

SUMMARY

The Executive Budget

FISCAL YEARS 2008 AND 2009

Janet Napolitano

GOVERNOR



S U M M A R Y

The Executive Budget

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January 2007

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

As we continue our work together, toward an exciting and prosperous future for our state, we should be both mindful of our common values and grateful to the Arizonans who, during the past 95 years, made our state what it is today. In this Legislative session, the responsibility rests with us to demonstrate leadership and wisdom that will, in turn, benefit future generations. It is with this perspective that the Executive Budget Recommendation for Fiscal Years 2008 and 2009 has been developed for your consideration.

Many of the challenges that we face are summed up in last month's announcement that Arizona had recaptured its ranking as the nation's fastest growing state. Arizona's population has grown by 65% since 1990, and today's population total will double before a baby born this year graduates from college. As our population grows, so will the number of children in our classrooms, the number of inmates in our prisons, the number of vehicles on our roads, and the number of families seeking jobs and health care.

The Arizona I envision will be prepared to accommodate it all. Our breathtaking growth dictates that we plan now to meet the needs of our children, our seniors, our families, and the private sector, which will create the jobs of today and tomorrow. Our preparation for a bright tomorrow demands that we take decisive, well-defined action today.

Meeting the needs of the nation's fastest growing state requires excellence in education. The Executive Budget Recommendation provides resources for a higher level of training for students, teachers and our education system at large, particularly in math and science. At the K-12 levels, this recommendation increases teacher base pay to \$33,000, adds salary initiatives and financial incentives crafted to attract, train and retain excellent teachers, and provides for construction of new schools. It provides more than \$100 million to help our universities improve student retention; fund enrollment growth; develop a biomedical campus in Phoenix; recruit, retain and build upon world-class faculty; and provide capital financing for research infrastructure necessary to educate future generations. The Recommendation also proposes the highest General Fund contribution ever to State financial aid.

Meeting the needs of the nation's fastest growing state requires excellence in job creation and transportation. The Executive Budget Recommendation enhances the State's capacity for innovation investment and breathes new life into the Commerce and Economic Development

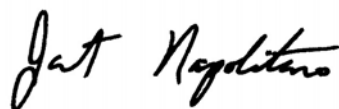
Commission Fund. It provides \$40 million for medical and bioscience initiatives that will further spur economic growth. It provides \$30 million over the next three years to expand the funding capacity of the Greater Arizona Development Authority to help Arizona's rural communities address their infrastructure needs. It accelerates highway construction by extending bond repayment periods, making available more than \$400 million.

Meeting the needs of the nation's fastest growing state requires excellence in public safety, law enforcement and human services. The Executive Budget Recommendation enhances the public safety by expanding the prison system's ability to accommodate a growing inmate population. It increases the number of officers patrolling our highways. In close cooperation with the federal government, it strengthens our border security against illegal immigration, agricultural threats, and hazardous materials. The Recommendation ensures that every Arizona child in a lower-income household has affordable health insurance and that their parents are made aware of its availability. It eliminates barriers to employers who wish to offer more affordable health insurance to their workers. It helps Arizona enhance the skills of its medical professionals through an additional \$9 million for graduate medical education. It increases funding, by 50%, for financial assistance to first-time homebuyers in rural Arizona and doubles the investment in homebuyer education to reduce the risk of foreclosure, to build family stability, and to strengthen neighborhoods and communities.

Meeting the critical needs of Arizona's citizens while balancing the state's budget in any year requires excellence in fiscal management. In FY 2006, the state experienced explosive revenue growth of greater than 19%. Together we were able to make investments in our core priorities and reduce both business taxes and individual income taxes. While this has resulted in an excellent and sustainable environment for business growth, it has yielded a much more modest revenue growth for FY 2007 (5.3%) and FY 2008 (3.7%). As in any other business, my budget follows fundamental business principles that include the cautious use of capital financing for some of our building and infrastructure needs. This wise and discerning approach will continue to keep our budget in balance, as it has been for the past four years.

The need to pursue these and other initiatives contained in this Executive Budget Recommendation is undeniable, if we are to be faithful in our mission to secure Arizona's future in an era of rapid growth. As elected officials, we must recognize the magnitude of the challenges before us and reaffirm our commitment to meeting them.

Very truly yours,



Janet Napolitano
Governor

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The Impact of the State Budget

For stakeholders who are directly impacted by State services and programs, how the Executive and Legislative branches allocate resources transcends mere public policy

What the Executive Budget Does for ...

EDUCATION

Arizona's children deserve the resources and opportunities to compete in today's global economy. As we increase expectations for our students, we must provide quality teachers to instruct them. Teachers do the heavy lifting and deserve to be compensated at the level of other comparable professionals.

The pay disparity between teachers and other professions puts schools and students at a disadvantage in attracting people to the profession. In addition, districts that are able to pay more are able to recruit and retain the most qualified teachers, further increasing the disparities with low-income, small and rural districts.

The Executive Recommendation continues to demonstrate its commitment to education by establishing a statewide minimum teacher salary, increasing the base salary level of all teachers, and creating performance pay structures.

Highlights include:

- \$50 million to establish a State minimum base teacher salary of \$33,000 per year and to increase the base pay of every teacher making at or above the minimum;
- \$15.5 million to retain and increase the number of highly qualified math and science teachers by:
 - ◆ \$10.0 million to provide assistance for existing teachers to become highly qualified in math or science by increasing base pay for highly qualified math and science teachers currently teaching in Arizona schools;

- ◆ \$3 million to provide incentives for university students to study to become teachers in math and science;
- ◆ \$2.5 million to award grants to school districts to establish innovative math and science programs and academies;
- \$4 million for a statewide system of professional development and performance pay;
- \$4 million to continue expanding the Master Teacher program through regional partnerships (expanding Master Teacher allows more highly qualified, knowledgeable teachers to pass on their experience to novice teachers and help create a capable workforce to guide our children into the future); and
- \$407.8 million for the New Construction program, expected to fund 29 new elementary schools and 7 new high schools and/or build-outs of existing schools, including facilities planned for Voluntary Full Day Kindergarten;

What the Executive Budget Does for ...

COLLEGE STUDENTS

For Arizona to achieve worldwide recognition as a center of North American trade and commerce, its higher education system must be able to produce a first-class workforce. The demands of the 21st century place enormous expectations on Arizona's graduates as they enter the workforce. Training and retention of university graduates in Arizona is, therefore, critical to the state's future success.

Arizona's population growth is reflected in continued enrollment

growth at the universities. In FY 2008, a 2.5% student enrollment increase is expected. Arizona must strive to maintain university access to all students within the state while improving the quality of education.

The Executive Recommendation seeks to improve access to and the quality of university education by providing:

- \$6.3 million for the Arizona Financial Aid Trust (of this amount, \$2.9 million funds the statutory formula by providing a 2:1 ratio of State funding to student fees; an additional \$3.4 million is recommended to increase the State's financial aid support and to assist students with rising tuition costs);
- \$29.8 million to improve student and faculty retention, with goals of increasing graduation rates and reducing the time it takes to earn a degree;
- \$25 million for expanding the biomedical education and research programs for all three universities at the Phoenix Biomedical Campus; and
- \$17 million for enrollment growth.

What the Executive Budget Does for ...

CHILDREN

As Arizonans face rising health care costs, access to coverage continues to be a concern. Of particular concern are massive increases in private sector health insurance costs and declining percentages of employers offering health insurance for families.

The Executive Budget Recommendation recognizes that something must be done.

It is especially important to ensure that all Arizona children have access to the medical care they need when they need it.

To help address this concern, the Executive proposes a package of initiatives to ensure that Arizonans receive the quality medical care and social services they deserve.

Highlights include:

- \$6 million to establish an outreach effort to enroll 63,000 kids beginning in January 2008 who are currently eligible for KidsCare but not participating, and to enroll 56,000 kids estimated to be currently eligible beginning in January 2008 for Title XIX but not participating. (Since the start of the enrollment is scheduled for January 1, 2008 it is anticipated that 40% of the eligible children for the KidsCare and Title XIX programs will be enrolled by the June 30, 2008). In addition, increase, from the current 200%, KidsCare eligibility to children in families at 300% of the Federal Poverty Level (FPL); and
- \$1.4 million for the Parents' Evaluation of Developmental Status (PEDS) tool to be administered to all AHCCCS client children going in for well-child visits at those ages.

What the Executive Budget Does for ...

INNOVATION

Arizonans increasingly recognize the need for a bold, statewide vision for economic development, including strategies that solidify the state's place at the core of science and technology. While in recent years the Governor and Legislature have initiated measures to enhance Arizona's competitive capacity, a new economic development strategy is needed as a catalyst to ensure Arizona's prominence in the broader economy.

With the Department of Commerce at the forefront, the Executive is

preparing measures to energize Arizona's economic development structure and is launching efforts for new collaborative alignment of existing economic development programs and resources.

In addition to addressing several organizational enhancements highlights include:

- \$35 million to strengthen Science Foundation Arizona to create and lead industries of the future;
- \$1.2 million to expand Arizona's global efforts, strengthen foreign direct investment and attract non-US based companies to locate Arizona;
- \$1.3 million to begin the process of restoring Arizona's innovation investment fund;
- \$1.2 million for the Department of Commerce to develop, implement and lead the Arizona global competitiveness innovation initiative and support the state's ability to innovate and compete;
- \$5 million in additional capitalization, to the Greater Arizona Development Authority (GADA) to address communities' infrastructure needs;
- \$148,000 to enable the Department to implement and administer tax incentive programs enacted in the last two years relating to motion picture, healthy forest, solar and "angel" tax credits; and
- \$1.4 million during this biennium budget for marketing and tourism promotion activities.

What the Executive Budget Does for ...

HEALTHCARE

Arizona continues to be a national leader in the efficient provision of health services to the medically needy and low-income populations. Demand for health care for low-income individuals continues to grow nationwide, particularly in rapidly growing states such as Arizona.

Providing consistent, community-based primary care prevents long-term disorders and diverts people

from more expensive forms of treatment. Additionally, investment in physician recruitment and retention, medical education, substance abuse treatment, newborn/infant health, and vaccines will result in long-term dividends.

Highlights include an additional:

- \$2.7 million for the purchase of vaccines for children and underinsured adults (the funding will provide 360,000 additional doses of vaccines for children and 51,000 total doses of vaccines for adults);
- \$1.5 million to fill the gap within Community Health Centers (CHCs) sliding scale fee collection from patients who are between 100% and 200% of FPL and for uncompensated care;
- \$3 million increase in state funds matched by \$5.9 million in federal funds to expand the Graduate Medical Education Program, making a total of \$44 million in FY 2008 available to support residency slots in Arizona hospitals;
- full funding for the Medical Student Loan Program, which encourages physicians to set up their medical practice in underserved areas or to meet the needs of underserved populations; and
- \$1 million to provide Medicaid-eligible hospice services for all AHCCCS clients.

What the Executive Budget Does for ...

TRIBAL GOVERNMENTS

There are 21 tribal governments within Arizona's borders, serving nearly 300,000 tribal members. While gaming opportunities on tribal lands have improved the economic environment for some of Arizona's Native American tribes, many tribal areas, particularly in rural or remote areas, continue to experience high levels of poverty and other social afflictions. Many Native Americans do not have access to state programs and services. Partnering with tribal governments increases access to needed services. The Executive Recommendation

fosters these partnerships by providing:

- \$150,000 to the Department of Public Safety (DPS) to provide crime lab services to tribal law enforcement agencies;
- \$157,500 for DPS support of tribal law enforcement activities;
- \$142,400 for the architectural and design costs of the Hopi Assisted Living Center for disabled elders and young adults;
- \$400,000 to the Tribal Methamphetamine Program for drug prevention and treatment programs to fight the growing methamphetamine problem in tribal communities; and
- \$150,000 to increase tribal members' access to health programs in urban areas.

What the Executive Budget Does for ...

VETERANS

There are approximately 600,000 veterans currently living in Arizona, and that population is certain to grow. The risks and sacrifices that veterans have made on behalf of our nation warrant our unfading appreciation and our commitment to accommodate their unique needs. Executive Order 2005-15 created the Arizona Veteran Task Force. This year the Task Force analyzed and evaluated State services and benefits provided to Arizona's veterans and found that those services needed substantial enhancement.

The Executive budget provides:

- 1.4 million for 30 new veteran benefit counselors and agency support staff; and
- \$242,300 to allow the Department to meet its increased financial obligations related to its role as conservator.

What the Executive Budget Does for ...

SENIORS

Arizona has long been a choice destination for individuals reaching retirement age. Coupled with a growing segment of aging adults, the senior population age 65 and over is

increasing relative to other population age groups. Nationwide, the first wave of Baby Boomers – over 78 million of them – will reach age 60 this year.

Seniors remain positive contributors to Arizona's economy well beyond retirement age and are living longer than ever, thanks to advancements in health, wellness and medical science. While a vibrant senior population has emerged in Arizona, many individuals within this population group also remain at risk for chronic disabilities, economic fraud and reduced economic means.

The Executive Recommendation provides an additional:

- \$2 million to provide dental services to all Arizona long-term care services patients;
- \$1 million to expand the Arizona Commodity Supplemental Food Program beyond the federal cap and provide food baskets to an additional 3,750 elderly per month;
- Provide an additional 6 beds to expand the number of clients served by the Pioneers' Home as well as giving the Home the flexibility and the resources necessary to provide quality care for Arizona's pioneers; and
- \$92,000 for criminal prosecution of elder abuse. In FY 2006, the Department of Economic Security substantiated 2,672 cases of abuse, neglect and financial exploitation involving vulnerable adults. It is estimated that more than 12,000 instances of elder abuse occur in Arizona every single year. The Executive recommends strengthening the Elder Abuse Unit with the addition of two attorneys, a forensic accountant and a legal assistant.

What the Executive Budget Does for ...

WOMEN

Many Arizona women face medical needs and a major unmet need for domestic violence shelters.

The Executive Recommendation addresses these concerns with:

- \$3.3 million to continue to address the large unmet need for emergency shelter beds for domestic violence victims (funding will provide an additional 283 beds, which will shelter over 4,000 victims of domestic violence);
- \$250,000 to provide additional cancer screening for up to 4,200 women; and
- \$2.9 million to make the human papillomavirus (HPV) vaccine available to all AHCCCS women clients in the 21 to 26 age group.

What the Executive Budget Does for ...

STATE EMPLOYEES

More than 70,000 State employees make the operation of State government possible through their commitment to public service.

According to the Department of Administration, State employees' earnings are below their counterparts in other levels of government. The salary disparity leads to turnover and difficulty filling vacant positions.

The FY 2008 Executive Recommendation provides funding for a number of issues that recognize the value of State employees:

- a 3.5% statewide employee pay hike;
- funding for pay raises for law enforcement personnel at the Department of Public Safety (\$3 million), the Department of Corrections (\$6.2 million), and the Department of Juvenile Corrections (\$1.1 million);
- funding for the Department of Administration's General Accounting Office (\$676,000);
- \$323,000 for a salary increase for security officers at the Arizona State Hospital;
- funding for inspector and investigator salaries at the Registrar of Contractors (\$128,000);
- \$102,000 for compliance officers at the Board of Pharmacy;

- \$88,000 for a wage increase for 25 registered nurses at the Pioneers' Home;
- an additional \$37 million total fund (\$20.2 million general fund) to hold State employees harmless from increases in health insurance premium costs; and
- an increase of \$268,000 for bus subsidies for State employees (the funding covers 100% of bus costs for the three summer months and 65% of costs for the remaining months).

What the Executive Budget Does for ...

ENVIRONMENTAL QUALITY

The Executive Budget Recommendation includes several provisions designed to protect the environment and public health, including:

- \$4 million to protect Arizona rivers, streams, and wildlife in riparian habitats;
- \$1 million to strengthen regulation and address permit application backlogs related to public water system wells, treatment plants, distribution systems, line extensions and other drinking water infrastructure; and
- \$15 million to transfer to the Water Quality Assurance Revolving Fund (WQARF) to identify, assess and clean up groundwater contamination caused by the release of hazardous substances.

What the Executive Budget Does for ...

STATE LAND

The Land Department lacks the resources to work with communities and to plan for the appropriate sale and lease of State Trust lands, factors that will play a significant role in the way Arizona grows.

The Executive proposes funding to help alleviate the factors associated with this problem, and to enhance the benefits that the State derives from State Trust land:

- modernizing and computerizing the Land Department's documentation system (the Department has

little to no electronic storage for its several million pages of documents, which date back to 1910 and contain information relating to the Trust and its management and interaction since its inception);

- strengthening the State's ability to deal with trespassing on, and misuse of, State Trust land, including prosecution of a developer who is responsible for the destruction of more than 270 acres, and enforcing the cleanup of a large sinkhole in northern Arizona that has become the dumping ground for approximately six tons of trash;
- performing studies to identify and assess the safety of dams located on State Trust land and to assess the State's liability associated with dam safety;
- strengthening the State's ability to preserve its water rights on State Trust land;
- enhancing the Forestry Division's ability to manage and address the problem of wild fires and to respond to all manner of natural and man-made emergencies on a statewide scale; and
- \$4 million for the maintenance and operation of the parks system. This funding will enable the Board to operate the parks with no operational disruptions, to rehabilitate historic buildings, to protect and enhance popular Arizona landmarks with urgent capital needs such as the Tonto Natural Bridge and Slide Rock State Park, and to increase care of the environment. With this recommendation, the Board will have the funding needed to make critical repairs and environmental upgrades maintaining state parks as points of pride for rural communities and all of Arizona that draw more than 2 million visitors each year.

What the Executive Budget Does for ...

RURAL COMMUNITIES AND AGRICULTURE

While Arizona is among the nation's most urban states, with 80% of the state's population concentrated in metropolitan areas, 13 of the state's 15 counties are considered rural.

Rural communities face the same demands for services as the urban centers but do not always have the resources found in densely populated areas. The Executive Recommendation acknowledges this disparity and sets aside specific funding for rural areas. Highlights of the benefits to rural Arizona include:

- full funding for the Medical Student Loan Program, which encourages physicians to set up their medical practice in underserved areas or to meet the needs of underserved populations;
- \$2.5 million for the expansion of statewide methamphetamine addiction treatment options;
- \$4 million to protect Arizona rivers, streams, and wildlife in riparian habitats; and
- \$851,300 and 20 FTE positions to open and staff inspections at two port facilities on the California border, at I-10 Ehrenberg and at Parker, as well as conduct round-the-clock inspections at Yuma (as a result of this initiative, pest interceptions are anticipated to increase from 13,000 currently to 22,000 by FY 2009).

What the Executive Budget Does for ...

STATE INFRASTRUCTURE

State government buildings, equipment and other infrastructure are precious public assets, and effective construction, maintenance and improvement are essential. The Executive's Capital Outlay Recommendation includes:

- \$21.9 million for Building Renewal, addressing some of the highest priorities to protect life and safety, ensure business continuity and preserve the State's assets;

- \$32.2 million for demolition of the Arizona State Hospital's Forensic Unit and for construction of a new facility to provide functional and secured facility for forensic patients; and
- \$40 million to begin implementing core components identified in the Capital Mall Centennial Plan, including renovation and modernization of the old State Health Laboratory, which is not fully utilized, and designing and developing the core area of the Capitol Mall to align it with Arizona's history and its vision for the future.

What the Executive Budget Does for ...

TRANSPORTATION

Arizona's explosive growth poses unique challenges in transportation planning. Recent development of new communities in areas without adequate roads and highways has increased fuel use, contributed to pollution, added to law enforcement costs and increased congestion.

Arizona's continued growth and development depend on a quality transportation system, which will require investment in transportation planning and highway construction. Highlights include:

- \$500 million in bond financing which creates more than \$400 million in net new funds available to accelerate highway construction by expanding the HURF Bond maturity limit from 20 to 30 years.
- carrying out the State's \$5.8 billion five-year transportation facilities construction program for Fiscal Years 2007 through 2011;
- accelerating freeway construction projects that have been approved pursuant to the Statewide Transportation Acceleration Needs (STAN) program (these projects are to be completed 14 years ahead of the original schedule);
- progress toward accelerated completion of the \$3.2 billion Maricopa regional freeway system by December 31, 2007; and

- \$32.8 million from the State Aviation Fund for development and improvement of State, county and municipal airports.

What the Executive Budget Does for ...

BORDER SECURITY AND IMMIGRATION

One of the critical issues facing Arizona is illegal immigration. Individuals who cross the border illegally risk serious danger to themselves and strain public and private health and social support systems. The result is often loss of life and additional taxpayer costs.

Securing international borders is a federal responsibility. During federal fiscal year 2007, Arizona's share of existing federal border security funding was approximately \$700 million. Thanks to the persistent efforts of Arizona's State and federal elected officials, in federal fiscal years 2006 and 2007 that amount was increased by an estimated \$600 million. Funding is now available for:

- additional border patrol agents and training;
- additional assistant U.S. Attorneys;
- National Guard units at the border;
- border radar and other technology initiatives;
- unmanned aerial vehicles and helicopters;
- additional Immigration and Customs Enforcement detention beds;
- joint immigration and border control operations among federal, State, local and tribal law enforcement agencies;
- additional immigration judges, attorneys, and support staff; and
- additional border infrastructure projects, including border fences, vehicle barriers and infrared cameras.

The State has also been active in funding activities affecting and affected by illegal immigration and to enhance border security. State fund-

ing in FY 2007 is roughly \$200 million, for such priorities as:

- auto theft enforcement
- ports-of-entry enforcement, and
- the incarceration of illegal immigrants convicted of Arizona crimes.

Considerable efforts by the Department of Public Safety near the border have included special attention by the High Intensity Drug Trafficking Center, auto theft enforcement, the Arizona Counter-Terrorism Information Center, border liaison officers, cross-border training programs, and the Financial Crimes Unit. The Department also plans to utilize 55 mobile license plate readers in the near future, to allow a patrol officer to determine which nearby vehicles are listed by the Motor Vehicle Division as stolen or as a suspect vehicle in a crime.

The Executive Recommendation for increasing the capabilities of State and local law enforcement agencies to stop illegal immigration includes:

- \$5 million for DPS border security initiatives;
- \$271,300 for inspectors to monitor cross-boundary hazardous waste shipments from Mexico; and
- \$245,300 for the operation of the Hazardous Air Emergency Response.

What the Executive Budget does for ...

LAW ENFORCEMENT - PUBLIC SAFETY

As Arizona's population continues to grow at a healthy pace, so does the demand for law enforcement services. The Executive Recommendation provides funding to help public safety in the state keep pace with population, traffic and crime.

The Executive Recommendation for the Department of Public Safety (DPS) provides for the following initiatives:

- \$7.5 million to increase officer pay and make DPS more competitive in the labor market;

- \$389,500 to accelerate evaluation of potential recruits to a timeframe comparable with competing jurisdictions;
- \$2.1 million for civilian motorist assistance and detention officers, in order to free sworn officers to focus on patrols of State highways and perform other functions that require their training and experience;
- \$942,800 to hire civilian school bus inspectors and a civilian mechanic, in order to free commercial vehicle enforcement bureau officers to focus on patrols and commercial vehicle inspections;
- \$2.2 million to complete a detailed design of the interoperable communications system, to make possible real-time, interoperable communications among local, county, State, tribal and federal public safety entities in Arizona;
- \$262,900 to continue successful prosecutions by the Antitrust Unit has distributed \$6 million to Arizona consumers and \$2.5 million to the State over the past two years. The Executive Recommendation adds an assistant Attorney General to increase Arizona's participation in multi-state cases and investigate and prosecute more local cases; and
- Tobacco Enforcement personnel, to defend against cigarette manufacturers' challenges and continue to defend the State's master settlement agreement payments.

What the Executive Budget does for ...

LAW ENFORCEMENT - CORRECTIONS

At the end of November 2006, ADC had an inmate population of 35,811 – 4,600 more than the funded bed capacity of 31,211 – producing a bed deficit of nearly 15%. Through November 2006, the average monthly growth rate in the prison population for the current fiscal year was 189, 89% more than the 100 per month anticipated in spring 2006 when the current appropriations were enacted.

As this publication went to print, the Department was housing the surplus inmates in 4,063 temporary beds and 1,732 lockup (special detention) beds. To accommodate the inmates, the Department of Corrections (ADC) relies on such short-term solutions as lockup beds and triple bunking.

Accommodating the influx of new inmates will require an additional \$91.4 million through the end of FY 2008.

Major components of the recommended funding include:

- \$43.4 million to open 2,000 provisional beds in FY 2008;
- \$16.3 million to accommodate increased *per diem* rates for inmates housed in private prisons;
- \$10.6 million to produce construction and operational cost estimates related to bid preparation for 3,000 new prison beds;
- \$10.2 million to annualize the funding for 1,000 new beds at the Central Arizona Correctional Facility, which opened in December 2006;
- \$5.6 million for temporary, emergency beds;
- \$3.3 million for food, clothing and some medical care for the additional inmate population; and
- \$2 million to evaluate the potential for expansion at the State's existing prison sites.

Part of the difficulty of operating a rapidly growing prison system is maintaining an experienced workforce. In the FY 2007 appropriation, starting pay for all entry-level Correctional Officers was raised to a level that is generally competitive with the Department of Corrections' major recruiting rivals: Maricopa County, Pima County and Pinal County. Thanks to the pay increases, recruiting efforts are more successful, and position vacancies are decreasing.

However reduced, the loss of experienced officers continues to be a concern. In September 2006 the annualized loss rate among officers

was 19%; a year earlier, it was 20%. One of the main reasons for the loss of experienced officers is that State pay at the most experienced and valuable levels is below market. Compared to Maricopa County, the State is paying 38% less for sergeants, 63% less for lieutenants, and 83% less for captains. Similar disparities exist in comparisons with Pima and Pinal counties.

The Executive Recommendation provides salary increases for each sergeant, lieutenant and captain, such that (a) the starting pay for each rank will be the mid-point of the salary range of the immediately lower rank, (b) each officer receives a raise equal to the increase in starting pay for his or her rank, (c) officers whose current salaries are above the new salary range midpoint will not be adjusted, and (d) officers whose adjusted salaries will total more than the salary range midpoint will be raised to the midpoint.

