active non-university employee headcount by 5,713, or 12.9%. General Fund personal services expenditures during that time fell by 18.9%.

For FY 2011, State employee salaries were reduced by 2.75%. Also, most employees were required to take six furlough days, bringing their total pay reductions to 5%. Legislative and Judicial staff were exempt from these reductions.

OTHER STATE AGENCIES

In FY 2011, General Fund support for the **Office of Tourism** was eliminated, effectively reducing the Office’s funding by 50%. In response, the Office eliminated more than a third of its staff and significantly reduced its marketing efforts.

Since FY 2007, the **Department of Housing** has transferred \$69.1 million to the General Fund to help balance the budget. Until FY 2009, the Department received 55% of proceeds from Unclaimed Property at the Department of Revenue for use in providing housing assistance to citizens. In FY 2009 alone, this amount was \$28.6 million.

In FY 2010, the Legislature capped the Department’s revenue from this source to \$10.5 million, diverting the rest of the proceeds to the Department of Revenue (to offset General Fund reductions) and directly to the General Fund. These reductions have forced the Department of Housing to reduce staff by 25% and eliminate several programs for homebuyer assistance, homelessness prevention and home repair assistance.

During the past three years, the **Department of Administration** (DOA) has lost a total of 272 filled FTE positions, or 34% of its staff, largely in General Services and Human Resources. Custodial services have been privatized and reduced to

a minimum; the repair shop and print shop have been closed; and other services have been consolidated or eliminated in order to maximize scarce resources.

The \$20 million **Arts Endowment** was eliminated, and its fund balance was transferred back to the General Fund.

After the **State Library, Archives, and Public Records**’ appropriations and fund balances were reduced by \$1.5 million in mid-FY 2009, the Agency let go approximately 19% of its staff and reduced operating hours in six of its seven divisions. The Polly Rosenbaum Archives Building was closed to regular public access within weeks of its dedication.

The **Department of Insurance**’s General Fund budget was reduced by nearly \$1 million in mid-FY 2009, forcing the Agency to let go 23 of 87 General Fund employees. Remaining staff were furloughed one day a week for 18 weeks.

LOCAL IMPACTS

Several budget measures adopted by the State have impacted local governments in addition to State agencies. In FY 2011, the State eliminated the County Assistance Fund, County Hold Harmless, and Local Transportation Assistance Fund (LTAF) support. Expenditure shifts in sexually violent person programs and Superior Court judges’ salaries have also impacted local governments.

ONE-TIME SOLUTIONS

The State has also used over \$9 billion in fiscal bridges that temporarily offset State expenditures and revenue losses. Following is a partial list of those efforts.

Temporary Solutions	FY 2008	FY 2009	FY 2010	FY 2011	Total
K-12 & University Rollover	\$602,600.0	\$100,000.0	\$450,000.0		\$1,152,600.0
BSF Sweep	\$560,036.5	\$150,000.0			\$710,036.5
Fund Transfers	\$290,186.0	\$813,135.2	\$358,815.4	\$151,834.1	\$1,613,970.7
DPS use of HURF and SHF	\$42,000.0	\$106,001.0	\$99,882.0	\$99,882.0	\$347,765.0
Midnight Reversion	\$50,000.0				\$50,000.0
SFB NC Recapture/DS Holiday		\$344,000.0		\$60,000.0	\$404,000.0
SFB New Construction		\$237,000.0			\$237,000.0
DES & AHCCCS Rollovers		\$25,000.0	\$159,900.0		\$184,900.0
Federal Stimulus		\$642,100.0	\$1,418,400.0	\$659,600.0	\$2,720,100.0
K-12 Local Fund Balances			\$184,000.0		\$184,000.0
Sale Leaseback			\$1,035,419.3		\$1,035,419.3
Lottery Bonds			\$450,000.0		\$450,000.0
Total	\$1,544,822.5	\$2,417,236.2	\$4,156,416.7	\$971,316.1	\$9,089,791.5

Signs of Modest Recovery

As the nation slowly emerges from its severe recession, some of the dynamics that historically have been important for Arizona recoveries will return, and the state should achieve discernible progress as 2011 and 2012 unfold

ALTHOUGH NEARLY 18 MONTHS have passed since the declared “end” of the recession, the economy continues to languish, with certain sectors still quite depressed. Some economists have voiced their frustration about the policy response; others are concerned that the private sector simply remains hesitant; and still others point out that slow recoveries are actually “the norm” following major financial crises.

Regardless, even with moderate to robust growth rates, the current depth of the cycle is so low that a return to income, wealth and spending levels of the peak of the last cycle is still several years away. Nevertheless, the nation is slowly recovering; some of the dynamics that historically have been important for Arizona recoveries will return, and the state will see some discernible progress as 2011 and 2012 unfold.

NATIONAL OUTLOOK

The most recent outlook from *Global Insight* suggests a slow-growth recovery period through 2011, with real GDP growth at sub-par levels (below 3%) until 2012. This is essentially the same outlook that was described in last year’s Executive Budget Recommendation.

A few optimists believe that the consensus is overly pessimistic and that significant growth could occur as early as mid-2011. These voices are balanced against a few contrarians who worry about another round of financial shocks.

Employment. The employment picture appears to be stabilizing after a year of stubbornly sluggish growth. Hiring should improve, but there will be little statistical improvement in the unemployment rate, which will likely end 2011 near current levels despite progress in overall net job creation.

Current projections from national forecasters suggest that the unemploy-

ment rate will remain at historically high levels (e.g., 9%) through 2013.

Consumer Spending. Consumers will emerge from what was, for most, the worst recession of their lifetimes with cautious attitudes about major outlays. As a result, purchases of consumer durables will pick up in comparison to the seemingly Depression-like levels observed in 2009-10, but not with the vigor of previous recovery periods.

Credit remains relatively tight, but the relative lack of borrowing is not entirely due to banks refusing to lend; rather, there are many creditworthy consumers who are simply unwilling to take on debt, even at historically low interest rates.

While the mood of U.S. consumers continues to be depressed, *Global Insight’s* most likely scenario is that consumer confidence will slowly but steadily return over the next three years, resulting in modest growth in demand for consumer durables. This will have to be monitored closely, since items like automobiles are being transacted at low levels that are without historical precedent, and this situation has now prevailed for over two years.

Overall, it is very difficult to predict consumer psychology at this point in the cycle; while there are signs of improvement, consumer confidence remains fragile, and this ebb and flow has persisted throughout 2010.

However, as 2010 drew to a close, there appeared to be significant signs that consumer attitudes are improving. With respect to durable goods, this is crucial, as even a slight improvement in attitudes toward acquiring certain durables will result in considerable increase in overall demand.

Interest Rates. Following two years of aggressive easing, the Federal Reserve continues to indicate that interest rates

will not tighten in the near future.

At some point, aggressive easing will be replaced by a more normal credit policy that can help avert any inflationary tendencies. It is noteworthy that *Global Insight* continues to see no significant inflation risk, regardless of its forecast scenarios. Commodity prices may spike in some areas, but no overall core inflation will occur as long as there is so much slack in the economy.

While this will be good for the financial markets, retailers will be limited in pricing power for the foreseeable future. That will continue to dampen the pace of overall nominal retail sales activity.

Business Spending. The corporate profit picture in 2011 will be determined ultimately by the pace of the recovery. Business investment in the last several years has been fueled by inventory replenishment. In 2011, investment will likely be led by improved outlooks on the part of businesses in anticipation of an improving economy. And, historically, expansionary Federal Reserve policy has created a positive environment for businesses.

The Dollar. The value of the dollar eroded significantly in 2009 as U.S. interest rates remained relatively low and the “flight to the dollar” frenzy of late 2008 lessened. In 2010, the dollar continued eroding against most major currencies until very late in the year, when the economic outlook improved.

Some economists have argued that aggressive monetary policy and looming fiscal imbalances will pressure the dollar downward, ultimately kindling an inflationary spiral driven by higher import and commodity prices. However, as has been the case for several years, *Global Insight* does not see much further deterioration in the value of the dollar in any of its current scenarios.

Still, significant appreciation of the dollar seems unlikely at this point.

Current Events and Risks. Many indicators of the U.S. economy support the slow, steady recovery scenario, and the overall consensus is that, nationally, growth will be slow but steady, barring any unforeseen shocks. Still, *Global Insight* adheres to its year-long position that the chance of a “double dip” recession is an uncomfortably high 20%.

The risks today remain unaltered from the risk scenario over much of the last year. The recession scenario could be triggered by any number of factors: e.g., 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 event or development that shakes the re-emerging but still fragile consumer confidence will push the nation toward the precipice of another downturn; with it, parallels to the Great Depression will be recast, thereby depressing things further.

On the flip side, confidence could revert to more normal levels all on its own and provide a boost that will be both self fulfilling and reinforcing. This will place growth on the high side of *Global Insight's* range of forecasts.

ARIZONA OUTLOOK

In a “typical” recession, Arizona is generally one of the first states to recover. The state’s primary catalysts for cyclical growth are technology- and aerospace-related service and manufacturing contracts, along with what is historically a significant resurgence in domestic in-migration.

While certain factors support this resurgence scenario for Arizona from the current recession – affordable housing, excellent climate and lifestyle, etc. – until very recently the state has been missing a fundamental component: job availability. Admittedly, some of Arizona’s historically robust job creation has coincided with population growth. People come to Arizona for affordable housing and a place to “get a job,” and some of the jobs are in businesses that depend on population growth. Hence, significant job growth won’t return until

in-migration occurs, and people won’t move to Arizona in significant numbers until the job outlook improves.

This Catch 22 situation could be solved as retirees regain some of their lost wealth and begin to reassume migration patterns at more normal levels – or even above normal, given that the Baby Boom generation has begun entering retirement. This will provide some population growth employment opportunities that will attract workers of all ages, and the in-migration cycle that has characterized Arizona for decades will begin.

While this is occurring, our basic manufacturing and financial service industries will see some growth in alignment with an improving national economy. Until very recently, it appeared that Arizona would not reclaim its normal position as an employment leader in the expansionary phase of the business cycle, but job creation appears now to be taking place, at rates that eclipse that of the nation. Moreover, the data from motor vehicle licenses suggest that the pace of young adult in-migration remains steady.

Employment. The good news on the employment front is that Arizona job growth may approach 2% in 2011, with potential for upside momentum if the pace of the economy accelerates.

However, a return to normal 3% to 4% year-over-year employment growth will probably be delayed until 2012 or 2013. Construction- and real estate-related areas of employment will serve as headwinds to job creation, as will state and local government employment.

Personal Income. Aggregate personal income growth in Arizona, as reported by the U.S. Bureau of Economic Analysis, grew very slowly in 2010, at rates near historical lows. Slightly healthier growth will return in 2011; forecasts for the year range from 1% to 5%, with the consensus splitting the difference at 3%.

As growth in overall income returns, it is likely that consumer confidence will bounce from historical low levels and consumer durable purchases will improve from what appear to be unsustainably low levels.

Population. For decades, the pace of domestic in-migration has held the key to Arizona growth. By all accounts, 2009 and 2010 were the slowest years for new arrivals from other states in recorded history; however, data from the IRS and the U.S. Census Bureau have yet to be compiled.

As was mentioned earlier, historically the attraction of Arizona has been jobs, affordable housing and climate. At this time, impediments are the weakness in the overall economy, slow home sales in would-be residents’ states of origin, and the massive loss of wealth that many potential movers incurred in the last 15 months. Yet, many of the attributes that have sustained Arizona’s magnetism for decades remain in place, and it is likely that in-migration rates will improve in 2011 and beyond. It is the pace of that resurgence that will be important for Arizona’s growth trajectory.

Risks. The risks to the Arizona economy remain significant, most notably the possibility that, as discussed earlier, the nation will relapse into another recession. This would significantly delay recovery in Arizona, since it will damage the state’s cyclically sensitive sectors while impeding the in-migration flow that has consistently fueled economic growth.

Another aspect of risk is the relatively 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 in Arizona within 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 send more real estate-related shock waves through the financial system.

Geopolitical shocks could threaten the hospitality and travel industry, which is positioned to grow from very low levels.

Upside Potential. A considerable share of Arizona’s economic woes relates to the shattered psychology of the consumer, especially potential buyers of

durables, such as automobiles and homes. This erosion is likely linked to the sharp declines in housing wealth that have occurred over the last 15 months.

If the pace of the economy picks up, psychology can quickly improve, and, as noted earlier, even modest improvement can provide a significant catalyst in the pace of retail transactions. This growth will help reinforce the initial improvement in psychology that will then result in more transactions, unfreezing of credit lines, and more normal consumer behavior. This chain of events could play out at a faster or slower pace, depending on a host of factors, including inflation, foreclosures, real GDP growth and in-migration.

REVENUE FORECAST

Revenue flows appear to have stabilized, after several years of significant declines.

The FY 2011 forecast is conservative, showing slight growth over reported 2010 figures. Achieving the forecast will require relatively little economic growth in spring 2011, a slight upward trajectory in consumer confidence, and no major geopolitical or financial shocks.

FY 2012 revenue forecasts are more conservative than the baseline economic projections contained in the current

monthly report prepared for the Governor's Office of Strategic Planning & Budgeting (OSPB) by the Seidman Research Institute at Arizona State University. The personal income and employment growth projections provided in the baseline scenario are consistent with the consensus views of most private and public economic forecasters.

Among forecasters there remains a relatively large spread between pessimistic and optimistic revenue scenarios. Factors contributing to the disparity of outlooks include uncertainties about the potential realization of capital gains, the pace of potential improvement in consumer confidence, and the continuing uncertainties about how corporations reassess prior liabilities and request refunds. Because of these uncertainties, the Executive, while not recommending the pessimistic forecast, is recommending revenue levels below the baseline forecast.

It is clear that these uncertainties have mitigated somewhat over the past year, removing some of the headwinds observed in revenue flows in 2009 and 2010.

Revenue growth will likely outpace economic growth because, as the economy stabilizes and improves, it will bring with it a marked improvement in consumer psychology that has damp-

ened revenue growth in recent years.

As a result, modest employment, income and wealth growth in FY 2012 will be accompanied by even stronger revenue growth. However, a return to the lofty revenue levels of FY 2006 and FY 2007 is still several years away.

UPSIDE/DOWNSIDE POTENTIAL

The pessimistic and optimistic economic scenarios are depicted in the current monthly report prepared by ASU's Seidman Research Institute. However, the revenue volatility associated with these economic scenarios is greater than the volatility suggested by the alternative economic scenarios. This again stems from the likely dampened consumer psychology that will accompany the pessimistic economic scenarios and the bolstered consumer psychology that will accompany the optimistic scenario.

In addition, accelerated economic growth will be accompanied by increased corporate profits and more capital gains, while the converse will apply if the economy grows below consensus expectations. The volatility of these factors has greatly contributed to revenue flow volatility historically. ●

**STATE OF ARIZONA
GENERAL FUND
BASE REVENUE SUMMARY
FY 2010 THROUGH FY 2012
(in thousands)**

<u>TAXES</u>	Actual FY 2010	Estimate FY 2011	Estimate FY 2012
Corporate Income	413,193.3	531,162.1	601,791.1
Individual Income	2,416,296.3	2,576,555.6	2,886,474.2
Property Taxes	20,269.6	20,000.0	20,000.0
Sales and Use	3,422,528.4	3,472,755.6	3,608,245.5
Luxury Taxes	55,352.3	55,600.7	57,465.8
Insurance Premium Taxes	406,617.6	386,600.0	402,500.0
Estate Taxes	363.8	0.0	0.0
Other Taxes	3,071.8	3,000.0	3,000.0
TOTAL TAXES	6,737,693.1	7,045,674.0	7,579,476.6
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits/Misc.	196,887.1	97,100.0	106,024.0
Interest Earnings	202.7	1,200.0	1,200.0
Lottery	67,808.5	77,564.0	80,094.0
Transfers & Reimbursements	67,629.5	21,000.0	21,000.0
Disproportionate Share	18,722.2	61,592.3	52,318.1
TOTAL OTHER REVENUES	351,250.1	258,456.3	260,636.1
TOTAL REVENUES	7,088,943.1	7,304,130.3	7,840,112.7
 ADJUSTMENTS			
Urban Revenue Sharing	(628,644.6)	(474,006.5)	(424,423.4)
GRAND TOTAL REVENUES	6,460,298.5	6,830,123.8	7,415,689.3

Resolving the Budget Crisis

The Executive’s decisive plan addresses the current shortfall, significantly reduces the structural deficit, and imposes difficult cuts in core State services to balance the FY 2012 budget

THE BUDGET SHORTFALLS for FY 2011 and FY 2012 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 \$1.5 billion, or 16% of the continuing budget.

The structural deficit must be addressed and closed; however, that cannot be achieved in one year. The FY 2011 budget took significant steps in that direction, reducing the structural deficit by more than half. The Executive Recommendation for FY 2012 makes even greater progress, reducing the current structural deficit to just over \$100 million.

The FY 2011 solution and the FY 2012 Executive Budget Recommendation are the next steps in achieving permanent budget restructuring. With State Government in the fifth year of budget reductions, the Executive’s prior steps have already impacted virtually every area of State Government and eliminated areas deemed to be outside the scope of core services.

The next round of solutions will be even harsher, as circumstances dictate even deeper funding cuts for State Government’s core services. In determining the priority for budget reductions and key investments, the Executive used the following budget-planning principles:

- Public safety is the core function of State government.
- Education funding is the key to long-term societal and economic development.
- Program reductions should be strategic, not arbitrary.

Even with adherence to these principles, closing the budget deficit requires savings and reductions in every core area of State Government.

FY 2012 BUDGET DEFICIT

The Executive projects an FY 2011 budget deficit of \$763.6 million and a FY 2012 budget deficit of \$1.15 billion.

The FY 2011 deficit is largely driven by the loss of planned temporary revenue solutions, including Propositions 301 and 302, underperformance in Transaction Privilege Tax (TPT) revenues, and less than anticipated federal stimulus funds. Further, the K-12 formula produced an estimated \$103 million more than estimated.

The FY 2012 budget deficit is caused by caseload increases and the loss of one-time savings and revenues. The FY 2011 budget included \$497 million in one-time revenues or payment deferrals and \$806 million in temporary federal assistance. In addition to replacing one-time measures, caseload growth will contribute \$208.7 million to expenditures and SFB debt service grows by \$96.6 million. The State will also experience an additional payroll period in FY 2012 that will add an \$81 million one-time cost.

Medicaid is the major driver in both the loss of temporary revenues and caseload growth. Medicaid accounts for \$812.5 million of the increased expenditure pressure, amounting to \$659.6 million of the federal funding cliff and \$152.9 million of Medicaid population growth.