Juvenile Corrections. The Department of Juvenile Corrections is experiencing a stable flow of juveniles through its system, but, like the Department of Corrections, salary compression among the supervisory ranks has led to the loss of experienced officers. The Executive is recommending pay increases for more experienced officers (YCO IIIs, sergeants, and lieutenants), to correct more than a decade of inadequate adjustments that sometimes resulted in senior officers earning less than the officers they supervised.

The recommendation also provides pay increases for entry-level Youth Correction Officers (\$887,700, or \$1,222 per officer), to bring YCO compensation more in line with Maricopa and Pima counties and thus reduce the current 38% turnover rate.■



Budget Summary

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

	FY 2006 Actual	FY 2007 Estimated	FY 2008 Executive Recommendation
SOURCES OF FUNDS			
Balance Forward	638,989.0	1,074,935.1	421,651.1
Base Revenues	9,728,393.3	10,239,251.9	10,686,941.3
<i>Urban Revenue Sharing</i>	(425,228.9)	(551,230.7)	(684,559.6)
Adjusted Base Revenues	9,303,164.4	9,688,021.2	10,002,381.7
SFB Building Renewal Transfer 1/	(60,080.5)	60,080.5	
Enacted Fund Transfers	10,000.0	-	-
Ladewig Refunds	(48,722.1)	(94,800.1)	-
TOTAL SOURCES OF FUNDS	9,843,350.9	10,728,236.7	10,424,032.8
USES OF FUNDS			
Operating Budgets	8,193,160.7	9,392,796.0	10,014,930.0
Operating Budget Supplementals	33,633.7	45,245.4	
Teacher Pay		55,000.0	50,000.0
Teacher Retirement Hold Harmless		45,000.0	18,750.0
Continuing Teacher Education and Performance Pay			4,000.0
Master Teacher			4,000.0
Math & Science Incentives			15,500.0
Student Retention			29,800.0
Research Building			34,625.0
Arizona Financial Aid Trust	2,100.0	5,000.0	6,300.0
Phoenix Biomedical Campus	7,000.0	7,000.0	25,000.0
Greater AZ Development Authority (GADA) Enhancement			5,000.0
Healthcare for Children			5,951.4
State Employee Compensation	39,900.0	129,700.0	69,654.4
Employer Retirement Contribution	10,000.0	27,635.5	10,000.0
Employee Health Insurance		28,695.9	20,245.0
Science Foundation Arizona 2/		35,000.0	35,000.0
Payback K-12 Rollover 2/		191,000.0	
Transfer to Rainy Day Fund (Budget Stabilization)	480,957.9	9,808.6	
Other State Agencies Adjustments/Expenditure		29,350.0	8,606.7
Total Operating Budgets	8,766,752.3	10,001,231.4	10,357,362.5
Building Renewal and Capital Outlay	17,150.0	80,354.2	29,295.6
Highway Construction		245,000.0	***
Administrative Adjustments	74,338.0	70,000.0	35,000.0
Revertments	(89,824.5)	(90,000.0)	(60,000.0)
USES OF FUNDS	8,768,415.8	10,306,585.6	10,361,658.1
ENDING BALANCE	1,074,935.1	421,651.1	62,374.7
TOTAL USES OF FUNDS	9,843,350.9	10,728,236.7	10,424,032.8

*** In FY08, the Executive recommendation includes \$500 million in bond financing which creates more than \$400 million in net new funds available to accelerate highway construction by expanding bond maturity limit from 20 to 30 years.

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

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

Sources and Uses of Funds

The sources and uses of funds document presents budget data on projected revenue sources and expenditures for the General Fund. For FY 2006, the data reflect actual expenditures taken from the State's Accounting and Financial Information System. FY 2007 revenues reflect OSPB¹ projections of taxes, fees and other General Fund Revenue sources, while FY 2007 Uses of Funds reflect appropriations made by the Legislature in the 2006 Legislative session for FY 2007. FY 2008 sources and uses include OSPB projections of taxes, fees and other General Fund revenue sources and estimates of expenditures in support of the Executive FY 2008 budget.

SOURCES OF FUNDS

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

- Presentation of projection scenarios for the State's economy. Each participant provides independent views of projection scenarios based on various projection techniques and models.
- Consensus reached on forecasts of economic variables, including personal income, employment and gross domestic product. These variables serve as inputs to the revenue projections. Baseline, optimistic and pessimistic scenarios are finalized.
- Presentation of revenue projections for the "Big Three" tax sources based on economic scenarios. Each participant provides in-

dependent views on revenue projections for the economic scenarios. Revenue flows of recent tax collections are analyzed for consistency with projections.

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

USES OF FUNDS

Operating Budget Supplementals. The budget includes \$45.3 million for supplemental appropriations for agencies in FY 2007. This estimate reflects projected shortfalls for the following departments:

Administration:	\$ 1.7 million
Corrections:	14.2 million
Economic Security:	19.7 million
Education:	9.7 million

Teacher Pay Package. The budget continues to provide resources for teachers and the teaching profession, with several recommendations that serve to recruit and retain quality teachers to Arizona's schools, including:

- \$50 million to establish a minimum base salary of \$33,000 per year and provide additional funding to increase the base salary of teachers at or above the minimum,
- \$18.8 million to hold teachers harmless for the 0.5% retirement contribution increase,
- \$4 million to continue expanding the Master Teacher program, designed to retain new teachers in the profession and provide leadership opportunities for experienced teachers.
- \$4 million for the State Board of Education to design a statewide system for continuing education and performance pay.

- \$15.5 million to retain and increase the number of highly qualified math and science teachers by:

- ◆ \$10.0 million to provide assistance for existing teachers to become highly qualified in math or science by increasing base pay for highly qualified math and science teachers currently teaching in Arizona schools;
- ◆ \$3 million to provide incentives for university students to study to become teachers in math and science;
- ◆ \$2.5 million to award grants to school districts to establish innovative math and science programs and academies;

Phoenix Biomedical Campus. Arizona has a shortage of physicians, pharmacists, and technical and allied health professionals. To address this issue, the FY 2008 Executive Budget includes \$25 million to support expanding the capacity of the biomedical education and research programs of Arizona universities. The recommended resources provide funding for the following:

- \$6 million for the UA College of Medicine – Phoenix Program to expand enrollment capacity and graduate more physicians;
- \$4 million for Northern Arizona University to expand health professions programs in Flagstaff and throughout the state;
- \$2 million for Arizona State University to increase the teaching capacity of the Biomedical Informatics program;
- \$1.5 million for the UA College of Pharmacy to start a four-year Doctor of Pharmacy program in Phoenix;

¹ Governor's Office of Strategic Planning and Budgeting

- \$1 million for the UA Telemedicine Program, to implement a program in the College of Medicine - Phoenix Program using telemedicine for interdisciplinary education to medical students; and
- \$10.5 million split evenly between ASU and the University of Arizona (UA) to cover the costs of programming, conceptual and schematic design for the ABC 2 and Education buildings (one-time);

GADA Enhancement. The Budget includes \$5 million in additional capitalization, to the Greater Arizona Development Authority (GADA) to address communities' infrastructure needs. The recommended amount will enable local communities and tribal governments to finance public infrastructure projects, accelerate project development, and lower financing costs through the Authority's technical and financial assistance.

Healthcare for Children. It is especially important to ensure that all Arizona children have access to the medical care they need, when they need it. To help address this concern, the Executive Recommendation includes \$6 million to:

- establish an outreach effort, to enroll 63,000 kids beginning in January 2008 who are currently eligible for KidsCare but not participating, and 56,000 kids estimated to be currently eligible for Title XIX but not participating. (Since the start of the enrollment is scheduled for January 1, 2008 it is anticipated that 40% of the eligible children for the KidsCare and Title XIX programs will be enrolled by the June 30, 2008). In addition, increase, from the current 200%, KidsCare eligibility to children in

families at 300% of the Federal Poverty Level (FPL)

- enroll in the KidsCare program 40% of the 56,000 children estimated to be eligible for Title XIX but not participating, *State Employee Compensation, Employee Related Expense, and Employee Health Insurance.* The budget includes a State employee 3.5% general pay increase, estimated at \$69.7 million in General Fund expenditures. Additionally, \$10 million General Fund is estimated to cover employer retirement contributions.

As a result of rising health care costs, an additional \$20.2 million is required to fund the General Fund portion of the State's self-insured health insurance program.

Science Foundation Arizona. The budget includes \$35 million to the Department of Commerce, to enhance Arizona's position in the global economy by investing in science-based research and innovation in areas beneficial to Arizona's long-term competitiveness and quality of life. The funds are to be used to attract world-class researchers to Arizona and support research into new products and technologies that can be commercialized and brought to the market.

Legal Fees. After seven years and two appeals, the legal fees for the *Burke* litigation have been determined. The Budget includes \$5 million for the legal fees.

Budget Stabilization Fund. Due to significant transfers to the Budget Stabilization Fund in FY 2006 and FY 2007, the Fund is funded to its statutory limit and therefore does not receive additional funding in FY 2008.

Building Renewal and Capital Outlay. The budget includes \$29.3 million for the following projects:

- prison cell doors and locks at the Black Canyon School housing units,
- mold abatement at the Tucson Office Complex,
- Capitol Mall Centennial Plan,
- water and sewage treatment plants at four prison complexes, and
- replacement of the Forensic Unit at the Arizona State Hospital.

Highway Construction. During the 2007 Legislative session, serious cooperative efforts will be needed for additional financing measures to enable ADOT to accelerate highway construction projects and address local and statewide transportation needs.

Included in the Executive proposal to the Legislature will be a statutory amendment to authorize the State Transportation Board to issue highway revenue bonds with maturity of up to 30 years (the current limit is 20 years). Several states have successfully implemented this measure, and Arizona should be among them. When approved, this expansion will enable the Board to leverage Highway User Revenue Fund (HURF) monies and increase its ability to finance and accelerate additional highway construction.

Administrative Adjustments and Reversions. The budget includes an estimate of \$35 million for administrative adjustments in FY 2007 and FY 2008, which reflect funds that have been encumbered by agencies for payment of obligations but are carried over into another fiscal year.

Additionally, the budget incorporates projections of unexpended or unencumbered funds to be reverted to the General Fund in FY 2007 and FY 2008. These projections reflect historical experience. ■

**STATE OF ARIZONA
GENERAL FUND
REVENUE SUMMARY
FY 2006 THROUGH FY 2008
(in thousands)**

<u>TAXES</u>	Actual FY 2006	Estimate FY 2007	Estimate FY 2008
Corporate Income	874,219.5	959,200.0	982,000.0
Individual Income	3,689,511.0	3,857,000.0	3,930,300.0
Property Taxes	25,000.3	23,400.0	21,000.0
Sales and Use	4,273,358.2	4,615,000.0	4,976,000.0
Luxury Taxes	66,732.5	67,976.0	67,389.1
Insurance Premium Taxes	373,703.5	393,638.7	415,919.0
Estate Taxes	11,683.6	0.0	0.0
Other Taxes	2,846.1	2,900.0	3,000.0
TOTAL TAXES	9,317,054.7	9,919,114.7	10,395,608.1
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits/Misc.	131,876.8	136,900.0	143,000.0
Interest Earnings	74,320.4	68,500.0	40,000.0
Lottery	45,690.0	40,000.0	40,000.0
Transfers & Reimbursements	51,447.2	47,534.2	41,823.2
Disproportionate Share	108,004.2	113,100.0	113,100.0
TOTAL OTHER REVENUES	411,338.6	406,034.2	377,923.2
TOTAL REVENUES	9,728,393.3	10,325,148.9	10,773,531.3
 <u>ADJUSTMENTS</u>			
Urban Revenue Sharing	(425,228.9)	(551,230.7)	(684,559.6)
B.S.F. Deposit	(480,957.9)	(9,808.6)	0.0
Ladewig Refunds	(48,722.1)	(94,800.1)	0.0
Onetime Transfer/ Other Adjustments+	10,000.0	(84,900.0)	(86,590.0)
GRAND TOTAL REVENUES	8,783,484.4	9,584,409.5	10,002,381.7

+ FY 07 revenue adjustments: \$(55.2) million for TPT threshold adjustment - one time, \$(4) million for corporate consolidated credit, \$(10)M corporate tuition tax credits, and other miscellaneous
FY 08 revenue adjustments: \$(55) million corporate consolidated tax credit (this is the last payment), \$(12) million corporate tuition tax credits, \$(10.5) million motion picture tax credit, \$(6.8) million health insurance premium tax credits, and other miscellaneous

General Fund Operating Budgets Summary

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
Arizona Department of Administration	34,379.8	27,559.7	4,404.9	31,964.6	N/A	N/A
Office of Administrative Hearings	1,151.8	1,214.6	(0.9)	1,213.7	(0.9)	1,213.7
Arizona Department of Agriculture	10,715.0	11,369.6	1,022.1	12,391.7	1,285.4	12,655.0
Arizona Health Care Cost Containment System	993,730.6	1,199,768.0	118,483.6	1,318,251.6	N/A	N/A
Arizona Commission on the Arts	3,847.7	8,888.1	(6,759.9)	2,128.2	(6,799.9)	2,088.2
ASU - Polytechnic	15,811.7	19,980.9	3,305.3	23,286.2	N/A	N/A
ASU - Tempe	307,911.9	354,043.3	49,321.6	403,364.9	N/A	N/A
ASU - West	44,844.3	49,095.8	1,442.8	50,538.6	N/A	N/A
Attorney General - Department of Law	25,209.8	22,495.5	124.0	22,619.5	(1,123.5)	21,372.0
Auditor General	12,551.0	17,891.9	0.0	17,891.9	0.0	17,891.9
State Capital Post-Conviction Public Defender Office	0.0	220.0	501.7	721.7	501.7	721.7
State Board for Charter Schools	720.1	785.1	572.4	1,357.5	260.1	1,045.2
Department of Commerce	8,560.1	11,983.7	8,831.6	20,815.3	8,829.6	20,813.3
Arizona Community Colleges Corporation Commission	152,325.7	165,536.6	(185.8)	165,350.8	N/A	N/A
Department of Corrections	5,212.9	5,543.2	(6.3)	5,536.9	(6.3)	5,536.9
Arizona Criminal Justice Commission	707,715.4	817,157.7	96,395.0	913,552.7	N/A	N/A
Arizona State Schools for the Deaf and the Blind	1,118.0	4,302.0	0.0	4,302.0	0.0	4,302.0
Arizona State Schools for the Deaf and the Blind	16,766.4	21,260.9	(147.4)	21,113.5	(1,391.0)	19,869.9
Department of Economic Security	623,932.0	718,950.2	68,978.3	787,928.5	N/A	N/A
Department of Education	3,365,828.0	4,028,165.6	383,406.6	4,411,572.2	N/A	N/A
Department of Emergency Services and Military Affairs	10,309.5	14,394.1	(379.2)	14,014.9	(379.2)	14,014.9
Department of Environmental Quality	13,493.3	32,295.7	1,562.4	33,858.1	1,545.4	33,841.1
Governor's Office for Equal Opportunity	227.4	245.7	1.0	246.7	1.0	246.7
State Board of Equalization	574.6	653.5	(2.4)	651.1	(0.7)	652.8
Board of Executive Clemency	919.3	1,067.9	30.9	1,098.8	30.9	1,098.8
State Department of Financial Institutions	3,309.5	3,733.9	241.8	3,975.7	269.3	4,003.2
Department of Fire, Building and Life Safety	3,187.4	3,625.5	153.9	3,779.4	116.5	3,742.0
Arizona Game & Fish Department	0.0	3,500.0	(3,500.0)	0.0	(3,500.0)	0.0
Arizona Geological Survey	825.1	1,106.1	164.6	1,270.7	198.3	1,304.4
Government Information Technology Agency	0.0	1,500.0	1,795.3	3,295.3	4,231.1	5,731.1
Office of the Governor	6,101.8	6,634.8	0.0	6,634.8	0.0	6,634.8
Department of Health Services	476,671.4	549,247.6	47,729.0	596,976.6	N/A	N/A
Arizona Historical Society	4,114.6	4,337.0	44.5	4,381.5	48.5	4,385.5
Department of Homeland Security	0.0	0.0	486.3	486.3	486.3	486.3
House of Representatives	10,690.1	13,354.8	0.0	13,354.8	0.0	13,354.8
Arizona Commission of Indian Affairs	204.1	224.4	153.1	377.5	153.1	377.5
Department of Insurance	6,635.5	7,172.8	1.9	7,174.7	1.9	7,174.7
Joint Legislative Budget Committee	1,152.9	2,949.0	0.0	2,949.0	0.0	2,949.0
Judiciary	118,238.4	125,025.6	(0.2)	125,025.4	N/A	N/A
Department of Juvenile Corrections	70,562.5	79,848.3	301.3	80,149.6	N/A	N/A
State Land Department	22,777.6	26,435.4	940.8	27,376.2	972.5	27,407.9

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
Law Enforcement Merit System Council	70.8	76.4	0.2	76.6	0.2	76.6
Legislative Council	4,994.0	8,076.2	0.0	8,076.2	0.0	8,076.2
Arizona State Library, Archives & Public Records	7,064.6	7,540.6	200.0	7,740.6	0.0	7,540.6
Department of Liquor Licenses and Control	2,923.9	4,813.1	(1,256.3)	3,556.8	(1,276.3)	3,536.8
Board of Medical Student Loans	323.1	1,500.0	0.0	1,500.0	0.0	1,500.0
State Mine Inspector	1,161.9	1,226.7	(83.2)	1,143.5	(106.6)	1,120.1
Department of Mines and Mineral Resources	798.8	843.9	106.3	950.2	106.3	950.2
Arizona Navigable Stream Adjudication Commission	164.9	267.8	(92.1)	175.7	(267.7)	0.1
Northern Arizona University	124,506.4	135,949.4	19,858.7	155,808.1	N/A	N/A
State Board of Nursing	163.4	166.0	0.0	166.0	0.0	166.0
OSHA Review Board	2.7	0.0	0.0	0.0	0.0	0.0
State Parks Board	22,526.6	27,040.3	1,577.5	28,617.8	4,577.5	31,617.8
Personnel Board	301.9	358.1	0.5	358.6	0.5	358.6
Arizona Pioneers' Home	0.0	1,280.9	(43.3)	1,237.6	(43.3)	1,237.6
State Board of Podiatry Examiners	0.0	0.0	0.0	0.0	0.0	0.0
Commission for Postsecondary Education	1,391.3	6,620.8	0.0	6,620.8	0.0	6,620.8
Prescott Historical Society of Arizona	652.7	750.4	50.1	800.5	50.1	800.5
Department of Public Safety	41,751.2	166,196.6	(78,346.0)	87,850.6	10,909.3	177,105.9
Arizona Department of Racing	2,606.8	2,750.7	183.8	2,934.5	153.7	2,904.4
Radiation Regulatory Agency	1,140.4	1,530.9	163.1	1,694.0	125.2	1,656.1
Arizona Rangers' Pension	12.8	13.0	0.4	13.4	0.7	13.7
Department of Real Estate	3,694.4	3,986.7	435.8	4,422.5	511.3	4,498.0
Arizona Board of Regents	6,814.7	14,904.1	6,848.0	21,752.1	N/A	N/A
Department of Revenue	65,534.1	71,856.1	921.5	72,777.6	(773.7)	71,082.4
School Facilities Board	52,401.1	413,764.2	(253,654.9)	160,109.3	N/A	N/A
Department of State - Secretary of State	3,026.4	7,074.0	(133.8)	6,940.2	3,224.6	10,298.6
Senate	7,620.0	8,693.0	0.0	8,693.0	0.0	8,693.0
Governor's Office of Strategic Planning and Budgeting	2,096.5	2,211.1	0.0	2,211.1	0.0	2,211.1
State Board of Tax Appeals	276.1	307.5	1.6	309.1	2.5	310.0
Arizona Office of Tourism	10,517.9	14,986.0	592.8	15,578.8	864.5	15,850.5
Department of Transportation	76.4	82.9	0.0	82.9	N/A	N/A
State Treasurer	4,976.9	5,769.3	486.0	6,255.3	334.7	6,104.0
Commission on Uniform State Laws	44.8	52.3	4.5	56.8	5.5	57.8
University of Arizona - Health Sciences Center	64,261.3	69,098.5	10,928.6	80,027.1	N/A	N/A
University of Arizona - Main Campus	293,785.2	320,798.1	29,009.3	349,807.4	N/A	N/A
Department of Veterans' Services	2,372.0	4,149.7	1,336.7	5,486.4	1,257.1	5,406.8
Department of Water Resources	18,898.9	20,877.8	4,518.8	25,396.6	4,513.0	25,390.8
Department of Weights and Measures	1,590.0	1,649.8	(0.2)	1,649.6	(24.9)	1,624.9
General Fund Operating Total	7,832,872.1	9,690,827.4	523,029.0	10,213,856.4	29,874.3	631,725.2

**STATE OF ARIZONA
OTHER APPROPRIATED FUNDS
REVENUE SUMMARY
FY 2006 THROUGH FY 2008
(in thousands)**

<u>TAXES</u>	Actual FY 2006	Estimate FY 2007	Estimate FY 2008
Motor Vehicle Fuel Tax	733,773.6	744,685.9	782,362.7
Property Taxes	19,679.6	19,152.3	19,828.3
Sales and Use	16,166.2	12,285.0	11,545.1
Luxury Taxes	225,556.0	194,052.8	198,947.2
Insurance Premium Taxes	37,040.7	36,849.2	37,937.4
Motor Carrier License Tax	19,687.1	25,273.2	22,783.7
UST Contents Tax	33,711.6	33,680.0	33,680.0
Vehicle License Taxes	348,204.8	381,441.1	390,602.9
Other Taxes	9,196.8	8,964.9	9,283.2
TOTAL TAXES	1,443,016.4	1,456,384.4	1,506,970.5
<u>OTHER REVENUES</u>			
Licenses, Fees & Permits	304,978.2	323,758.6	344,646.8
Charges for Service	464,270.8	457,659.7	466,472.7
Interest Earnings	66,425.6	65,170.7	64,826.7
Miscellaneous Revenues	395,924.7	455,067.2	518,546.0
Lottery	468,696.8	474,900.0	474,900.0
TOTAL OTHER REVENUES	1,700,296.1	1,776,556.2	1,869,392.2
<u>OTHER FINANCING SOURCES</u>			
Transfers & Reimbursements	5,961,953.4	5,925,636.2	6,371,443.2
GRAND TOTAL REVENUES	9,105,265.9	9,158,576.8	9,747,805.9

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

Other Appropriated Funds Operating Budgets Summary

	FY 2006 Expendi- tures	FY 2007 Appro- piation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Accountancy</u>						
Accountancy Board Fund	1,629.4	2,287.4	10.7	2,298.1	13.3	2,300.7
Agency Total	1,629.4	2,287.4	10.7	2,298.1	13.3	2,300.7
<u>Acupuncture Board of Examiners</u>						
Acupuncture Board of Examiners Fund	83.3	106.9	17.2	124.1	17.2	124.1
Agency Total	83.3	106.9	17.2	124.1	17.2	124.1
<u>Arizona Department of Administration</u>						
Personnel Division Fund	14,933.9	17,057.8	978.3	18,036.1	N/A	N/A
Capital Outlay Stabilization Fund	10,461.2	11,302.5	1,255.0	12,557.5	N/A	N/A
Watercraft Licensing Fund	800.0	796.0	(796.0)	0.0	N/A	N/A
Corrections Fund	619.4	717.0	6.4	723.4	N/A	N/A
Air Quality Fund	574.1	575.1	0.0	575.1	N/A	N/A
Special Employee Health Fund	3,998.5	5,101.2	900.8	6,002.0	N/A	N/A
Motor Pool Revolving Fund	11,304.2	11,737.5	(189.4)	11,548.1	N/A	N/A
State Surplus Property Fund	2,599.1	4,223.9	1.1	4,225.0	N/A	N/A
Admin - Surplus Property/Federal Fund	63.1	429.0	2.0	431.0	N/A	N/A
Risk Management Fund	77,428.8	88,627.9	2,787.1	91,415.0	N/A	N/A
Automation Operations Fund	21,754.9	24,289.4	3,255.6	27,545.0	N/A	N/A
Telecommunications Fund	2,116.1	3,047.7	(34.9)	3,012.8	N/A	N/A
Agency Total	146,653.3	167,905.0	8,166.0	176,071.0	0.0	0.0
<u>Office of Administrative Hearings</u>						
AHCCCS Donation Fund	14.1	14.5	0.0	14.5	0.0	14.5
Agency Total	14.1	14.5	0.0	14.5	0.0	14.5
<u>Arizona Department of Agriculture</u>						
Agricultural Consulting/Training Program Fund	67.4	71.7	31.5	103.2	77.2	148.9
Agriculture Commercial Feed Fund	277.7	291.3	1.4	292.7	1.4	292.7
Egg and Egg Product Control Fund	564.4	721.3	131.6	852.9	129.9	851.2
Pesticide Fund	259.3	274.8	1.4	276.2	1.4	276.2
Agriculture Dangerous Plants Fund	21.4	21.4	18.6	40.0	18.6	40.0
Agriculture Seed Law Fund	35.7	53.1	0.0	53.1	0.0	53.1
Livestock Custody Fund	57.3	79.4	(0.2)	79.2	(0.2)	79.2
Fertilizer Materials Fund	277.6	290.8	7.1	297.9	7.1	297.9
Citrus, Fruit, and Vegetable Revolving Fund	828.1	1,042.8	0.1	1,042.9	0.1	1,042.9
Aquaculture Fund	6.7	9.2	0.0	9.2	0.0	9.2
AZ Protected Native Plant Fund	160.6	186.1	0.0	186.1	0.0	186.1
Agency Total	2,556.2	3,041.9	191.5	3,233.4	235.5	3,277.4
<u>State Board of Appraisal</u>						
Board of Appraisal Fund	551.2	586.2	9.8	596.0	9.8	596.0
Agency Total	551.2	586.2	9.8	596.0	9.8	596.0
<u>Arizona Health Care Cost Containment System</u>						
Tobacco Tax and Health Care Fund	79,128.8	83,162.5	(4,856.4)	78,306.1	N/A	N/A
Tobacco Products Tax Fund	30,317.9	29,371.2	(107.1)	29,264.1	N/A	N/A
Physician Recruitment Fund	0.0	0.0	300.0	300.0	N/A	N/A
Children's Health Insurance Program Fund	109,090.6	123,185.9	27,658.2	150,844.1	N/A	N/A
Budget Neutrality Compliance Fund	0.0	2,531.9	151.2	2,683.1	N/A	N/A