FY 2012	General Fund
Revenue Changes	
Base Revenue Growth	\$489,980,300
Loss of One Time Revenues	(\$494,653,000)
FY 2011 Ending Balance Adjustment	(\$35,264,500)
Total Revenue Change	(\$39,937,200)
Expenditure Changes	
Federal Funding Cliff	(\$805,600,000)
Medicaid Population Growth	(\$152,877,400)
School Facilities Board Debt	(\$96,585,300)
27th Payroll	(\$81,000,000)
Education Growth	(\$55,784,300)
Other Agency Adjustments	\$14,224,800
Education Property Tax Change	\$70,500,000
Total Expenditure Change	(\$1,107,122,200)
Shortfall	(\$1,147,059,400)

Natural revenue growth provides approximately \$490 million to offset increased costs.

SUMMARY OF SOLUTIONS

For FY 2011, which ends June 30, 2011, the projected shortfall is \$763.6 million. The Executive’s approach to resolving that deficit includes the following:

Budget Reductions:	\$ 107 million
Rollovers:	245 million
New Debt:	330 million
Federal Funds:	101 million
Fund Transfers:	66 million

For FY 2012, the projected shortfall is estimated at \$1.2 billion. The Executive Budget plan for resolving this deficit is composed of the following major elements:

Net Budget Reductions:	\$ 1.1 billion
Re-establish the Medicaid Rollover:	115.4 million
Fund Transfers:	85.7 million
Local Contributions:	52.4 million

The discussions that follow highlight the major features of the Executive Plan for the remainder of FY 2011 and for FY 2012. The Executive’s Statement of Sources and Uses of Funds

for the General Fund and the Structural Deficit Calculation appear at the end of this discussion.

BUDGET REDUCTIONS

Major budget reductions are required because the State can no longer afford many programs and services as they currently exist. As painful as most of the recommended spending cuts will be, they are nevertheless essential to the necessary realignment of the State's revenues and expenditures.

The following discussion is an introduction to these reductions, with additional detail contained in the following pages and in the more detailed budget recommendations.

Medicaid. The Executive recommends withdrawing General Fund support for the Arizona Health Care Cost Containment System (AHCCCS) Proposition 204 population, leaving the Tobacco funds as the lone funding source. This will result in the elimination of health coverage for childless adults, and a tightening of the eligibility standards for parents.

Because the Prop. 204 population is protected by federal law, the recommendation is based on an October 1, 2011, start date, giving the federal government time to either grant a waiver or change the maintenance-of-effort (MOE) requirements through Congressional action.

In addition to the eligibility change, the Executive has announced a 5% provider rate reduction. This reduction will be implemented on April 1, 2011, for AHCCCS providers and Department of Health Services (DHS) providers.

The Executive does recommend an FY 2011 minor supplemental for DHS and DES to cover the lower-than-anticipated federal enhanced Federal Medical Assistance Percentages (FMAP) in the Children's Rehabilitative Services program and the Developmental Disabilities program, respectively. However, the Executive has identified sufficient savings in the budgets for AHCCCS and DHS to cover the balance of the increased State share of FMAP (approximately \$54.6 million).

Department of Economic Security. The Executive recommends reducing the DES budget by \$91 million from the General Fund, 13% below the FY 2011 appropriation.

The recommended cut is largely driven by savings generated from policy changes implemented in the current budget. The reduction in cash assistance benefits and the cap on child care have reduced those populations by a greater than expected amount. In addition, DES was able to leverage private partnerships to draw down additional federal dollars that offset General Fund expenditures.

K-12 Education. During the last two fiscal years, State support for K-12 funding has been protected by federal restrictions. Additionally, funding implemented as part of the American Recovery and Reinvestment Act of 2009 (ARRA) propped up K-12 spending above State support levels. In FY 2011, the federal government extended support by providing an additional \$212 million in federal aid to the K-12 system.

The Executive recommends recognizing a portion of that aid as part of the FY 2011 Basic State Aid formula. With those dollars, federal aid now adds approximately \$143 million to State support. Unless there is further federal action, this federal aid will not be available in FY 2012.

The Executive recommends rebasing State support levels for K-12 at the FY 2011 level; therefore, the Executive does not support backfilling the loss of federal dollars but does provide inflation and growth from the State base.

Universities. In FY 2009, University system funding was reduced to FY 2006 levels, by roughly 25% per student. In FYs 2010 and 2011, University funding has been protected under the federal MOE umbrella. That protection lifts in FY 2012.

Since early 2009, the Executive has twice called on the University system to prepare lower-cost education models. With the loss of federal funds and ongoing revenue shortages, the Executive can no longer protect the University system from additional reductions. In FY 2012, the Executive recommends reducing University funding by \$170 million.

Community Colleges. Operating funding for the Community College system is a combination of local property taxes, tuition revenues and State aid. The percent of total funds represented by State aid varies with local property value.

For FY 2012, the Executive recommends maintaining total operating revenues for the Community Colleges at FY 2011 estimates. This represents a reduction of 6.2% from total projected FY 2012 operating revenues. To achieve the 6.2% reduction, the Executive recommends reducing General Fund support by \$72.9 million.

Public Safety. For FY 2011 the Executive has identified \$10 million in one-time savings in the Department of Corrections (DOC). For the Department of Juvenile Corrections (DJC), the Executive recommends a budget reduction that corresponds to the continuing decline in the incarcerated population.

With respect to law enforcement, the Executive recommends eliminating the FY 2012 transfer of funds to the Department of Public Safety (DPS) from the State Highway Fund (SHF) and, instead, transferring the same amount from Highway User Revenue Fund (HURF) revenue.

Health Insurance Payment Reform. The Executive recommends changing the methodology the State uses to collect health insurance payments from State agencies.

In lieu of the first quarter fund sweep, the Executive recommends that insurance for all employees be paid per payroll. Under this proposal, monies currently appropriated for insurance sweeps would be reallocated among agencies to accurately reflect the cost of each agency's annual insurance premiums. Because the sweeps were overfunded last fiscal year, moving to a per-payroll payment will reduce the total cost to the State.

AGENCY CONSOLIDATIONS

The Executive recommends the following agency consolidations:

- the Department of Mines and Mineral Resources with the Arizona Geological Survey,
- the Government Information Technology Agency (GITA) with the Department of Administration (DOA),
- the State Forester to the Department of Emergency and Military Affairs (DEMA),
- the Department of Racing with the Department of Gaming, and

- the Biomedical Research Commission with DHS.

While these consolidations will provide only marginal budget savings, they will improve government operations.

ROLLOVERS

For FY 2011, the Executive recommends an additional \$245 million in education rollovers.

NEW DEBT

For FY 2011 the Executive recommends a \$330 million loan from First Things First. To minimize interest costs, the Executive recommends a one-day loan to be taken out on June 30, 2011, and repaid July 1, 2011. The Executive is proposing budget reforms to dedicate a portion of future revenue increases to debt reduction.

FUND TRANSFERS

The Executive proposes additional fund sweeps in FY 2011 and in FY 2012.

INVESTMENTS

While budget reductions are clearly the theme for the current fiscal year and next, the Executive does propose investments in a few key areas of State Government.

For FY 2012, the Executive recommends a number of carefully identified investments. As one key example, growth in healthcare caseloads and K-12 enrollment is funded. Additionally, the Executive recommends these funding initiatives:

- *Economic Development*: the new Commerce Authority and a jobs-focused tax package.
- *Corrections*: safety concerns caused by prison understaffing.
- *Proposition 204 Transition*: a federally matched uncompensated care program to assist patients who have critical needs and will lose health care coverage through the Prop. 204 rollback.
- *Capital Outlay*: a new capital program for the Department of Corrections, expanding school capital expenditures, and expanding capital resources in the Department of Administration (DOA) system.
- *Furlough Day*: reinvesting into the personnel system the savings in the employee health care plan, in order to eliminate the furlough day (due to savings in the employee health plan and greater-than-expected savings from the employee pay cut, this can be accomplished without increasing State personnel expenditures).

SUMMARY OF THE BUDGET PLAN

Following are the major components of the budget plan for FY 2011, which has a projected \$763.6 million shortfall:

Solutions to Shortfall

FTF Loan:	\$ 330.0 million
K-12 Rollover:	245.0 million
K-12 Use of Federal Jobs Funds:	101.2 million
DES Reductions:	91.0 million
Fund Transfers:	65.6 million
Medicaid Provider Cut:	17.3 million
One-Time Corrections Savings:	10.0 million

Recommended Investment

Eliminate AHCCCS Rollover:	\$ 37.8 million
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Following are the major components of the budget plan for FY 2012, which has a projected \$1.15 billion shortfall:

Solutions to Shortfall

Prop 204 Rollback:	\$ 541.5 million
University Reductions:	170.0 million
Reinstate AHCCCS Rollover:	115.4 million
Fund Transfers :	85.7 million
DES Reductions:	91.0 million
Annualized Provider Cut:	89.0 million
Community College Reductions:	72.9 million
ADE CORL/Add'l. Assistance Reduction:	66.6 million
County Contributions:	21.0 million
Phoenix Convention Center:	15.0 million
Health Insurance Payment:	12.3 million
ADE Online Instruction Capital:	11.5 million
Juvenile Corrections:	7.2 million
ADE Career Ladders Phase Down:	5.6 million

Recommended Investment

Prop. 204 Transition:	\$ 50.0 million
Economic Development Package:	39.8 million
Eliminate Furlough Day:	17.2 million
Prop. 204 Rollback Impact on SMI:	10.3 million
Additional Correctional Officers:	8.4 million
SFB Building Renewal:	7.3 million
Education Growth:	6.6 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 2010 Actual" column reflects actual revenues and expenditures for FY 2010 taken from the State's Accounting and Financial Information System. The fiscal year's deficit of \$5.7 million is reflected as the ending balance.
- The "FY 2011 Estimate" column reflects the Executive's FY 2011 revenue projections and appropriations for FY 2011 made by the Legislature in the 2010 Legislative sessions. The automatic reduction in the DES appropriation due to the failure of Proposition 302 is not reflected. This column also includes the Executive-projected need for supplemental appropriations. The projected FY 2011 deficit of \$764 million is reflected as the ending balance in this column.
- The "FY 2012 Executive Baseline" column reflects the Executive's calculation of the State's fiscal situation in the absence of the Executive's FY 2012 restructuring plan. The projected \$1.15 billion deficit in the absence of the Executive recommendation is reflected as the ending balance in this

column.

The “FY 2011 Executive Recommendation” and “FY 2012 Executive Recommendation” columns reflect the Executive’s revenue projections and plan for balancing the budget.

IMPACT ON LOCAL GOVERNMENTS

The Executive Budget Recommendation poses a number of impacts on local governments. For example, the shift in the DPS transfer from SHF to HURF will impact both city and county governments.

Additionally, the Executive recommends:

- shifting part of the cost of the Department of Water Resources to water providers (mainly cities),

- shifting Arizona Criminal Justice Commission grants for public defenders to DPS, and
- increasing the share that counties pay for sexually violent persons housed at the State Hospital.

OUTCOMES

The Executive Recommendation provides total General Fund expenditure levels of \$8.2 billion in FY 2011 and \$8.9 billion in FY 2012.

The \$700 million “increase” in FY 2012 is misleading; when federal stimulus funds and expenditure deferrals (rollovers) are included, the current FY 2011 real expenditure level is \$9.5 billion, while FY 2012 drops to \$9.0 billion.

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

SOURCES OF FUNDS	FY 2010 Actual	FY 2011 Estimate	FY 2011 Executive Recommendation	FY 2012 Executive Baseline	FY 2012 Executive Recommendation
Balance Forward	(480,713.0)	(5,723.2)	(5,723.2)	0.0	50,038.9
Base Revenues	7,088,943.1	7,304,130.3	7,304,130.3	7,840,112.7	7,840,112.7
Urban Revenue Sharing	(628,644.6)	(474,006.5)	(474,006.5)	(424,423.4)	(424,423.4)
Adjusted Base Revenues	6,460,298.5	6,830,123.7	6,830,123.7	7,415,689.3	7,415,689.3
Enacted Budget Fund Transfers	358,815.4	151,834.1	217,478.4	94,384.0	169,802.3
SFB QSCB Federal Interest Subsidy				6,213.8	6,213.8
Other Revenues		46,270.6	46,270.6	46,270.6	69,859.1
County Transfer	22,000.0	34,600.0	34,600.0		21,000.0
Commerce Authority					(31,500.0)
Economic Development Credits					(8,300.0)
Sale Leaseback	1,035,419.3				
Lottery Revenue Bonds	450,000.0				
Redirection of Lottery Fund Revenue					
Borrowing from First Things First			330,000.0		330,000.0
Temporary One Cent Sales Tax		845,719.6	845,719.6	902,353.2	902,353.2
TOTAL SOURCES OF FUNDS	7,845,820.2	7,902,824.8	8,298,469.1	8,464,910.9	8,925,156.5
USES OF FUNDS					
Agencies Operating Budget	7,919,527.0	8,641,545.6	8,226,013.7	9,522,202.6	8,474,343.4
27th Payroll				81,000.0	81,000.0
Health Insurance Recapture					(12,254.2)
5% Salary Reductions (uncaptured savings)			(5,340.4)		(5,340.4)
Eliminate Furlough Day			2,875.7		17,243.4
Total Operating Budget	7,919,527.0	8,641,545.6	8,223,549.0	9,603,202.6	8,554,992.2
Phoenix Convention Center					(15,000.0)
FTF Loan Repayment					330,000.0
Other	3,891.0				
TWN Interest and Fees	3,856.0				
Prior-Year Continuing Approps Expenditures	31,299.8				
Reversions of Continuing Appropriations	(38,035.2)				(1,000.0)
Agency Backfills	998.0				
DOA Lease Purchase Debt Service		52,066.9	52,066.9	49,030.6	49,030.6
Capital	10,400.0	4,000.0	4,000.0	4,000.0	0.0
Capital Outlay Prior Year Reversion	(450.0)				
COSF Rate Reduction					(6,825.8)
DOA Building Renewal Charge					4,587.6
Administrative Adjustments	38,692.0	85,763.9	85,763.9	79,525.7	79,525.7
Revertments	(118,635.2)	(116,949.6)	(116,949.6)	(123,788.6)	(110,166.5)
TOTAL USES OF FUNDS	7,851,543.4	8,666,426.9	8,248,430.3	9,611,970.3	8,885,143.8
ENDING BALANCE	(5,723.2)	(763,602.0)	50,038.9	(1,147,059.4)	40,012.7
NOTE: Funds and Adjustments that Reduced General Fund Uses of Funds					
Deferred Payments (rollovers)	567,000.0	0.0	130,311.0	0.0	115,374.9
Federal Stimulus	1,418,400.0	805,600.0	805,600.0	0.0	0.0
Total Adjusted Uses Of Funds	9,836,943.4	9,472,026.9	9,184,341.3	9,611,970.3	9,000,518.7

STATEMENT OF GENERAL FUND
Showing One-Time Sources & Uses Items

	FY 2011 OSPB Estimate	FY 2012 OSPB Estimate
REVENUES		
Ongoing Revenues	\$7,304,130.2	\$7,840,112.7
Urban Revenue Sharing	(\$474,006.5)	(\$424,423.4)
Sales Tax Increase -May Ballot	\$845,719.6	\$902,353.2
Withholdings to the Commerce Authority	\$0.0	(\$31,500.0)
Economic Development Tools	\$0.0	(\$8,300.0)
Other Revenues	\$46,270.6	\$69,859.1
SFB QSCB Federal Interest Subsidy	\$0.0	\$6,213.8
Fund Transfers - FRATS	\$151,834.1	\$84,032.9
Net On-going Revenues	\$7,873,948.0	\$8,438,348.3
One-Time Financing Sources		
Balance Forward	(\$5,723.2)	\$50,038.8
First Things First Loan	\$330,000.0	\$330,000.0
County Transfers	\$34,600.0	\$21,000.0
Funds Transfers - EBTs	\$65,644.3	\$85,769.4
Subtotal One-time Revenues	\$424,521.1	\$486,808.2
TOTAL REVENUES	\$8,298,469.1	\$8,925,156.5
EXPENDITURES		
Agency Operating Budgets	\$9,336,613.7	\$8,589,718.3
ADOA 2010 Lease Purchase Debt Service	\$52,066.9	\$49,030.6
Eliminate Furlough Day	\$2,875.7	\$17,243.4
COSF Rate Reduction	\$0.0	(\$6,825.8)
Additional Pay Cut	(\$5,340.4)	(\$5,340.4)
Building Renewal Charge	\$0.0	\$4,587.6
Administrative Adjustments	\$85,763.9	\$79,525.7
Revertments	(\$116,949.6)	(\$110,166.5)
Subtotal Ongoing Expenditures	\$9,355,030.3	\$8,617,772.9
One-Time Expenditures	\$0.0	\$0.0
K-12 Rollover	(\$245,000.0)	\$0.0
Capital Outlay	\$4,000.0	\$0.0
Temporary Federal Assistance	(\$805,600.0)	\$0.0
SFB Debt Refinance	(\$60,000.0)	\$0.0
AHCCCS Rollover	\$0.0	(\$115,374.9)
27th Payroll	\$0.0	\$81,000.0
Health Insurance Payment Freeze	\$0.0	(\$12,254.2)
First Things First Loan Repayment	\$0.0	\$330,000.0
Phoenix Convention Center	\$0.0	(\$15,000.0)
Reversions of Continuing Approps	\$0.0	(\$1,000.0)
Subtotal One-Time Expenditures	(\$1,106,600.0)	\$267,370.9
TOTAL EXPENDITURES	\$8,248,430.3	\$8,885,143.8
ENDING BALANCE	\$50,038.8	\$40,012.7
STRUCTURAL SHORTFALL	(\$1,481,082.3)	(\$179,424.6)

Protecting the Public is the State's Top Core Function

The Executive Budget Recommendation continues to provide for safer communities

EVEN WHILE STRUGGLING to overcome its prolonged budget crisis, State Government must maintain a high standard of public safety for Arizona citizens and visitors and safeguard the integrity of the State's criminal justice system.

While the Executive Budget Recommendation challenges public safety agencies to be more efficient with precious General Fund dollars, it continues to provide for safer communities.

ADULT CORRECTIONS

In early FY 2011, the Department of Corrections (DOC) opened 6,000 new adult prison beds – 4,000 State-operated beds and 2,000 privately operated. With the opening of those beds, all out-of-state beds were closed, and 4,492 inmates were returned to Arizona correctional facilities.

These net changes to DOC's operational capacity reduced the State's bed deficit to 2,475, a welcome contrast from the deficit peak of nearly 5,500 in August 2009.

Correctional Officers. DOC has achieved some of these reforms within its approved budget, but full implementation has created a demand for additional Correctional Officers. To meet that demand, the Executive recommends a three-year plan to add 306 Correctional Officers to the State's prison complexes. In its first year (FY 2012), the plan calls for the addition of 102 Correctional Officers.