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Arizona Health Care Cost Containment System</u>						
Healthcare Group Fund	3,465.8	3,811.8	2,061.2	5,873.0	N/A	N/A
Temporary Medical Coverage Fund	0.0	884.2	769.9	1,654.1	N/A	N/A
Agency Total	222,003.1	242,947.5	25,977.0	268,924.5	0.0	0.0
<u>ASU - Polytechnic</u>						
ASU Collections - Appropriated Fund	12,961.4	16,576.0	0.0	16,576.0	N/A	N/A
Technology and Research Initiative Fund	2,000.0	2,000.0	0.0	2,000.0	N/A	N/A
Agency Total	14,961.4	18,576.0	0.0	18,576.0	0.0	0.0
<u>ASU - Tempe</u>						
ASU Collections - Appropriated Fund	196,172.7	217,845.0	0.0	217,845.0	N/A	N/A
Agency Total	196,172.7	217,845.0	0.0	217,845.0	0.0	0.0
<u>ASU - West</u>						
ASU Collections - Appropriated Fund	18,304.7	20,845.4	0.0	20,845.4	N/A	N/A
Technology and Research Initiative Fund	1,600.0	1,600.0	0.0	1,600.0	N/A	N/A
Agency Total	19,904.7	22,445.4	0.0	22,445.4	0.0	0.0
<u>Attorney General - Department of Law</u>						
Consumer Protection/Fraud Revolving Fund	1,748.9	2,135.0	0.7	2,135.7	0.7	2,135.7
Attorney General Antitrust Revolving Fund	307.4	232.4	0.1	232.5	0.1	232.5
Attorney General Collection Enforcement Fund	4,339.3	4,585.2	1.2	4,586.4	1.2	4,586.4
Attorney General Agency Services Fund	11,188.5	12,027.3	13.5	12,040.8	(8.5)	12,018.8
Victims Rights Fund	3,019.8	3,266.4	1.5	3,267.9	(1.4)	3,265.0
Risk Management Fund	7,987.3	9,214.2	1.9	9,216.1	1.9	9,216.1
Attorney General Legal Services Cost Allocation	0.0	6,497.5	135.2	6,632.7	130.7	6,628.2
Agency Total	28,591.2	37,958.0	154.1	38,112.1	124.7	38,082.7
<u>Automobile Theft Authority</u>						
Automobile Theft Authority Fund	4,973.7	5,251.6	192.8	5,444.4	600.3	5,851.9
Agency Total	4,973.7	5,251.6	192.8	5,444.4	600.3	5,851.9
<u>Board of Barber Examiners</u>						
Barber Examiners Board Fund	201.4	300.5	30.5	331.0	13.9	314.4
Agency Total	201.4	300.5	30.5	331.0	13.9	314.4
<u>Board of Behavioral Health Examiners</u>						
Behavioral Health Examiner Fund	1,144.2	1,366.2	(35.3)	1,330.9	(47.9)	1,318.3
Agency Total	1,144.2	1,366.2	(35.3)	1,330.9	(47.9)	1,318.3
<u>State Board of Chiropractic Examiners</u>						
Chiropractic Examiners Board Fund	460.3	509.2	(3.0)	506.2	(1.2)	508.0
Agency Total	460.3	509.2	(3.0)	506.2	(1.2)	508.0
<u>Department of Commerce</u>						
Lottery Fund	219.1	274.6	(0.7)	273.9	(0.7)	273.9
Commerce Development Bond Fund	107.2	139.2	(0.3)	138.9	(0.3)	138.9
Commerce and Economic Development Fund	2,981.2	3,028.6	(1,320.3)	1,708.3	(1,320.3)	1,708.3
Oil Overcharge Fund	108.6	175.6	(0.4)	175.2	(0.4)	175.2
Agency Total	3,416.1	3,618.0	(1,321.7)	2,296.3	(1,321.7)	2,296.3
<u>Corporation Commission</u>						
Utility Regulation Revolving Fund	11,690.8	13,100.6	228.6	13,329.2	209.2	13,309.8
Pipeline Safety Revolving Fund	0.0	0.0	55.4	55.4	0.0	0.0
Security Regulatory and Enforcement Fund	3,118.8	3,714.9	(26.2)	3,688.7	(26.2)	3,688.7

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Corporation Commission</u>						
Public Access Fund	3,056.1	3,817.3	664.0	4,481.3	836.5	4,653.8
Securities Investment Management Fund	829.0	893.9	(9.8)	884.1	(9.8)	884.1
Arizona Arts Trust Fund	44.0	48.6	0.0	48.6	0.0	48.6
Agency Total	18,738.7	21,575.3	912.0	22,487.3	1,009.7	22,585.0
<u>Department of Corrections</u>						
Corrections Fund	25,505.0	29,040.4	0.1	29,040.5	N/A	N/A
State Education Fund for Correctional Education	1,384.5	1,609.9	0.4	1,610.3	N/A	N/A
DOC - Alcohol Abuse Treatment Fund	193.9	599.3	0.0	599.3	N/A	N/A
Transition Office Fund	70.2	180.0	0.0	180.0	N/A	N/A
Transition Program Drug Treatment Fund	66.6	600.0	0.0	600.0	N/A	N/A
Prison Construction and Operations Fund	10,230.2	10,250.0	4,576.6	14,826.6	N/A	N/A
Penitentiary Land Earnings Fund	534.4	869.2	2,000.0	2,869.2	N/A	N/A
State Charitable, Penal & Reformatory Land Earni	2,031.4	570.0	0.0	570.0	N/A	N/A
Agency Total	40,016.2	43,718.8	6,577.1	50,295.9	0.0	0.0
<u>Board of Cosmetology</u>						
Cosmetology Board Fund	1,554.6	1,673.6	178.6	1,852.2	58.6	1,732.2
Agency Total	1,554.6	1,673.6	178.6	1,852.2	58.6	1,732.2
<u>Arizona Criminal Justice Commission</u>						
Criminal Justice Enhancement Fund	578.3	606.7	103.0	709.7	73.1	679.8
Victim Compensation and Assistance Fund	3,457.6	3,400.0	400.0	3,800.0	400.0	3,800.0
State Aid to County Attorneys Fund	847.8	877.5	175.0	1,052.5	175.0	1,052.5
State Aid to Indigent Defense Fund	805.0	833.2	166.0	999.2	166.0	999.2
Agency Total	5,688.7	5,717.4	844.0	6,561.4	814.1	6,531.5
<u>Arizona State Schools for the Deaf and the Blind</u>						
SDA Telecommunications Tax Fund	917.5	0.0	0.0	0.0	(25.6)	(25.6)
Schools for the Deaf and Blind Fund	12,831.0	13,816.9	0.0	13,816.9	0.0	13,816.9
Agency Total	13,748.5	13,816.9	0.0	13,816.9	(25.6)	13,791.3
<u>Commission for the Deaf and the Hard of Hearing</u>						
Telecom for the Deaf Fund	4,202.8	5,391.3	1.8	5,393.1	1.8	5,393.1
Agency Total	4,202.8	5,391.3	1.8	5,393.1	1.8	5,393.1
<u>State Board of Dental Examiners</u>						
Dental Board Fund	972.6	1,026.5	73.9	1,100.4	68.2	1,094.7
Agency Total	972.6	1,026.5	73.9	1,100.4	68.2	1,094.7
<u>State Board of Dispensing Opticians</u>						
Dispensing Opticians Board Fund	98.3	110.1	10.2	120.3	8.7	118.8
Agency Total	98.3	110.1	10.2	120.3	8.7	118.8
<u>Arizona Drug and Gang Prevention Resource Center</u>						
Drug and Gang Prevention Fund	278.0	295.9	0.0	295.9	0.0	295.9
Intergovernmental Agreements and Grant Funds	387.5	320.7	0.0	320.7	0.0	320.7
Agency Total	665.5	616.6	0.0	616.6	0.0	616.6
<u>Department of Economic Security</u>						
Tobacco Tax and Health Care Fund	0.0	200.0	0.0	200.0	N/A	N/A
Workforce Investment Grant Fund	39,996.5	55,871.4	(19.3)	55,852.1	N/A	N/A
Temporary Assistance for Needy Families (TANF)	228,080.2	232,894.6	36.8	232,931.4	N/A	N/A

	FY 2006 Expenditures	FY 2007 Appropriation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>Department of Economic Security</u>						
Child Care and Development Fund	106,877.2	117,114.9	(24.0)	117,090.9	N/A	N/A
Special Administration Fund	662.1	2,193.6	(9.8)	2,183.8	N/A	N/A
Child Support Enforcement Administration Fund	11,939.3	14,787.2	0.4	14,787.6	N/A	N/A
Domestic Violence Shelter Fund	1,700.0	1,700.0	0.0	1,700.0	N/A	N/A
Child Abuse Prevention Fund	110.8	1,574.9	(0.2)	1,574.7	N/A	N/A
Children and Family Services Training Program	52.8	209.6	0.0	209.6	N/A	N/A
Public Assistance Collections Fund	242.8	502.6	0.0	502.6	N/A	N/A
Department Long-Term Care System Fund	19,169.6	21,897.2	(3.2)	21,894.0	N/A	N/A
Spinal and Head Injuries Trust Fund	2,062.3	2,551.4	(0.3)	2,551.1	N/A	N/A
Homeless Trust Fund	0.0	850.0	0.0	850.0	N/A	N/A
Utility Assistance Fund	266.4	500.0	0.0	500.0	N/A	N/A
Risk Management Fund	0.0	271.5	0.0	271.5	N/A	N/A
Indirect Cost Recovery Fund	0.0	1,000.0	(0.1)	999.9	N/A	N/A
Reed Act Fund	0.0	0.0	3,496.3	3,496.3	N/A	N/A
Agency Total	411,160.0	454,118.9	3,476.6	457,595.5	0.0	0.0
<u>Department of Education</u>						
Teacher Certification Fund	1,936.3	2,134.7	0.4	2,135.1	N/A	N/A
School Accountability Fund	3,555.3	0.0	0.0	0.0	N/A	N/A
School Accountability Fund Prop 301 Fund	3,755.4	7,000.0	0.8	7,000.8	N/A	N/A
English Learners Compensatory Instruction Fund	0.0	10,000.0	0.0	10,000.0	N/A	N/A
E-Learning Pilot Program Fund	0.0	3,000.0	0.0	3,000.0	N/A	N/A
Public Institution Permanent School Earnings Fun	50,295.0	45,220.7	0.0	45,220.7	N/A	N/A
School Improvement Revenue Bond Debt Svc Fun	0.0	1,865.4	0.0	1,865.4	N/A	N/A
Agency Total	59,542.0	69,220.8	1.2	69,222.0	0.0	0.0
<u>Department of Emergency Services and Military Affairs</u>						
Emergency Response Fund	78.0	132.7	0.0	132.7	0.0	132.7
Agency Total	78.0	132.7	0.0	132.7	0.0	132.7
<u>Department of Environmental Quality</u>						
DEQ Emissions Inspection Fund	31,833.8	35,919.3	0.2	35,919.5	0.2	35,919.5
Hazardous Waste Management Fund	104.1	780.0	0.0	780.0	0.0	780.0
Air Quality Fund	14,949.2	4,938.9	215.0	5,153.9	212.0	5,150.9
Clean Air In-Lieu Fee Account	1,099.4	0.0	0.0	0.0	0.0	0.0
Underground Storage Tank Revolving Fund	5.8	22.0	0.0	22.0	0.0	22.0
Recycling Fund	956.4	2,169.5	150.3	2,319.8	150.3	2,319.8
Permit Administration Fund	4,826.4	5,816.2	0.7	5,816.9	0.7	5,816.9
Solid Waste Fee Fund	752.0	1,482.9	0.1	1,483.0	0.1	1,483.0
Used Oil Fund	8.2	137.3	0.0	137.3	0.0	137.3
Water Quality Fee Fund	1,700.1	4,200.4	1,259.3	5,459.7	1,239.3	5,439.7
Indirect Cost Fund	10,978.2	10,485.7	121.5	10,607.2	219.3	10,705.0
Agency Total	67,213.6	65,952.2	1,747.1	67,699.3	1,821.9	67,774.1
<u>Arizona Exposition & State Fair</u>						
Coliseum and Expo Center Fund	11,556.2	16,100.3	(34.8)	16,065.5	(34.8)	16,065.5
Agency Total	11,556.2	16,100.3	(34.8)	16,065.5	(34.8)	16,065.5
<u>State Board of Funeral Directors & Embalmers</u>						
Funeral Directors and Embalmers Fund	313.7	333.1	0.4	333.5	0.4	333.5

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Funeral Directors & Embalmers</u>						
Agency Total	313.7	333.1	0.4	333.5	0.4	333.5
<u>Arizona Game & Fish Department</u>						
Wildlife Habitat Restoration Aand Enhancement	0.0	3,500.0	(3,500.0)	0.0	(3,500.0)	0.0
Game and Fish Fund	21,215.1	27,409.8	2,182.0	29,591.8	2,066.0	29,475.8
Game and Fish Watercraft License Fund	1,932.7	3,176.3	1,287.5	4,463.8	1,224.0	4,400.3
Game/Non-game Fund	156.1	328.2	0.1	328.3	0.1	328.3
Waterfowl Conservation Fund	18.3	43.4	0.0	43.4	0.0	43.4
Wildlife Endowment Fund	0.0	16.0	0.0	16.0	0.0	16.0
Agency Total	23,322.2	34,473.7	(30.4)	34,443.3	(209.9)	34,263.8
<u>Department of Gaming</u>						
Lottery Fund	300.0	300.0	0.0	300.0	0.0	300.0
Permanent Tribal-State Compact Fund	1,920.8	2,054.6	(12.3)	2,042.3	(12.3)	2,042.3
Arizona Benefits Fund	9,168.4	9,512.8	2,925.3	12,438.1	4,762.2	14,275.0
Agency Total	11,389.2	11,867.4	2,913.0	14,780.4	4,749.9	16,617.3
<u>Government Information Technology Agency</u>						
Information Technology Fund	2,394.0	2,754.4	(0.3)	2,754.1	2.5	2,756.9
Agency Total	2,394.0	2,754.4	(0.3)	2,754.1	2.5	2,756.9
<u>Department of Health Services</u>						
Tobacco Tax and Health Care Fund	33,753.6	37,924.8	(4,147.7)	33,777.1	N/A	N/A
Capital Outlay Stabilization Fund	1,406.2	1,576.1	(1,576.1)	0.0	N/A	N/A
Child Care and Development Fund	727.2	802.2	0.1	802.3	N/A	N/A
Medical Examiners Board Fund	66.2	0.0	0.0	0.0	N/A	N/A
Health Research Fund	1,000.0	1,000.0	0.0	1,000.0	N/A	N/A
Poison Control Fund	1,618.8	0.0	0.0	0.0	N/A	N/A
Emergency Medical Services Operating Fund	4,500.6	5,231.2	11.0	5,242.2	N/A	N/A
Newborn Screening Program Fund	3,267.3	6,076.5	661.8	6,738.3	N/A	N/A
Substance Abuse Services Fund	2,500.0	2,500.0	0.0	2,500.0	N/A	N/A
Nursing Care Institution Protection Fund	0.0	166.5	0.0	166.5	N/A	N/A
Environmental Lab License Revolving Fund	842.1	946.1	0.2	946.3	N/A	N/A
Child Fatality Review Fund	99.6	100.0	0.0	100.0	N/A	N/A
Vital Records Electronic Systems Fund	0.0	500.0	0.0	500.0	N/A	N/A
Hearing and Speech Professionals Fund	152.1	329.8	0.1	329.9	N/A	N/A
The Arizona State Hospital Fund	7,626.6	7,964.6	(3,299.6)	4,665.0	N/A	N/A
DHS State Hospital Land Earnings Fund	300.9	350.0	0.0	350.0	N/A	N/A
DHS - Indirect Cost Fund	6,879.9	7,705.3	1,120.2	8,825.5	N/A	N/A
Agency Total	64,741.1	73,173.1	(7,230.0)	65,943.1	0.0	0.0
<u>Arizona Historical Society</u>						
Capital Outlay Stabilization Fund	193.7	193.7	0.0	193.7	0.0	193.7
Agency Total	193.7	193.7	0.0	193.7	0.0	193.7
<u>Board of Homeopathic Medical Examiners</u>						
Homeopathic Medical Examiners Fund	81.7	87.8	5.4	93.2	3.7	91.5
Agency Total	81.7	87.8	5.4	93.2	3.7	91.5
<u>Arizona Department of Housing</u>						
Housing Trust Fund	697.3	728.1	125.9	854.0	184.0	912.1
Housing Development Fund	0.0	195.9	1.6	197.5	1.6	197.5
Agency Total	697.3	924.0	127.5	1,051.5	185.6	1,109.6

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<u>Industrial Commission of Arizona</u>						
Industrial Commission Admin Fund	17,386.6	18,938.9	609.5	19,548.4	660.4	19,599.3
Agency Total	17,386.6	18,938.9	609.5	19,548.4	660.4	19,599.3
<u>Department of Insurance</u>						
Captive Insurance Regulatory/Supervision Fund	25.0	25.0	(25.0)	0.0	(25.0)	0.0
Agency Total	25.0	25.0	(25.0)	0.0	(25.0)	0.0
<u>Judiciary</u>						
Supreme Court CJEF Disbursements Fund	5,238.7	10,093.7	0.0	10,093.7	N/A	N/A
Judicial Collection - Enhancement Fund	12,558.1	14,786.6	0.0	14,786.6	N/A	N/A
Defensive Driving Fund	3,843.4	5,395.7	0.0	5,395.7	N/A	N/A
Court Appointed Special Advocate Fund	3,812.3	3,454.2	0.0	3,454.2	N/A	N/A
Confidential Intermediary Fund	327.4	477.5	0.0	477.5	N/A	N/A
Drug Treatment and Education Fund	500.0	500.0	0.0	500.0	N/A	N/A
State Aid to Courts Fund	2,444.7	2,444.7	0.0	2,444.7	N/A	N/A
Agency Total	28,724.6	37,152.4	0.0	37,152.4	0.0	0.0
<u>Department of Juvenile Corrections</u>						
Juvenile Corrections CJEF Dist Fund	585.3	685.3	0.0	685.3	N/A	N/A
State Education Fund for Committed Youth Fund	2,301.5	2,638.3	0.6	2,638.9	N/A	N/A
Endowments/Land Earnings Fund	3,360.0	1,094.9	0.0	1,094.9	N/A	N/A
Risk Management Fund	0.0	340.0	0.0	340.0	N/A	N/A
Agency Total	6,246.8	4,758.5	0.6	4,759.1	0.0	0.0
<u>State Land Department</u>						
Environmental Special Plate Fund	265.1	220.0	0.0	220.0	0.0	220.0
Due Diligence Fund	0.0	1,000.0	0.0	1,000.0	0.0	1,000.0
Risk Management Fund	318.6	230.6	(230.6)	0.0	(230.6)	0.0
Agency Total	583.7	1,450.6	(230.6)	1,220.0	(230.6)	1,220.0
<u>Arizona State Library, Archives & Public Records</u>						
Records Services Fund	634.2	661.8	0.0	661.8	0.0	661.8
Agency Total	634.2	661.8	0.0	661.8	0.0	661.8
<u>Arizona State Lottery Commission</u>						
Lottery Fund	68,998.8	71,363.4	(2,001.8)	69,361.6	(2,167.8)	69,195.6
Agency Total	68,998.8	71,363.4	(2,001.8)	69,361.6	(2,167.8)	69,195.6
<u>Arizona Medical Board</u>						
Medical Examiners Board Fund	5,335.3	5,697.3	(117.8)	5,579.5	(77.2)	5,620.1
Agency Total	5,335.3	5,697.3	(117.8)	5,579.5	(77.2)	5,620.1
<u>Board of Medical Student Loans</u>						
Medical Examiners Board Fund	283.4	0.0	0.0	0.0	0.0	0.0
Med Student Loan Fund	9.3	309.8	0.0	309.8	0.0	309.8
Agency Total	292.7	309.8	0.0	309.8	0.0	309.8
<u>State Mine Inspector</u>						
Aggregate Mining Reclamation Fund	0.0	1,148.3	(1,148.3)	0.0	(1,148.3)	0.0
Agency Total	0.0	1,148.3	(1,148.3)	0.0	(1,148.3)	0.0
<u>Naturopathic Physicians Board of Medical Examiners</u>						
Naturopathic Board Fund	483.5	493.7	92.9	586.6	90.3	584.0
Agency Total	483.5	493.7	92.9	586.6	90.3	584.0

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<u>Northern Arizona University</u>						
NAU Collections - Appropriated Fund	39,543.9	42,706.8	0.0	42,706.8	N/A	N/A
Agency Total	39,543.9	42,706.8	0.0	42,706.8	0.0	0.0
<u>State Board of Nursing</u>						
Nursing Board Fund	3,169.8	3,398.4	308.9	3,707.3	80.9	3,479.3
Agency Total	3,169.8	3,398.4	308.9	3,707.3	80.9	3,479.3
<u>Nursing Care Ins. Admin. Examiners</u>						
Nursing Care Institution Admin/ACHMC Fund	232.7	406.6	(47.9)	358.7	(47.9)	358.7
Agency Total	232.7	406.6	(47.9)	358.7	(47.9)	358.7
<u>Board of Occupational Therapy Examiners</u>						
Occupational Therapy Fund	180.7	239.0	1.2	240.2	1.7	240.7
Agency Total	180.7	239.0	1.2	240.2	1.7	240.7
<u>State Board of Optometry</u>						
Board of Optometry Fund	146.9	193.9	0.5	194.4	0.5	194.4
Agency Total	146.9	193.9	0.5	194.4	0.5	194.4
<u>Arizona Board of Osteopathic Examiners</u>						
Osteopathic Examiners Board Fund	576.5	655.9	2.0	657.9	0.1	656.0
Agency Total	576.5	655.9	2.0	657.9	0.1	656.0
<u>State Parks Board</u>						
Reservation Surcharge Revolving Fund	324.5	522.8	0.0	522.8	0.0	522.8
Boating Safety Fund	2,064.0	1,092.7	0.0	1,092.7	0.0	1,092.7
State Parks Enhancement Fund	10,397.2	8,392.8	(1,496.7)	6,896.1	(4,496.7)	3,896.1
Off-highway Vehicle Recreation Fund	679.7	692.1	0.0	692.1	0.0	692.1
Agency Total	13,465.4	10,700.4	(1,496.7)	9,203.7	(4,496.7)	6,203.7
<u>Arizona State Board of Pharmacy</u>						
Pharmacy Board Fund	1,446.5	1,566.2	899.6	2,465.8	292.5	1,858.7
Agency Total	1,446.5	1,566.2	899.6	2,465.8	292.5	1,858.7
<u>Board of Physical Therapy Examiners</u>						
Physical Therapy Fund	269.9	293.7	88.9	382.6	58.9	352.6
Agency Total	269.9	293.7	88.9	382.6	58.9	352.6
<u>Arizona Pioneers' Home</u>						
Pioneers' Home State Charitable Earnings Fund	4,239.8	3,422.3	40.1	3,462.4	163.6	3,585.9
Pioneers' Home Miners' Hospital Fund	1,558.2	1,664.7	11.0	1,675.7	11.0	1,675.7
Agency Total	5,798.0	5,087.0	51.1	5,138.1	174.6	5,261.6
<u>State Board of Podiatry Examiners</u>						
Podiatry Examiners Board Fund	101.4	121.9	15.8	137.7	15.8	137.7
Agency Total	101.4	121.9	15.8	137.7	15.8	137.7
<u>Commission for Postsecondary Education</u>						
Postsecondary Education Fund	2,175.7	2,930.8	14.5	2,945.3	14.5	2,945.3
Agency Total	2,175.7	2,930.8	14.5	2,945.3	14.5	2,945.3
<u>State Board for Private Postsecondary Education</u>						
Private Postsecondary Education Fund	272.3	318.4	2.1	320.5	2.1	320.5
Agency Total	272.3	318.4	2.1	320.5	2.1	320.5
<u>State Board of Psychologist Examiners</u>						
Psychologist Examiners Board Fund	299.0	381.3	(6.7)	374.6	(4.3)	377.0