Prison Maintenance. DOC's 10 prison complexes include over 8.5 million square feet of buildings that range in age from 1 year to more than 50 years. To address the needs of its aging facilities, DOC has identified and planned for 30 necessary capital projects, which carry a cost of approximately \$115 million.

While prison maintenance is the responsibility of DOC, all building renewal projects are managed by the Department of Administration. Despite

their public safety considerations, DOC facilities are forced to compete with all other State buildings for scarce maintenance funds.

Consequently, critical needs are going unmet. As an example, in 2001 DOC received an \$18.5 million appropriation over three years to replace inoperable or obsolete prison door locks, but funding for the project was ex-appropriated in 2002 to help balance the General Fund budget. Other necessary building renewal projects have been similarly unfunded.

The safety of our citizens demands that the integrity of the State's prison facilities be maintained. Consistent with that need, the FY 2012 Executive Recommendation provides for the establishment of a Department of Corrections Building Renewal and Preventative Maintenance program. Funding for this program will be initially provided by a \$50 million, 15-year revenue bond supported by the State Lottery, with debt service beginning in FY 2013. In addition to the bond funded capital program the Executive recommends an ongoing building renewal, preventative maintenance program. This program will be funded by:

- \$564,000 from the Corrections Fund, previously appropriated to the Department of Administration for capital outlay projects at prisons;
- \$1.7 million per year (DOC estimate) from a new background-check fee for prison visitors;
- \$340,000 (DOC estimate) in proceeds from a 1% banking charge on all DOC-managed inmate bank accounts;
- \$1 million per year (DOC estimate) in deposits from Arizona Correctional Industries (a division of DOC); and
- \$1 million per year (DOC estimate) from Prison Commissary and Prison Telephone receipts.

The DOC Building Renewal and Preventative Maintenance program would be the sole responsibility of DOC.

PUBLIC SAFETY

Prior to FY 2009, the Department of Public Safety (DPS) was appropriated \$6.8 million per year for Highway Patrol vehicle replacement. In FY 2009, funding was reduced by 35% before being completely eliminated due to budget-cutting measures in FYs 2010 and 2011.

Predictably, these extended funding cuts have produced a rapidly aging fleet of Highway Patrol vehicles and a growing threat to public safety. Without renewed funding, 928 Patrol vehicles – 86% of DPS's 1,083-vehicle fleet – will have exceeded 100,000 miles by the end of FY 2013.

The Executive recommends modifying statute to allow DPS to purchase Highway Patrol vehicles in FY 2012 with funding already available in the Public Safety Equipment Fund.

DPS Officer Safety. Currently, the State provides to the counties approximately \$2.2 million for the operation of County Attorneys' offices and for operation of Indigent Defenses activities. The Executive recommends diverting these monies to DPS for officers' personal safety equipment, such as radios and ballistic vests, and to support the replacement of obsolete Highway Patrol vehicles.

DNA Testing. The State has taken several steps to enhance public safety through the use of a DNA database.

For example, all convicted sex offenders are required to have their DNA analyzed and entered into the statewide database. This was expanded to include those convicted of certain violent offenses. Most recently, convicted felons are required to provide a DNA sample for the database.

The Executive recommends expanding DNA testing to include all persons convicted and incarcerated. The esti-

mated cost to provide this testing is \$2.4 million per year. The Executive recommends a 2.4% surcharge on all fines, penalties and forfeitures to fund the testing and entering of these additional DNA samples into the Database.

Capitol Police. Law enforcement at the State Capitol is provided by the Capitol Police, which is a division of the Department of Administration. In addition, DPS stations officers in strategic locations at the Capitol.

The Executive recommends that, in order to achieve an improved command structure and more efficient operation, the Capitol Police be consolidated into DPS. The Executive further recommends appropriating \$1 million to allow DPS to absorb the Capitol Police officers at the DPS pay scale.

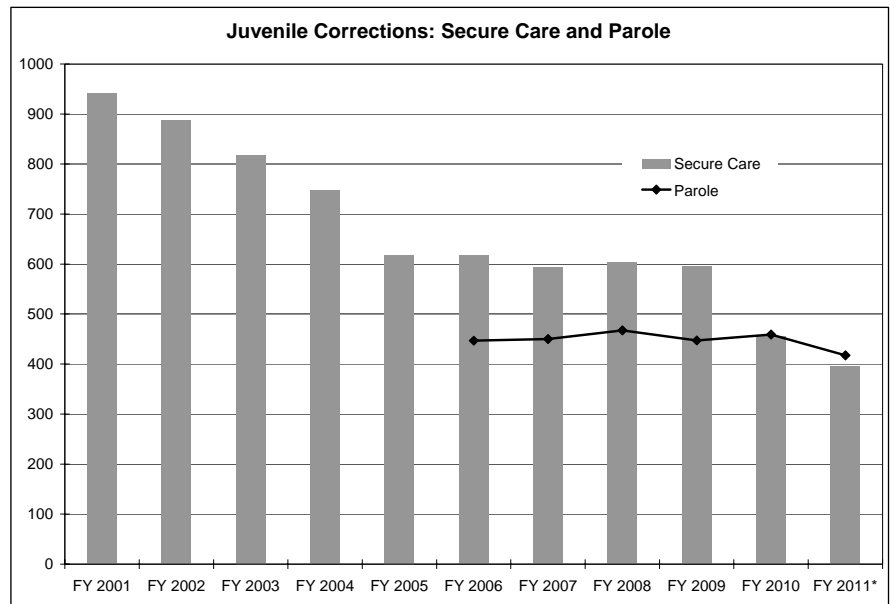
OTHER RECOMMENDATIONS

Juvenile Corrections. As the above chart illustrates, since FY 2008, the Department of Juvenile Corrections (DJC) has seen a 34% decline in its average daily population. Consistent with that trend, the DJC population so far in FY 2011 is 12% below the average for FY 2010.

As of December 27, 2010, DJC housed 363 youth in its secure-care facilities and is supervising 412 youth living in the community.

The Executive recommends aligning DJC's funding with the continued decline in population, reducing the Department's FY 2012 funding by \$7.2 million.

Project Challenge. The Project Challenge program is an interventionist program for non-delinquent, high



school dropouts. It is intended to teach life skills and direct young people toward GED completion in a residential boot-camp setting.

In FY 2010, the program included 138 participants, of which 28% completed their GED. The average annual cost per student is \$20,380.

Budget constraints in recent years have reduced State funding by 14% and federal funding by 48%, significantly reducing the effectiveness of the program. The Executive recommends eliminating the remaining funding.

DEMA/Forestry Merger. Natural disasters and emergencies in Arizona are managed by two separate state agencies: the State Forester and the Division of Emergency Management at the Department of Emergency and Military Affairs (DEMA).

The State Forester coordinates all

fire-fighting activities associated with wildland fires. Responses to other naturally caused emergencies (e.g., floods, earthquakes, hurricanes and severe storms) are coordinated by the Division of Emergency Management.

Predictably, there are many areas of overlapping activities. For example, when Emergency Management responds to an emergency, it likely will rely on vendor contracts established by the Forester. In addition, the available funding for emergencies is statutorily intertwined between the two agencies.

To obtain the most efficient management of emergencies and best response to all emergencies, the Executive recommends consolidating the State Forester and the Division of Emergency Management as a single division within DEMA. ●

Enhancing Public Education During a Budget Crisis

Despite unprecedented budget shortfalls, improving public education at all levels remains a priority

RECENT ECONOMIC CONDITIONS and the protracted State budget crisis have inflicted severe cuts in K-12 education funding:

- Deferrals of General Fund monies in excess of one-fourth of annual funding are currently in place (payable within two months of fiscal year end).
- End-of-year fund balances have been used to offset General Fund deferred amounts.
- General Fund monies for programs such as Adult Education, Early Childhood Education, Gifted Support, and Aims Intervention have been suspended.
- Lump-sum reductions for school districts and charter schools have grown to more than \$175.1 million.
- Funding of more than \$200 million intended for Full Day Kindergarten, added in FY 2007, has been eliminated.

In FY 2011, the K-12 system faced additional deep budget reductions. In lieu of those reductions, the public supported a new revenue stream that would maintain K-12 funding at the existing State support levels. That voter mandate should be recognized and honored.

Federal stimulus monies increased State Aid in FY 2010 and FY 2011 by \$521 million and \$143.8 million, respectively. The Executive does recommend recognizing federal dollars as an offset to any needed supplemental for FY 2011. However, the Executive does not recommend replacing federal dollars with General Fund support when the federal support expires in FY 2012.

Of the \$206 million of federal Education Jobs money distributed in FY 2011, the Executive anticipates that only \$101.2 million will be recognized as part of the K-12 formula. The balance should be used by districts and charters to transition to new State support levels in FY 2012.

EXECUTIVE RECOMMENDATION

Growth Funding. The Executive Budget Recommendation for FY 2012 provides for the funding of growth over current FY 2011 appropriation levels.

The Executive recommends \$55.8 million to cover the costs of student growth (1%), inflation (0.9%) and net assessed valuation (NAV) changes. While school district counts have declined slightly in recent years, charter school counts continue to increase, although at a reduced rate. The chart below shows student count growth for school districts and charter schools (FY 2012 growth is projected). To align the K-12 formula with the established State support level, the Executive recommends four formula changes.

Additional State Aid. Last year, the Legislature eliminated Additional State Aid for certain locally adopted property taxes. This change is scheduled to take place in FY 2012. The Executive continues to support this change but recommends restoring Additional State Aid for the small school adjustment.

Career Ladder. The Career Ladder program provides increased expenditure capacity for 28 of Arizona's 238

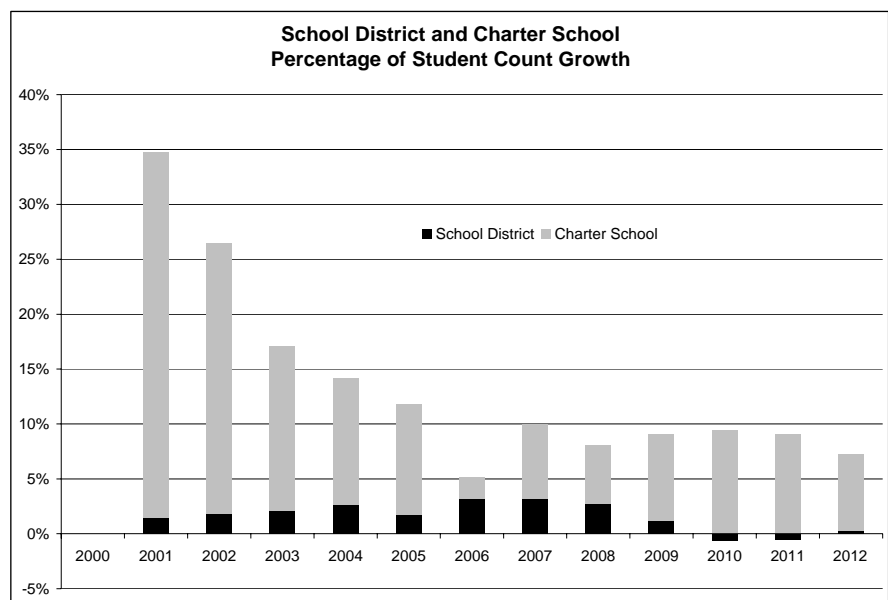
school districts to offer incentive pay to teachers to improve their teaching skills. These expenditures are funded by the General Fund and by local property tax. Career Ladder was established in 1985 as a pilot program, and the Legislature added districts until 1994.

In February 2010, the Arizona Court of Appeals ruled, in *Gilbert Unified School District No. 41 v. State of Arizona*, that excluding some districts from the program is unconstitutional. Two options exist with respect to the program:

- expand Career Ladder to the remaining 210 school districts, at a cost to local property owners and the General Fund; or
- eliminate the program.

The Executive recommends the latter, phasing out the Career Ladder program by reducing the maximum allowed budget increase by 1% per year for the next five years beginning with FY 2012. (While a 5.5% increase is authorized by statute, the increase has already been capped at 5% for FY 2010 and for FY 2011.)

Arizona Online Instruction. Arizona Online Instruction (AOI) provides



funding for web-based virtual classrooms that are available to enrolled students 24/7. The number of approved school districts and charter schools has grown with the removal of pilot status, from 14 in FY 2010 to 42 in FY 2011. The fundable student count generated by AOI students has grown from 3,400 in FY 2005 to over 12,000 for FY 2010. The Executive recommends eliminating transportation and facilities funding or equivalent amounts for AOI.

Capital Outlay & Additional Assistance. The Executive recommends reducing CORL and AA funding by \$62 per student.

Other Changes. As noted above, K-12 formulas in excess of \$175 million are suspended. Additionally, the Utilities Adjustment formula is also suspended. This formula was put in place in response to Proposition 301 (approved in November 2000), which provided for the termination of Excess Utilities funding (via property taxes) at the end of FY 2009. (Budgeted Excess Utilities for FY 2009 exceeded \$123.7 million.)

In its place, a Utilities Adjustment is now provided within the equalization formula for school districts. In most cases, this would be funded by the State. However, funding of the adjustment has been suspended for both FY 2010 and FY 2011. The Executive recommends eliminating this formula in FY 2012.

P-20 GOVERNANCE STRUCTURE

In 2009, Executive Order 2009-10 re-established the P-20 Coordinating Council of Arizona, which was charged with “providing a statewide forum for coordination and articulation” among various State and local education boards and agencies, to improve education from preschool through advanced degree programs in higher education.

Initially, one of the Council’s primary functions was to oversee the State’s application for federal Race to the Top grant funding. From the beginning, the Governor stated that the purpose of the application was to create the vehicle for K-12 reform in Arizona. The resulting plan had statewide support from education and business stakeholders, and for the first time, Arizona has a plan that connects all of the goals of the edu-

cation system P-20. Although Arizona was not one of the 12 states selected to receive funds, many of the initiatives are underway. However, there are additional reforms contained in the plan that are just as critical and should not wait. Therefore, the Governor asked the P-20 Council to review and prioritize those reforms; the resulting plan has now become the blueprint for Arizona’s education reform effort.

A revised P-20 Council is recommended as part of that plan, with a new role that emphasizes performance oversight and accountability of the public education system.

For FY 2012, the Executive recommends codifying the principles of the original P-20 Council but shifting its core focus to performance management. The new P-20 Council will be comprised of top leaders of the various public education agencies in Arizona along with business and philanthropic leaders. The Council will measure and track progress of the established performance goals and outcome measures for preschool, K-12, community colleges and universities. The Council will meet on a semi-annual basis to discuss progress and goal attainment and lend transparency to the overall performance of Arizona’s public education system.

DATA SYSTEMS

A stable, robust, longitudinal data system is imperative to advancing educational performance at all levels of public education in Arizona. In order to measure Arizona’s progress and to update the information system the State relies on to properly account for public education monies, the new P-20 governance structure will oversee the development of a high-quality data system. Because the data system will span K-12, community colleges, universities and workforce programs, the Executive recommends maintaining an independent governance structure that coordinates all of these agencies rather than making it a part of an existing agency irrespective of where the data system is housed.

Both the Statewide Longitudinal Data System (SLDS) and the financial data system will be funded with a fee based

on student enrollment in school districts, charter schools, the community college system and the University system. The Council will also seek to secure grant funding from public and private sources wherever feasible. This fee will also provide nominal funding necessary to support the new P-20 Council. The P-20 Council will work with existing entities including the Department of Education and the Data Governance Commission to fund and develop the necessary systems.

The Executive is conducting a review of the existing P-20 data systems. That review is scheduled to be complete in February 2011. At that time, the Executive will be able to provide a more concrete recommendation on the fee amount but, in the meantime, proposes a placeholder fee of \$12 per student – less than 0.4% of State funding. As the following table illustrates, that fee will produce approximately \$57 million over four years.

Once the data systems are in place, the fee may be reduced to reflect costs.

Projected Student Counts and Fees
FY 2012 to FY 2015

	Projected Student Counts	Total
FY 2012	1,337,535	\$8,025,210
FY 2013	1,350,974	\$16,211,688
FY 2014	1,361,917	\$16,343,004
FY 2015	1,372,082	<u>\$16,464,984</u>
		\$57,044,886

UNIVERSITIES

Universities serve as a key asset to State economic development and as a gateway for individual economic and social improvement. In a period of reduced resources, it is critical that the State adapt service delivery to ensure that the maximum number of citizens continue to have access to higher education. To that end, the State must continue to explore lower cost higher education models including expansion of two plus two programs, more regional campuses with real differentiated tuition options, online education, a state college system, and four-year degrees offered by community colleges.

In her April 2009 remarks to the Board of Regents, Governor Brewer

requested that the Universities develop new, comprehensive business models that would allow them to deal with (a) the impending loss of federal stimulus dollars after FY 2011 and (b) possible further cuts to State support for the University system in FY 2012. The Executive eagerly awaits those recommendations.

Unfortunately, to address the current FY 2012 budget shortfall, substantial reductions to critical areas need to be made, including a recommended \$170 million cut in General Fund support for the University system in FY 2012.

Compounding this problem is the loss of federal stimulus dollars to the Universities after FY 2011. Student enrollment continues to grow, as projections from University officials indicate an increase of approximately 3% from FY 2010 through FY 2012.

The Executive intends to continue supporting the University system. Per-student spending from all sources has continued to increase, by almost 11%, since FY 2007, indicating that the State's higher education system has been resilient in facing the monumental state budget challenges of recent years while continuing to fulfill its mission.

However, against the backdrop of diminishing state resources and a growing student population, a new funding formula for universities must be contemplated, along with the role the State will play in the university system in the future. As it has done since FY 2009, the Executive recommends deferring \$200 million in payments in FY 2012.

COMMUNITY COLLEGES

During the recent recession, a growing number of adults have returned to school to learn new skills. As a result, between FY 2009 and FY 2010, community college full-time student equivalency counts increased by 9.7%, from 123,797 to 135,789. The first chart below illustrates overall community college FTSE counts during the last decade.

Growth. In FY 2011, statutory community college formulas were frozen. The Executive recommends allowing the formulas to run in FY 2012, which will add approximately \$9 million in State support, as well as shifting State aid

between districts.

Reductions. Community college operating revenues are made up of tuition, fees, primary property taxes, Operating State Aid and Equalization State Aid. In FY 2011, General Fund support is approximately 12% of total operating funds.

The Executive recommends holding total operating revenues the same in FY 2012 as they were in FY 2011. Based on current estimates, FY 2012 State support would have to be reduced by 6.16% to keep operating revenues the same as FY 2011. This will reduce General Fund support by \$72.9 million.

K-12 CAPITAL

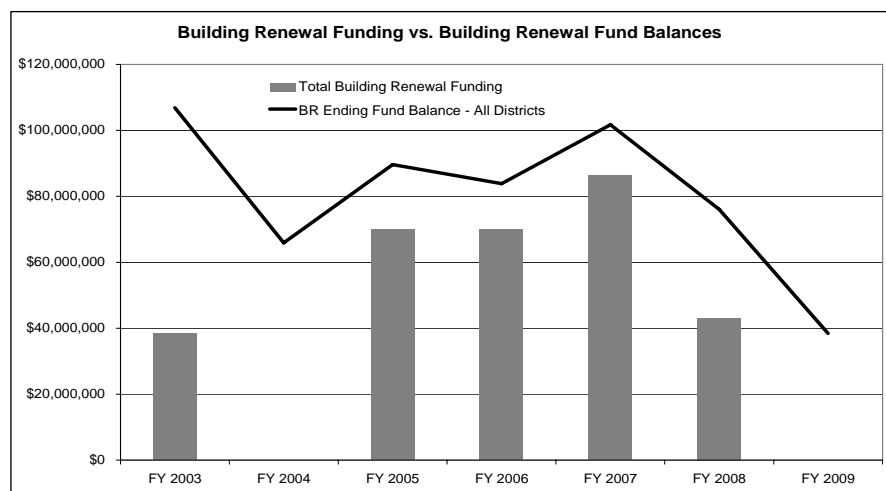
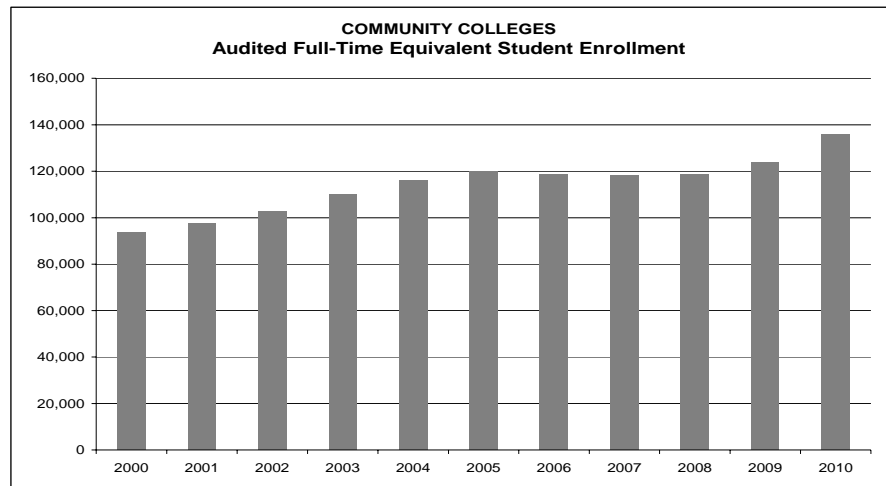
New Construction. From FY 2009 to FY 2011, Arizona school district enrollment declined from 947,950 to 936,314. However, despite the overall trend of declining student counts, certain districts have grown. Accordingly, for FY

2011 the School Facilities Board (SFB) was authorized to issue up to \$100 million in Qualified School Construction Bonds (QSCB) to address schools that currently qualified. The Board subsequently issued \$91.3 million to build eight schools.

In FY 2012, some school districts may qualify for new schools based on projections. However, the Executive expects no school district to fall below per-pupil space requirements; thus, the Executive recommends that the State continue its current moratorium on funding new school construction.

Building Renewal. In FY 2012 the Building Renewal formula will generate, per statute, \$243.1 million. However, the State has not fully funded this formula since FY 2002, and since FY 2009 funding for the formula has been completely eliminated. The Executive recommends not funding the formula in FY 2012.

In FY 2009, to replace the loss of the



formula, the Legislature established a Building Renewal Grant Program, which allows the SFB to fund projects required to maintain districts at minimum adequacy guidelines. FY 2011 program funding was \$2.7 million.

The chart on the previous page shows the building renewal formula funding and total school district Build-

ing Renewal fund balances through FY 2009. As school districts have received no Building Renewal formula funding since FY 2008, most districts' Building Renewal fund balances are very low. As a result, important maintenance projects are being deferred.

To reduce future costs associated with deferred maintenance, for FY 2012

the Executive recommends a funding increase for Building Renewal grants, from \$2.7 million to \$10 million. Further, the Executive recommends refocusing SFB's mission away from responding to only emergencies, by providing an additional 3.0 FTE to enhance school district preventative maintenance. ●

Challenges of Fiscal Discipline in Serving the Needy

Making painful decisions about how to fund 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 third of baseline General Fund expenditures for Fiscal Year 2012; 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 both fiscal and humanitarian terms – to make budget reductions, manage scarce resources, and tighten eligibility requirements at a time of unprecedented demand for State services. Nevertheless, making painful decisions about how to fund and who will receive health and welfare services is critical to balancing the State budget.

MEDICAID

Medicaid continues to be the key driver in the State budget. Since FY 2007, Medicaid capitated populations have grown by 46%, leading to a current population of almost 1.2 million members. This expansion has led to soaring General Fund costs in times of revenue loss. In FY 2007, ongoing Medicaid costs comprised 17% of the General Fund budget. In FY 2011, Medicaid will consume 29%.

While provider rate and optional benefit cuts have helped contain Medicaid costs, the scope of the savings from such actions is not adequate to close the gap. From FY 2007 to the FY 2011 Executive forecast, Medicaid's cost to the General Fund has increased by 65%, or over \$1 billion. The full-year impact of the FY 11 cuts to optional benefits and provider rates will only provide \$98 million in General Fund savings. To obtain significant Medicaid budget

savings, Arizona has no choice but to reduce eligibility for AHCCCS.

The ARRA Cliff. 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 has provided an estimated \$2.9 billion in spending relief to the General Fund from FY 2009 through FY 2011. Approximately \$1.9 billion in stimulus funds has been used to enhance the Title XIX Federal Medical Assistance Percentage (FMAP) in the health and welfare agencies.

In FY 2010, the ARRA FMAP enhancement increased the federal match from 65.75% to 75.93%. In FY 2011, the ARRA-enhanced FMAP was extended from its original expiration date of December 31, 2010, through June 30, 2011, though at "stepped-down" enhancements of 73.1% and 71.22%. Accordingly, the Executive estimates that the Medicaid agencies benefitted by \$659.6 million rather than the budgeted \$853.6 million, a \$194 million loss against the original FY 2011 budget.

The stepped-down federal match, along with higher-than-budgeted caseload growth, created a budget hole in Behavioral Health Services in DHS and the Title XIX program for the Developmentally Disabled (DD) in DES. In the case of the Children's Rehabilitative Services (CRS) program, soaring prescription drug costs played a part as well. For AHCCCS, although caseload growth has been less than originally budgeted, the ARRA shortfall more than offset this savings, resulting in a small FY 2011 deficit.

The Executive was largely able to reallocate resources within the AHCCCS and DHS budgets to cover the shortfalls. While the Executive proposes a supplemental for AHCCCS, its purpose is to suspend the payment rollover to obtain

an ARRA-enhanced federal match that is available only through FY 2011. As a result, AHCCCS and Behavioral Health Services (BHS) will absorb \$54.6 million in supplemental needs without additional General Fund support. However, in CRS and DES, no additional resources existed to absorb the increased costs in FY 2011; thus, the Executive recommends \$8.3 million and \$11.4 million supplemental General Fund appropriations for CRS and DES, respectively.

The enhanced federal match ends on July 1, 2011. For FY 2012, the General Fund must make up for the loss of this \$659.6 million, often referred to as the "ARRA cliff."

Maintenance of Effort. One of the provisions of ARRA was a limitation on states reducing Title XIX Medicaid eligibility standards – referred to as "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."

The budget implications of this limitation has meant that the non-Title XIX portions of DHS and DES have seen significant reductions in recent years, while AHCCCS programs, which are almost entirely 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, 30% and 65%.

While ARRA expires on July 1, 2011, the Patient Protection and Affordable Care Act of 2010 (PPACA) continues this MOE requirement indefinitely and expands it to include the Title XIX Children's Health Insurance Program. However, CMS (the federal Centers for Medicaid and Medicare Services) has the authority to waive this requirement, which the Executive plans to request for a period of two years.

Proposition 204 Rollback. From FY 1999 to FY 2011, funding for Arizona's health and welfare agencies has grown from 20% to 29% of the State's operating budget. This growth has been due largely to the 2000 passage of Proposition 204, which expanded AHCCCS eligibility to include all Arizonans up to 100% of the Federal Poverty Level (FPL).

When Arizona voters passed Proposition 204 in 2000, the ballot stated:

"A 'yes' vote shall have the effect of ... increasing healthcare coverage eligibility for Arizona's working poor at the federal poverty level ... using the tobacco litigation settlement money."

Since FY 2004, the Tobacco Settlement funds have been inadequate to fund the Proposition 204 expansion, resulting in a General Fund subsidy that has grown to over \$700 million in the Executive FY 2012 baseline forecast.

This expansion has resulted in a number of populations being added to the AHCCCS rolls:

- parents or families who have an income between 23% and 100% of the FPL;
- aged, blind or disabled persons receiving Social Security Income (referred to as the "SSI population") who have an income between 75% and 100% of the FPL;
- people who are otherwise ineligible but who have enough medical expenses to spend-down to 40% of the FPL; and
- adults without children in the home (referred to as childless adults), up to 100% of the FPL.

As part of a restructuring to address the current-year deficit and the State's structural deficit, the Executive recommends effective October 1, 2011:

- eliminating health coverage for childless adults and spend-downs,
- leaving eligibility for the aged, blind or disabled population unchanged, and
- capping the TANF parents Prop. 204 expansion populations at a level adequate to be supported by the Tobacco Settlement and Tobacco Tax Proposition 204 Protection Account revenues.

This action is forecast to save the State a total of \$541.5 million in FY 2012, \$461.8 million in AHCCCS and \$79.8 million in DHS. The State will lose an estimated \$1.1 billion of federal match, and approximately 280,000 Arizonans will lose their AHCCCS health insurance. This is about 4.5% of the 6,392,017 Census 2010 count of the Arizona population.

In FY 2013, these changes will be in effect for the entire year, saving the General Fund an estimated \$900 million, at a cost of \$1.9 billion in federal match.

Prop. 204 Rollback at DHS. In addition to the AHCCCS acute care impacts, an estimated 5,200 seriously mentally ill (SMI) individuals will lose coverage under the Proposition 204 rollback.

Prior to the elimination of services, the Executive would review SMIs currently receiving services as part of the expansion population, so that those who qualify for SSI would also continue to receive Medicaid services as mandated by federal waiver and federal law. As a result, all but an estimated 5,200 SMI individuals would continue to be Title XIX-eligible.

In the DHS budget, the Prop. 204 rollback will generate nearly \$79.8 million in FY 2012 savings.

Impact Mitigation. In order to somewhat lessen the effects of the Prop. 204 rollback in DHS, the Executive proposes to set aside an additional \$10.3 million to expand the prescription drug coverage for the non-Title XIX SMIs to include the 5,200 SMIs who are anticipated to lose their Medicaid eligibility as a result of this recommendation.

To partially mitigate the impact of the Prop 204 rollback in AHCCCS, the Executive recommends a \$50 million General Fund increase for an uncompensated care pool for Arizona health-care providers. This pool would be matched with \$101 million in federal funds through a waiver request to raise the cap on federal support for Arizona's Disproportionate Share Hospital funding for uncompensated care.

The Executive's intention is that providers use this funding to continue life-saving care for the most seriously ill Arizonans to the greatest extent possible.

Provider Rates. AHCCCS plans to implement a 5% provider rate reduction on April 1, 2011, using the authority provided in the FY 2011 Health and Welfare Budget Reconciliation Bill. This reduction in provider rates is anticipated to save the General Fund \$74.9 million in the AHCCCS appropriation in FY 2012 while costing Arizona health-care providers a total of \$236 million in lost revenues from both State and federal funds.

In addition to these AHCCCS savings, the 5% rate cuts to BHS and CRS providers will provide an additional \$14.1 million in FY 2012 savings at DHS, for General Fund savings totaling \$89 million.

Zero Capitation Rate Growth. Capitation rates are the per-member payments that AHCCCS makes on a monthly basis to its health plans and that DHS makes to the Regional Behavioral Health Authorities (RBHAs). Capitation rates usually grow due to medical inflation (as reflected in provider rates) and increased utilization of services.

In addition to the April 1, 2011, 5% provider rate cuts discussed previously, the Executive's baseline budget estimate includes a 0% increase for capitation rates for Contract Year 2012, which begins on October 1, 2011, for AHCCCS and July 1, 2011, for DHS. This mandate will require AHCCCS and DHS to take actions that will likely consist of further provider rate freezes, and cuts of up to 5%, in order to offset growth in the utilization of medical services.

AHCCCS

Administration. In the three-and-a-half years since the beginning of the budget crisis, AHCCCS has seen its core administration cut by over 20%, reduced its staffing by 31.5% (over 400 FTE), and suspended plans for a needed computer system replacement, while managing a population that has grown by 46%.

In order for AHCCCS to continue to properly manage its programs, and to meet contractual prompt payment and federal timeliness requirements, the Executive recommends that no further administrative cuts be taken in AHCCCS associated with the Prop. 204 reduction.

Drug Rebate. The PPACA extended the Medicaid drug rebate program beyond fee-for-service payments to include prescriptions provided in managed care settings. AHCCCS has contracted for assistance with the logistics of obtaining this rebate from drug manufacturers, which the Executive believes will offset approximately \$10 million in General Fund expenditures in FY 2011 and \$20 million in FY 2012, based on preliminary estimates. The Executive proposes establishing the Prescription Drug Rebate Fund and appropriating two additional FTE positions to manage this program at AHCCCS.

HEALTH SERVICES

Children's Rehabilitative Services Transition to AHCCCS. In the past, AHCCCS has contracted with DHS to provide acute care services to children who have specialized, chronic medical needs. DHS, in turn, would partner with health plans to ensure the delivery of those services at an actuarially sound capitation rate.

Beginning January 1, 2011, AHCCCS will begin contracting directly for CRS. The Executive does not anticipate any immediate impact to clients as a result of this cost-neutral administrative shift.

ECONOMIC SECURITY

Ongoing Efficiencies. As part of the Executive Recommendation, DES's General Fund budget for FY 2012 will be reduced by \$91 million. Several reforms enacted by DES as part of the FY 2011 budget, including the restriction of the Cash Assistance program and the continuation of the child care waiting list (discussed below) appear to have generated more savings than previously estimated.

Additionally, the Executive has identified \$41 million in federal block grant funds that will be used to offset General Fund reductions to DES programs. In addition to freeing up federal funds, these efficiencies allowed DES to absorb a \$40 million reduction, as the result of the failure of Prop. 302 in November 2010, with minimal impact on the agency's operations. These reductions were primarily absorbed in Cash Assistance, food stamp administration, and children services. The Department was also required to forego the restoration of developmental disability provider rates, which had been reduced in FY 2011.

Child Care Waiting List. The Executive recommends maintaining the Child Care waiting list, which will result in an

additional \$10 million in General Fund savings in FY 2011 and FY 2012. Since the waiting list was implemented, the child care population has fallen by nearly 18,000 children.

Backfilling Lost Federal Funds. With the expiration of ARRA in FY 2012, several DES programs that had been propped up by stimulus spending will lose that funding. The Executive estimates that approximately \$82.5 million General Fund must be invested into DES programs to replace the loss of ARRA funds. The elimination of enhanced FMAP accounts for \$73.1 million of these lost federal funds.

In addition, DES's Division of Child Support Enforcement and Division of Benefits and Medical Eligibility will also lose a short-term influx of federal assistance. Without additional State dollars, DES will not be able to process food stamp applications in a timely manner, nor will it be able to collect child support enforcement payments. Any delay in delivering these benefits to DES clients will likely result in them seeking cash assistance, which is more expensive. ●

Continued Emphasis on Self-Funding

The Executive seeks to emphasize revenue from user fees rather than precious tax dollars

TO HELP ASSURE FUNDING to protect and conserve the state’s natural resources, while minimizing the tax burden on Arizona families and businesses, the Executive Budget Recommendation continues to expand the use of self-funding for Arizona’s natural resource agencies. The Executive seeks to build on a foundation, established in Fiscal Years 2010 and 2011 by the Land Department, the State Parks, and the Department of Water Resources, that emphasizes revenue from user fees rather than precious tax dollars.

Land Department. To fund management of the State Land Trust, the Executive Recommendation expands the use of revenue derived from State Land Trust activities. As proposed, this funding approach will all but eliminate General Fund support for the Land Department, while providing enough revenue to keep it functioning at an optimal capacity.

Parks. 23 of Arizona’s 27 state parks are open. Of the 23, 14 are operating with the assistance of local or tribal governments. While this level of service could be sustained with the existing funding arrangements, it is less certain whether the local or tribal governments will be able to continue the current funding.

To assure the continued operation of as many parks as possible, the Executive recommends no further fund transfers from Parks.

Water. The Executive Recommendation recognizes that the activities of the Department of Water Resources benefit three main groups: the State, municipalities and specific users. The Executive Recommendation continues the utilization of water user fees to fund to cover specific users. However, the Executive also recommends an additional assessment, levied on Arizona cities, to help ensure adequate long-term water supplies.

The table at right illustrates the agency’s functions. The benefits of these functions are both statewide and municipality-specific. Therefore, the Executive asserts that these costs should be shared by Arizona’s cities. To that end the Executive proposal would use the new levy to cover the cities’ portions.

AGENCY ELIMINATION

To streamline management of the State’s historical assets, the Executive recommends eliminating the Department of Mines and Mineral Resources (DMMR) and reassigning its two major functions to related agencies.

Centennial Museum. Pursuant to an FY 2011 initiative, the Mines and Minerals Museum is to be en-

hanced by making it a part of the new Centennial Museum, which will open in early FY 2013. The Centennial Museum will be operated by the Arizona Historical Society (AHS). As part of that initiative, a portion of the funding necessary to operate the Centennial Museum was transferred to AHS from the DMMR to fund a museum curator position and pay for rent expenses.

For FY 2012, the Executive recommends transferring from DMMR the balance of \$120,000 to operate the Centennial Museum.

Agency Merger. To reform the State’s bifurcated system of mineral promotion and education, the Executive recommends merging the remaining functions and funding of the DMMR into the Arizona Geological Survey.