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Board of Psychologist Examiners</u>						
Agency Total	299.0	381.3	(6.7)	374.6	(4.3)	377.0
<u>Department of Public Safety</u>						
State Highway Fund	42,197.6	10,000.0	31,527.8	41,527.8	(4.0)	9,996.0
Arizona Highway Patrol Fund	19,282.7	21,514.1	(1,824.8)	19,689.3	(1,006.7)	20,507.4
Safety Enforcement and Transportation Infrastruc	1,372.0	0.0	0.0	0.0	0.0	0.0
Crime Laboratory Assessment Fund	4,527.9	5,282.4	544.4	5,826.8	544.4	5,826.8
Motor Vehicle Liability Insurance Enforcement F	0.0	1,512.0	0.0	1,512.0	0.0	1,512.0
Auto Fingerprint Identification Fund	2,190.5	3,286.2	(0.1)	3,286.1	(0.1)	3,286.1
DNA Identification System Fund	2,613.1	2,753.3	673.8	3,427.1	1,056.8	3,810.1
Sex Offender Monitoring Fund	85.0	0.0	0.0	0.0	0.0	0.0
Motorcycle Safety Fund	153.8	205.0	0.0	205.0	0.0	205.0
Parity Compensation Fund	0.0	2,768.1	500.0	3,268.1	1,000.0	3,768.1
Highway User Revenue Fund	63,999.3	10,000.0	56,729.6	66,729.6	(5.0)	9,995.0
Criminal Justice Enhancement Fund	2,636.9	3,186.7	(0.5)	3,186.2	(0.5)	3,186.2
Risk Management Fund	210.0	296.2	668.7	964.9	(230.0)	66.2
Agency Total	139,268.8	60,804.0	88,818.9	149,622.9	1,354.9	62,158.9
<u>Arizona Department of Racing</u>						
Racing Administration Fund	45.0	45.0	22.0	67.0	22.0	67.0
County Fair Racing Fund	298.9	300.0	150.0	450.0	150.0	450.0
Agency Total	343.9	345.0	172.0	517.0	172.0	517.0
<u>Radiation Regulatory Agency</u>						
State Radiologic Technologist Certification Fund	243.6	281.8	15.5	297.3	16.4	298.2
Agency Total	243.6	281.8	15.5	297.3	16.4	298.2
<u>Registrar of Contractors</u>						
Registrar of Contractors Fund	9,599.1	10,625.6	1,073.0	11,698.6	903.5	11,529.1
Agency Total	9,599.1	10,625.6	1,073.0	11,698.6	903.5	11,529.1
<u>Residential Utility Consumer Office</u>						
Residential Utility Consumer Office Revolving Fu	1,051.3	1,275.4	0.5	1,275.9	3.0	1,278.4
Agency Total	1,051.3	1,275.4	0.5	1,275.9	3.0	1,278.4
<u>Board of Respiratory Care Examiners</u>						
Board of Respiratory Care Examiners Fund	198.0	209.1	19.0	228.1	17.3	226.4
Agency Total	198.0	209.1	19.0	228.1	17.3	226.4
<u>Arizona State Retirement System</u>						
Retirement System Appropriated Fund	17,994.9	18,228.3	809.4	19,037.7	1,346.7	19,575.0
LTD Trust Fund	2,368.5	2,897.7	0.0	2,897.7	0.0	2,897.7
Agency Total	20,363.4	21,126.0	809.4	21,935.4	1,346.7	22,472.7
<u>Department of Revenue</u>						
Tobacco Tax and Health Care Fund	475.0	503.3	107.3	610.6	147.4	650.7
DOR Unclaimed Property Fund	1,564.5	3,461.3	(72.3)	3,389.0	(72.3)	3,389.0
DOR Liability Setoff Fund	316.3	416.8	0.1	416.9	0.1	416.9
Agency Total	2,355.8	4,381.4	35.1	4,416.5	75.2	4,456.6
<u>Department of State - Secretary of State</u>						
Election Systems Improvement Fund	9,588.7	20,000.0	(5,000.0)	15,000.0	(16,000.0)	4,000.0
Professional Employer Organization Fund	0.0	164.9	(70.0)	94.9	(80.0)	84.9
Agency Total	9,588.7	20,164.9	(5,070.0)	15,094.9	(16,080.0)	4,084.9

	FY 2006 Expendi- tures	FY 2007 Appro- priation	FY 2008 Changes and Adjustments	FY 2008 Executive Budget	FY 2009 Changes and Adjustments	FY 2009 Executive Budget
<u>State Boards Office</u>						
Special Services Fund	155.5	180.8	62.6	243.4	62.6	243.4
Agency Total	155.5	180.8	62.6	243.4	62.6	243.4
<u>Structural Pest Control Commission</u>						
Structural Pest Control Fund	1,955.2	2,253.5	406.8	2,660.3	383.5	2,637.0
Agency Total	1,955.2	2,253.5	406.8	2,660.3	383.5	2,637.0
<u>State Board of Technical Registration</u>						
Technical Registration Board Fund	1,392.8	1,521.1	93.5	1,614.6	87.5	1,608.6
Agency Total	1,392.8	1,521.1	93.5	1,614.6	87.5	1,608.6
<u>Arizona Office of Tourism</u>						
Agency Total	0.0	0.0	0.0	0.0	0.0	0.0
<u>Department of Transportation</u>						
State Aviation Fund	2,056.2	2,188.8	378.2	2,567.0	N/A	N/A
State Highway Fund	364,714.8	391,757.1	14,538.0	406,295.1	N/A	N/A
Transportation Department Equipment Fund	34,839.2	38,526.8	(4.7)	38,522.1	N/A	N/A
Safety Enforcement and Transportation Infrastruc	3,571.1	558.7	(0.2)	558.5	N/A	N/A
Air Quality Fund	62.8	68.6	0.0	68.6	N/A	N/A
Vehicle Inspection and Title Enforcement Fund	1,208.5	1,534.1	239.1	1,773.2	N/A	N/A
Motor Vehicle Liability Insurance Enforcement F	1,233.9	4,029.0	(1.8)	4,027.2	N/A	N/A
Driving Under Influence Abatement Fund	309.4	136.8	0.0	136.8	N/A	N/A
Highway User Revenue Fund	383.2	607.3	0.0	607.3	N/A	N/A
Agency Total	408,379.1	439,407.2	15,148.6	454,555.8	0.0	0.0
<u>University of Arizona - Health Sciences Center</u>						
U of A College of Medical - Collections - Appropri	16,263.0	13,890.2	0.0	13,890.2	N/A	N/A
Agency Total	16,263.0	13,890.2	0.0	13,890.2	0.0	0.0
<u>University of Arizona - Main Campus</u>						
U of A Main Campus - Collections - Appropriate	104,213.1	118,470.6	0.0	118,470.6	N/A	N/A
Agency Total	104,213.1	118,470.6	0.0	118,470.6	0.0	0.0
<u>Department of Veterans' Services</u>						
Veterans' Conservatorship Fund	659.1	721.0	3.7	724.7	9.2	730.2
State Home for Veterans Trust Fund	12,367.3	13,262.1	1.0	13,263.1	1.0	13,263.1
Agency Total	13,026.4	13,983.1	4.7	13,987.8	10.2	13,993.3
<u>State Veterinary Medical Examining Board</u>						
Veterinary Medical Examiners Board Fund	386.4	442.9	13.9	456.8	6.6	449.5
Agency Total	386.4	442.9	13.9	456.8	6.6	449.5
<u>Department of Water Resources</u>						
Assured and Adequate Water Supply Administra	0.0	1,100.0	0.1	1,100.1	0.1	1,100.1
Agency Total	0.0	1,100.0	0.1	1,100.1	0.1	1,100.1
<u>Department of Weights and Measures</u>						
Air Quality Fund	1,231.1	1,445.8	12.1	1,457.9	23.2	1,469.0
Motor Vehicle Liability Insurance Enforcement F	63.1	115.2	71.6	186.8	61.8	177.0
Agency Total	1,294.2	1,561.0	83.7	1,644.7	85.0	1,646.0
Other Appropriated Funds Operating Total	2,308,153.1	2,470,761.5	141,663.0	2,612,424.5	(10,262.3)	494,163.0

FY 2008 General Fund Executive Recommendation: Expenditure Growth Breakdown

Agency	FY 2007 Appropriation	Caseload Requirements and Inflation Growth	Unfunded Federal and Court Mandates	Legislative and Statutory Mandates	Extension of Existing Programs	Technical and Other Adjustments	Employee Compensation	Executive New Initiatives	FY 2008 Executive Recommendation
Administration	27,559,700	625,700	1,959,000		1,104,100	75,900	640,200		31,964,600
Attorney General	22,495,500				(794,400)	612,000		306,400	22,619,500
Community Colleges	165,536,600	333,100		3,481,100		(4,000,000)			165,350,800
Corrections	817,157,700	90,829,100			463,200	(1,071,200)	6,173,900	(1,555,200)	913,552,700
Economic Security	718,950,200	35,767,100	17,928,800		16,294,300	543,300	1,064,700		787,928,500
Juvenile Corrections	79,848,300	(826,600)			6,463,100	63,200			80,149,600
Education	4,028,165,600	301,920,100				(126,600)		75,150,000	4,411,572,200
Commerce	11,983,700			148,400		1,300		8,681,900	20,815,300
Environmental Quality	32,295,700			516,600	863,800	26,900		155,100	33,858,100
AHCCCS	1,199,768,000	100,844,600	(613,400)	6,608,200	7,314,200	(6,908,200)		11,238,200	1,318,251,600
Homeland Security	-							486,300	486,300
Health Services	549,247,600	36,982,600	6,765,900	864,800	12,380,900	(13,877,000)	323,400	4,288,200	596,976,400
Land Department	26,435,400	761,100		683,500	864,500	(1,368,300)			27,376,200
Emergency Services and Military Affairs	14,394,100					(379,200)			14,014,900
Public Safety	166,196,600	1,928,100	195,400		187,600	(91,838,900)	2,539,500	8,642,300	87,850,600
Revenue	71,856,100	18,900				(475,700)		1,378,300	72,777,600
School Facilities Board	413,764,200					(250,010,100)		121,500	160,109,300
Water Resources	20,877,800				4,500,000	18,800			25,396,600
Universities	963,870,100	16,984,100	-	34,625,000	21,829,300	173,100	-	47,102,800	1,084,584,400
All Other Agencies	360,424,500	887,400	-	5,989,700	4,644,000	(16,881,870)	-	3,157,300	358,221,030
All Agencies	9,690,827,400	587,055,300	(1,807,300)	52,917,300	76,114,600	(385,422,570)	80,396,100	159,153,100	10,283,510,630

Percent of growth over base	6.1%	0.0%	0.3%	0.5%	0.8%	-4.0%	0.8%	1.6%	6.1%
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Budget Message

A Generally Positive Outlook for Arizona

Global stability and the continued good health of the U.S. economy will help Arizona get past predicted downturns in real estate and construction

THE NATION AS a whole, and Arizona in particular, will endure slower growth in 2007 due primarily to lingering effects of the housing slowdown. Globally, the economy appears to be satisfactory, and most economists believe that the overall health of the world economy will sustain a moderate level of economic growth.

NATIONAL OUTLOOK

Historically, growth above 3% has been associated with a vibrant economy. In the U.S., 2006 economic growth for real GDP was solid, at over 3%, with growth in 2007 projected to moderate. The consensus outlook for 2007 is for a slight decline in the growth rate, to about 2.5% in real GDP. Less optimistic economists are looking for only modest growth in 2007.

Job growth. Employment gains at a national level continue at a modest pace, impeded by the same pressures that have existed for several years: high health benefit costs, global market alternative opportunities, and labor-saving productivity enhancements. The quality of job opportunities (as measured by access to increasingly high-paying jobs) continues to erode nationally and in most states. The steady progression from manufacturing jobs to service jobs continues.

Consumer spending. Nationally, consumer spending has sustained growth despite the recent deceleration in housing activity. Catalysts for the consumer include modest inflation rates and historically low credit costs, combined with modest wage gains and a very robust equity market.

Wall Street gains are the strongest since 2003, and the post-2001 expansion will enter its sixth year. To date, the housing market deceleration has not resulted in a rapid deceleration of consumer expenditures. Clearly, the capital gains and dividend returns from Wall Street have helped buffer the lost equity accumulations in housing.

Interest rates. Most observers of the Federal Reserve Board believe that the Fed is as likely to ease as it is to tighten interest rates at this stage of the cycle, and there are some signs that energy price inflation is having the desired moderating effect. While short-term rates clearly reflect recent Fed tightening, long-term rates remain very low for this point in the business cycle, given the federal funds rate of 5.25% as this went to print.

Historically, high short-term rates and low long-term rates have signaled an impending slowdown, but other

explanations prevail today. The low long-term rates remain sustained by very modest inflation and an unrelenting preference by foreign central banks to invest in the U.S. treasury markets. Homebuyers continue to benefit from the attractive rates on conventional mortgages; this is especially important as homeowners abandon some of their unconventional mortgage positions and shift back into conventional means of borrowing. Economists continue to speculate about the end of low long-term rates, but as long as inflation rates are moderate and the dollar avoids a spiral of depreciation, the U.S. Treasury market will be attractive to credit market investors around the world, keeping our interest rates at or near current levels.

Business spending. The pace of corporate profits has accelerated smartly out of the 2001 recession, and it continues to grow far more rapidly than the pace of job creation. Consequently, corporations have large amounts of ready cash in addition to access to credit at historically low rates, which puts businesses in a position to invest in people, plant and equipment. Profit growth accelerated in 2006 by nearly 20% over 2005, much to the pleasant surprise of some Wall Street investors. The catalyst for an accelerating pace of business investment will be ongoing improvements in business confidence about the health of the U.S. economy, coupled with a moderation in the trend to move capital offshore.

Despite challenges, the U.S. continues to be a very profitable option for multi-national corporations. However, most economists believe that profit percentage growth will slow in 2007, to the mid-single digits over the lofty 2006 levels.

Value of the dollar. The dollar has appreciated considerably off the lows set in early 2005 and then revisited the lows in late 2006. At present, short-term interest rates in the U.S. are attractive in comparison to rates earned in alternative currencies, and investors have responded by buying dollars. That has helped the dollar stabilize, albeit at lower rates of exchange with foreign currencies. The trade imbalance and domestic deficit will continue to pressure the dollar, but as long as inflation rates remain modest there should be no free fall in dollar value, despite ongoing concerns about trade and domestic fiscal imbalances. Despite well-documented pressures, the U.S. remains an attractive low-risk investment for both financial and physical capital, and this attractiveness will buffer against dollar depreciation pressures.

Current events and risks. The U.S. economy displayed remarkable resilience to the adverse effects of Katrina/Rita and associated energy shocks in late 2005 and early 2006. The next test will be whether it can maintain overall momentum in light of the drags induced by real estate. Risks to continued national prosperity are the possibility of some housing-related pressures, as regions heavily dependent upon the real estate expansion lose momentum; possible spillovers from the hardship of the Midwest's structural manufacturing slump; and the ongoing threat of a geopolitical event. Indeed, the purchasing managers index slipped below the growth/no growth threshold of 50 in November, so the evidence for slow growth is showing up in some of the data.

ARIZONA OUTLOOK

Arizona business cycles typically have more amplitude than national cycles, and for this cycle the upside catalyst was clearly real estate. Both job gains and income growth outpaced the nation since the most recent recession ended in 2003. The continuing challenge at this point in the cycle is to determine which portion of the economy will provide positive momentum as real estate and construction cool. Despite Arizona's return to its number-one ranking among states in terms of population growth, there are clear signs of cooling in sales and permitting activity, so pressures on employment in real estate and construction are likely to appear in 2007.

Employment. Job growth in Arizona maintained a healthy pace in 2006, at over 5% over 2005. As the map shown above illustrates, Arizona was the top-ranked state for job growth in comparison to the prior year. The state's job growth is expected to slow to about 4% in 2007.

Employment related to real estate and construction has been spectacular and, thanks to the strength of commercial construction, was sustained in 2006 despite slowing in homebuilding. Pressures on these growth sectors in 2007 could lead to slower overall growth, although shrinking inventories of retail space may support construction job growth.

Personal income. As reported by the Bureau of Economic Analysis, aggregate personal income growth in Arizona is vibrant, with growth in 2005 averaging over 8.5% on a year-over-year basis, and with the first quarter of calendar 2006 especially robust.



The challenge for economists is to discern how much of this growth is due to the real estate boom and how much comes from segments of the economy that will yield sustainable growth over the longer term. Fortunately, the Arizona economy is more diverse than it was in previous real estate down cycles.

Risks. Continued economic growth for the Arizona economy is subject to risk in two areas. First, any prolonged U.S. downturn will adversely affect the state, as it has in the past. In particular, Arizona's export, construction and hospitality industries would suffer. Second, Arizona is more exposed than most states to the real estate cycle. The state enjoyed considerable growth and prosperity in the up trend of the cycle and in 2007 will experience a drag due to the slowing of real estate activity. ■

Efficiency Review Savings and Cost Avoidances

The Efficiency Review process challenges agency management to find sensible ways to reduce costs in an effort to do more with less, while improving the way the State does business

In January 2003, the State faced serious fiscal challenges that required bold and creative solutions. State revenues had been in decline for some time, and State agencies were struggling to maintain programs and meet growing service demands. As part of her plan to cope with the fiscal crisis, Governor Napolitano established the Efficiency Review (ER) initiative, which ultimately challenged all executive agencies to find sensible ways to save money and reduce costs without harming programs and services.

ER PHASES

ER has developed and evolved over the past four years in two distinct phases.

Phase I: Idea Generation and Project Development. From January through April 2003, ER worked with three pilot agencies to develop an initial set of short-term initiatives that could be implemented immediately. The three agencies also developed ideas for longer-term projects that would require time for planning and development and offer potential for savings in future fiscal years.

In April 2003, the Governor issued Executive Order 2003-14, which required all cabinet agencies to find savings in such key areas as travel, fleet reduction, training consolidation, electronic communications, and energy. At the same time, the scope of ER's project development effort was expanded to six additional executive agencies that were asked to generate cost saving ideas following the template that had been successfully developed by the pilot agencies.

This first phase of ER was based on a successful approach that had been pioneered several years earlier by the Texas Performance Review. Unlike the Texas effort, however, Arizona's ER was staffed at no cost using personnel borrowed from participating State agencies.

Phase II: Project Implementation and Accountability. In January 2004, ER entered a distinctly new phase. Many good ideas on how to save money had been generated, and ER faced two difficult challenges:

- how to accomplish its large portfolio of newly developed projects, and
- how to institutionalize and sustain the effort for the long-term.

The ER Steering Committee was established to oversee and guide project implementation. Comprised of the Governor's chiefs of staff and top advisors, the Steering Committee has been meeting monthly since early 2004, receiving reports from agency directors and holding agencies accountable for implementation of ER projects.

In addition, the Governor's Office of Strategic Planning and Budgeting (OSP) established the Consolidated Efficiency Review Tracking System (CERTS), which requires State agencies to document and report their efficiency savings in the form of annual savings plans. Through CERTS, agencies are able to forecast and analyze their internal ER efforts and consider ER results in preparing their annual budget.

During this second phase of ER, agencies made considerable progress implementing agency-specific effi-

ciencies. In addition, significant progress has been made in advancing several statewide project initiatives. Many observers credit the ER Steering Committee with driving these successes, as its monthly meetings have kept the focus on ER and ensured that agencies follow through on their project commitments.

FINANCIAL SUCCESS

According to data compiled by OSPB, agency-specific and statewide projects developed through ER will save an estimated \$213 million in FY 2008. By the end of the current fiscal year, cumulative project savings since FY 2004 are expected to total almost \$768.5 million.

Statewide initiatives continued to produce savings in FY 2006 and are projected to contribute approximately \$105.1 million to the estimated FY 2008 savings identified above. These initiatives include energy conservation, fleet consolidation, statewide e-procurement, and employee benefits. All State agencies were required to participate in the total savings achieved through these initiatives.

Agency-specific savings. Agencies continue to be challenged to create annual savings plans that produce new ideas for efficiency savings on an annual basis. While all projects may not yet be implemented, ideas for agency-specific efficiency savings in FY 2008 total \$108 million. Two tables, *FY 2008 Efficiency Review Initiatives* and *Efficiency Review Initiatives: Five-Year Summary*, identify:

- estimated savings for FY 2008 by agency,
- actual savings for FY 2004, FY 2005 and FY 2006, and

- FY 2007 and FY 2008 estimated savings for initiatives.

If an initiative is a cost *avoidance* – i.e., a permanent or long-term savings – it is accounted for in each year of the five-year plan in which the avoidance applies. If an initiative is a cost *savings* – i.e., a temporary or short-term savings – it is accounted for in the year(s) to which it applies. For FY 2004 through FY 2006, agencies have saved a total of \$441.3 million.

Many of the ER projects reported in CERTS for FY 2008 include the following themes:

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

Hiring Gateway, the new paperless recruiting and hiring system deployed to all agencies, was able to achieve savings of \$1.9 million in FY 2006 and is estimated to save the State \$2.1 million by the current fiscal year end. The Department of Revenue has also been successful in encouraging taxpayers to file their tax returns online through the recently developed E-File web-based application.

Human resources. Several agencies have increased the number of volunteers and volunteer hours to alleviate some of the pressures caused

by a lack of funding for additional staff. Additionally, one agency has implemented a “virtual office” initiative that allows employees to work from their homes. This saves the State money in leasing space for employees and reduces costly turnover as a result of satisfied employees.

Red tape reduction. Process streamlining has also been able to achieve savings. While some agencies have consolidated the number of required forms by reducing duplicative questions, others have also been conducting process reviews and have been able to eliminate unnecessary steps. While all of these themes have generated significant saving, agencies have also been able to implement other innovative approaches that have created efficiencies for the State. Some of these approaches include reducing the intake process for short-term prison inmates, taking advantage of creative purchasing opportunities for prescription drugs, using a solar farm to supplement power usage, limiting the number of hair cuts for juveniles in custody, and creating policies that guide supervisors and employees on how to reduce overtime.

Redeployment of savings. Agencies continued to be required to report how they redeployed savings in FY 2006 and their expected redeployment for FYs 2007 and 2008. Most agencies redeploy their savings to cover the increasing costs of operations.

THE FUTURE OF ER

In 2007 and beyond, Efficiency Review will be focused on statewide initiatives that have the capacity to yield much larger savings and require a higher degree of coordination between agencies and the Governor’s Office.

In order to achieve large-scale statewide initiatives, the ER team has recommended development of several implementation teams with cabinet-level leadership, to ensure an appropriate level of commitment, knowledge and overview of the initiatives.

One new method for coordination among agencies is the development of a new segment of the monthly cabinet meetings, during which one agency director will be asked to describe one of his or her agency’s best practices. This presentation will be followed by general instructions for implementing the practice with other agencies.

In addition, the steering committee format will be adapted for 2007 and beyond by requiring agencies to report on their efforts in accomplishing larger statewide initiatives rather than solely reporting on their individual efforts.

Implementing these approaches will help to ensure that Efficiency Review becomes institutionalized into agencies’ thinking, not only with their individual efforts, but also for the benefit of State government in general. ■

FY 2008 Efficiency Review Initiatives

	<i>Agency Request Prior to Efficiency</i>	<i>Agency Request Post Efficiency</i>	<i>Efficiency Initiative Savings</i>
Statewide Initiatives			
Energy Conservation			205.0
Fleet Consolidation			922.0
Statewide E-Procurement			45,000.0
Employee Benefits			59,000.0
Total for Statewide Initiatives			105,127.0
Arizona Department of Administration	920,897.3	918,617.1	2,280.2
Arizona Department of Agriculture	29,788.3	29,592.9	195.4
Arizona Health Care Cost Containment System	7,994,751.3	7,937,783.6	56,967.7
Department of Commerce	83,621.6	83,435.6	186.0
Department of Corrections	1,046,741.6	1,038,064.8	8,676.8
Department of Economic Security	3,334,510.7	3,317,689.6	16,821.1
Department of Emergency Services and Military Affairs	73,895.1	73,789.1	106.0
Department of Environmental Quality	385,207.8	385,074.7	133.1
Governor's Office for Equal Opportunity	321.0	313.7	7.3
State Department of Financial Institutions	5,556.7	5,550.4	6.3
Arizona Game & Fish Department	92,281.4	90,862.1	1,419.3
Department of Gaming	123,844.1	123,725.9	118.2
Department of Health Services	2,120,951.7	2,112,581.4	8,370.3
Arizona Department of Housing	115,285.8	115,255.8	30.0
Department of Insurance	18,484.7	18,347.6	137.1
Department of Juvenile Corrections	93,858.9	92,746.6	1,112.3
State Land Department	48,067.0	48,027.0	40.0
Department of Liquor Licenses and Control	4,972.5	4,963.5	9.0
Arizona State Lottery Commission	745,746.2	741,874.2	3,872.0
State Parks Board	77,151.1	76,940.6	210.5
Department of Public Safety	323,631.8	321,491.2	2,140.6
Arizona Department of Racing	7,089.3	6,992.9	96.4
Department of Real Estate	6,287.2	6,285.4	1.8
Registrar of Contractors	23,867.4	23,766.4	101.0
Residential Utility Consumer Office	1,310.6	1,275.4	35.2
Department of Revenue	175,172.2	174,600.5	571.7
School Facilities Board	1,444,585.5	1,442,065.6	2,519.9
Arizona Office of Tourism	25,537.9	25,112.4	425.5
Department of Transportation	3,387,636.2	3,386,480.4	1,155.8
Department of Veterans' Services	20,578.9	20,521.7	57.2
Department of Water Resources	80,997.4	80,876.9	120.5
Department of Weights and Measures	3,472.5	3,389.3	83.2
Total For Agency Initiatives			108,007.4
Total for FY 2008 - All Initiatives for All Agencies and Statewide			213,134.4

Efficiency Review Initiatives - Five-Year Summary

	2004 Actual	2005 Actual	2006 Actual	2007 OSPB Est.	2008 OSPB Est.	Five-Year Total
Statewide Initiatives						
Employee Benefits	0.0	0.0	25,000.0	48,000.0	59,000.0	132,000.0
Energy Conservation	0.0	442.8	205.0	205.0	205.0	1,057.8
Leasing/Space Utilization	0.0	1,543.0	1,200.0	0.0	0.0	2,743.0
Fleet Consolidation	0.0	922.0	1,074.9	922.0	922.0	3,840.9
Statewide E-Procurement	0.0	15,700.0	22,295.0	45,000.0	45,000.0	127,995.0
Total for Statewide Initiatives	0.0	18,607.8	49,774.9	94,127.0	105,127.0	267,636.7
Total for Agency Specific Initiatives	31,408.3	91,342.6	170,863.4	99,322.5	108,007.4	500,944.2
Total for All Initiatives	31,408.3	109,950.4	220,638.3	193,449.5	213,134.4	768,580.9

Preparing Arizona Students for Career Success

Helping students succeed in the modern workplace requires an emphasis on math and science

The demands of the 21st century place enormous expectations on Arizona’s graduates as they enter into the workforce. To help students fulfill those expectations and reach their career objectives, Governor Napolitano established the P20 Council to examine the alignment of Arizona’s education systems, from preschool to postsecondary levels; to identify gaps in that alignment; and to recommend solutions to elevate Arizona’s education system with the demands of a 21st century marketplace.