DMMR maintains an extensive repository of historical documents and maps related to mining and minerals in Arizona. The Executive recommends transferring the repository and \$100,000 to the Geological Survey for the cataloging and digitizing of those historic records, resulting in convenient online access and display of the material, thus giving the public a more comprehensive understanding of Arizona’s geological character and mineral resources. •

Department of Water Resources: Functions and Funding

Title	FY11 Expenditures (in '000s)		Total
	Appropriated	Non-Appropriated	
Agency Support	\$2,452.0	\$3,737.5	\$6,189.5
Water Management and S'wide Planning	\$9,472.1	\$7,705.8	\$17,177.9
Groundwater Management	\$2,005.0	\$1,298.0	\$3,303.0
Surface Water Administration and Adjud'n	\$440.6	\$1.8	\$442.4
Colorado River Management	\$788.4	\$6.6	\$795.0
Statewide Planning	\$512.8	\$0.0	\$512.8
Hydrology	\$685.9	\$180.0	\$865.9
Water Protection Fund	\$0.0	\$1,751.8	\$1,751.8
Water Banking Authority	\$0.0	\$4,467.6	\$4,467.6
Rural Water Studies	\$1,163.8	\$0.0	\$1,163.8
Adjudication Support	\$1,245.6	\$0.0	\$1,245.6
Conservation and Drought Program	\$406.4	\$0.0	\$406.4
Assured and Adequate Water Supply	\$1,817.2	\$0.0	\$1,817.2
Groundwater Monitoring	\$406.4	\$0.0	\$406.4
Dam Repair	\$1,060.0	\$1,839.5	\$2,899.5
Total	\$12,984.1	\$13,282.8	\$26,266.9

Repaying our Debts and Preparing for the Future

In response to certain deficiencies exposed by the ongoing budget crisis, the Executive recommends Constitutional and statutory changes

THE STATE OF ARIZONA'S budget difficulties of the past four years have exposed important deficiencies in the Constitutional, statutory and operational aspects of State government's fiscal system.

In response, the Executive recommends three Constitutional changes and one statutory change to the provisions governing the system.

SPENDING LIMIT

Arizona's budget crisis stemmed in part from the use of a one-time revenue "bubble" for permanent tax reductions and expenditure increases.

The Executive recommends putting an spending limit in place that would allow for natural budget growth but limit Arizona's exposure from bubble revenues. The expenditure limit should be based on the following principles:

- *Growth in available revenues should be capped.* The Executive recommends using the average revenue growth rate of the prior ten years.
- *A revenue floor should also be employed to limit the negative impact of the last three fiscal years.* In calculating the rolling average, the Executive recommends limiting loss of revenue in any one year to 2%.
- *The cap should be systematically rebased in order to remain relevant.* The Executive recommends rebasing the cap if the cap exceeds actual revenues for more than three years.
- *The cap should be flexible enough to adjust for major changes in the law.* The Executive recommends that the cap be increased for voter-approved revenue increases, major changes in federal law, and court-mandated expenditures.

Further, Arizona's efforts to deal with the budget crisis have included billions of dollars in new debt and ex-

penditure deferrals. Excess revenues produced by the cap should be used first to pay down debt and retire rollovers. The Executive recommends the following prioritization for the use of excess revenues:

1. Debt reduction
2. Rollover reduction
3. Budget Stabilization Fund deposits
4. One-time capital projects
5. Tax rebates

During the 1990s, Arizona had steady revenue growth. However, over the last ten years, the State has experienced widely fluctuating growth rates, beginning with a revenue loss in FY 2002 followed by historically high growth rates in FY 2004 through FY 2006, and concluding with another period of revenue loss.

The first chart on the next page ("Proposed Expenditure Cap") applies the proposed expenditure limit to the last 20 years. The limit would have allowed for the natural revenue growth throughout the 1990s and reduced the State's exposure to the revenue fluctuations experienced during the 2000s.

The second chart ("Projected Cap Application") applies the same limit to revenue projections through FY 2020. Excluding the loss of revenue in FY 2014 due to the expiration of Proposition 100, the Executive anticipates another period of steady revenue growth similar to the 1990s. The proposed cap will force the State to set aside approximately \$1.9 billion by FY 2020 to repay outstanding debts. This amount is sufficient to completely retire the operational debt issued over the last two years (i.e., sale/leaseback and Lottery bonds).

CONSTITUTIONAL REFORMS

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 FY 2002 and FY 2008, the Legislature authorized transfers from the BSF, despite the fact that the economy was performing at higher levels than the criteria established for such transfers. Additionally, the State has used the BSF to help pay for renovations to the Arizona State Hospital and to pay taxpayer refunds associated with the alternate fuels debacle.

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.

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

For example, it is the nature of legislative bodies to be deliberative and,

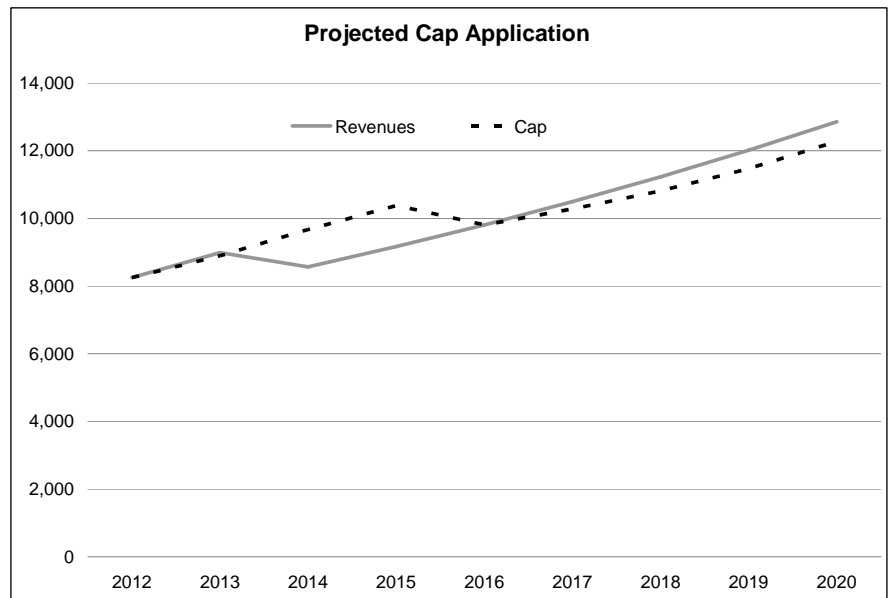
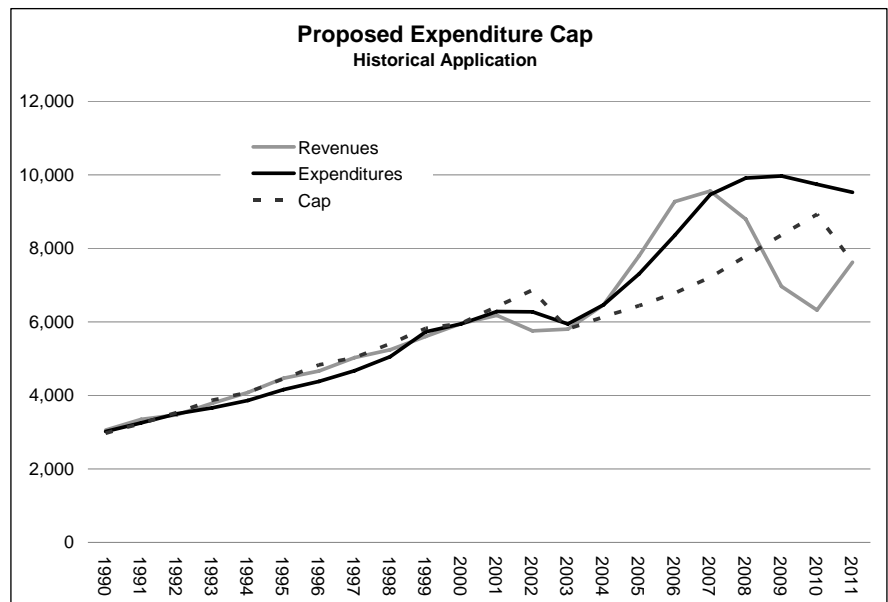
consequently, sometimes slow to act. At various points during our current fiscal struggles, it has been apparent to most informed observers that revenues were insufficient to sustain authorized appropriations. Nevertheless, it took time for the Legislature to act, either due to the difficulties in scheduling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

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 during periods of fiscal emergency.

Line-Item Reduction. The Executive currently has the authority to line-item veto appropriations from the budget bill. Approximately 12 other states have expanded this power to include line-item reduction – i.e., the authority for the Executive to reduce any specific line of appropriation.

Line-item veto is an all-or-nothing proposition that may leave the Executive with the expansion of a program or the elimination of a program as the only options. Line-item reduction authority would allow the Executive to control expansion efforts without eliminating underlying programs. ●



Funding for Essential Maintenance, Preservation

The capital outlay plan emphasizes savings, increased efficiency and fewer costly emergency repairs

THE CAPITAL OUTLAY RECOMMENDED 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 (DOA),
- Arizona Department of Transportation (ADOT), and
- Arizona Board of Regents (ABOR).

Annually, 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. As of June 30, 2010, the three systems included 6,467 buildings and structures with a replacement value of \$13 billion.

The FY 2012 capital requests for major projects and New Construction submitted to DOA for consideration in the FY 2011 DOA Building System CIP totaled \$331.9 million. The DOA request for Building Renewal is \$38.7 million, based on statutory formula. The Board of Regents has not requested funding for New Construction but requests \$90.1 million for Building Renewal. ADOT requested \$5.3 million for New Construction, \$9.6 million for Building Renewal.

DOA BUILDING SYSTEM

The DOA Building System reports a current inventory of 3,464 buildings and structures that have a total area of approximately 22.1 million square feet and a replacement value estimated at \$3.4 billion.

The most significant changes recommended for FY 2012 are related to repayment of Certificate of Participation (COP) 2002B and self-funding of the Capital Outlay Stabilization Fund (COSF). The Executive also recommends \$1 million for major maintenance projects and \$5 million for Building Renewal.

Certificate of Participation 2002B

The final payment for COP 2002B is being made during FY 2011. This COP was used to pay for the Tucson 400 W. Congress building, the Food Services building at the Schools for the Deaf and the Blind, the Supreme Court building, the DOA parking garage, the DES West building, and the Arizona Historical Society Museum at Papago Park. This change will impact 22 agency budgets whose COP rent charges totaled \$25.9

million in FY 2011.

Agencies housed in the Tucson building, the DES West building, and the Supreme Court building will begin paying COSF rent in FY 2012. At current COSF rates, this would total \$11.3 million, for a net savings of \$14.6 million. However, the Executive recommends decreasing COSF rates in FY 2012 which will further increase savings and allow for the creation of a Building Renewal charge as described in the following sections. Net savings from these recommendations will total \$17.2 million.

Certificate of Participation 2002B Savings

The Executive Recommendation includes FY 2012 savings of \$17.2 million due to the payoff of COP 2002B in FY 2011. This savings takes into account the shift of three COP buildings to COSF rent, lower COSF rates, and the creation of a new Building Renewal charge.

FY 2011 COP Payment	\$ 25,943,300
New COSF Buildings/Rate Adjustments	(3,723,900)
Building Renewal Charge	<u>(5,000,000)</u>
	\$17,219,400

Capital Outlay Stabilization Fund

COSF currently collects rent from State agencies in DOA-owned buildings at rates of \$21.02 per square foot of office space and \$7.62 per square foot of storage. FY 2011 rent payments of \$19.8 million will be used for facilities operations and maintenance as well as lease payments, Building Renewal, small capital projects, and backfill for part of DOA's General Fund budget, while General Fund and General Fund backfill monies are used for facilities management expenses.

The Executive recommends simplifying these appropriations so that COSF is used only for DOA Facilities Management expenditures and no longer used for backfill or lease payments. An increase of \$4.3 million for preventative maintenance is also recommended in order to increase the longevity of State facilities and reduce the need for costly emergency repairs.

In addition, the Executive recommends adjusting COSF rates so that revenues roughly equal facilities management appropriations. To cover the recommended \$24.5 million in COSF operating appropriations, the Executive recommends rates of \$14.00 per rentable square foot (RSF) of office space, \$4.50 per RSF for storage.

DOA Capital Projects

Due to limited funding, the Executive Recommendation includes capital project funding only for the Game and Fish Department, which has its own dedicated funding sources. The Executive Recommendation includes \$1 million from the Capital Improvement Fund for property restoration and maintenance and for dam inspection and maintenance. The Executive

also recommends \$30,000 from the Game and Fish Fund for the Agency's statewide emergency maintenance program.

DOA Building Renewal

Per A.R.S. § 41-793.01, Building Renewal requests are based on a formula approved by the Joint Committee on Capital Review. The formula takes into account a building's replacement value, age and life cycle. The formula does not consider deferred maintenance resulting from less than 100% funding in prior years.

The State has fully funded the Building Renewal formula only twice in the past 25 years, and deferred maintenance costs have risen to approximately \$350 million for the DOA Building System. DOA reports 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.”

For FY 2012, the Executive recommends creating a new Building Renewal charge for all agencies in the DOA Building System. Only Corrections complexes, Game and Fish, and Lottery would be funded through other sources and exempt from this charge. To fund the recommended Building Renewal appropriation of \$5 million, each DOA system agency would contribute approximately 19% of the Building Renewal formula for its building inventory.

Building Renewal funding provided in the Executive recommendation for Game and Fish and the Lottery is based on statutory formula and includes \$522,100 from the Capital Improvement Fund and \$79,200 from the State Lottery Fund.

DOC BUILDING RENEWAL, PREVENTATIVE MAINTENANCE

The Department of Corrections (DOC) has ten prison complexes located throughout Arizona. These complexes are comprised of over 1,500 buildings and 8.2 million square feet. Over the past few years, DOC's Building Renewal and capital improvements request has exceeded \$100 million. With the current nature of the State's budget situation, Building Renewal needs throughout the entire State system have been delayed.

The Executive Recommendation removes DOC's prison complexes from the DOA building system and creates an independent DOC Building Renewal and Preventative Maintenance program. This recommendation includes the issuance of a \$50 million, 15-year revenue bond on Lottery proceeds as well as an additional funding stream. A portion of the \$50 million will go toward projects such as the Cheyenne Unit kitchen roof and cell locks. The additional annual funding stream will be used to hire a preventative maintenance specialist to establish a preventative maintenance plan for the prison complexes. Once a plan is in place, DOC will use annual funding and the revenue bond proceeds to conduct the maintenance outlined in the preventative maintenance plan.

ADOT BUILDING SYSTEM

The Department of Transportation (ADOT) includes an inventory of 1,266 buildings and structures that have a total area of approximately 3.3 million square feet and a replacement value estimated at \$650.3 million.

As requested by the Agency, the Executive recommends \$5.3 million from the State Highway Fund for new capital construction projects. The Executive Recommendation also includes \$1.1 million for Building Renewal and \$1.1 billion for the Highway Construction Program.

ADOT Building Construction

Provided that State Highway Fund revenue is sufficient to support both Agency operations and capital projects, the Executive recommends \$3.0 million for construction of vehicle wash systems and \$2.3 million for de-icer storage buildings. The wash systems are designed to conserve water, prevent ground and surface water contamination, and protect equipment from premature deterioration. Both projects will improve compliance with environmental standards, increase efficiency and decrease operating costs.

ADOT Building Renewal

The Executive Recommendation for Building Renewal includes \$1 million from the State Highway Fund and \$50,000 from the State Aviation Fund.

Highway Construction

As detailed in the table "FY 2012 Highway Construction Program Costs" (below), the Executive Recommendation supports a \$1.1 billion transportation infrastructure program for FY 2012. This funding level would provide \$63.9 million for highway construction and \$130 million for pavement preservation maintenance. Debt service on existing ADOT construction bonds is reported at \$338.2 million. In accordance with State statute, actual expenditure levels are determined within the scope of the Five-Year Highway Construction Program as approved by the State Transportation Board.

FY 2012 Highway Construction Program Costs

Construction ²	\$ 63,863,000
Pavement Preservation Maintenance	130,000,000
Other ³	177,833,000
MAG Regional Program ⁴	409,924,000
Debt Service ⁵	<u>338,161,000</u>
	\$1,119,781,000

² Includes corridor improvements, major capacity/operational spot improvements, minor capacity/operational spot improvements and roadside facilities improvements.
³ Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.
⁴ Includes Highway User Revenue Fund (HURF) and Maricopa Regional Area Road Fund monies for controlled access.
⁵ Includes \$122,119,000 for State Highway Fund statewide construction bonds; \$33,658,000 for HURF and Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$118,595,000 for Maricopa Regional Area Road Fund bonds; and \$63,789,000 for Grant Anticipation Notes.

PHOENIX CONVENTION CENTER

Laws 2003, Chapter 266, Section 1 established the Arizona Convention Center Development Fund (ACCDF) for the purpose of renovating and expanding the Phoenix Convention Center. Subsequently, the City of Phoenix Civic Improvement Corporation issued two certificates of participation (COPs) with proceeds totaling \$300 million each.

The State of Arizona is responsible for making the yearly distributions, prescribed by law, for one of the COPs. Current law requires the State to have paid \$15 million more than necessary into the ACCDF.

The State should not make future distributions until FY 2013, when this amount can be caught up by paying \$5.6 million instead of the regularly scheduled \$20 million distribution. The Executive recommends that the State make no premature or excess payments and transfer only the scheduled distribution amount to the ACCDF needed for payment of the COP.