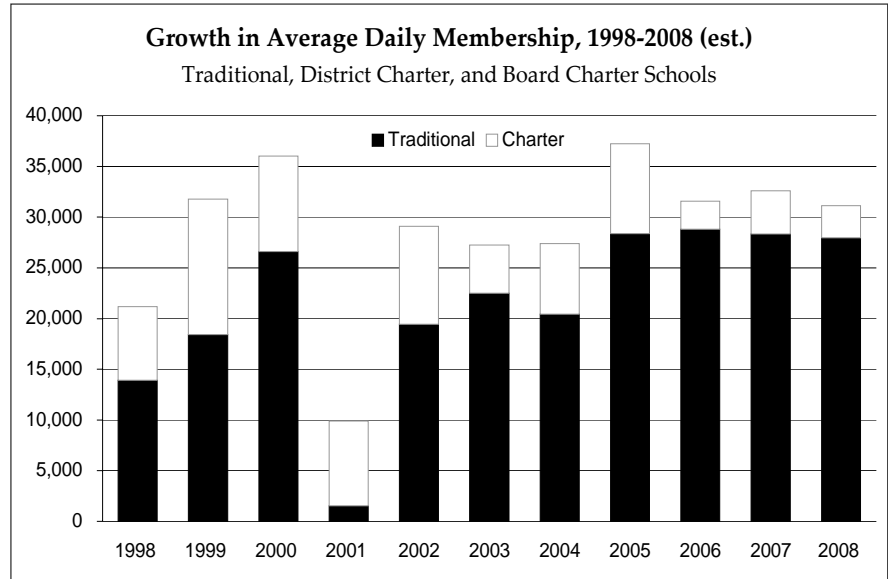
K-12 EDUCATION

The P20 Council issued its first set of recommendations on December 12, 2006. In reviewing the Council’s recommendations, the Executive FY 2008 budget stresses increasing student success in math and science.

Math and science. Student achievement in math and science plays a fundamental role in preparing students to meet the challenges confronting today’s workforce in the competitive global economy. In order to prepare students to meet those challenges, expanded learning opportunities and academic support for math and science must be made available to all Arizona students.

According to the National Science Foundation, the national need for a more science- and math-literate workforce is ever growing as we move towards an increasingly technological job market and scientifically complex society. In recognition of that trend, the FY 2008 Executive Recommendation includes \$15.5 million to retain and increase high qualified math and science teachers by:

- \$10.0 million to provide assistance for existing teachers to be-



come highly qualified in math or science by increasing base pay for highly qualified math and science teachers currently teaching in Arizona schools;

- \$3 million to provide incentives for university students to study to become teachers in math and science;
- \$2.5 million to award grants to school districts to establish innovative math and science programs and academies;

Exploring new ways to deliver math and science instruction and increasing the number of highly qualified math and science teachers is essential to building the capacity needed to provide quality math and science education in Arizona’s schools. According to the Arizona Department of Education’s School District Employee Report (FY 2006), of 53,503 teachers statewide, only 2,890 are math teachers, and only 2,318 are science teachers. The federal No Child Left Behind Act requires all teachers to be highly qualified in the core aca-

demic content areas they teach. The Executive Recommendation addresses this issue by funding:

- \$3 million in scholarships for students attending one of the three public universities to attain their teacher certification, focusing on being highly qualified in math or science;
- \$2.5 million in financial assistance for retraining existing teachers as highly qualified in math or science and grants to implement innovative programs and academies in math and science; and
- \$10 million to increase base pay for teachers who are already highly qualified in math or science.

Additionally, the Executive recommends monies to the State Board of Education to fund innovative programs and academies in Math and Science.

Quality teachers. The Governor’s P20 Council’s recommendations include strategies to improve and en-

hance teacher training and career development opportunities and address teacher pay in order to attract, prepare and retain high quality teachers in Arizona. These recommendations include:

- providing for statewide mentoring and induction activities;
- establishing a statewide system of standards-based professional development; and
- ensuring competitive base salaries in addition to performance-based wage enhancements.

The FY 2008 Executive Recommendation continues to support and enhance the teaching profession with the following recommendations.

Minimum salary. The Executive recommends establishing a State minimum base teacher salary of \$33,000 per year. Approximately 10,000 teachers in 194 school districts earn less than \$33,000 per year, thus requiring an additional \$25 million in FY 2008 to reach the \$33,000 minimum base salary. An additional \$25 million is recommended to increase the base pay of every teacher making at or above the mandatory minimum.

Professional development and performance pay. The Executive Recommendation includes \$4 million for the State Board of Education to design a statewide system for professional development and performance pay. Currently, every school district receives Proposition 301 money for performance pay, and districts may design their own performance pay structures. Most districts receive no additional funding to support performance pay structures and continuing education, programs that are proven methods to keep teachers in the profession and enhance their effectiveness. Statewide coordination of districts' performance pay and professional development is essential to provide consistency and maximize the benefits available for all Arizona teachers and students.

Master Teacher. The Recommendation also provides \$4 million to the State Board to continue expanding the

Master Teacher program through regional partnerships. Originally initiated by the Governor in 2004, the Master Teacher program, administered through the K-12 Center at Northern Arizona University, is a teacher-mentoring program designed to retain new teachers in the profession and provide leadership opportunities for experienced teachers. Expanding Master Teacher allows more highly qualified, knowledgeable teachers to pass on their experience to novice teachers and help create a capable workforce to guide our children into the future.

Professional, quality teachers are greatly needed to prepare students for the future. The teaching profession continues to struggle with attracting and retaining quality candidates. By creating incentives, increasing teacher pay, providing continuing education, support and career development opportunities, the FY 2008 Executive Budget continues to address Arizona's most critical education needs.

Basic State Aid. The largest formula-driven funding program for K-12 education, Basic State Aid provides financial assistance to school districts and charter schools for their maintenance and operations needs.

For FY 2008, the Executive recommends \$288.2 million to fully fund student growth in traditional and charter schools. The overall student population is expected to rise by 31,055 – to 1,066,209. The Executive Recommendation is based on the

following growth assumptions for FY 2008:

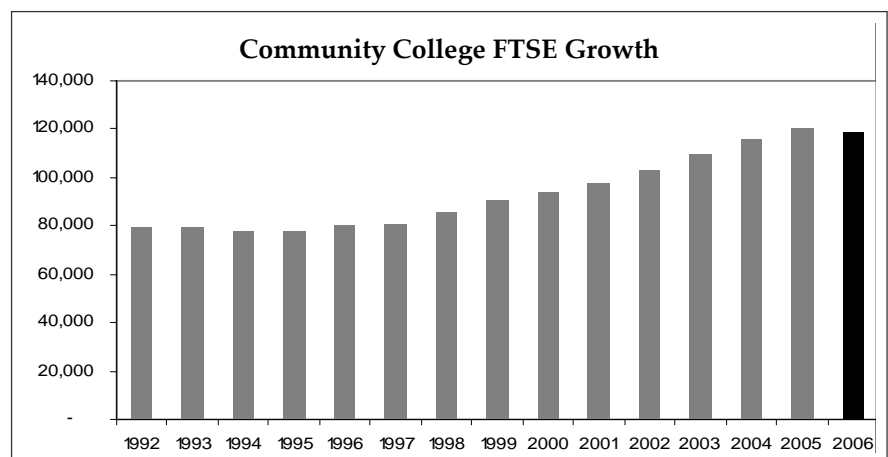
- 3% total growth in new students,
- 8% increase in net assessed valuation, and
- 1.9% inflationary growth.

Other statutory programs. The Additional State Aid program provides a 35% subsidy for residential property owners toward the local obligation of funding public schools. The Executive Recommendation provides \$12.1 million for this program.

Additionally, \$2 million is for special education programs in permanent and residential educational institutions, for students whose parents are employed by and live at State institutions, and for students placed in school districts by federal or State agencies.

New Construction. For FY 2008 the Executive recommends financing \$407.8 million for the New Construction program, expected to fund 29 new elementary schools and seven new high school and/or build-outs of existing schools, including facilities planned for Voluntary Full Day Kindergarten; additional funds for energy efficiency; and increased costs attributable to construction inflation.

To fund payments on existing obligations, the Executive recommends a total of \$72 million General Fund for the FY 2008 lease payments.



COMMUNITY COLLEGES

Arizona community colleges offer higher education opportunities for all students, regardless of previous academic experience and are the largest higher education provider in the state. They are a critical piece of Arizona’s education landscape, providing academic courses and student support services to meet the needs of a very diverse and growing student population.

Between FY 2005 and FY 2006, student enrollment at all Arizona community colleges decreased by 1.3% (see chart next page), although individual colleges experienced increased enrollment. The Executive recommends fully funding community colleges with an additional \$3.8 million for formula programs, to include \$574,700 for Operating State Aid, (\$241,600) for Capital Outlay, and \$3.5 million for Equalization Aid.

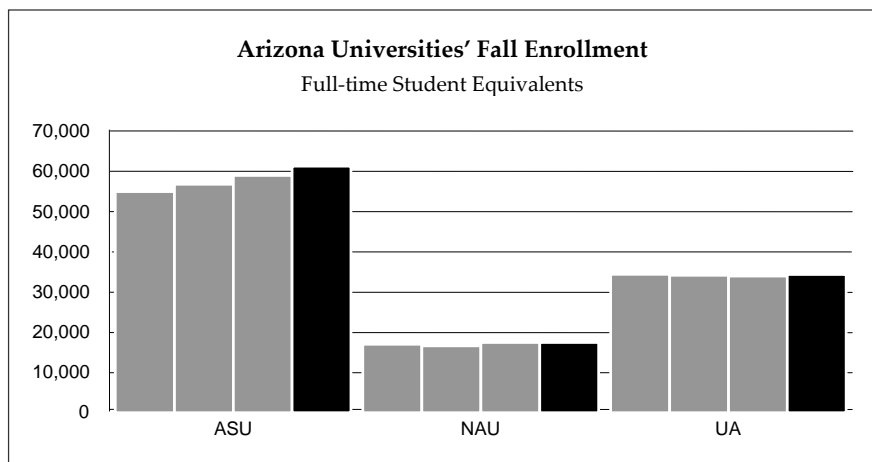
The 1.3% reduction represents a loss of 1,558 full-time equivalent students (FTSE) from FY 2005 to FY 2006. Of those colleges that experienced increased enrollment, the largest FTSE growth occurred in Gila County, which, as a provisional community college district, continues to grow as it expands its services and offerings to the community. Overall, the highest growth-rate counties were:

County	Growth %	New FTSE
Gila	103.5%	323
Yavapai	3.74%	81
Yuma/La Paz	1.5%	65
Pinal	1%	37

Five districts – Graham, Maricopa, Mohave, Navajo and Pima – experienced declining enrollment. Funding levels are not decreased for districts experiencing enrollment decline; instead, community college districts are held harmless as their funding level remains the same as the previous fiscal year.

UNIVERSITIES

Arizona’s population growth is reflected in continued enrollment



growth at the universities. In FY 2008, a 2.5% student enrollment increase is expected in the university system, for which the Executive recommends \$17 million for enrollment growth.

Financial aid. The Arizona Financial Aid Trust (AFAT) is used to provide immediate aid to students with verifiable financial needs, assist students who by virtue of special circumstances present a unique need for financial aid, and create an endowment for future financial aid.

In FY 2006, students at Arizona universities contributed \$5 million toward the Arizona Financial Aid Trust. Legislation during the 2006 session changed A.R.S. § 15-1642 to require the State to provide two dollars for every dollar raised in actual student fees (previously, the State had to match the student contributions) and increased the amount available for financial aid.

The Executive Recommendation continues to ensure access to higher education by recommending an additional \$6.3 million for the Arizona Financial Aid Trust. Of this amount, \$2.9 million funds the statutory formula by providing a 2:1 ratio of State funding to student fees. An additional \$3.4 million is recommended to increase the State’s financial aid support and to assist students with rising tuition costs. This recommendation increases the amount committed to financial aid to \$13.4 million and is the largest amount that the State has ever provided for student assistance.

Retention – student and faculty.

The Governor’s P20 Council recommendations emphasize creating an environment in which students are supported throughout their educational journey. This support is critical for students beginning their university experience.

The majority of students who fail to complete a degree program drop out in their first two years. The Executive Recommendation includes \$29.8 million to improve student retention, with goals of increasing graduation rates and reducing the time it takes to earn a degree. The funding will increase faculty capacity and undergraduate advisors, increase the number of course offerings, reduce class size, and allow the universities to implement strategies designed to increase student retention.

Phoenix biomedical campus. As Arizona grows, so does its need for health professionals and bioscience innovation and discovery. In order to build capacity and meet future needs, the Executive Recommendation includes \$25 million for expanding the biomedical education and research programs at Northern Arizona University (NAU), Arizona State University (ASU) and the University of Arizona (UA). Programs benefiting from this funding are:

- College of Medicine – Phoenix: \$6 million to expand enrollment (UA)
- Health Professions: \$4 million to expand health professions pro-

grams in Flagstaff and statewide (NAU)

- Biomedical Informatics: \$2 million for increased teaching capacity (ASU)
- College of Pharmacy: \$1.5 million to establish a Doctor of Phar-

macy degree at Phoenix campus (UA)

- Telemedicine Program: \$1 million to expand the program to the Phoenix campus (UA).
- Capital Costs: \$10.5 million for programming, conceptual, and

schematic design costs for the ABC 2 and Education buildings (UA and ASU)■

Expanded Access to Health Care and Strengthening Families

Executive initiatives will make health insurance available to more Arizona children

In an environment in which Arizonans face a more slowly growing economy and rising health care costs, there is reason to worry that one's medical needs will be neglected. Of particular concern are massive increases in private sector health insurance costs and declining percentages of employers offering health insurance for families.

The Executive Budget Recommendation recognizes that something must be done. It is especially important to ensure that all Arizona children have access to the medical care they need when they need it. To help address this concern, the Executive Recommendation proposes a package of new initiatives to ensure that Arizonans receive the quality medical care and social services they deserve.

CHILDRENS' HEALTH INSURANCE

All Arizona children must have access to health care. To that end, the Executive proposes expanding the KidsCare program in two ways:

- \$6 million to establish an outreach effort to enroll 63,000 kids beginning in January 2008 who are currently eligible for KidsCare but not participating, and to enroll 56,000 kids estimated to be currently eligible beginning in January 2008 for Title XIX but not participating. (Since the start of the enrollment is scheduled for January 1, 2008 it is anticipated that 40% of the eligible children for the KidsCare and Title XIX programs will be enrolled by the June 30, 2008).
- increase, from the current 200%, KidsCare eligibility to children in

families at 300% of the Federal Poverty Level (FPL);

Regarding the second point, AHCCCS-provided data from the Current Population Survey of the U.S. Census Bureau indicates that 26,000 Arizona children are part of families between 200% and 300% FPL. (For a family of four, that represents an income range of \$40,000 to \$60,000.)

The Executive Recommendation for FY 2008 includes \$6 million General Fund, to be matched by \$18.6 million in federal funds and member premiums, to help ensure that more Arizona children have access to affordable health insurance.

OTHER SERVICES FOR CHILDREN

Children constitute one of society's most defenseless populations, and the Executive Recommendation provides a variety of expanded services intended to ensure that every child can receive adequate care.

Parents Developmental Evaluation. Both the American Academies of Pediatrics and its Arizona chapter recommend formal developmental screening at nine, 18 and 24 months of age. The Executive recommends \$1.4 million General Fund, to be matched by \$2.8 million in federal funds, for the Parents' Evaluation of Developmental Status (PEDS) tool to be administered to all AHCCCS client children going in for well-child checkups at those ages. The PEDS tool elicits and weighs parents' concerns to help health care providers make informed treatment decisions. By screening very young children for behavioral and developmental problems, issues can be addressed as early as possible in

order to produce better health outcomes.

Child Safety and Permanency. Children services continue to be under-funded in Arizona, exposing vulnerable children to abuse and neglect. Rather than remove children from homes, there is now a focus on strengthening families and educating parents. The Executive Recommendation provides an additional \$7 million to focus on strengthening family relationships.

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

- The number of children returned safely to their parents increased by almost 64%.
- Permanent guardianships increased by 86%.
- Finalized adoptions increased by more than 59%.
- The number of available foster homes increased by about 50%, and the processing time for a completed application was cut in half.

Arizona Families First. Over 90% of families involved with CPS struggle with some sort of substance abuse. Arizona Families First, a nationally recognized program, reduces the burden shouldered by CPS workers by providing treatment and support services to needy families that might otherwise lose their children to foster care.

This early intervention effort, which is a product of the DES/Department of Health Services Joint Substance Abuse Treatment

(JSAT) program, is designed to keep parents sober and clean and children in their homes. Arizona Families First also serves families that receive Temporary Assistance for Needy Families (TANF) and for which a substance abuse problem is a main barrier to finding employment. As part of H.B. 2554, also known as the "Meth Bill," DES received a one-time funding increase of \$2 million to combat methamphetamine addiction. The Executive Recommendation seeks to make this funding permanent as the epidemic continues to grow.

Adoption Services. Adoption is the preferred outcome for children whose natural parents are unable to care for them. Adoption provides a permanent placement for a child and is less costly to the State than temporary out-of-home placements. The Executive Recommendation includes a \$7.5 million General Fund increase to cover new caseload growth in FY 2008. The program is anticipated to provide maintenance payments to the adoptive parents of an average of 10,598 children each month.

Permanent Guardianship. At times, adoption may not be possible for a child in the CPS system. In these instances, DES seeks to place the child in a permanent guardianship that, while not severing the parents' legal rights, does provide a more permanent placement for the child. The Executive recommends \$1.6 million from the General Fund to cover 20% caseload growth.

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

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

The Title XIX CRS Program, which is eligible for federal matching dollars, provides services under a monthly capitated rate basis. Title XIX CRS requires that capitation rates paid to CRS contractors are actuarially sound and developed in compliance with federal regulations. The Title XIX CRS General Fund increase recommended for FY 2008 will fund an expected 3.8% medical inflation increase and a 2.7% client growth rate for FY 2008. The program expects to provide services to 16,000 children in FY 2008.

SERVICES FOR WOMEN

Many Arizona women face medical needs and a major unmet need for domestic violence shelters. The Executive Recommendation addresses these concerns.

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

The Executive Recommendation will fund an additional 283 beds, which will shelter over 4,000 victims of domestic violence. This second phase of a four-year initiative to eliminate the unmet need for emergency shelter addresses approximately a third of the unmet need.

Well Women HealthCheck. When diagnosed in the early stages, women with breast cancer have a 98% survival rate. At current funding levels, the Well Women HealthCheck pro-

gram can screen only 6% of eligible women for breast and cervical cancer. To help close this gap, the Executive recommends \$250,000 to provide additional cancer screenings for up to 4,200 women.

Human Papillomavirus. Two strains of human papillomavirus (HPV) cause 70% of cervical cancers worldwide. If a newly approved HPV vaccine is given prior to exposure to the virus, women are protected from HPV caused by the targeted types and therefore protected from developing cervical cancer.

The Centers for Disease Control (CDC) recommends that all women below age 27 receive the vaccine. The Executive recommends \$2.9 million from the General Fund, to be matched with \$5.6 million in federal funds, to make the HPV vaccine available to all AHCCCS women clients in the 21 to 26 age group. DHS will provide vaccine for the majority of the under-21 population. Of the General Fund recommendation, \$2.7 million is one-time funding to vaccinate the current AHCCCS population, and \$183,800 is ongoing for newly eligible women every year.

AHCCCS estimates that its cost for treating cervical cancer is \$7 million per year. If 70% of those cancers were to be prevented, the State would save approximately \$4.9 million in cancer treatment annually.

SERVICES FOR SENIORS

An aging population makes services for seniors more crucial. The Executive Recommendation seeks to build the infrastructure and services to support the growing number of aging Arizona constituents.

Adult Dental Care. AHCCCS does not provide preventive dental services for enrolled adult members. This results in treatment only when conditions become severe enough to require expensive treatment in hospital emergency rooms. To address dental problems before they reach this point, the Executive recommends \$2 million from the General Fund and \$3.3 mil-

lion in county funds, to be matched with an estimated \$10.5 million in federal funds, to provide dental services to all Arizona long-term care services patients.

The services will include basic diagnostic (exams and x-rays), preventive (dental cleanings), restorative (fillings), periodontal (treatment of gum disease) and prosthetic (dentures and partial dentures) services, plus oral surgery (extractions). Over the long term, savings resulting from better client health is expected to reduce capitation rates.

Supports for Older Arizonans. Adult Services provides non-medical support for the elderly population. DES proposes spending \$2.7 million to expand the program in response to growing caseload demand.

Eight local area agencies – two of which support tribal communities – will receive \$2.2 million of that total to build the necessary infrastructure and provide independent living services to elderly Arizonans. Approximately \$525,000 will be used to expand the Long Term Care Ombudsman Program.

Grandparent Kinship Care. When parents cannot care for their children, grandparents are often a critical resource. To ensure that family members raise children whenever possible, the Executive Recommendation seeks to make permanent a program that provides assistance to grandparents raising their grandchildren.

Arizona Pioneers' Home. Disabled miners and all Arizonans over the age of 75 who have lived in the state for at least 50 years are eligible to live in the Arizona Pioneers' Home in Prescott. The Executive Recommendation seeks to provide an additional 6 beds to expand the number of clients served by the Home as well as giving the Home the flexibility and the resources necessary to provide quality care for Arizona's pioneers.

Commodity Supplemental Food. Each month, the Arizona Commodity Supplemental Food Program provides 14,250 elderly, whose incomes are at

or below 130% of the FPL, with a basket of goods valued at \$50. This program is funded entirely by federal funds and is operating at the federal cap. No new elderly can be served.

The Executive recommends \$1 million from the General Fund to expand the Arizona Commodity Supplemental Food Program beyond the federal cap and provide food baskets to an additional 3,750 elderly per month.

RURAL ARIZONA

Rural communities face the same demands for services as the urban centers but do not always have the resources found in densely populated areas. The Executive Recommendation acknowledges this disparity and sets aside specific funding for rural areas.

Medical Student Loan Program. In support of the statewide initiative relating to recruitment and retention of Arizona physicians, the Executive Recommendations provides full funding for the Medical Student Loan Program. This program, overseen by the Medical Student Loan Board, encourages physicians to set up their medical practice in underserved areas or to meet the needs of underserved populations.

In the Board's history, few students have defaulted on their service requirement. In fact, 33 of the program participants are still practicing in eligible service areas, although they already fulfilled their obligation to the State, and 12 other physicians are serving their commitments.

Methamphetamine epidemic. The Executive Recommendation provides support to the broad-scale attack on methamphetamine production and addiction. The FY 2008 Executive Recommendation provides \$2.5 million to DHS for the expansion of treatment options statewide.

PUBLIC HEALTH SERVICES

Public health services are targeted at a broad population to suppress epidemics and provide for an overall

improvement to the quality of life for Arizona's citizens.

Vaccinations. Vaccinations are a crucial component of public health. The Institute of Medicine estimates that a dollar spent on vaccinations yields long-term savings of up to \$27.

In FY 2008, the Executive Recommendation provides an additional \$2.7 million for the purchase of vaccines for children and underinsured adults. The funding will provide 360,000 additional doses of vaccines for children and 51,000 total doses of vaccines for adults.

Community Health Centers. Acutely ill uninsured or underinsured persons have few treatment options available to them beyond the emergency room. Community Health Centers (CHCs) provide an alternative to this most expensive form of health care.

When patients are able to pay, CHCs collect fees on a sliding scale from patients who are between 100% and 200% of FPL. However, many CHCs are providing uncompensated care to patients in this category. For FY 2008, the Executive Recommendation includes \$1.5 million to fill this gap.

HEALTH CARE

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

Hospice. Medicaid funds hospice services for long-term care members and for acute clients up to age 20. However, hospice services provided by health plans for acute clients between ages 21 and 65 are not reimbursed to the health plans. Some plans do provide unreimbursed hospice services, while other plans choose to leave terminal patients in the hospital (in such cases, the plans receive compensation). However, this approach is more expensive for AHCCCS and difficult for clients than sending them to a hospice. The Executive recommends \$1 million General Fund, to be matched with \$2 million in federal

funds, to provide Medicaid-eligible hospice services for all AHCCCS clients.

AHCCCS. Like most other state governments, Arizona spends more on Medicaid, through the Arizona Health Care Cost Containment System (AHCCCS), than on any other program except education. Over one million Arizonans – 18% of the state’s population – receive AHCCCS benefits, and, as the number of people depending on the State for health care grows, the State must address its competing responsibilities of providing adequate services while containing costs.

AHCCCS enrollment is expected to climb by 1.8% over the fiscal year 2008. In addition to the projected enrollment increase, a capitation rate increase of 6% is anticipated for FY 2008 (the capitation rate is comprised of medical inflation, program changes, and utilization). For FY 2008, the Executive recommends an additional \$66.9 million above the FY 2007 appropriation.

The KidsCare Parents program provides health insurance to approximately 14,000 parents of children enrolled in the KidsCare program. The program is legislated to end on June 30, 2007; consequently, the Executive Recommendation provides \$9.2 million General Fund to fund the KidsCare Parents program through FY 2008. The State will qualify to receive enhanced federal funds for these parents.

The Executive recommends a total fund increase of \$8.9 million, of which \$3 million in General Fund is to be

matched with \$5.9 million in federal funds, to expand Graduate Medical Education (GME) training opportunities making a total of \$44 million in FY 2008 available to support residency slots in Arizona Hospitals.

This funding will allow Arizona hospitals to increase the number of residency slots by up to 95, based on Medicare Cost Reports per-resident cost figures. This represents a 28% increase over the 343 medical residents supported by state funds in FY 2007.