BOARD OF REGENTS BUILDING SYSTEM

The three State Universities supervised by the Board of Regents include an inventory of 1,737 buildings and structures that have a total area of approximately 37.6 million square feet and a replacement value estimated at \$9 billion. As noted previously, the Board has not requested any New Construction projects but has requested \$90.1 million in Building Renewal. The Executive does not recommend any funding for this request. •

Budget Summary

BUDGET IN A FLASH

EXECUTIVE RECOMMENDATION SUMMARY

Major Highlights of FY 2012

\$578.1 million for AHCCCS Caseload and Inflation	(\$14.1) million for DHS 5% Provider Rate Reduction
\$143.8 million for Education Baseline Adjustment	(\$20.0) million for Conclusion of Growing Smarter Program
\$138.7 million for DHS Title XIX State Match	(\$35.0) million Backfill of TANF
\$96.6 million for School Facilities Board Debt Service	(\$40.0) million for DES Proposition 302 Reductions
\$95.8 million for DES Title XIX Developmental Disabilities	(\$66.6) million for Education Capital Outlay
\$55.8 million for Education Basic FY 2012 State Aid	(\$70.5) million for Additional Education State Aid Exclusion
\$50.0 million for AHCCCS Uncompensated Care	(\$72.9) million for Community Colleges Aid Reduction
\$21.1 million for CRS Title XIX State Match	(\$74.9) million for AHCCCS Provider Rate Reductions
\$10.3 million for SMI Prescription Medications	(\$79.1) million for DHS Proposition 204 Rollback
\$8.6 million for Small School Adjustment	(\$115.4) million for AHCCCS FY 2011 Rollover Delay
(\$10.0) million for Maintaining Child Care Waiting List	(\$170.0) million for University Lump Sum Reduction
(\$11.6) million for Arizona Online Instruction Funding	(\$461.8) million for AHCCCS Proposition 204 Rollback

Operating Budgets

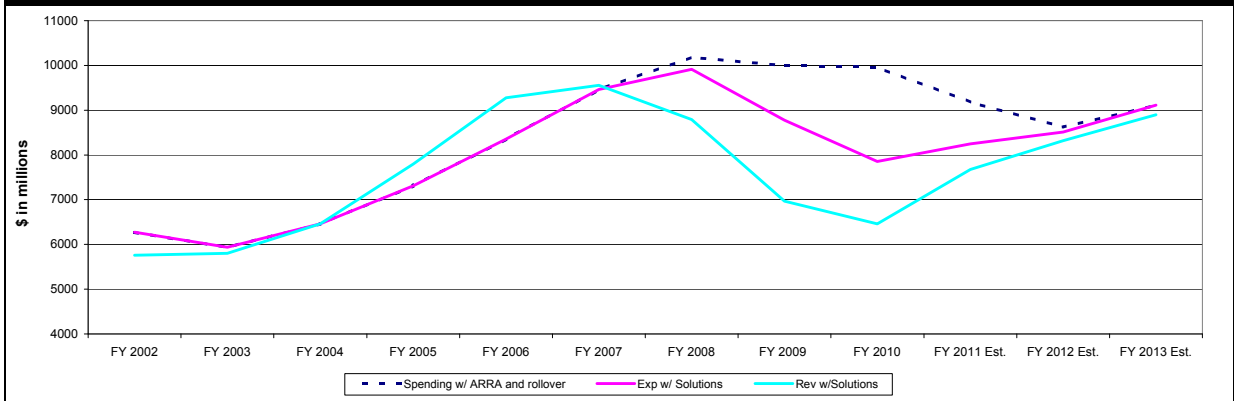
Sources and Uses FY 11 - FY 12

(\$ in millions)	FY 11	Change	FY 12	(\$ in millions)	FY 11	FY 11	FY 12
	Approp	from FY 11	Recomm.		Estimate	Recomm.	Recomm.
Agency:							
Dept. of Economic Security	677.1	11.1	688.2	Balance Forward	(5.7)	(5.7)	50.0
AHCCCS	1,376.9	19.0	1,395.9	Revenue Estimate	6,830.1	6,830.1	7,415.7
Dept. of Education	3,491.2	52.0	3,543.2	Other Revenues	46.3	46.3	69.9
School Facilities Board	67.6	103.9	171.5	Agency Fund Transfers	151.8	217.5	169.8
Dept. of Health Services	447.2	23.3	470.5	Commerce Authority	0.0	0.0	(31.5)
Dept. of Corrections	948.7	8.4	957.1	Borrowing from First Things First	0.0	330.0	330.0
Dept. of Revenue	43.7	(0.7)	43.0	Temporary One Cent Sales Tax	845.7	845.7	902.4
Forester	6.0	(6.0)	0.0	Other Adjustments	<u>34.6</u>	<u>34.6</u>	<u>18.9</u>
Arizona Pioneers' Home	1.6	2.5	4.1	TOTAL SOURCES OF FUNDS	<u>7,902.8</u>	<u>8,298.5</u>	<u>8,925.2</u>
Community Colleges	135.3	(64.0)	71.3	Operating Budgets	8,641.5	8,226.0	8,474.3
University System	873.1	(170.0)	703.1	27th Payroll	0.0	0.0	81.0
Dept. of Agriculture	8.4	0.2	8.6	Health Insurance Recapture	0.0	0.0	(12.2)
Dept. of Racing	3.9	(3.9)	0.0	5% Salary Reductions	0.0	(5.3)	(5.3)
Veterans Services	5.4	2.0	7.4	Eliminate Furlough Day	0.0	2.9	17.2
Historical Society	5.9	(2.6)	3.3	Total Operating Budgets	8,641.5	8,223.5	8,555.0
Department of Public Safety	43.1	2.7	45.8	First Things First Loan Repayment	0.0	0.0	330.0
Secretary of State	13.3	2.0	15.3	Lease Purchase Debt Service	52.1	52.1	49.0
Dept. of Environmental Quality	7.0	0.0	7.0	Capital	4.0	4.0	0.0
Dept. of Water Resources	7.1	(0.8)	6.3	COSF Rate Reduction	0.0	0.0	(6.8)
Department of Administration	17.7	(4.3)	13.4	Other Adjustments	0.0	0.0	(11.4)
Radiation Regulatory Agency	1.4	0.5	1.9	Administrative Adjustments	85.8	85.8	79.5
Auditor General	16.4	(0.5)	15.9	Reversions	<u>(116.9)</u>	<u>(116.9)</u>	<u>(110.2)</u>
Department of Juvenile Corrections	57.0	(7.6)	49.4	USES OF FUNDS	8,666.5	8,248.5	8,885.1
All Others	263.9	(11.8)	<u>252.1</u>	ENDING BALANCE	<u>(763.7)</u>	<u>50.0</u>	<u>40.1</u>
Total	<u>8,518.9</u>	<u>(44.6)</u>	<u>8,474.3</u>				

FY 2011 Supplemental Recommendations

(\$ in thousands)			
Education-Baseline adjustment	133,461.6	DOC-FY 2011 Budget Reduction	(10,000.0)
DES-Prop 302 Conditional Appropriation	40,000.0	DES-Maintain Child Care waiting List	(10,000.0)
AHCCCS-Suspend Rollover for FY 2011	37,786.3	Education-FY 2011 Actual ASA	(30,426.3)
DES-Developmental Disabilities-Title XIX	11,350.7	DES-TANF Backfill	(35,000.0)
DHS-CRS State Match Title XIX	8,275.0	DES-Prop 302 Budget Reductions	(40,000.0)
DJC-FY 2011 Reduction	(3,607.8)	Education-FY 2011 Education Jobs Funding	(101,170.2)
DES-Adult Services Backfill	(6,000.0)	Education-Additional Deferment of State Aid	(245,000.0)
		Total General Fund Supplementals	<u>(252,882.7)</u>

Arizona General Fund Ongoing Revenue and Expenditures FY 2002 to FY 2013



MAJOR CHANGES IN FY 2012 GENERAL FUND APPROPRIATIONS (\$millions)

Department of Education		Department of Economic Security	
	FY 2012		FY 2012
Baseline adjustment	143.8	Developmental Disabilities TXIX	95.8
Basic State Aid FY 2012	55.8	Federal Funds Backfill	9.4
Additional State Aid-Small School Adjustment	8.6	Risk	(0.5)
SPED Fund Adjustment	(2.0)	Rent	(2.6)
Career Ladders Phase Down	(5.6)	Adult Services Backfill	(6.0)
Arizona Online Instruction Funding	(11.6)	Maintain the Child Care Waiting List	(10.0)
Capital Outlay and Additional Assistance Reductions	(66.6)	TANF Backfill	(35.0)
Additional State Aid exclusions	(70.5)	Prop 302 Budget Reductions	(40.0)
TOTAL	51.9	TOTAL	11.1
Emergency and Military Services		AHCCCS	
	FY 2012		FY 2012
Consolidation of Forester into Emergency Management	6.0	Caseload and Inflation	578.1
Military Installation Fund Change	0.1	Uncompensated Care	50.0
Eliminate Project Challenge	(1.6)	CRS Transfer from DHS	41.9
Other Adjustments	(0.1)	ADOA Data Center	1.2
TOTAL	4.4	Provider Rate Reductions	(74.9)
	FY 2012	Suspend Rollover for FY 2011	(115.4)
New Construction Lease-to-Own Debt Service	96.6	Prop 204 Rollback	(461.8)
Building Renewal Grants	7.3	Other Adjustments	(0.2)
TOTAL	447.2	TOTAL	18.9
School Facilities Board		Department of Health Services	
	FY 2012		FY 2012
	FY 2012	BHS State Match TXIX	138.7
New Construction Lease-to-Own Debt Service	96.6	CRS State Match TXIX	21.1
Building Renewal Grants	7.3	Seriously Mentally Ill Prescription Medications	10.3
TOTAL	447.2	Rent	0.8
	FY 2012	Risk	(0.3)
Correctional Officer II Staffing Requirements	8.4	Vital Records Self-Funding Request	(1.2)
Closure of Prov. Beds-Marginal Costs	7.6	Sexually Violent Person Commitments	(2.7)
New 4,000 Publicly Operated Beds-Annualize Operating Costs	5.0	5% Provider Rate Reduction	(14.1)
Leap Year Costs	0.8	CRS Transition to AHCCCS	(41.9)
Private Prison Rate Changes	(3.2)	Prop 204 Rollback	(79.1)
New 4,000 Publicly Operated Beds-Startup Costs	(7.1)	TOTAL	31.6
Closure of Prov. Beds-Per Diem Costs	(8.4)		
Other Adjustments	5.3		
TOTAL	8.4		
Department of Juvenile Corrections		Department of Administration	
	FY 2012		FY 2012
Annualization of FY 2011 Reduction	(7.2)	GITA Consolidation	0.7
Other Adjustments	(0.4)	Office of Economic Information and Research	0.2
TOTAL	(7.6)	Federal 3% Withholding	0.1
	FY 2012	Statewide Telecommunications Lease	(0.4)
Transfer of Capitol Police to DPS	263.9	Utilities Special Line Item	(0.6)
Capitol Police Salary Adjustment	1.0	Transfer Capitol Police to DPS	(1.9)
Other Adjustments	(0.2)	Other Adjustments	(2.5)
TOTAL	264.7	TOTAL	(4.4)
Department of Racing		Government Information Technology Agency	
	FY 2012		FY 2012
Self Funding	(1.0)	Agency Consolidation with ADOA	(0.7)
Consolidate Racing within the Department of Gaming	(2.8)	TOTAL	(0.7)
Other Adjustments	(0.1)		
TOTAL	(3.9)		
Tourism		Real Estate	
	FY 2012		FY 2012
Tourism Industry Donations Match	1.0	Investigations Assistance	0.1
TOTAL	1.0	Information Technology Specialist	0.1
	FY 2012	Other Adjustments	0.0
	FY 2012	TOTAL	0.2
Operating Funds for the State Veterans' Home-Tucson	2.0		
TOTAL	2.0		
Veterans' Services		Secretary of State	
	FY 2012		FY 2012
	FY 2012	Polly Rosenbaum Archives Building	1.7
Operating State Aid Formula Funding	8.6	Chavez v. Brewer	0.1
Equalization State Aid Formula Funding	0.4	Other Adjustments	0.2
Rural County Reimbursement Subsidy	(0.1)	TOTAL	2.0
Operating State Aid Reduction	(72.9)		
TOTAL	(64.0)		
Community Colleges		Water Resources	
	FY 2012		FY 2012
	FY 2012	Continued Shift to Self-Funding	(0.8)
Operating State Aid Formula Funding	8.6	TOTAL	(0.8)
Equalization State Aid Formula Funding	0.4		
Rural County Reimbursement Subsidy	(0.1)		
Operating State Aid Reduction	(72.9)		
TOTAL	(64.0)		

FY 2012 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
State Board of Accountancy	0.0	1,684.5	0.0	1,684.5
Acupuncture Board of Examiners	0.0	126.3	0.0	126.3
Arizona Department of Administration	13,383.3	177,600.3	1,013,543.7	1,204,527.3
Office of Administrative Hearings	908.2	14.5	1,002.5	1,925.2
Arizona Department of Agriculture	8,611.0	2,914.0	14,164.8	25,689.8
Arizona Health Care Cost Containment System	1,395,895.5	90,144.7	7,288,630.6	8,774,670.8
State Board of Appraisal	0.0	765.1	0.0	765.1
Arizona Commission on the Arts	0.0	0.0	2,423.9	2,423.9
Attorney General - Department of Law	17,527.5	36,001.1	34,132.0	87,660.6
Automobile Theft Authority	0.0	4,284.3	0.0	4,284.3
Board of Barber Examiners	0.0	324.0	0.0	324.0
Board of Behavioral Health Examiners	0.0	1,454.8	0.0	1,454.8
Arizona Biomedical Research Commission	0.0	0.0	0.0	0.0
State Capital Post-Conviction Public Defender Office	673.7	162.4	0.0	836.1
State Board for Charter Schools	803.6	0.0	150.0	953.6
State Board of Chiropractic Examiners	0.0	450.0	0.0	450.0
Citizens' Clean Elections Commission	0.0	0.0	4,851.0	4,851.0
Department of Commerce	658.2	0.0	46,045.4	46,703.6
Arizona Community Colleges	71,344.1	0.0	0.0	71,344.1
Constable Ethics Standards & Training Board	0.0	0.0	213.6	213.6
Registrar of Contractors	0.0	12,113.7	6,163.8	18,277.5
Corporation Commission	598.8	24,069.7	1,090.7	25,759.2
Department of Corrections	957,130.5	53,098.5	60,531.4	1,070,760.4
Board of Cosmetology	0.0	1,737.7	83.0	1,820.7
Arizona Criminal Justice Commission	0.0	4,649.1	17,989.4	22,638.5
Arizona State Schools for the Deaf and the Blind	21,836.8	12,389.9	18,571.6	52,798.3
Commission for the Deaf and the Hard of Hearing	0.0	3,768.0	0.0	3,768.0
State Board of Dental Examiners	0.0	1,188.9	0.0	1,188.9
Arizona Drug and Gang Prevention Resource Center	0.0	0.0	0.0	0.0
Arizona Early Childhood Development and Health Board	0.0	0.0	153,838.8	153,838.8
Department of Economic Security	688,241.4	481,057.9	3,770,501.2	4,939,800.5
Department of Education	3,543,162.0	55,616.7	1,464,954.9	5,063,733.6
Department of Emergency and Military Affairs	14,862.8	0.0	90,435.8	105,298.6
Department of Environmental Quality	7,000.0	65,219.1	223,962.7	296,181.8
Governor's Office for Equal Opportunity	193.2	0.0	68.0	261.2
State Board of Equalization	662.4	0.0	0.0	662.4
Board of Executive Clemency	877.7	0.0	0.0	877.7
Arizona Exposition & State Fair	0.0	11,145.1	0.0	11,145.1
State Department of Financial Institutions	2,899.9	792.7	705.7	4,398.3
Board of Fingerprinting	0.0	0.0	451.1	451.1
Department of Fire, Building and Life Safety	1,970.9	0.0	858.7	2,829.6
Arizona State Forester	0.0	0.0	0.0	0.0
State Board of Funeral Directors & Embalmers	0.0	343.6	0.0	343.6
Arizona Game & Fish Department	0.0	38,035.1	61,215.3	99,250.4
Department of Gaming	2,795.8	12,925.7	16.9	15,738.4
Arizona Geological Survey	894.1	0.0	9,248.2	10,142.3
Government Information Technology Agency	0.0	0.0	0.0	0.0
Office of the Governor	6,895.2	186.7	50,977.6	58,059.5

FY 2012 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
Governor's Office of Strategic Planning and Budgeting	1,935.9	0.0	0.0	1,935.9
Department of Health Services	470,519.6	88,226.5	1,424,523.6	1,983,269.7
Governor's Office of Highway Safety	0.0	0.0	11,061.7	11,061.7
Arizona Historical Society	3,346.4	0.0	1,061.0	4,407.4
Prescott Historical Society of Arizona	670.2	0.0	869.9	1,540.1
Department of Homeland Security	0.0	0.0	59,084.3	59,084.3
Board of Homeopathic Medical Examiners	0.0	107.0	0.0	107.0
Arizona Department of Housing	0.0	927.2	104,096.9	105,024.1
Arizona Commission of Indian Affairs	61.9	0.0	12.7	74.6
Industrial Commission of Arizona	0.0	19,717.0	4,603.6	24,320.6
Department of Insurance	5,412.6	0.0	7,412.2	12,824.8
Judiciary	111,227.4	44,804.0	30,435.7	186,467.1
Department of Juvenile Corrections	49,413.5	3,878.3	2,742.0	56,033.8
State Land Department	1,248.3	14,117.7	1,448.3	16,814.3
Law Enforcement Merit System Council	69.5	0.0	0.0	69.5
Auditor General	15,860.1	0.0	2,949.5	18,809.6
House of Representatives	12,860.4	0.0	0.0	12,860.4
Joint Legislative Budget Committee	2,494.4	0.0	0.0	2,494.4
Legislative Council	4,734.8	0.0	0.0	4,734.8
Senate	8,086.3	0.0	0.0	8,086.3
Department of Liquor Licenses and Control	0.0	2,847.4	868.4	3,715.8
Arizona State Lottery Commission	0.0	87,984.4	838,763.9	926,748.3
Arizona Medical Board	0.0	5,942.3	0.0	5,942.3
Board of Medical Student Loans	145.4	15.0	0.0	160.4
State Mine Inspector	1,168.7	38.0	346.9	1,553.6
Department of Mines and Mineral Resources	0.0	0.0	0.0	0.0
Naturopathic Physicians Board of Medical Examiners	0.0	595.7	0.0	595.7
Arizona Navigable Stream Adjudication Commission	133.4	0.0	0.0	133.4
State Board of Nursing	0.0	4,070.6	414.6	4,485.2
Nursing Care Ins. Admin. Examiners	0.0	367.8	0.0	367.8
Board of Occupational Therapy Examiners	0.0	261.9	0.0	261.9
State Board of Dispensing Opticians	0.0	132.5	0.0	132.5
State Board of Optometry	0.0	199.0	0.0	199.0
OSHA Review Board	15.0	0.0	0.0	15.0
Arizona Board of Osteopathic Examiners	0.0	709.7	0.0	709.7
P-20 Council	0.0	8,025.2	0.0	8,025.2
Parents Commission on Drug Education & Prevention	0.0	0.0	3,629.9	3,629.9
State Parks Board	0.0	12,546.7	14,941.6	27,488.3
Personnel Board	0.0	372.9	0.0	372.9
Office of Pest Management	0.0	2,253.7	114.3	2,368.0
Arizona State Board of Pharmacy	0.0	1,950.4	301.5	2,251.9
Board of Physical Therapy Examiners	0.0	364.3	0.0	364.3
Arizona Pioneers' Home	4,125.8	2,014.2	21.2	6,161.2
State Board of Podiatry Examiners	0.0	142.1	0.0	142.1
Commission for Postsecondary Education	1,220.8	3,837.2	3,470.5	8,528.5
Power Authority	0.0	0.0	37,233.8	37,233.8
State Board for Private Postsecondary Education	0.0	331.0	160.9	491.9
State Board of Psychologist Examiners	0.0	348.8	0.0	348.8