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

In November 2006, almost 96,000 children and adults were receiving services under the Title XIX behavioral health system. Twenty-one percent of recipients were adults with a serious mental illness, i.e., emotional or behavioral functioning that is so impaired that it interferes with their capacity to remain in the community without supportive treatment.

Steady medical inflation continues to drive increased costs. The Executive Recommendation for capitation rate inflation for FY 2008 is based on the five-year trend for each category, as follows:

- 16% for children’s behavioral health,
- 11% for general mental health and substance abuse services, and
- 4% for seriously mentally ill individuals.

Further, the amount of federal medical assistance percentage (FMAP) will decrease as of October 2007, from 66.47% to 66.2%. As a consequence of inflation and the reduced FMAP, overall costs to the State for the Behavioral Health program are projected to increase. The Executive Recommendation includes the additional General Fund dollars required to fund these trends.

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

The Executive Recommendation includes \$25.7 million to fund an estimated 5.4% caseload growth in the Title XIX developmentally disabled population and a 3% capitation rate increase. These funds will allow the State to provide services to developmentally disabled individuals, consistent with federal law.

Developmental Disabilities Inflation. State-only clients are currently receiving the same services as those that qualify for Title XIX funding. Providers of these services are reimbursed a uniform amount, regardless of which population they serve. In order to avoid the creation of a dual-system, the Executive Recommendation sets aside \$990,000 to ensure capitation rates remain equal for both populations. ■

Enhancing Arizona's Innovation Capacity

The Executive Budget Recommendation supports a new economic development strategy to ensure Arizona's prominence in the broader economy

Arizonans increasingly recognize the need for a bold, statewide vision for economic development, including strategies that solidify the state's place at the core of science and technology. While in recent years the Governor and Legislature have initiated measures to enhance Arizona's competitive capacity, a new economic development strategy is needed as a catalyst to ensure Arizona's prominence in the broader economy.

With the Department of Commerce at the forefront, the Executive is preparing measures to energize Arizona's economic development structure and is launching efforts for new collaborative alignment of existing economic development programs and resources. In addition to addressing several organizational enhancements, the Executive Budget Recommendation provides funding for several key economic programs to support innovation sectors that are critical to the state's long-range vitality.

Science Foundation Arizona - Laws 2006, Chapter 334 created the Arizona 21st Century Initiative Fund, provided initial funding and charged the Commerce and Economic Development Commission to form a program designed to foster science, engineering and innovation. That is now known as the Science Foundation Arizona, a non-for profit corporation. The FY 2008 Executive recommendation expands Arizona's innovation capacity and includes \$35 million to strengthen SFA to create and lead industries of the future.

Arizona must continue to compete in a rapidly changing global economy, fueled by innovation, research, advances in science and technology, and skilled creative workers.

Foreign Direct Investment. The Department of Commerce has developed a strategic initiative to capitalize on global economic development opportunities. Capitalizing on those opportunities requires Arizona to invest in new global business attraction programs in key industries and markets.

For FY 2008, the Executive recommends \$1.2 million to expand Arizona's global efforts, strengthen foreign direct investment and attract non-US based companies to locate Arizona. This recommendation supports a new foreign direct investment (FDI) grant program to complement the State's efforts in key overseas markets and targeted industries. This program will encourage public and private partners to coordinate FDI activities with the Department, provide cooperative marketing dollars for new FDI programs, and leverage existing funds. New FDI-focused programs will be launched in Canada, Germany and China, and current FDI programs in Japan, the United Kingdom and Mexico will be enhanced.

CEDC Fund. The recommendation begins the process of restoring Arizona's innovation investment fund. The Commerce and Economic Development Commission (CEDC) is the State of Arizona's strategic economic investment and initiatives entity. Its mission is to manage and

leverage financial resources that enhance economic development in the state.

The CEDC Fund provides loans and grants to projects and businesses that create, attract and retain jobs in Arizona. The Department of Commerce is at a competitive disadvantage in recruiting new companies because, hampered by inadequate funding, the CEDC is unable to fulfill its role as the State's strategic "deal closing" agency. To address the funding issue, the Executive Recommendation shifts responsibility for \$1.3 million and 7.0 FTE positions from the CEDC Fund to the General Fund, to allow CEDC Fund resources to better support the CEDC's mission.

Funding for the CEDC's financial assistance programs is derived from two special instant lottery games conducted each fiscal year by the Lottery Commission. Current statutes require that no more than 21.5% of the revenues from those games be transferred to the CEDC Fund. The recommendation will help restore the integrity of the program and strengthen the State's efforts for job creation and business investment.

Growth Alliance. To start the process of alignment, the Executive recommends \$1.2 million and 10.0 FTE positions for the Department of Commerce to develop, implement and lead the Arizona global competitiveness innovation initiative and support the state's ability to innovate and compete. The recommendation supports statewide, domestic and international efforts to accurately project the image of the De-

partment as a “Growth Alliance” for private-public partnership in the areas of economic planning, innovation, community development, and infrastructure finance.

The Growth Alliance will be comprised of diverse economic development expertise, with the charge to reach out, align and expand technical and business resources for the benefit of communities, investors and entrepreneurs. The Growth Alliance will also serve as a clearinghouse for best practices in INNOVATION, zoning and land use, real estate development, energy planning, public involvement, infrastructure and other related areas.

Tourism Promotion and Economic Development – The Executive recommendation supports over \$1.4 million during this biennium budget for marketing and tourism promotion activities. The recommended increase is consistent with the funding level approved by the voters in 2000 under Proposition 302. The increased funding will enable the State to take advantage of the growing global market and promote Arizona as a domestic and

international travel and business destination, and will allow the State to compete for tourism-related economic development expenditures and investments.

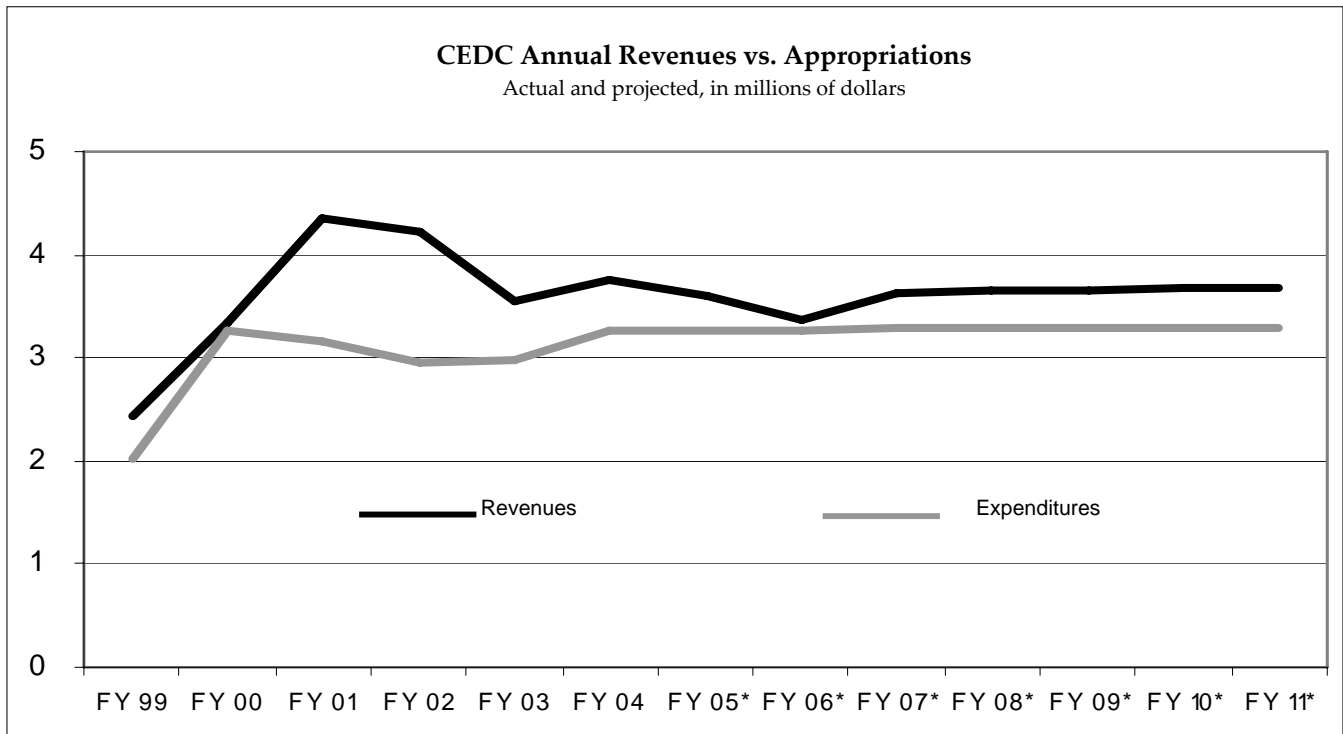
Tax-Based Incentives. Tax incentive programs are targeted to support new capital investment, job creation and retention, research and development activities, skills training, and specific industry development in promoting film production and protecting forest assets in Arizona.

The Executive recommends 2.0 FTE positions and \$148,000 in FY 2008 to enable the Department to implement and administer tax incentive programs enacted in the last two years relating to motion picture, healthy forest, solar and “angel” tax credits.

Greater Arizona Development Authority. In addition to supporting business development, the statewide economic strategy seeks to help Arizona communities identify and develop plans to address their basic infrastructure investments in order to compete for jobs and business investments.

The Executive recommends \$30

million in additional capitalization, spread over three fiscal years, to the Greater Arizona Development Authority (GADA) to address communities’ infrastructure needs. The recommended amount will enable local communities and tribal governments to finance public infrastructure projects, accelerate project development, and lower financing costs through the Authority’s technical and financial assistance. It is projected that a \$30 million appropriation will provide an additional \$900 million in bonding capacity.



Investing in Vigilance, Skill and Experience

Preserving Arizonans' safety in an era of explosive growth and burgeoning demand requires financial resources devoted to people and infrastructure

Preventing crime, apprehending suspected criminals, convicting perpetrators, providing a secure environment for convicted criminals, and enhancing border safety are fundamental components of the State's responsibility to provide protection and safety for the law-abiding public.

In Arizona, those functions are primarily vested in five State agencies: the Department of Public Safety, the Department of Homeland Security, the Attorney General's Office, the Department of Corrections, and the Department of Juvenile Corrections, with other key contributions coming from the Department of Environmental Quality and the Department of Agriculture. For all five agencies, fulfilling their missions are challenging enough in normal times; however, getting the job done for the people of the nation's most rapidly growing state and ensuring that capacity aligns with demand require a unique level of attention to financial and human resources and to necessary infrastructure.

PUBLIC SAFETY

As Arizona's population continues to grow at a healthy pace, so does the demand for public safety services. The Executive Recommendation provides funding to help public safety in the state keep pace with population and traffic.

To meet this challenge the Department of Public Safety (DPS) must sharpen its recruiting focus and maximize the effectiveness of the officers in the field. In order to achieve this goal, the Executive Budget Recommendation supports a three-pronged strategy:

- continue aggressive recruitment of quality candidates to fill previously appropriated officer positions;
- separate tasks into specialized duties, and reassign to non-police employees any tasks that do not require a sworn police officer, thus allowing officers to focus on critical tasks that require their training and experience; and
- provide the technology and support necessary to help officers do their jobs.

The Executive Budget Recommendation provides for the following related initiatives:

- \$7.5 million to increase officer pay, thus making DPS more competitive in the labor market (see "DPS Officer Salary Gaps," at right);
- \$389,500 to hire background investigators and a polygraph examiner, thus allowing DPS to accelerate its evaluation of potential recruits to a timeframe comparable to competing jurisdictions;
- \$2.1 million for civilian motorist assistance and detention officers, to free sworn officers to focus on proactive patrols of State highways and perform other functions that require their training and experience;
- \$942,800 to hire eight civilian school bus inspectors and one civilian mechanic, to free commercial vehicle enforcement bureau officers to focus on patrols and commercial vehicle inspections;
- \$2.2 million to complete a detailed design of the interoperable communications system, to make

possible real-time, interoperable communications among local, county, State, tribal and federal public safety entities in Arizona; and

- \$709,000 in FY 2008 and FY 2009 for a five-year personal computer replacement cycle, to allow the Department to replace aging computers and increase efficiency.

DPS Officer Salary Gaps

Compared to Current Market

Officer, <i>minimum</i>	-12.4%
Officer, <i>maximum</i>	-11.6%
Sergeant, <i>minimum</i>	-6.8%
Sergeant, <i>maximum</i>	-10.4%
Lieutenant	-13.7%
Commander	-11.2%
Assistant Chief	-12.4%

HOMELAND SECURITY

Laws 2006, Chapter 317 created the Department of Homeland Security as a State agency (previously the Office of Homeland Security existed by Executive order and was funded by federal grants.) The Executive recommends \$486,300 to further solidify the management infrastructure of the new agency, including the positions of Director, Deputy Director of Finance & Administration, Deputy Directory of Operations and Policy, and an administrative assistant. The recommended funding is designed to allow the Department to continue operations even if there are reductions in federal funding.

Among the Department's primary duties are to coordinate statewide homeland security efforts, implement the State Homeland Security Strategy, carry out the Governor's Roadmap for

Homeland Security, and provide oversight for important homeland security projects.

If federal funding declines, the need for a body to perform these statewide homeland security planning functions will continue with State funding.

BORDER SECURITY

Much has been accomplished in recent years to secure Arizona's international border. Thanks to the persistent efforts of Arizona's State and federal elected officials, funding is now available for:

- additional border patrol agents and training,
- additional assistant U.S. Attorneys,
- National Guard units at the border,
- border radar and other technology initiatives,
- unmanned aerial vehicles and helicopters,
- additional Immigration and Customs Enforcement detention beds,
- joint immigration and border control operations among federal, State, local and tribal law enforcement agencies,
- additional immigration judges, attorneys, and support staff, and
- additional border infrastructure projects, including border fences, vehicle barriers and infrared cameras.

During federal fiscal year 2007, Arizona's share of existing federal border security funding was approximately \$700 million. In federal fiscal years 2006 and 2007, that amount was increased by an estimated \$600 million.

The State has also been active in funding activities affecting and affected by illegal immigration and to enhance border security. State funding in FY 2007 is roughly \$200 million, for such priorities as auto theft enforcement, ports-of-entry enforcement, and the incarceration of illegal

immigrants convicted of Arizona crimes. Considerable efforts by the Department of Public Safety near the border have included special attention by the High Intensity Drug Trafficking Center, auto theft enforcement, the Arizona Counter-Terrorism Information Center, border liaison officers, cross-border training programs, and the Financial Crimes Unit. The Department also plans to utilize 55 mobile license plate readers in the near future, to allow a patrol officer to determine which nearby vehicles are listed by the Motor Vehicle Division as stolen or as a suspect vehicle in a crime.

The combined efforts of State and federal funding provides about \$1.5 billion to secure Arizona's international border.

For FY 2008, the Executive proposes additional resources for safeguarding the border and the associated affects of illegal immigration. To support the State's continuing efforts to secure Arizona's international border and reduce illegal immigration, the Executive proposes four initiatives.

Department of Public Safety: Border Security. The Executive is recommending \$5 million for border security initiatives by the Department of Public Safety (DPS), which was appropriated \$7 million in FY 2007 to fill 100 Gang and Immigration Intelligence Team Enforcement (GIITEM) positions. The Executive recommends an additional \$5 million to fill the allocated but underfunded GIITEM positions. The Executive also recommends that DPS be permitted to utilize the additional funding to hire either sworn officers or civilian intelligence analysts as determined by the Director. The recommended funding will allow the agency to hire sworn officers and border security intelligence analysts to staff the Arizona Counter-Terrorism Information Center and a Border Auto Theft Information Center to facilitate communication between Arizona and Mexican law enforcement.

Department of Environmental Quality: Hazardous Waste. The Department of Environmental Quality (DEQ) reports that hazardous waste shipments entering Arizona through the Mexican border are not regularly inspected by the U.S. Customs for compliance with applicable environmental laws. There is no consistent and effective inspection program at Arizona ports of entry (POE) to review shipments of hazardous waste and other materials coming into the state through the POEs or to ensure that the cross-border transportation and disposal of hazardous wastes and materials is performed in a manner that will protect Arizona's environment and citizens.

Arizona has limited inspection presence for hazardous waste shipments entering the State. The Executive Recommendation provides \$271,300 for three inspectors to monitor cross-boundary hazardous waste shipments from Mexico. The three positions consist of:

- two Border Hazardous Waste Inspectors to perform inspections of hazardous waste crossing the international border at Douglas, Nogales and San Luis, and
- a Solid Waste Emergency Readiness Coordinator to address with Arizona's border communities unique trans-boundary solid waste management and emergency preparedness needs.

Department of Environmental Quality: Hazardous Air Emergency Response. The Executive Recommendation provides \$245,300 in FY 2008 and \$228,300 in FY 2009 for two new positions. The funding is recommended as a non-lapsing appropriation to allow all unspent monies to be deposited in a reserve account that DEQ can use for emergencies and other environmental contingencies that have no designated funding source.

DEQ receives no funding for the operation of the Hazardous Air Emergency Response unit, which monitors air quality and supports the

ADEQ Emergency function, as required by A.R.S. § 49-108. The program utilizes a mobile air quality monitoring van to collect meteorological and air quality information necessary to develop public health advisories when emissions from industrial chemical releases, industrial fires and wild land fires threaten public health. Recent developments requiring more advanced and sophisticated response capabilities to support Homeland Security needs have compounded the problem caused by lack of funding for the operation of the Hazardous Air Emergency Response.

Department of Agriculture: Ports of Entry Inspection Program. A 2000 Auditor General performance review concluded that port inspections help the State prevent expensive pests from entering. The ports of entry along the California border also contain large amount of traffic from international border crossings. To the extent potential eradication and health costs can be ameliorated by prevention, costs associated with port operations are a good investment for Arizona.

Currently, the Arizona Department of Agriculture estimates that 100,000 regulated trucks pass through the State's ports of entry without inspection. The Executive recommends 20 new positions to open and staff inspections at two port facilities on the California border, at I-10 Ehrenberg and at Parker, as well as conduct round-the-clock inspections at Yuma. As a result of this initiative, pest interceptions are anticipated to increase from 12,185 in FY 2006 to 22,000 by FY 2009.

LEGAL PROTECTION AND SERVICES

If the Attorney General's Office is the largest law firm in Arizona, with approximately 400 attorneys and 1,000 employees. The Attorney General's Office investigates and prosecutes consumer fraud, white-collar crime, organized crime, public corruption, drug, environmental violations and deprivation of civil rights. It also

provides legal advice to most State agencies.

The Executive recommends protecting the State's interests and the legal interests of the public at large with the following recommendations for the Attorney General's Office.

Antitrust Enforcement. The Executive Recommendation provides \$262,900 to add an assistant Attorney General to increase Arizona's participation in multi-state cases, investigate and prosecute more local cases, and recover money for the State. During the past two years, the antitrust unit has prosecuted cases that have distributed \$6 million to Arizona consumers and \$2.5 million to the State.

Tobacco Enforcement. The Executive recommends \$429,100 to add professional resources to the Attorney General's Tobacco Enforcement Unit to defend against cigarette manufacturers' challenges. Since 1999, Arizona has received over \$700 million in master settlement agreement (MSA) payments, including \$92 million in FY 2006 dedicated to health care services for Arizona's financially needy. However, Arizona's MSA payments could be in jeopardy if the State fails to legally protect its interests provided in the agreement.

Criminal Prosecution of Elder Abuse. The Executive recommends \$92,000 for the prosecution of elder-abuse crimes. The recommendation provides two attorneys, one forensic accountant and one legal assistant in the elder abuse unit. In FY 2006, the Department of Economic Security substantiated 2,672 cases of abuse, neglect and financial exploitation involving vulnerable adults. It is estimated that at least 12,724 instances of elder abuse occur in Arizona every single year, and over 10,000 go unreported by elderly victims who are living in silent fear.

Post-Conviction Appeals. The Executive recommends \$415,200 to handle post-conviction appeals. In Maricopa County alone, more than 120 cases are pending that are being pursued as death penalty cases. In addition, the

U.S. Supreme Court has prohibited the execution of mentally retarded offenders. Since this ruling, ten Arizona death row inmates have alleged that they are mentally retarded. These cases face time-consuming and resource-intensive hearings, with analysis focusing on a case-by-case basis.

As the percentage of capital cases in which the death penalty has been imposed under the new jury-sentencing statute has increased (from 25% to 60%), so has the number of appeals. That number will grow even more in the years to come, and the Attorney General's Office must have the professional and financial resources to defend the position and interests of the people of Arizona.

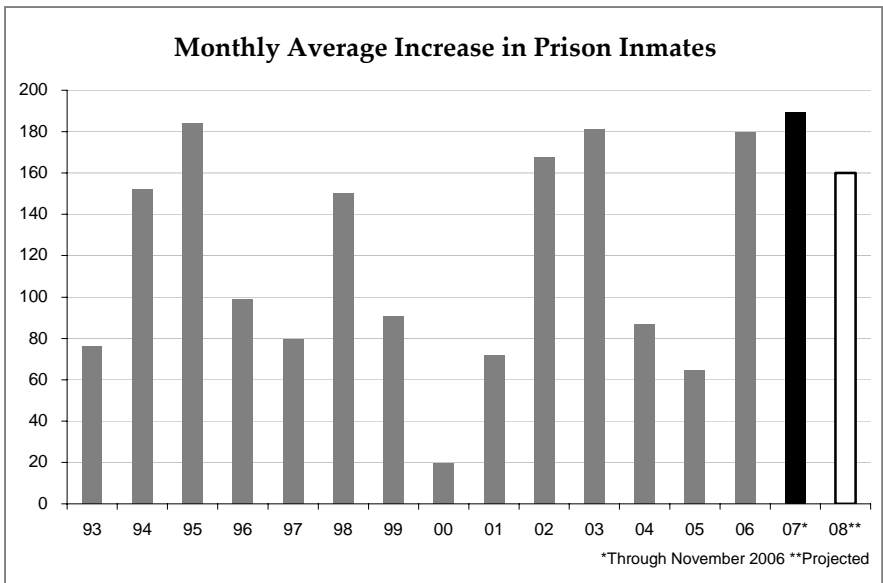
ARIZONA PRISONS

The inmate population of the State prisons is growing very rapidly, both in absolute terms and as compared to its historical rates (*see chart on next page*). Much of the growth and the resulting strains on prison capacity can be attributed to a handful of key factors.

Contributing factors. It is the current policy in Arizona's most populous county not to plea bargain with persons accused of certain serious crimes. This policy results in longer prison sentences. The Maricopa County Attorney's Office is also aggressive in sending probation violators to prison, and in adding previously unused charges against probation violators. For example, if a probationer has a positive drug test, the probationer is charged with drug possession.

Methamphetamine use. The explosive rise in the production and use of methamphetamine has prompted a large increase in convictions for drug possession and for drug sales and trafficking.

Probation. Because a prison sentence is often shorter in duration than a probation sentence, and because of the presumed likelihood that a probation violation will ultimately result in incarceration, some convicted felons



choose the brevity and certainty of a prison sentence over the less predictable option of probation. Consequently, some individuals who otherwise would be on probation, instead are adding to the overcrowding of the State's correctional facilities.

Stricter sentencing. In November 2006, Arizona voters approved Proposition 301, which, among other provisions, requires three-time violators, after two referrals for drug treatment, to serve prison time. This requirement will further stimulate the growth of an already burgeoning inmate population.

No vacancy. Through November 2006, the average monthly growth rate in the prison population for the current fiscal year was 189, 89% more than the 100 per month anticipated in spring 2006 when the current appropriations were enacted.

It is no exaggeration to assert that the State prisons are full. To accommodate the inmates, the Department of Corrections (ADC) relies on such short-term solutions as lockup beds and triple bunking.

At the end of November 2006, ADC had an inmate population of 35,811 – 4,600 more than the funded bed capacity of 31,211 – producing a bed deficit of nearly 15%. As this publication went to print, the Department was housing the surplus

inmates in 4,063 temporary beds and 1,732 lockup (special detention) beds.

The need for additional prison beds has forced ADC to create more emergency beds by renovating old buildings, constructing new tent units, and double-bunking more inmates in existing facilities. The number of temporary emergency beds is scheduled to increase from 3,795 beds in July 2006 to 5,181 beds by April 2007.

Expansion. Some long-term relief will arrive in April 2008, when 3,000 permanent beds are scheduled to open. To manage the anticipated growth and the resulting strain on capacity in the meantime, the Executive recommends contracting for an additional 2,000 provisional beds at whatever prison facilities are available, whether in Arizona or in other

Executive Bed Plan	
<i>Department of Corrections</i>	
4/07:	Add 1,386 temporary, emergency beds
7/07:	Add 1,000 provisional beds
9/07:	Add 1,000 provisional beds
4/08:	Open 1,000 new permanent beds
7/08:	Open 1,000 new permanent beds and begin evaluation for expansion of existing public prison sites
10/08:	Open 1,000 new permanent beds

states.

Future prison growth also needs to be considered. With that in mind, the Executive recommends an immediate and thorough evaluation of the expansion potential in all of the State's existing facilities.

Staffing. Part of the difficulty of operating a rapidly growing prison system is maintaining an experienced workforce. As part of the Fiscal Year 2007 appropriation, starting pay for all entry-level Correctional Officers was raised to a level that is generally competitive with ADC's major recruiting rivals: Maricopa County, Pima County and Pinal County. Thanks to the pay increases, recruiting efforts are more successful and position vacancies are decreasing.

However, the loss of experienced officers continues. In September 2006 the annualized loss rate among officers was 19%; a year earlier, it was 20%. Particularly damaging is that officer departures are occurring at the most experienced levels. For example, the average tenure of captains leaving the Department is 19 years (the average tenure of all ADC captains is 12 years).

One of the main reasons for the loss of experienced officers is shown in the table at the top of the next page, which compares salaries for sergeants, lieutenants and captains at ADC and at Maricopa, Pima and Pinal counties. Clearly, State pay at the most experienced and valuable levels is strikingly below market. Compared to Maricopa County, the State is paying 38% less for sergeants, 63% less for lieutenants, and 83% less for captains. Similar disparities exist in comparisons with Pima and Pinal counties.