FY 2012 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
Department of Public Safety	45,773.7	167,110.6	51,811.6	264,695.9
Arizona Department of Racing	0.0	0.0	0.0	0.0
Radiation Regulatory Agency	1,893.0	263.3	1,289.8	3,446.1
Arizona Rangers' Pension	0.0	0.0	0.0	0.0
Department of Real Estate	3,197.0	0.0	165.0	3,362.0
Residential Utility Consumer Office	0.0	1,287.4	0.0	1,287.4
Board of Respiratory Care Examiners	0.0	311.5	0.0	311.5
Independent Redistricting Commission	2,998.8	0.0	0.0	2,998.8
Arizona State Retirement System	0.0	23,723.5	58,951.7	82,675.2
Department of Revenue	42,960.9	23,723.8	65,015.4	131,700.1
School Facilities Board	171,496.2	0.0	294,936.8	466,433.0
Department of State - Secretary of State	15,288.4	3,507.9	4,866.2	23,662.5
State Boards Office	0.0	220.9	0.0	220.9
State Board of Tax Appeals	252.9	0.0	0.0	252.9
State Board of Technical Registration	0.0	1,830.8	0.0	1,830.8
Arizona Office of Tourism	1,000.0	0.0	12,426.2	13,426.2
Department of Transportation	54.6	360,207.2	2,554,587.7	2,914,849.5
State Treasurer	1,115.1	2,592.0	0.0	3,707.1
Arizona Board of Regents	16,945.5	0.0	60,379.3	77,324.8
ASU - Tempe	261,531.6	353,023.9	1,044,619.2	1,659,174.7
ASU - Polytechnic	20,121.6	36,329.4	31,307.6	87,758.6
ASU - West	34,929.9	30,999.8	39,666.0	105,595.7
Northern Arizona University	107,323.1	81,510.1	269,275.2	458,108.4
University of Arizona - Main Campus	219,665.0	248,253.2	1,087,936.3	1,555,854.5
University of Arizona - Health Sciences Center	58,385.9	25,258.2	219,937.4	303,581.5
Department of Veterans' Services	7,378.4	20,692.8	6,677.0	34,748.2
State Veterinary Medical Examining Board	0.0	461.0	0.0	461.0
Department of Water Resources	6,257.3	6,525.6	9,670.8	22,453.7
Department of Weights and Measures	1,197.5	1,726.0	0.0	2,923.5
	8,474,343.4	2,790,951.4	22,700,910.5	33,966,205.2

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2010	FY 2011	FY 2011	FY 2012	FY 2012
	Expenditures	Appropriation	Executive Budget	Executive Budget	Changes and Adjustments
Arizona Department of Administration	18,705.4	17,734.3	17,734.3	13,383.3	(4,351.0)
Office of Administrative Hearings	933.4	908.2	908.2	908.2	0.0
Arizona Department of Agriculture	8,569.6	8,434.3	8,434.3	8,611.0	176.7
Arizona Health Care Cost Containment System	1,205,103.5	1,376,901.3	1,414,687.6	1,395,895.5	18,994.2
Arizona Commission on the Arts	822.5	665.6	665.6	0.0	(665.6)
Attorney General - Department of Law	17,774.4	17,548.0	17,548.0	17,527.5	(20.5)
State Capital Post-Conviction Public Defender Office	646.5	635.8	635.8	673.7	37.9
State Board for Charter Schools	721.0	802.6	802.6	803.6	1.0
Department of Commerce	3,570.9	3,566.5	3,566.5	658.2	(2,908.3)
Arizona Community Colleges Corporation Commission	136,344.3	135,344.3	135,344.3	71,344.1	(64,000.2)
Department of Corrections	871,270.8	948,692.9	938,692.9	957,130.5	8,437.6
Arizona State Schools for the Deaf and the Blind	21,580.3	22,045.4	22,045.4	21,836.8	(208.6)
Department of Economic Security	522,490.0	677,103.9	597,454.6	688,241.4	11,137.5
Department of Education	3,155,259.4	3,491,223.4	3,248,088.5	3,543,162.0	51,938.6
Department of Emergency and Military Affairs	9,100.1	10,430.6	10,430.6	14,862.8	4,432.2
Department of Environmental Quality	12,769.5	7,000.0	7,000.0	7,000.0	0.0
Governor's Office for Equal Opportunity	191.3	194.4	194.4	193.2	(1.2)
State Board of Equalization	649.8	661.0	661.0	662.4	1.4
Board of Executive Clemency	877.7	865.4	865.4	877.7	12.3
State Department of Financial Institutions	2,970.0	2,903.1	2,903.1	2,899.9	(3.2)
Department of Fire, Building and Life Safety	2,155.2	2,014.4	2,014.4	1,970.9	(43.5)
Arizona State Forester	9,169.0	5,971.1	5,971.1	0.0	(5,971.1)
Department of Gaming	0.0	0.0	0.0	2,795.8	2,795.8
Arizona Geological Survey	801.1	794.1	794.1	894.1	100.0
Government Information Technology Agency	488.1	742.0	742.0	0.0	(742.0)
Office of the Governor	8,837.3	6,960.9	6,960.9	6,895.2	(65.7)
Governor's Office of Strategic Planning and Budgeting	1,937.0	1,936.4	1,936.4	1,935.9	(0.5)
Department of Health Services	485,722.2	438,939.0	444,571.7	470,519.6	31,580.6
Arizona Historical Society	3,871.3	5,861.4	5,861.4	3,346.4	(2,515.0)
Prescott Historical Society of Arizona	614.9	673.7	673.7	670.2	(3.5)
Arizona Commission of Indian Affairs	116.0	63.1	63.1	61.9	(1.2)
Department of Insurance	5,572.8	5,468.8	5,468.8	5,412.6	(56.2)
Judiciary	115,687.8	113,886.5	113,886.5	111,227.4	(2,659.1)
Department of Juvenile Corrections	64,200.3	57,008.1	53,400.3	49,413.5	(7,594.6)
State Land Department	13,627.3	3,212.3	3,308.5	1,248.3	(1,964.0)
Law Enforcement Merit System Council	71.8	69.5	69.5	69.5	0.0
Auditor General	14,333.8	16,447.2	16,447.2	15,860.1	(587.1)
House of Representatives	11,987.9	12,864.9	12,864.9	12,860.4	(4.5)
Joint Legislative Budget Committee	1,046.0	2,496.7	2,496.7	2,494.4	(2.3)
Legislative Council	4,239.3	4,738.8	4,738.8	4,734.8	(4.0)
Senate	7,523.7	8,097.6	8,097.6	8,086.3	(11.3)
Board of Medical Student Loans	801.9	402.9	402.9	145.4	(257.5)

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
State Mine Inspector	1,133.3	1,127.6	1,127.6	1,168.7	41.1
Department of Mines and Mineral Resources	858.2	226.1	226.1	0.0	(226.1)
Arizona Navigable Stream Adjudication Commission	113.6	133.5	133.5	133.4	(0.1)
OSHA Review Board	19.2	0.0	0.0	15.0	15.0
State Parks Board	20,000.0	20,000.0	20,000.0	0.0	(20,000.0)
Arizona Pioneers' Home	0.0	1,570.9	1,570.9	4,125.8	2,554.9
Commission for Postsecondary Education	4,041.3	1,220.8	1,220.8	1,220.8	0.0
Department of Public Safety	39,862.3	43,070.3	43,070.3	45,773.7	2,703.4
Arizona Department of Racing	4,963.5	3,863.6	3,863.6	0.0	(3,863.6)
Radiation Regulatory Agency	1,416.8	1,396.5	1,396.5	1,893.0	496.5
Arizona Rangers' Pension	14.0	14.2	14.2	0.0	(14.2)
Department of Real Estate	3,008.0	2,987.3	2,987.3	3,197.0	209.7
Independent Redistricting Commission	26.1	500.0	500.0	2,998.8	2,498.8
Department of Revenue	39,584.6	43,709.0	43,709.0	42,960.9	(748.1)
School Facilities Board	104,773.6	67,580.5	67,580.5	171,496.2	103,915.7
Department of State - Secretary of State	13,310.1	13,301.8	13,301.8	15,288.4	1,986.6
State Board of Tax Appeals	252.8	252.7	252.7	252.9	0.2
Arizona Office of Tourism	0.0	0.0	0.0	1,000.0	1,000.0
Department of Transportation	57.4	54.6	54.6	54.6	0.0
State Treasurer	14,565.8	1,115.1	1,115.1	1,115.1	0.0
Arizona Board of Regents	18,587.0	17,135.4	17,135.4	16,945.5	(189.9)
ASU - Tempe	326,349.1	326,349.1	326,349.1	261,531.6	(64,817.5)
ASU - Polytechnic	23,101.3	25,101.3	25,101.3	20,121.6	(4,979.7)
ASU - West	42,335.7	43,935.7	43,935.7	34,929.9	(9,005.8)
Northern Arizona University	133,420.8	133,118.1	133,118.1	107,323.1	(25,795.0)
University of Arizona - Main Campus	274,456.6	271,315.5	271,315.5	219,665.0	(51,650.5)
University of Arizona - Health Sciences Center	74,073.6	73,234.9	73,234.9	58,385.9	(14,849.0)
Department of Veterans' Services	9,164.6	5,392.7	5,392.7	7,378.4	1,985.7
Department of Water Resources	16,837.7	7,052.9	7,052.9	6,257.3	(795.6)
Department of Weights and Measures	1,216.1	1,197.8	1,197.8	1,197.5	(0.3)
General Fund Operating Total	7,911,286.9	8,518,890.5	8,226,013.7	8,474,343.4	(44,547.1)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>State Board of Accountancy</u>					
Accountancy Board Fund	1,465.0	1,884.0	1,684.0	1,684.5	(199.5)
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners Fund	117.5	126.4	126.4	126.3	(0.1)
<u>Arizona Department of Administration</u>					
Personnel Division Fund	12,551.3	13,975.1	13,975.1	15,196.8	1,221.7
Capital Outlay Stabilization Fund	14,988.7	17,348.2	17,348.2	24,544.4	7,196.2
Corrections Fund	428.7	564.0	564.0	0.0	(564.0)
Information Technology Fund	0.0	0.0	0.0	3,172.1	3,172.1
Air Quality Fund	696.5	714.1	714.1	714.1	0.0
State Web Portal Fund	0.0	0.0	0.0	250.0	250.0
Special Employee Health Fund	3,752.7	5,182.7	5,182.7	5,184.1	1.4
Motor Pool Revolving Fund	6,695.7	10,515.2	10,515.2	10,068.8	(446.4)
State Surplus Property Fund	1,568.8	2,397.6	2,397.6	2,397.1	(0.5)
Admin - Surplus Property/Federal Fund	99.9	458.7	138.7	138.4	(320.3)
Risk Management Fund	64,123.3	92,389.1	92,389.1	90,454.4	(1,934.7)
Automation Operations Fund	18,200.6	18,944.2	18,944.2	18,941.3	(2.9)
Telecommunications Fund	1,460.3	1,840.3	1,840.3	6,538.8	4,698.5
Agency Total	124,566.5	164,329.2	164,009.2	177,600.3	13,271.1
<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>					
Agriculture Commercial Feed Fund	296.3	300.3	300.3	300.1	(0.2)
Egg and Egg Product Control Fund	713.7	919.0	919.0	916.6	(2.4)
Pesticide Fund	373.2	385.5	385.5	498.2	112.7
Agriculture Dangerous Plants Fund	40.0	100.0	100.0	126.0	26.0
Agriculture Seed Law Fund	112.2	53.9	53.9	53.9	0.0
Livestock Custody Fund	67.2	79.4	79.4	120.0	40.6
Fertilizer Materials Fund	306.9	303.8	303.8	303.6	(0.2)
Citrus, Fruit, and Vegetable Revolving Fund	586.0	1,030.6	1,030.6	498.7	(531.9)
Aquaculture Fund	9.2	9.2	9.2	9.2	0.0
AZ Protected Native Plant Fund	81.2	199.7	199.7	87.7	(112.0)
Agency Total	2,585.9	3,381.4	3,381.4	2,914.0	(467.4)
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Tax and Health Care Fund	38,295.8	38,295.8	40,187.4	41,022.1	2,726.3
Tobacco Products Tax Fund	20,230.2	19,222.9	20,323.7	20,745.8	1,522.9
Children's Health Insurance Program Fund	77,817.5	40,967.6	44,239.5	21,563.4	(19,404.2)
Budget Neutrality Compliance Fund	2,235.6	3,117.3	3,117.3	3,170.6	53.3
Healthcare Group Fund	3,358.3	5,183.7	5,183.7	3,528.3	(1,655.4)
Prescription Drug Rebate Fund	0.0	0.0	0.0	114.5	114.5
Agency Total	141,937.4	106,787.3	113,051.6	90,144.7	(16,642.6)
<u>State Board of Appraisal</u>					
Board of Appraisal Fund	615.2	616.6	616.6	765.1	148.5

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Attorney General - Department of Law</u>					
Consumer Protection/Fraud Revolving Fund	1,954.7	3,463.8	3,463.8	3,001.5	(462.3)
Attorney General Antitrust Revolving Fund	112.5	242.6	242.6	243.4	0.8
Attorney General Collection Enforcement Fund	2,353.7	3,313.4	3,313.4	3,314.0	0.6
Attorney General Agency Services Fund	11,330.3	13,135.8	13,135.8	11,916.2	(1,219.6)
Victims Rights Fund	3,125.5	3,241.7	3,241.7	3,238.6	(3.1)
Risk Management Fund	7,723.0	8,850.4	8,850.4	8,813.2	(37.2)
Attorney General Legal Services Cost Allocation Fund	5,574.1	5,474.2	5,474.2	5,474.2	0.0
Agency Total	32,173.7	37,721.9	37,721.9	36,001.1	(1,720.8)
<u>Automobile Theft Authority</u>					
Automobile Theft Authority Fund	5,081.4	5,134.8	5,134.8	4,284.3	(850.5)
<u>Board of Barber Examiners</u>					
Barber Examiners Board Fund	276.4	345.1	345.1	324.0	(21.1)
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiners Fund	1,207.5	1,437.7	1,437.7	1,454.8	17.1
<u>Arizona Biomedical Research Commission</u>					
Health Research Fund	500.0	500.0	500.0	0.0	(500.0)
<u>State Capital Post-Conviction Public Defender Office</u>					
Capital Postconviction Public Defender Office Fund	0.0	0.0	148.0	162.4	162.4
<u>State Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board Fund	433.6	442.4	442.4	450.0	7.6
<u>Department of Commerce</u>					
Lottery Fund	219.3	265.1	265.1	0.0	(265.1)
Commerce Development Bond Fund	0.0	146.3	146.3	0.0	(146.3)
Commerce and Economic Development Fund	2,458.2	3,759.3	3,759.3	0.0	(3,759.3)
Oil Overcharge Fund	0.0	186.7	186.7	0.0	(186.7)
Agency Total	2,677.5	4,357.4	4,357.4	0.0	(4,357.4)
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	8,768.7	12,181.0	12,181.0	12,113.7	(67.3)
<u>Corporation Commission</u>					
Utility Regulation Revolving Fund	13,026.1	13,135.5	13,135.5	13,051.1	(84.4)
Security Regulatory and Enforcement Fund	4,234.7	4,298.4	4,298.4	4,308.0	9.6
Public Access Fund	5,514.5	5,964.4	5,964.4	5,959.2	(5.2)
Securities Investment Management Fund	711.4	697.2	697.2	700.0	2.8
Arizona Arts Trust Fund	47.7	51.2	51.2	51.4	0.2
Agency Total	23,534.4	24,146.7	24,146.7	24,069.7	(77.0)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Department of Corrections</u>					
Corrections Fund	26,039.5	29,017.6	29,017.6	28,081.6	(936.0)
State Education Fund for Correctional Education Fund	472.9	508.4	508.4	508.4	0.0
DOC - Alcohol Abuse Treatment Fund	409.7	554.4	554.4	554.4	0.0
Transition Program Fund	0.0	180.0	180.0	180.0	0.0
Transition Services Fund	425.5	555.0	555.0	555.0	0.0
Prison Construction and Operations Fund	10,398.2	11,499.4	11,499.4	13,249.4	1,750.0
Penitentiary Land Earnings Fund	979.2	979.2	979.2	1,979.2	1,000.0
State Charitable, Penal & Reformatory Land Earnings Fund	337.0	360.0	360.0	3,360.0	3,000.0
Building Renewal and Preventative Maintenance	0.0	0.0	0.0	4,630.5	4,630.5
Agency Total	39,061.9	43,654.0	43,654.0	53,098.5	9,444.5
<u>Board of Cosmetology</u>					
Cosmetology Board Fund	1,666.1	1,739.8	1,739.8	1,737.7	(2.1)
<u>Arizona Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	626.1	621.6	621.6	621.4	(0.2)
Victim Compensation and Assistance Fund	3,571.5	3,792.5	3,792.5	3,792.5	0.0
Drug and Gang Prevention Resource Center Fund	146.0	235.2	235.2	235.2	0.0
State Aid to County Attorneys Fund	973.6	973.6	973.6	0.0	(973.6)
State Aid to Indigent Defense Fund	551.8	700.3	700.3	0.0	(700.3)
Agency Total	5,869.0	6,323.2	6,323.2	4,649.1	(1,674.1)
<u>Arizona State Schools for the Deaf and the Blind</u>					
Schools for the Deaf and Blind Fund	13,954.8	14,729.5	14,729.5	12,389.9	(2,339.6)
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecom for the Deaf Fund	3,013.9	3,972.4	3,772.4	3,768.0	(204.4)
<u>State Board of Dental Examiners</u>					
Dental Board Fund	948.9	1,150.1	1,150.1	1,188.9	38.8
<u>Arizona Drug and Gang Prevention Resource Center</u>					
Federal Grants & Intergovernmental Agreements Fund	0.0	344.4	0.0	0.0	(344.4)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Department of Economic Security</u>					
Workforce Investment Grant Fund	59,671.1	56,052.1	56,052.1	56,052.1	0.0
Temporary Assistance for Needy Families (TANF) Fund	190,892.4	225,060.6	240,060.6	239,766.0	14,705.4
Child Care and Development Fund	120,407.4	130,688.2	130,688.2	130,587.3	(100.9)
Special Administration Fund	24.4	1,135.3	1,135.3	1,135.3	0.0
Child Support Enforcement Administration Fund	11,935.9	16,785.2	16,785.2	16,785.2	0.0
Domestic Violence Shelter Fund	2,219.8	2,220.0	2,220.0	2,220.0	0.0
Child Abuse Prevention Fund	0.0	1,459.8	1,459.8	1,459.8	0.0
Children and Family Services Training Program Fund	84.3	207.1	207.1	207.1	0.0
Public Assistance Collections Fund	182.1	431.7	431.7	431.7	0.0
Department Long-Term Care System Fund	19,810.8	30,520.5	30,520.5	30,520.5	0.0
Spinal and Head Injuries Trust Fund	683.9	1,874.5	1,874.5	1,874.5	0.0
Indirect Cost Recovery Fund	1,000.0	1,000.0	1,000.0	18.4	(981.6)
Reed Act Fund	3,524.2	3,561.0	0.0	0.0	(3,561.0)
Agency Total	410,436.3	470,996.0	482,435.0	481,057.9	10,061.9
<u>Department of Education</u>					
Teacher Certification Fund - GF	1,959.7	0.0	390.0	0.0	0.0
School Accountability Fund Prop 301 Fund	6,077.5	7,000.0	7,000.0	7,000.0	0.0
Teacher Certification Fund - OF	0.0	2,300.7	2,300.7	2,141.2	(159.5)
Statewide Compensatory Instruction Fund	15.5	0.0	0.0	0.0	0.0
Public Institution Permanent School Earnings Fund	16,269.4	46,475.5	46,475.5	46,475.5	0.0
Agency Total	24,322.1	55,776.2	56,166.2	55,616.7	(159.5)
<u>Department of Emergency and Military Affairs</u>					
Emergency Response Fund	71.2	0.0	0.0	0.0	0.0
<u>Department of Environmental Quality</u>					
DEQ Emissions Inspection Fund	23,411.8	33,086.6	33,086.6	25,566.5	(7,520.1)
Hazardous Waste Management Fund	581.7	1,719.6	1,719.6	1,719.6	0.0
Air Quality Fund	4,130.9	5,386.5	5,386.5	5,386.5	0.0
Clean Water Revolving Fund	4,487.9	5,000.0	5,000.0	0.0	(5,000.0)
Underground Storage Tank Revolving Fund	2.8	22.0	22.0	22.0	0.0
Permit Administration Fund	5,169.0	7,058.5	7,058.5	7,058.5	0.0
Solid Waste Fee Fund	927.5	2,299.9	2,299.9	1,930.4	(369.5)
Used Oil Fund	14.0	138.9	138.9	138.9	0.0
Water Quality Fee Fund	3,497.5	6,141.6	6,141.6	10,405.3	4,263.7
Indirect Cost Fund	670.3	13,200.0	13,200.0	12,991.4	(208.6)
Agency Total	42,893.5	74,053.6	74,053.6	65,219.1	(8,834.5)
<u>Arizona Exposition & State Fair</u>					
Coliseum and Expo Center Fund	9,191.1	11,085.3	11,085.3	11,145.1	59.8
<u>State Department of Financial Institutions</u>					
Financial Services Fund	0.0	792.7	792.7	792.7	0.0
<u>State Board of Funeral Directors & Embalmers</u>					
Funeral Directors and Embalmers Fund	274.7	344.1	344.1	343.6	(0.5)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Arizona Game & Fish Department</u>					
Game and Fish Fund	30,411.1	34,701.9	34,701.9	32,980.4	(1,721.5)
Watercraft Licensing Fund	3,462.9	4,660.6	4,660.6	4,660.6	0.0
Game/Non-game Fund	311.5	334.7	334.7	334.7	0.0
Waterfowl Conservation Fund	19.2	43.4	43.4	43.4	0.0
Wildlife Endowment Fund	0.0	16.0	16.0	16.0	0.0
Agency Total	34,204.7	39,756.6	39,756.6	38,035.1	(1,721.5)
<u>Department of Gaming</u>					
Lottery Fund	300.0	300.0	300.0	300.0	0.0
Racing Regulation Fund	0.0	0.0	0.0	1,042.0	1,042.0
Permanent Tribal-State Compact Fund	1,824.7	2,003.6	2,003.6	2,003.6	0.0
Arizona Benefits Fund	9,350.8	9,935.5	9,935.5	9,580.1	(355.4)
Agency Total	11,475.5	12,239.1	12,239.1	12,925.7	686.6
<u>Government Information Technology Agency</u>					
Information Technology Fund	2,758.6	3,172.3	3,172.3	0.0	(3,172.3)
State Web Portal Fund	117.0	3,900.0	400.0	0.0	(3,900.0)
Agency Total	2,875.6	7,072.3	3,572.3	0.0	(7,072.3)
<u>Office of the Governor</u>					
Oil Overcharge Fund	0.0	0.0	0.0	186.7	186.7
<u>Department of Health Services</u>					
Service Fees Increase Fund	567.1	0.0	0.0	0.0	0.0
Tobacco Tax and Health Care Fund	37,444.0	36,167.0	37,594.4	38,375.2	2,208.2
Capital Outlay Stabilization Fund	1,550.1	1,587.5	1,587.5	0.0	(1,587.5)
Health Services Licensing Fund	4,184.0	8,463.3	8,463.3	8,461.6	(1.7)
Child Care and Development Fund	648.1	836.1	836.1	836.1	0.0
Health Research Fund	0.0	0.0	0.0	500.0	500.0
Emergency Medical Services Operating Fund	4,084.8	5,093.2	5,093.2	5,087.2	(6.0)
Newborn Screening Program Fund	5,685.5	6,749.9	5,000.0	4,500.0	(2,249.9)
Substance Abuse Services Fund	1,083.3	2,250.0	2,250.0	2,250.0	0.0
Nursing Care Institution Protection Fund	57.4	38.0	38.0	38.0	0.0
Environmental Lab License Revolving Fund	690.2	924.0	924.0	924.0	0.0
Child Fatality Review Fund	99.1	95.4	95.4	95.4	0.0
Vital Records Electronic Systems Fund	433.7	426.4	426.4	3,615.3	3,188.9
Hearing and Speech Professionals Fund	628.0	315.7	315.7	315.7	0.0
The Arizona State Hospital Fund	8,687.4	11,159.5	11,159.5	14,679.8	3,520.3
DHS State Hospital Land Earnings Fund	420.1	1,150.0	1,150.0	300.0	(850.0)
DHS - Indirect Cost Fund	7,257.4	7,746.7	7,746.7	8,248.2	501.5
Agency Total	73,520.2	83,002.7	82,680.2	88,226.5	5,223.8
<u>Arizona Historical Society</u>					
Capital Outlay Stabilization Fund	194.2	430.8	430.8	0.0	(430.8)
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners Fund	104.7	116.9	116.9	107.0	(9.9)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Arizona Department of Housing</u>					
Housing Trust Fund	949.6	927.2	927.2	927.2	0.0
<u>Industrial Commission of Arizona</u>					
Industrial Commission Admin Fund	16,672.5	19,715.7	19,715.7	19,717.0	1.3
<u>Judiciary</u>					
Supreme Court CJEF Disbursements Fund	6,585.0	9,909.7	9,909.7	9,909.7	0.0
Judicial Collection - Enhancement Fund	19,635.7	18,838.4	18,838.4	18,850.0	11.6
Defensive Driving Fund	3,208.6	5,259.2	5,259.2	5,259.2	0.0
Court Appointed Special Advocate Fund	2,606.6	3,429.7	3,429.7	3,429.7	0.0
Confidential Intermediary Fund	300.7	483.0	483.0	483.0	0.0
Drug Treatment and Education Fund	495.9	500.0	500.0	500.0	0.0
Photo Enforcement Fund	1,655.6	5,326.1	5,326.1	3,427.6	(1,898.5)
State Aid to Courts Fund	2,746.0	2,944.8	2,944.8	2,944.8	0.0
Agency Total	37,234.1	46,690.9	46,690.9	44,804.0	(1,886.9)
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Dist Fund	556.1	534.6	534.6	534.6	0.0
State Education Fund for Committed Youth Fund	1,482.9	2,266.9	2,266.9	2,245.1	(21.8)
Endowments/Land Earnings Fund	1,098.6	1,098.6	1,098.6	1,098.6	0.0
Agency Total	3,137.6	3,900.1	3,900.1	3,878.3	(21.8)
<u>State Land Department</u>					
Environmental Special Plate Fund	182.5	260.0	260.0	260.0	0.0
AZ Parks Board Heritage Fund	380.6	0.0	0.0	0.0	0.0
Due Diligence Fund	7.1	500.0	500.0	500.0	0.0
Trust Land Management Fund	8,081.1	9,888.4	9,888.4	13,357.7	3,469.3
Agency Total	8,651.3	10,648.4	10,648.4	14,117.7	3,469.3
<u>Department of Liquor Licenses and Control</u>					
Liquor Licenses Fund	2,419.8	2,667.2	2,667.2	2,847.4	180.2
<u>Arizona State Lottery Commission</u>					
Lottery Fund	75,565.4	81,041.2	84,595.2	87,984.4	6,943.2
<u>Arizona Medical Board</u>					
Medical Examiners Board Fund	4,938.9	5,771.1	5,771.1	5,942.3	171.2
<u>Board of Medical Student Loans</u>					
Med Student Loan Fund	25.6	29.0	29.0	15.0	(14.0)
<u>State Mine Inspector</u>					
Aggregate Mining Reclamation Fund	96.9	111.5	111.5	38.0	(73.5)
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board Fund	602.8	595.1	595.1	595.7	0.6
<u>State Board of Nursing</u>					
Nursing Board Fund	3,972.1	4,074.4	4,074.4	4,070.6	(3.8)
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Admin/ACHMC Fund	326.9	373.2	373.2	367.8	(5.4)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	242.2	261.7	160.0	160.0	(101.7)
Athletic Training Fund	0.0	0.0	101.7	101.9	101.9
Agency Total	242.2	261.7	261.7	261.9	0.2
<u>State Board of Dispensing Opticians</u>					
Dispensing Opticians Board Fund	124.8	128.0	128.0	132.5	4.5
<u>State Board of Optometry</u>					
Board of Optometry Fund	193.8	199.2	199.2	199.0	(0.2)
<u>Arizona Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board Fund	658.3	702.7	702.7	709.7	7.0
<u>P-20 Council</u>					
P-20 Council Fund	0.0	0.0	0.0	8,025.2	8,025.2
<u>State Parks Board</u>					
Reservation Surcharge Revolving Fund	340.1	206.4	206.4	340.0	133.6
Boating Safety Fund	0.0	1,092.7	1,092.7	2,206.7	1,114.0
State Parks Enhancement Fund	7,112.9	7,807.0	7,807.0	10,000.0	2,193.0
Agency Total	7,453.0	9,106.1	9,106.1	12,546.7	3,440.6
<u>Personnel Board</u>					
Personnel Division Fund	278.7	373.2	373.2	372.9	(0.3)
<u>Office of Pest Management</u>					
Structural Pest Control Fund	2,014.6	2,268.9	2,268.9	2,253.7	(15.2)
<u>Arizona State Board of Pharmacy</u>					
Pharmacy Board Fund	1,787.7	1,949.0	1,949.0	1,950.4	1.4
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	321.1	355.9	355.9	364.3	8.4
<u>Arizona Pioneers' Home</u>					
Pioneers' Home State Charitable Earnings Fund	3,541.1	2,051.6	2,051.6	2,014.2	(37.4)
Pioneers' Home Miners' Hospital Fund	2,619.2	2,554.9	2,554.9	0.0	(2,554.9)
Agency Total	6,160.3	4,606.5	4,606.5	2,014.2	(2,592.3)
<u>State Board of Podiatry Examiners</u>					
Podiatry Examiners Board Fund	117.6	142.4	142.4	142.1	(0.3)
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	3,294.6	3,837.5	3,837.5	3,837.2	(0.3)
<u>State Board for Private Postsecondary Education</u>					
Private Postsecondary Education Fund	334.9	330.5	330.5	331.0	0.5
<u>State Board of Psychologist Examiners</u>					
Psychologist Examiners Board Fund	324.8	359.5	359.5	348.8	(10.7)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Department of Public Safety</u>					
State Highway Fund	41,256.0	41,521.2	41,521.2	0.0	(41,521.2)
Arizona Highway Patrol Fund	18,193.2	18,679.0	18,679.0	18,591.2	(87.8)
Safety Enforcement and Transportation Infrastructure Fund	1,504.6	1,518.8	1,518.8	1,509.1	(9.7)
Crime Laboratory Assessment Fund	4,833.3	872.5	872.5	871.2	(1.3)
Auto Fingerprint Identification Fund	2,969.5	3,012.7	3,012.7	3,011.6	(1.1)
DNA Identification System Fund	2,977.0	3,987.5	3,987.5	6,344.3	2,356.8
Photo Enforcement Fund	10,246.2	11,064.8	11,064.8	0.0	(11,064.8)
Motorcycle Safety Fund	205.0	205.0	205.0	205.0	0.0
Parity Compensation Fund	2,199.5	1,823.3	1,823.3	1,823.3	0.0
Highway User Revenue Fund	78,626.2	79,215.7	79,215.7	119,961.0	40,745.3
DPS Criminal Justice Enhancement Fund	2,863.1	2,886.5	2,886.5	2,877.5	(9.0)
Risk Management Fund	278.7	296.2	296.2	817.8	521.6
Crime Laboratory Operations	6,514.8	11,127.2	11,127.2	11,098.6	(28.6)
Agency Total	172,667.1	176,210.4	176,210.4	167,110.6	(9,099.8)
<u>Arizona Department of Racing</u>					
Racing Administration Fund	7.8	0.0	0.0	0.0	0.0
Agency Total	7.8	0.0	0.0	0.0	0.0
<u>Radiation Regulatory Agency</u>					
State Radiologic Technologist Certification Fund	220.4	265.2	265.2	263.3	(1.9)
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving Fund	1,003.4	1,287.1	1,287.1	1,287.4	0.3
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners Fund	263.1	263.0	263.0	311.5	48.5
<u>Arizona State Retirement System</u>					
Retirement System Appropriated Fund	19,983.9	21,911.8	21,911.8	20,923.5	(988.3)
LTD Trust Fund	2,788.2	2,800.0	2,800.0	2,800.0	0.0
Agency Total	22,772.1	24,711.8	24,711.8	23,723.5	(988.3)
<u>Department of Revenue</u>					
Tobacco Tax and Health Care Fund	667.2	673.2	673.2	671.7	(1.5)
Department of Revenue Administrative Fund	19,336.4	22,662.5	22,662.5	22,662.5	0.0
DOR Liability Setoff Fund	359.1	390.6	390.6	389.6	(1.0)
Agency Total	20,362.7	23,726.3	23,726.3	23,723.8	(2.5)
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	2,562.7	8,934.2	8,934.2	2,934.2	(6,000.0)
Records Services Fund	605.1	668.7	548.7	573.7	(95.0)
Agency Total	3,167.8	9,602.9	9,482.9	3,507.9	(6,095.0)
<u>State Boards Office</u>					
Special Services Fund	208.4	220.9	220.9	220.9	0.0
<u>State Board of Technical Registration</u>					
Technical Registration Board Fund	1,451.2	1,729.2	1,729.2	1,830.8	101.6

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Department of Transportation</u>					
State Aviation Fund	1,719.1	1,592.7	1,592.7	1,592.7	0.0
State Highway Fund	247,870.6	325,794.9	325,794.9	325,794.9	0.0
Transportation Department Equipment Fund	15,345.0	27,592.0	27,592.0	27,592.0	0.0
Safety Enforcement and Transportation Infrastructure Fund	1,693.3	1,866.2	1,866.2	1,866.2	0.0
Air Quality Fund	47.6	72.9	72.9	72.9	0.0
Vehicle Inspection and Title Enforcement Fund	1,458.9	1,449.2	1,449.2	1,449.2	0.0
Motor Vehicle Liability Insurance Enforcement Fund	1,084.6	1,066.4	1,066.4	1,066.4	0.0
Driving Under Influence Abatement Fund	145.4	148.1	148.1	148.1	0.0
Highway User Revenue Fund	566.0	624.8	624.8	624.8	0.0
Agency Total	269,930.5	360,207.2	360,207.2	360,207.2	0.0
<u>State Treasurer</u>					
State Treasurer's Operating Fund	0.0	2,495.0	2,495.0	2,503.7	8.7
State Treasurer's Management Fund	57.1	88.3	88.3	88.3	0.0
Agency Total	57.1	2,583.3	2,583.3	2,592.0	8.7
<u>ASU - Tempe</u>					
ASU Collections - Appropriated Fund	308,037.8	353,023.9	353,023.9	353,023.9	0.0
<u>ASU - Polytechnic</u>					
ASU Collections - Appropriated Fund	30,821.8	34,329.4	34,329.4	34,329.4	0.0
Technology and Research Initiative Fund	2,000.0	2,000.0	2,000.0	2,000.0	0.0
Agency Total	32,821.8	36,329.4	36,329.4	36,329.4	0.0
<u>ASU - West</u>					
ASU Collections - Appropriated Fund	29,273.3	29,399.8	29,399.8	29,399.8	0.0
Technology and Research Initiative Fund	1,600.0	1,600.0	1,600.0	1,600.0	0.0
Agency Total	30,873.3	30,999.8	30,999.8	30,999.8	0.0
<u>Northern Arizona University</u>					
NAU Collections - Appropriated Fund	73,068.9	81,510.1	81,510.1	81,510.1	0.0
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated Fund	222,708.3	248,253.2	248,253.2	248,253.2	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A Main Campus - Collections - Appropriated Fund	21,175.4	25,258.2	25,258.2	25,258.2	0.0
<u>Department of Veterans' Services</u>					
Veterans' Conservatorship Fund	747.3	757.3	757.3	950.0	192.7
State Home for Veterans Trust Fund	13,472.3	16,959.8	16,959.8	19,742.8	2,783.0
Agency Total	14,219.6	17,717.1	17,717.1	20,692.8	2,975.7
<u>State Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board Fund	406.4	461.7	461.7	461.0	(0.7)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2010 Expenditures	FY 2011 Appropriation	FY 2011 Executive Budget	FY 2012 Executive Budget	FY 2012 Changes and Adjustments
<u>Department of Water Resources</u>					
Water Resources Fund	0.0	5,662.9	5,662.9	6,257.3	594.4
Assured and Adequate Water Supply Administration Fund	155.6	268.3	268.3	268.3	0.0
Agency Total	155.6	5,931.2	5,931.2	6,525.6	594.4
<u>Department of Weights and Measures</u>					
Air Quality Fund	1,405.6	1,410.3	1,410.3	1,409.6	(0.7)
Motor Vehicle Liability Insurance Enforcement Fund	311.9	316.7	316.7	316.4	(0.3)
Agency Total	1,717.5	1,727.0	1,727.0	1,726.0	(1.0)
Other Appropriated Funds Operating Total	2,395,229.7	2,794,171.1	2,810,959.5	2,790,951.4	(3,219.7)

The following resources are available at www.azospb.gov

BUDGET

- FY 2012 and FY 2013 Executive Budget – Summary
- FY 2012 and FY 2013 Executive Budget – State Agency Budgets
- FY 2012 and FY 2013 Executive Budget – Appendix
- Statement of Federal Funds for Fiscal Years 2008 through 2010
- Calculation of the Appropriation Limit for Fiscal Years 2009 through 2011
- State Budget Reduction Impacts for Fiscal Years 2008 through 2011

STRATEGIC PLANNING

- Master List of State Government Programs for Fiscal Years 2009 through 2011
- 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)

HISTORICAL PERSPECTIVE

- Revenue Data since 1971
- Expenditure Data since 1979
- Historical Enrollment Data for Major Populations such as Students, Medicaid Clients, Prisoners, and Unemployment

MONTHLY UPDATES

- New Caseload Enrollment Data, updated on the 15th of each month
- Year-to-Date Revenue Collections
- Agency Cash Flow Statements and Projections (coming soon)

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