The Executive Recommendation provides salary increases for each sergeant, lieutenant and captain, such that (a) the starting pay for each rank will be the mid-point of the salary range of the immediately lower rank, (b) each officer receives a raise equal to the increase in starting pay for his or her rank, (c) officers whose current salaries are above the new salary

Correction Officer Salary Gaps

State vs. Selected Counties

	State Pay	Maricopa County Pay	State Gap	Pinal County Pay	State Gap	Pima County Pay	State Gap
<i>Starting</i>							
Sergeant	37,434	51,730	-38%	46,571	-24%	44,059	-18%
Lieutenant	40,023	65,416	-63%	56,284	-41%	54,991	-37%
Captain	43,129	78,749	-83%	65,707	-52%	68,353	-58%
<i>Mid-Range</i>							
Sergeant	46,956	57,782	-23%	54,059	-15%	48,216	-3%
Lieutenant	50,230	71,136	-42%	65,915	-31%	58,604	-17%
Captain	54,627	86,767	-59%	76,253	-40%	80,290	-47%
<i>Maximum</i>							
Sergeant	56,478	63,814	-13%	64,314	-14%	52,372	7%
Lieutenant	60,437	76,835	-27%	76,856	-27%	62,217	-3%
Captain	66,125	94,786	-43%	96,709	-46%	92,226	-39%

range midpoint will not be adjusted, and (d) officers whose adjusted salaries will total more than the salary range midpoint will be raised to the midpoint.

Financial issues. In addition to meeting the rapid growth of the inmate population and retaining experienced officers, the financial requirements of operating the State prison system demand attention. The Executive Recommendation for FYs 2007 and 2008 provides inflationary adjustments for health care and utility costs and funding to replace a small portion of the system's worn-out inmate transportation vehicles, van pool vehicles and other equipment.

The Executive is also recommending expanding the number of inmates treated for sex offenses and substance abuse, specifically methamphetamine. More than 4,000 of Arizona prison inmates were convicted of sex offenses, but ADC is able to provide remedial psychiatric treatment to only 565, less than 14%. The recommendation is to expand treatment by 22% to accommodate 120 more inmates. As for treatment for substance abuse, the funding recommendation would increase the number of inmates receiving treatment by 23%, from 795 to 975.

Budget recommendation. In all respects, the cost of this rapid growth is painfully high. Accommodating the influx of new inmates will require an

additional \$91.4 million through the end of FY 2008. Major components of the recommended funding include:

- \$43.4 million to open 2,000 provisional beds in FY 2008;
- \$16.3 million to accommodate increased per diem rates for inmates housed in private prisons;
- \$10.6 million to produce construction and operational cost estimates related to bid preparation for 3,000 new prison beds;¹
- \$10.2 million to annualize the funding for 1,000 new beds at the Central Arizona Correctional Facility, which opened in December 2006;
- \$5.6 million for temporary, emergency beds;²
- \$3.3 million for food, clothing and some medical care for the additional inmate population; and
- \$2 million to evaluate the potential for expansion of the State's existing prison sites.

¹ The Department is allowed, for the first time, to bid against private vendors for the right to operate prison beds. The recommended funding for FY 2007 is \$600,000; for FY 2008, \$10 million.

² The Department has reallocated part of its existing budget to add 1,115 temporary beds at nine locations: 200 beds at Douglas, 20 at Yuma, and 895 via double bunking at Eyman, Florence, Phoenix, Safford, Fort Grant, Apache, Douglas, Lewis and Yuma.

JUVENILE FACILITIES

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

In welcome contrast to the growing number of adult inmates in the ADC prison system, the size of the juvenile population at DJC's secure care facilities has remained fairly level, and an anticipated increase, to 671, in the average daily population during FY 2007 has not occurred.

Nevertheless, additional funding will be required in FY 2008 in order for DJC to fulfill its mission. Important components of the recommended funding include the following:

- utility costs, which in one year have increased by 30% at DJC institutions;
- pay increases for more experienced officers (YCO IIIs, sergeants and lieutenants), to correct more than a decade of inadequate adjustments that sometimes resulted in senior officers earning less than the officers they supervised; and
- pay increases for entry-level Youth Correction Officers (\$887,700, or \$1,222 per officer), to bring YCO compensation more in line with Maricopa and Pima counties and thus reduce the current 38% turnover rate. ■

Entry-Level Pay

Youth Corrections Officers

DJC	\$29,958
Maricopa County	\$31,180
Pima County	\$33,700

A Commitment to Environmental Stewardship

Effective, aggressive management of Arizona's water, minerals, lands, parks and agricultural assets is a key to smarter, sustainable growth

Arizona's unique and enduring feature – its natural beauty – has fueled our seemingly permanent magnetism for tourism and growth. The state's prosperity depends on our maintaining that beauty. Arizona citizens, community organizations, businesses, and government entities must provide more coordinated and responsible environmental stewardship, as exemplified by the following Executive initiatives.

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

WATER

Arizona owes its viability as a state to its access to and wise management of water. To preserve our quality of life and ensure our future economic vitality, it is imperative that we place a high priority on effectively managing our water resources to ensure that they are available now and well into the future.

Rural Water Infrastructure and Development. Historically, Arizona's growth has radiated from the state's urban hubs and gradually spread into the rural areas. Where growth has outpaced State and local governments' preparedness, there have been instances of drinking water degradation and other environmental problems, posing growing threats to the state's economy and quality of life.

To address those threats, the Executive proposes creation of the Arizona Water Supply Development Fund to provide financial assistance, through low-interest loans and grants, for the planning and development of water supply systems and infrastructure investment projects.

The recommendation also calls for statutory changes to grant local government the authority to plan for growth and development, including the ability to require an assured water supply.

Water Protection Fund. The Water Protection Fund grant program is a vital source of conservation resources for our state. The Fund provides grants to public and private entities for conservation and restoration of rivers and streams as well as the fish and other wildlife that are dependent on those habitats.

Water management functions are especially important at this time, as Arizona continues to suffer the effects of regional drought conditions. The June 2006 *Drought Monitor Report*, a collaborative effort by the Department of Water Resources (DWR) and representatives of the University of Arizona, National Weather Service, Salt River Project and other concerned entities, demonstrated that particularly vulnerable areas, such as the Little Colorado River habitats and San Pedro River, remain under severe drought conditions.

The impact of the Water Protection Fund grant program includes effective recharge programs, which have resulted in water being diverted into a basin for the purposes of percolating into underground aquifers. Other projects include riparian habitat

creation. A 1997 grant helped the City of Tucson develop a new riparian habitat from partially treated wastewater in Lincoln Park.

A.R.S. § 45-2112 requires an annual appropriation of up to \$5 million to protect Arizona rivers, streams, and wildlife in riparian habitats. Session law (most recently, Laws 2006, Chapter 349) has suspended this appropriation since FY 2004, and the Executive recommends \$4 million from the General Fund for this grant program in FYs 2008 and 2009. For FY 2008, the Department of Water Resources expects to receive at least \$1 million from water banking fees. Combined with the Executive's recommended General Fund amount of \$4 million, the Water Protection Fund will have at least \$5 million in FY 2008.

Conservation and Drought Programs. In 2003, Governor Napolitano's Executive order established the Arizona Drought Task Force and commissioned it to develop the State's first plan to deal with drought preparation and water conservation. Specifically, the task force was directed to develop a sustainable drought planning process for Arizona to include:

- monitoring drought and water supply conditions in the state and assessing their impacts;
- assessing the vulnerability of key sectors, regions and population groups in the state and potential actions to mitigate those impacts; and
- assisting stakeholders in preparing for and responding to drought impacts, including development of a statewide water conservation strategy and public awareness program.

The Executive Recommendation for FY 2008 provides \$500,000 to backfill administrative positions in the DWR's Conservation and Drought Office. This office implements new and innovative conservation strategies statewide.

Water Rights Adjudication Support. The DWR provides technical analysis and support to Arizona courts for water rights adjudication. For both FY 2008 and FY 2009, the Executive Recommendation includes a continuation of \$500,000 as a special line item originally appropriated as one-time funding for FY 2007.

ENVIRONMENTAL QUALITY

The mission of the Arizona Department of Environmental Quality (ADEQ) is to protect public health and the environment through compliance with air, water and land quality standards. The Executive Budget Recommendation includes several components designed to protect the environment and public health:

- a \$15 million transfer to the Water Quality Assurance Revolving Fund (WQARF) to identify, assess and clean up groundwater contamination caused by the release of hazardous substances;
- increased funding of \$863,800 over the next two years to address permitting backlogs and workload increases in ADEQ's Water Quality Division.
- an additional \$542,600 for this biennium budget cycle to strengthen the State's efforts to monitor cross-boundary hazardous waste shipments entering the state at Douglas, Nogales and San Luis;
- \$473,600 in additional funding over the next two years for hazardous air emergency response;
- additional funding to help protect the water quality of the Colorado River against a hexavalent chromium plume caused by Pacific Gas & Electric near Topock;

- more than \$1 million in additional funding to strengthen regulation and address permit application backlogs related to public water system wells, treatment plants, distribution systems, line extensions and other drinking water infrastructure;
- \$300,400 to enhance the State's Recycling Fund; and
- an additional \$426,600 for air quality compliance support, to help with the enforcement of Title V air permits and related violations.

STATE LAND

The Land Department needs additional resources to work with communities and plan for the appropriate management, sale and lease of State Trust lands, which will play a significant role in the way Arizona grows. The Executive proposes funding to help alleviate the factors associated with this problem.

The Executive recommends nine FTE positions and \$761,100 in FY 2008 to provide the Land Department with technical expertise needed to further enhance its revenue generation capabilities on behalf of the State Trust. The additional positions include geologists, a water resource engineer, a hydrologist, a lease administrator, a billing auditor and a buyer. The appropriation also provides for additional legal professionals to work on real estate and water matters that would increase the value of State Trust land and also actively prosecute entities who have adversely affected the Trust and its land.

Other initiatives designed to enhance the benefits that the State derives from State Trust land include:

- modernizing and computerizing the Land Department's documentation system (the Department has little to no electronic storage for its several million pages of documents, which date back to 1910 and contain information relating to the Trust and its management and interaction since its inception);

- strengthening the State's ability to deal with trespassing on, and misuse of, State Trust land, including prosecution of a developer who is responsible for the destruction of more than 270 acres, and enforcing the cleanup of a large sinkhole in northern Arizona that has become the dumping ground for approximately six tons of trash;
- performing studies to identify and assess the safety of dams located on State Trust land and to assess the State's liability associated with dam safety;
- strengthening the State's ability to preserve its water rights on State Trust land; and
- enhancing the Forestry Division's ability to manage and address the problem of wild fires and to respond to all manner of natural and man-made emergencies on a statewide scale.

Wildland fire remains a threat to Arizona's landscape and its communities. The Executive Budget includes resources to enhance the Forestry Division's ability to manage and address the problem of wildlife and to respond to all manner of natural and man-made emergencies on a statewide scale.

STATE PARKS

Arizona's State parks annually provide historical preservation, outdoor recreation, and scenic beauty to over two million people, 44% of whom are visitors from outside Arizona. In a 2002 analysis, Northern Arizona University found that direct spending associated with State parks exceeds \$126 million.

The FY 2008 Executive Recommendation provides \$1.5 million, plus \$3 million for FY 2009, for parks' operating expenses, which will allow the State Parks Board to use a like amount from the Enhancement Fund for deferred maintenance costs. With this recommendation, the State will achieve environmental compliance,

prevent deterioration of historical sites, and meet structural needs at parks such as roofing, foundation repair, and water system repairs.

GAME AND FISH

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

Equity compensation plan. The recommendation includes \$525,900 from the Game and Fish Fund and \$118,400 from the Watercraft Licensing Fund to address salary inequities and reduce turnover among the professional staff.

Watercraft OUI Reduction Program. Alcohol-related accidents on the state's waterways continue to be a major problem. In a typical year, about 41% of Arizona's known boating accident deaths are related to alcohol consumption. A.R.S. § 5-311 established the Watercraft Operating Under the Influence (OUI) Reduction Program, and the Department continues to improve its desired outcomes. The Executive recommends an additional \$657,000 in FY 2008 and \$675,000 in FY 2009 for the program. The recommended amount will strengthen and enhance ongoing awareness and public education activities to support and complement all enforcements measures.

Vehicle replacement. The Executive recommends \$1 million for FY 2008 and FY 2009 to provide for the replacement of field vehicles and to enable the Department to maintain its regular schedule for equipment replacement.

Information technology. The Executive recommends \$360,000 in FY 2008 and \$260,000 in FY 2009 for information technology enhancements. The recommended funding includes:

- \$100,000 for development of accounting to meet new requirements from federal regulations;
- \$30,000 for Internet connections for wildlife assignments; and

- \$230,000 to replace servers and personal computers to maintain a three-year replacement schedule.

Shooting range development. The 1,679-acre Ben Avery Shooting Range is the largest publicly operated recreational and competitive shooting sports complex in the world. In September 2006, operational responsibility of the Clay Target Center shifted from a private entity to the Game and Fish Commission, requiring additional financial resources. The Executive Recommendation includes \$500,000 in FY 2008 and FY 2009 for required funding.

Urban fishing. The Urban Fishing Program is a unique partnership among the Department, municipalities, urban anglers, and fish suppliers to provide convenient and quality fishing recreation in urban cities. Higher production, the delivery of fish contracts, and the addition of new lakes to the program's inventory have driven up operating costs. The Executive Recommendation provides an additional \$25,000 in FY 2008 and \$37,000 in FY 2009 to meet increased costs and demand for services.

Boating safety education. The Executive recommends an increase of \$175,000 in FY 2008 and FY 2009 to support the Department's efforts in furthering public information and boating safety education. The recommended funding will build on the progress made in this program and will enhance outreach activities to inform the public on alcohol consumption and related unsafe watercraft operations.

Radio communications. The Executive recommends \$250,000 in FY 2008 and FY 2009 for the purchase of radio towers in the lower and upper regions of the Colorado River. Establishing radio communication will enhance the Department's field operations network and support the State's enforcement and monitoring with other entities.

Lower Gila Wildlife Area. The Executive recommends \$75,000 in FY 2008 and FY 2009 to enhance the wild-

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

Field operations equipment. The Executive Recommendation includes \$181,900 for equipment and operating resources. Included in the recommendation is \$85,700 in FY 2008 to replace various office and other equipment, tools and machinery. The recommended funding supports the acquisition of survey-level global positioning system (GPS) equipment and all-terrain-vehicle trailers. The recommendation also provides \$96,200 for operating expenditures to provide additional resources to meet cost increases in various operating categories.

Watercraft cost transfer. Finally, the recommendation provides \$25,000 in FY 2008 and \$50,000 in FY 2009 to cover labor cost allocations and related increases due to wider enforcement areas and salary adjustments approved by the Legislature.

AGRICULTURE

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

Ports of Entry. Pest infestations, once entrenched, can be extremely difficult and costly to manage. For example, in 1999, eradicating red imported fire ants at Yuma's Cibola High School cost \$750,000. Texas A&M University estimates that fire ants cost the Texas economy \$1.2 billion a year. In 2003, another notorious insect, the Mexican fruit fly, cost California an estimated \$97 million, including \$22 million in eradication costs.

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

Currently, the Arizona Department of Agriculture estimates that 100,000 regulated trucks pass through the State's ports of entry without inspection. The Executive recommends 20 new positions and \$851,300 to open and staff inspections at two port facilities on the California border, at I-10 Ehrenberg and at Parker, as well as conduct round-the-clock inspections at Yuma. As a result of this initiative, pest interceptions are anticipated to increase from 12,185 in FY 2006 to 22,000 by FY 2009.

State Agricultural Laboratory.

The Executive recommends funding and staff to meet the growing burden of testing at the State agricultural laboratory, including the replacement of obsolete testing equipment.

A microbiologist will help protect Arizona consumers from potentially dangerous bacteria, such as e-coli. An entomologist will identify dangerous pests such as the red imported fire ant and handle increased volume from the ports-of-entry.

In addition to these two agriculture initiatives, the Executive proposes increased funding for inspection coverage of Arizona's growing egg, dairy and beef cattle industries.

MINERAL RESOURCES

The Executive Budget Recommendation includes an emphasis on the State's Mineral Resource Development Program. Increased funding will allow the Arizona Geological Survey to better provide technical support to State agencies, local governments and the general public on strategic mineral planning and natural resource issues. Advances in this area will include development of a system for interoperability among State mineral resources and compile a central repository for all of the State's mineral information.

Local and State agencies (in particular, the State Land Department) and the private sector increasingly

rely on the Arizona Geological Survey for unbiased, accessible and definitive information on the environmental impacts of mining and on the location, nature and potential of mineral resources related to economic growth.

Natural Hazards Response and

Mitigation. The costs and risks to lives from catastrophic natural hazards can be greatly reduced through meeting State, county, and municipal agencies' requests for identification and assessment of potential for flooding, debris flows, landslides, rockfalls, and expansive soils, and for providing technical advice to agencies that do not have geologic expertise in-house. The Executive recommends funding to add an engineering geologist, who would assist State agencies and local governments in reviewing and preparing policy regarding mitigating natural hazards, and a geo-technician to develop and publish guidelines for preparation of geologic/geotechnical reports from developers and help develop the statewide Hazards Bibliography database.

A Fast Track for Highway Construction

The Executive Budget Recommendation reflects the importance of building freeways and improving the State's transportation infrastructure ... ahead of schedule

The Arizona highway construction program continues to expand at the same time that demands to expedite project completion are at an all-time high.

Despite clear evidence that regional and local governments in the metropolitan areas have made significant investments in plans, regulatory structures, and public facilities to mitigate sprawl, the extent to which development patterns have emerged still presents questions and continues to challenge our sustained development and quality of life.

Transportation congestion and bottlenecks damage air quality, slow commerce, increase energy consumption and threaten our quality of life, depriving Arizona businesses and citizens of significant time and money. Arizonans want practical answers to these transportation challenges and require that the answers be consistent with sound environmental planning. The State has an obligation to ensure that transportation is safe and efficient, and that our transportation network connects each of us to vitally important aspects of our lives: work, education, family, friends, recreation, health and commerce.

During the 2006 Legislative session, the Governor and Legislature approved the Statewide Transportation Acceleration Needs (STAN), providing General Fund monies to help expedite highway construction. This is the first time such funding is being used on freeway construction. While this initiative is extremely helpful and important, more financial support is required to maintain the momentum in placing highway improvements on a faster track.

The Executive Budget Recommendation provides strategic and prudent levels of funding to support the State's transportation system.

BUDGET HIGHLIGHTS

The FY 2008 Executive Budget increases funding for mission-critical operating programs and the most challenging aspects of transportation relating to infrastructure maintenance, congestion, reliability and access. The Executive recommends a total operating budget of \$455.9 million and 4,742.0 FTE, an increase of, respectively, \$16.9 million and 51.0 positions over FY 2007.

The recommended funding will enable ADOT to:

- \$500 million in bond financing which creates more than \$400 million in net new funds available to accelerate highway construction by expanding the HURF Bond maturity limit from 20 to 30 years.
- carry out its \$5.8 billion five-year transportation facilities construction program for Fiscal Year 2007 through Fiscal Year 2011,
- accelerate freeway construction projects that have been approved pursuant to STAN (these projects are to be completed 14 years ahead of the original schedule); and
- continue toward completion of the \$3.2 billion Maricopa Regional Freeway System by the accelerated date of December 31, 2007.

The primary sources of ADOT's operating and construction budgets are the Federal Highway Trust Fund, State Highway User Revenue Fund (HURF), bond proceeds, and the Maricopa County Transportation

Excise Tax, which is deposited into the Regional Area Revolving Fund (RARF). In FY 2008, the excise tax is expected to generate \$418.7 million, an increase of 5.3% over FY 2007. Since the excise tax is applied only in Maricopa County, RARF monies are exclusively dedicated to the Maricopa Regional Transportation System.

FY 2008 ADOT Financial Plan

Total Program: \$2.17 Billion
In millions of dollars

S O U R C E S		
HURF	\$683	31%
Federal Funds	516	24%
RARF	227	11%
STAN	154	7%
Bonds	591	27%
HELP Fund	3	0.1%
U S E S		
Capital Budget	\$1,306	60%
Debt Service	402	18%
Highways	172	8%
Maintenance	131	6%
MVD	108	5%
Administration	43	2%
Magazine	8	1%

Regional Area Revolving Fund.

In 1985, Maricopa County Voters approved Proposition 300 to establish a one-half cent transportation excise (sales) tax for the construction of a regional freeway system within the county. The half-cent sales tax was approved for a period of 20 years and ended on December 31, 2005.

On November 2, 2004, Maricopa County's voters approved Proposition 400 to extend the one-half cent sales tax for another 20 years, through December 31, 2025. The sales tax extension is used for freeway construction; widening existing freeways and highways; improving the arterial

street system, regional bus service and other special transportation services; and high capacity transit services such as light rail, bus rapid transit and express buses.

The transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF), which is the principal source of funding for that county's regional freeway system. The transportation excise tax is levied on business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. ADOT administers the RARF for highway projects, while the Maricopa Association of Governments (MAG) oversees the arterial streets monies. The Valley Metro and Valley Metro Rail administer the Public Transportation Fund monies.

Pima County Regional Transportation Authority. In the May 16, 2006, special election, Pima County voters approved \$2.1 billion regional transportation plan and a 20-year, one-half cent sales tax to finance it. These revenues will be collected and transferred to a dedicated transportation fund managed by the Regional Transportation Authority. The first projects of the 20-year, multi-modal plan were started in fall 2006, and more are underway. While new urban freeways are not included in this plan, the funding will provide \$1.3 billion for roadway and safety improvement, \$500 million for transit, and \$200 million for environmental and economic vitality.

The Regional Transportation Authority serves Pima County, Tucson, Marana, Oro Valley, Pascua Yaqui, Sahuarita, South Tucson and the Tohono O'odham Nation. Members of each jurisdiction and a representative of ADOT serve on the RTA board, which is charged with developing the 20-year transportation plan that will include various modes of transportation to connect people with work, school, shopping and entertainment.

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

More than half (50.5%) of the monies flowing into HURF are shared with cities and counties, while the balance remains with ADOT to support statewide highway construction projects. In FY 2008, HURF is projected to receive \$1.5 billion, reflecting an increase of 4.3% over FY 2007.

Statewide Transportation Acceleration Needs (STAN). As was discussed earlier, STAN provides General Fund monies to help expedite highway construction. The list of projects recommended by the Maricopa Association of Governments (MAG) and ADOT must receive final approval from the State Transportation Board. Under the STAN program, ADOT and regional transportation entities will use more than \$300 million to accelerate highway projects across the state, including \$193 million in the MAG region. Projects on MAG's list include new lanes in both directions of I-17 north of Phoenix, between Carefree Highway (State Route 74) and Anthem Way, and to Interstate 10 between Sarival Road and Verrado Way in the West Valley. Construction of both projects would be accelerated by 14 years, starting in 2009 instead of 2023.

During the 2007 Legislative session, serious cooperative efforts will be needed for additional financing measures to enable ADOT to acceler-

ate highway construction projects and address local and statewide transportation needs. Included in the Executive proposal before the Legislature will be a statutory amendment to authorize the State Transportation Board to issue highway revenue bonds with maturity of up to 30 years (the current limit is 20 years). Several states have successfully implemented this measure, and Arizona should be among them. When approved, this expansion will enable the Transportation Board to leverage HURF revenue and increase its ability to finance and accelerate additional highway construction.

HIGHWAY CONSTRUCTION

The State Transportation Board has approved a \$5.8 billion highway construction program as part of the Five-Year Transportation Facilities Construction Program for Fiscal Years 2007 through 2011. The statutory power to prioritize individual airport and highway projects is placed on the State Transportation Board, a seven-member panel appointed by the Governor and confirmed by the Legislature. Members of the panel serve six-year terms and represent different regions of the state. The Board presides over the establishment of priorities and oversees all highway contracts.

Highway Program FYs 2007-2011 *In millions of dollars*

MAG Regional Plan	3,243	55%
System Improvements	1,325	22%
System Preservation	892	16%
System Management	378	7%
Total	\$5,838	100%

The construction program covers highways and airports under the "priority programming" law (A.R.S. § 28-6951), which sets guidelines that ADOT follows in prioritizing projects for the program. Included in the Highway Program are transportation corridors under both the national highway system and the statewide system. During the five-year program period, the Maricopa County urban

freeway system will receive nearly \$3.2 billion of the expected funds. The primary source of this program is the transportation excise tax assessed by voters in Maricopa County. Another portion of this program will be financed by 15% controlled access funds and federal funds dedicated to the MAG area.

Funding Recommendations. The Executive Recommendation includes \$750.9 million from the State Highway Fund in FY 2008 for highway construction and debt service. In accordance with statutes, the actual expenditures levels will continue to be determined and adjusted within the scope of the Five-Year Highway Construction Program as approved by the State Transportation Board.

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

For FY 2008, the Executive recommends \$106.4 million for the construction of urban freeways, from the distribution formula for dedicated highway revenues. The current allocation provides 75% to MAG and 25% to the Pima County Association of Governments (PAG).

Engineering and Technical Staff Retention. The FY 2008 Executive Recommendation places a strong focus on employee retention to preserve ADOT's core competency and to meet its primary mission. The Recommendation provides \$4.7 million to enable ADOT to (a) optimize resources and reduce consultant usage in areas related to design, construction management, and engineering; (b) shift 21.0 FTE positions from consultant allocations to in-house services in the areas of bridge design, right-of-way plans, and environmental assessments and protection; and (c) adjust compensation for engineering and technical personnel.³

³ This measure also aims to address a key finding in the State Auditor General's July 2006 per-

Highway Maintenance and Safety. The FY 2008 Executive Recommendation includes additional funding for highway maintenance and road safety, including:

- \$4.7 million and 11.0 FTE traffic signal technicians to help maintain the State's transportation infrastructure, improve roadway conditions and ensure the safety of highway users; and
- \$4.9 million to accommodate cost increases of construction and maintenance materials (e.g., asphalt, concrete, fuel, steel, deicing materials) that have forced ADOT to reduce critical maintenance activities and that, in turn, reduces the useful life of pavement, jeopardizes motorist safety, and increases the State's liability.

Growth Alignment at the Prescott Maintenance District. The recommendation includes \$1.1 million from the State Highway Fund and 7.0 FTE positions to address growth and workload issues in the Prescott Maintenance District, which includes Payson, Cordes Junction Wickenburg and Prescott. Due to growth and traffic increases, ADOT had to move staff positions from the main quarter to the Cordes Junction area. The average daily traffic volume has increased by 113% since 1990, leading to more accidents and freeway closures. The recommendation includes the necessary resources to allow for this alignment and to ensure more timely highway maintenance and avoid road closures.

AIRPORT DEVELOPMENT

Funding for the Five-Year Aviation Program totals \$716.9 million, financed through a combination of federal, State and local fund sources. Federal monies are derived primarily from taxes on airline tickets and, pur-

formance report, including the recommendation that ADOT transfer ongoing construction activities from consultants to in-house services and develop strategies to recruit and retain staff to help reduce the impact of employee turnover.

suant to the National Airport Improvement Act, are distributed by the Federal Aviation Administration to local airports. State funds come mainly from flight property tax, lieu taxes on aircraft and aviation fuel taxes.

Federal grant monies will finance \$589 million of the program, while the State share is \$73.9 million and local sponsors contribute another \$31.3 million.

State Share of the Airport Development Program *In millions of dollars*

Commercial/Reliever Airports	\$56.2
Public Airports	17.7
Total Airport Program	\$73.9

The Executive Recommendation provides \$32.8 million from the State Aviation Fund for development and improvement of State, county and municipal airports as approved by the State Transportation Board. The Recommendation also appropriates to ADOT all monies in the State Aviation Fund that are in excess of amounts determined in the General Appropriation Act and the Capital Outlay Act for airport planning and development. Monies in the State Aviation Fund consist of receipts from a flight property tax, aircraft lieu tax, and revenues from the operations of Grand Canyon Airport. ■

Recommended FTE Increases

The net increase of 1,273.9 FTE positions is comprised of two components: technical changes to the appropriations base and newly funded positions

The Executive Budget is divided into one- and two-year budget recommendations. One-year recommendations are made for 17 selected agencies. In the following analysis of full-time equivalent positions (FTE), the FY 2008 recommendation includes all State agencies. In contrast, the FY 2009 recommendation includes only those agencies that qualify for two-year reviews.

As reported in the FY 2007-2008 budget detail that follows, the net increase between the appropriated FTE levels in FY 2007 and the recommended FTE levels in FY 2008 is 1,222.9 FTE and is comprised of technical adjustments and newly received FTE:

- a net of 67.8 FTE through technical changes to the appropriation base, and
- a net increase of 1,155.1FTE resulting from newly funded or eliminated programs

FY 2008 FTE TECHNICAL CHANGES

Department of Economic Security 67.8
 67.8 Child Support Staff

FY 2008 NEW FTE POSITIONS

Department of Administration 24.0
 12.0 Capital Police
 6.0 Self-Insurance Administration
 4.0 Financial Data Warehousing
 2.0 Remote Access System Development

Department of Agriculture 24.5
 20.5 Agricultural Inspections at Arizona Ports of Entry
 2.0 Egg Inspectors
 2.0 State Agricultural Laboratory Quality Assurance

Arizona State University - Main Campus 265.0
 248.2 Faculty and Support Staff
 14.0 Biomedical Informatics Program
 2.8 Faculty and Staff – Math and Science Teacher Initiative

Arizona State University - Polytechnic 36.0
 36.0 Faculty and Support Staff

Arizona State University - West Campus 15.0
 15.0 Faculty and Staff

Attorney General 8.0
 3.0 Tobacco Enforcement Staff
 3.0 Post Conviction Appeals Staff
 1.0 Attorney for Antitrust Enforcement
 1.0 Attorney for the Prosecution of Elder Abuse Crimes

Board of Behavioral Health Examiners 4.0
 2.0 Investigative Staff
 2.0 Licensure Workload Staff

Capital Post-Conviction Public Defender Office 7.0
 3.0 Attorneys
 3.0 Support Staff
 1.0 Investigator

State Board for Charter Schools 3.0
 3.0 Legal Secretaries

Board of Executive Clemency 1.0
 1.0 Victim Researcher

Department of Commerce 14.0
 10.0 Economic Growth Alliance
 2.0 Foreign Direct Investment Program
 2.0 Tax Incentive Program

Corporation Commission 3.0
 1.0 Administrative Law Judge
 1.0 Division Director
 1.0 Attorney

Criminal Justice Commission 1.0
 1.0 Victim Compensation Restitution Specialist

Department of Corrections 7.0
 4.0 Methamphetamine-Abuse Treatment Program Staff
 3.0 Psychology Associates

Commission for the Deaf and the Hard of Hearing 1.0
 1.0 Administrative Assistant

Board of Dental Examiners 1.0
 1.0 Licensing Staff

Department of Economic Security 113.1
 71.0 Unemployment Insurance Program
 26.0 Title XIX Caseload Growth
 10.4 Eligibility/ Case Management System Modernization
 4.3 Document Management System Staff
 1.0 Long Term Care Omnibusman
 0.4 Tri-Agency Disaster Recovery Staff

Department of Education	5.0	Department of Juvenile Corrections.....	(20.0)
3.0 <i>Information Technology Staff</i>		(20.0) <i>Youth Population Adjustment</i>	
2.0 <i>Continuing Teacher Education Staff</i>		Land Department.....	16.0
Department of Environmental Quality.....	40.0	9.0 <i>Lands Sales Support Staff</i>	
11.0 <i>Surface Water Permitting</i>		4.0 <i>Forestry Support Staff</i>	
8.0 <i>Aquifer Protection Permitting</i>		3.0 <i>Information Technology Specialist</i>	
6.0 <i>Water Permit Review Staff</i>		Department of Mines and Mineral Resources.....	2.0
4.0 <i>Hazardous Air Emergency Response</i>		2.0 <i>Sunset Review Mandate Fulfillment</i>	
3.0 <i>Border Hazardous Waste Inspectors</i>		Naturopathic Board of Medical Examiners	1.0
3.0 <i>Air Quality Compliance Support Staff</i>		1.0 <i>Investigator</i>	
3.0 <i>Recycling and Solid Waste Compliance Staff</i>		Northern Arizona University	89.0
2.0 <i>Colorado River Chromium-6 Contamination Protection</i>		64.0 <i>Faculty and Staff</i>	
Department of Financial Institutions	3.0	19.0 <i>Health Programs Expansion Faculty and Staff</i>	
1.0 <i>Payday Lender Supervision and Enforcement Staff</i>		6.0 <i>Faculty and Staff – Math and Science Teacher Initiative</i>	
1.0 <i>Finance Manager</i>		Board of Nursing	1.0
1.0 <i>Legal Secretary</i>		1.0 <i>Information Technolgy Staff</i>	
Department of Fire, Building and Life Safety	2.0	Board of Osteopathic Examiners.....	1.3
2.0 <i>State Fire Marshalls</i>		1.3 <i>Investigative Staff</i>	
Department of Gaming.....	3.0	Board of Pharmacy	1.0
1.0 <i>Gaming Employees Certification Staff</i>		1.0 <i>Investigative Staff</i>	
1.0 <i>Financial Inspector</i>		Board of Physical Therapy Examiners	1.0
1.0 <i>Problem Gambling Program Manager</i>		1.0 <i>Administrative Assistant</i>	
Geological Survey.....	2.0	Department of Public Safety.....	52.0
1.0 <i>Engineering Geologist</i>		13.0 <i>Crime Lab Workload Growth</i>	
1.0 <i>Mineral Resource Development Program</i>		11.0 <i>Criminal Justice Services Personnel</i>	
Government Information Technology Agency.....	3.0	9.0 <i>Civilian School Bus Inspectors</i>	
3.0 <i>Statewide Information Security Office Annual Operations</i>		8.0 <i>Motor Assist and Detention Officers</i>	
Arizona Health Care Cost Containment System	132.2	4.0 <i>BackGround Investigators</i>	
34.5 <i>Caseload Staffing Backfill</i>		4.0 <i>Sex Offender Compliance Team Staff</i>	
48.0 <i>Healthcare Group Program</i>		2.0 <i>Contact Tracking System Staff</i>	
24.0 <i>Children’s Health Insurance Initiative</i>		1.0 <i>Polygraph Examiner</i>	
10.6 <i>DES Eligibility System</i>		Department of Racing	1.0
8.8 <i>AZ 2-1-1 Phase 2 Call Centers</i>		1.0 <i>Pari-Mutuel Auditor</i>	
5.0 <i>Temporary Medical Coverage Program Staff</i>		Radiation Regulatory Agency	2.0
1.3 <i>Information Technology Staff</i>		1.0 <i>X-Ray Compliance Inspector</i>	
Department of Health Services	22.1	1.0 <i>Radioactive/Non-Ionizing Compliance Inspector</i>	
9.0 <i>50:1 Phase 2 of the 3 Year Phase-In Investigative Staff</i>		Department of Real Estate	7.0
5.0 <i>Electronic Medical Records Information Technology Staff</i>		3.0 <i>Customer Service Representatives</i>	
4.0 <i>Valley Fever Disease Surveillance Staff</i>		3.0 <i>Case Managers</i>	
2.0 <i>Health Status and Vital Statistics Staff</i>		1.0 <i>Investigator</i>	
1.6 <i>Office of Medical Facilities Staff</i>		Registrar of Contractors.....	6.0
0.5 <i>Seniors Farmers’ Market Nutrition Program Staff</i>		5.0 <i>Inspectors</i>	
Department of Homeland Security	4.0	1.0 <i>Investigator</i>	
1.0 <i>Director</i>		State Retirement System.....	7.0
1.0 <i>Deputy Director of Finance and Administration</i>		3.0 <i>Records Management</i>	
1.0 <i>Deputy Director of Policy and Operations</i>		2.0 <i>Member Advocate and Call Center</i>	
1.0 <i>Administrative Assistant</i>		1.0 <i>Budget Control Development Specialist</i>	
Department of Housing.....	2.0	1.0 <i>Portfolio Manager</i>	
2.0 <i>Compliance Officers</i>		Department of Revenue	16.0
Industrial Commission	9.0	10.0 <i>Application Developers</i>	
3.0 <i>Minimum Wage Enforcement Staff</i>		3.0 <i>Lead Application Developers</i>	
3.0 <i>Elevator Inspectors</i>		3.0 <i>Business Analysts</i>	
2.0 <i>Information Technolgy Staff</i>			
1.0 <i>Accountant</i>			

Schools for the Deaf and Blind.....	(10.1)
(10.1) <i>Preschool Teachers</i>	
School Facilities Board	2.0
2.0 <i>School Facilities Liasons</i>	
State Boards Office	1.0
1.0 <i>Administrative Assistant</i>	
Structural Pest Control Commission.....	5.0
3.0 <i>Investigators</i>	
1.0 <i>Information Technology Assistant</i>	
1.0 <i>Administrative Assistant</i>	
State Board of Technical Registration	2.0
1.0 <i>Customer Service Representative</i>	
1.0 <i>Investigator</i>	
Department of Transportation.....	49.0
21.0 <i>Highway Construction Program Staff</i>	
11.0 <i>Traffic Signal Technicians</i>	
7.0 <i>Prescott District Staff Realignment</i>	
5.0 <i>Commercial Drivers License Renewal Staff</i>	
3.0 <i>Vehicle Inspection and Title Enforcement Staff</i>	
2.0 <i>Aging Population Transportation Research Staff</i>	
State Treasurer	1.0
1.0 <i>Compliance Officer</i>	
University of Arizona - Health Sciences Center	46.5
26.5 <i>College of Medicine- Phoenix Program</i>	
11.0 <i>College of Pharmacy- Phoenix Program</i>	
9.0 <i>Faculty and Support Staff</i>	
University of Arizona - Main Campus	87.5
92.3 <i>Faculty and Staff</i>	
(7.6) <i>Faculty and Support Staff</i>	
2.8 <i>Faculty and Staff – Math and Science Teacher Initiative</i>	
Department of Veterans’ Services	30.0
19.0 <i>Counselors for Veterans Federal Benefits</i>	
11.0 <i>Veterans Administrative Support</i>	
Department of Water Resources.....	6.0
6.0 <i>Conservation and Drought Program Staff</i>	

FY 2009: FTE POSITIONS

The FY 2009 Executive Budget provides for the addition of 1,264.0 FTE over FY 2007, or an additional 51.0 FTE over the FY 2008 budget for various State agency programs. The new FTE are distributed in the following manner:

- a net reduction of (2.0) FTE through technical changes to the appropriation base, and
- a net increase of 53.0 FTE resulting from newly funded or eliminated programs.

FY 2009 FTE TECHNICAL CHANGES

Navigable Stream Adjudication Commission.....	(2.0)
(2.0) <i>Sunset Agency</i>	

FY 2009 NEW FTE POSITIONS

Department of Financial Institutions.....	2.0
1.0 <i>Legal Secretary</i>	
1.0 <i>Mortgage Examiner</i>	
Government Information Technology Agency	8.0
8.0 <i>Statewide Information Security Office Annual Operations</i>	
Department of Housing	1.0
1.0 <i>Compliance Officer</i>	
State Land Department	3.0
2.0 <i>Document Processing and Security Staff</i>	
1.0 <i>Information Technology Specialist</i>	
Geological Survey	2.0
1.0 <i>Geological Technician</i>	
1.0 <i>Database Manager</i>	
Department of Public Safety.....	30.0
13.0 <i>Crimelab Workload Growth</i>	
9.0 <i>Motor Assist and Detention Officers</i>	
8.0 <i>Criminal Justice Services Personnel</i>	
Department of Real Estate	2.0
2.0 <i>Customer Service Representatives</i>	
Radiation Regulatory Agency	1.0
1.0 <i>Radioactive/Non-Ionizing Source Monitoring</i>	
State Retirement System.....	3.0
3.0 <i>Appeals Member Advocate</i>	
Structural Pest Control Commission	1.0
1.0 <i>Fiscal Services Specialist</i>	

Proposed Legislative Changes

The following changes are necessary to implement the Executive Budget recommendation

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Allocation to Counties of Part of Part D Co-payment Subsidy: A.R.S. § 11-292(C). Of the \$5,478,800 Executive Recommendation for dual eligible Medicare Part D co-payments, \$1,185,100 is allocated to counties for their part of the long-term care portion of the subsidy. The allocation to the counties was determined based on the formula generated in A.R.S. §§ 11-292(C)(1) through (C)(4). Language should be added to 11-292(C) to make a specific provision that will allow Part D co-pays to be allocated to the counties (as was done in the same section for claw-back last year).

Graduate Medical Education Changes for New Funding: A.R.S. § 36-2903.01(H)(9). The Executive recommends an increase of \$3 million General Fund, to be matched with \$5.9 million in federal funds, to expand the Graduate Medical Education subsidy for hospitals to train residents. Language is needed to prioritize this new money.

Physician Recruitment: A.R.S. §§ 20-220(B)(2), 20-845(E) and 20-1065(E). The Executive recommends the creation of the Out-of-State Physician Recruitment Fund to support the recruitment of out-of-state physicians. Revenue for this fund will consist of penalties collected in excess of \$200,000 by the Department of Insurance for violations of timely payments and health care appeals laws.

Outlier Payment Methodology: A.R.S. § 36-2903.01(H)(10). The Executive recommends changing the current methodology by which hospitals are reimbursed for outliers, or extraordinary operating costs. For normal in-patient charges, hospitals are paid based on seven tiers of service, including surgery, maternity, ICU, etc. However, for hospital stays with operating costs that are significantly higher than the average, a different methodology has been applied: the cost-to-charge ratio (CCR). In this methodology, hospitals are reimbursed a set percentage of their charges for their outliers. However, the ratio has not been recalculated since 1998. In that time, hospital charges have outpaced costs, which means that the CCRs should be much lower than they are. Changes to statute are necessary to allow AHCCCS to use the Medicare CCRs.

Children's Health Insurance Initiative: A.R.S. § 36-2981(6). The Executive recommends that the upper in-

come limit for KidsCare eligibility be expanded from 200% of the federal poverty level (FPL) to 300% FPL.

Children's Health Insurance Initiative: A.R.S. § 36-2988(I). The Executive recommends eliminating the prohibition on AHCCCS and AHCCCS contractors from contracting for any KidsCare-related functions with a school district.

County Acute Care Contribution: Laws 2006, Chapter 331, Sections 18 (as modified by Laws 2006, Chapter 261) and 21. Two session laws pertain to county contributions totaling \$54.4 million for Acute Care services within AHCCCS. The Executive Recommendation continues the Acute Care county contribution at this level.

KidsCare Parents Program Continuation: Laws 2006, Chapter 331, Section 32 and A.R.S. 36-2984 (repealed by Laws 2002, Chapter 329, Section 15). This program is legislated to end June 30, 2007. The Executive Recommendation reinstates KidsCare Parents health insurance coverage in permanent law.

Withholding State Shared Revenues for FY 2008: Laws 2006, Chapter 331, Section 20. The Executive recommends that the FY 2008 Transaction Privilege Tax withholdings, authorized under the DSH payments program, be \$84,652,400.

ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND

Excess Voucher Funds: General Appropriations Act Footnote. The Executive recommends that the General Appropriations Act footnote that allows the Arizona School for the Deaf and Blind to expend endowment and voucher earnings in excess of its appropriation for the Arizona Schools for the Deaf and Blind Fund be updated to reflect FY 2008 projected amounts.

COMMISSION FOR POSTSECONDARY EDUCATION

Postsecondary Education Grant Program: A.R.S. § 15-1855. The Executive recommends that the Commission be allowed to expend up to 10% of monies appropriated for the Postsecondary Education Grant Program for costs incurred in administering the program.

DEPARTMENT OF ADMINISTRATION

Increase Pro Rata Assessment: A.R.S. § 41-764(A). To raise additional revenue for human resources, the Executive recommends an increase in the pro rata assessment on "System A" agencies from the current statutory rate of 1.04% to 1.07%. These funds would be deposited in the Department of Administration's Personnel Division Fund, which supports human resources, including the certificate of participation payment for the Human Resources Information Solution payroll system.

State Facility Lease Rates: A.R.S. § 41-792.01(D). As SESSION LAW: Notwithstanding any other law, in FY 2008, agencies occupying State-owned buildings shall pay an office square footage rental rate of \$19.50 and a storage square footage rental rate of \$7.00.

DEPARTMENT OF AGRICULTURE

Agriculture Consultation and Training Program: A.R.S. § 3-109.01. The Agriculture Consultation and Training Program was established by Laws 1994, Chapter 370, directing the Department to provide services advising regulated entities on interpretation of and compliance with rules and regulations under A.R.S. Title III. The Executive recommends adding language to A.R.S. § 3-109.01 to allow the Department to charge fees, as determined by the Director, for services of the program. Fees should be deposited into the appropriated Agriculture Consultation and Training Fund established by A.R.S. § 5-113(J). With this amendment, the Department will be able to maintain and enhance the level of services provided and minimize reliance on appropriations from the State General Fund.

DEPARTMENT OF EDUCATION

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

Desegregation "Soft Cap" Extension FY 2007: Session Law. The Executive recommends extending into FY 2008 the desegregation "soft cap," which allows school districts to increase their desegregation budgets pursuant to increased enrollment and inflation.

Convert Current Testing System: New Session Law. The Executive Recommendation includes directing the State Board of Education to begin converting all current statewide testing to (a) computer-based rather than paper tests and (b) end-of-course testing.

Failing Schools Tutoring Fund: A.R.S. § 15-241. The Executive Recommendation includes expanding the types of students eligible to receive a certificate of supplemental instruction from the Failing Schools Tutoring Fund to

include those students in grades eight through 12 who are in danger of failing math or science courses and at risk of dropping out. The recommendation would allow the Department of Education to use up to \$150,000 per year for administration and direct the State Board of Education to examine the Fund's administration and make recommendations to improve access and delivery of services to all eligible students.

Arizona Scholarships for Students with Disabilities: A.R.S. § 15-891.06. The Executive recommends that the Department of Education be allowed to use up to \$150,000 per year for costs related to administering the scholarship program.

Increase Age of Required Attendance: A.R.S. § 15-802. The Executive recommends increasing the required age of school attendance from 16 to 17.

Math and Science Initiative: New Session Law. The Executive recommends that the State Board of Education be directed to distribute grants to establish innovative math and science programs and academies, provide assistance for existing teachers to obtain a math or science certificate endorsement, and provide additional base pay for math and science teachers in order to improve math and science literacy in K-12.

Minimum Teacher Salary: New Statute. The Executive recommends establishing a statewide minimum base salary of \$33,000 per year for teachers. Of the amount recommended, any additional remaining funds not used to establish a \$33,000 base salary shall be distributed on a per teacher basis to those at or above the minimum salary.

Performance Pay and Professional Development, Technical Assistance: New Session Law. The Executive recommends that the State Board of Education be directed to design a statewide system for continuing teacher education and performance pay.

AzREADS Performance Audit: New Session Law. The Executive recommends that the State Board of Education be directed to conduct a performance audit on the progress and effectiveness of the AzREADS program.

DEPARTMENT OF HOUSING

Establish Permanent Fund for Housing Finance Authority: A.R.S. § 41-3905. The Arizona Housing Finance Authority, under the Department of Housing, would be granted its own fund for the collection of interest income. Under A.R.S. § 41-3905 ("Costs of operation and administration of authority"), the Arizona Housing Finance Authority is charged with covering "all costs and expenses of the authority ... from bond proceeds or other monies of the Authority." This same area of statute did not establish a fund or allow the Finance Authority to receive the

interest from the monies it collects and administers. Currently, the money for the Finance Authority is a separate ISA account administered by the Department of Housing, but interest income reverts back into the General Fund account.

DEPARTMENT OF PUBLIC SAFETY

Crime Laboratory Funding: A.R.S. §§ 41-2401(D)(11) and 41-2415 (C). This recommendation continues the policy from previous years of redirecting to the Crime Laboratory Assessment Fund the 9% Criminal Justice Enhancement Fund (CJEF) distribution that would otherwise be distributed to the General Fund. This proposal will allow for continued full funding of the Department of Public Safety crime lab system.

Highway User Revenue Fund (HURF)/State Highway Fund DPS Expenditure Limits: A.R.S. §§ 28-6537 and 28-6993. The Executive recommends notwithstanding the provisions of A.R.S. §§ 28-6537 and 28-6993(B) or repealing those sections of law to permit the Department of Public Safety to exceed the expenditure limits on Highway Fund monies to the Department stipulated in these sections. This change is necessary in FY 2008 to implement the Executive Recommendation for the Department of Public Safety.

DEPARTMENT OF REAL ESTATE

Fee Recovery: A.R.S. § 32-2103(B). The Executive recommends continuing the provisions of Laws 2005, Chapter 299 notwithstanding A.R.S. § 32-2103(B), which prevents the Real Estate Commissioner from revising fees in FY 2008 and FY 2009 for the purposes of meeting the requirement to recover at least 95% but no more than 110% of the Real Estate Department's appropriated budget.

DEPARTMENT OF WATER RESOURCES

Water Protection Fund: A.R.S. § 45-2112. The Executive recommends notwithstanding A.R.S. § 45-2112 to provide that the annual appropriation from the General Fund to the Water Protection Fund for FY 2008 and FY 2009 shall be specified in the General Appropriation Act.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY

Statewide Information Security and Privacy Office: A.R.S. § 41-3507. The Statewide Information Security and Privacy Office would be established in the Government Information Technology Agency. It would serve as the strategic planning, facilitation, and coordination office for information technology security. Individual agencies would continue to maintain operational responsibility for their information technology security. The Statewide In-

formation Security and Privacy Office would develop, implement, maintain and ensure each agency's compliance.

PARKS BOARD

Off-Highway Vehicle Recreation Fund; Use: A.R.S. § 28-1176. Notwithstanding A.R.S. § 28-1176, the State Parks Board may spend up to \$692,100 from the State Parks Board portion of the Off-Highway Vehicle Recreation Fund in Fiscal Years 2006 and 2007 for parks operating expenses.

State Parks Enhancement Fund; Use: A.R.S. § 41-511.11. Notwithstanding A.R.S. § 41-511.11 or any other law, all monies are available for either (a) operating of State parks in Fiscal Years 2006 and 2007 as appropriated by the Legislature in the General Appropriations Act or (b) capital needs, as determined by the Arizona State Parks Board with the prior approval of the Joint Committee on Capital Review, to acquire and develop real property and improvements as State parks consistent with the purposes and objectives prescribed in A.R.S. § 41-511.03.

SCHOOL FACILITIES BOARD

New Construction Lease-to-Own Authority: A.R.S. § 15-2006. For FY 2008, the Executive recommends an additional \$207.8 million in lease-to-own authority for the School Facilities Board for new school construction. As current statute prohibits the School Facilities Board from entering into any lease-to-own transactions after May 15, 2006, and sets a maximum of \$200 million annually for these transactions, a notwithstanding provision is needed to allow for the authority.

Kindergarten as Full Average Daily Membership (ADM) for New Construction Purposes: A.R.S. § 15-2011. For new construction purposes, the School Facilities Board counts kindergarten students as 1/2 ADM. As Voluntary Full-Day Kindergarten expands to all school districts, kindergarten students must be counted as full ADM in all school funding formulas, including new construction. This will allow districts to develop facilities able to accommodate full-day kindergarten.

Energy Efficiency Expenditures for New Construction: A.R.S. § 15-2041. The Executive Recommendation includes allowing each school awarded an additional 5% above the new construction formula funding that may only be used to purchase Leadership in Energy Efficient Design (LEED) required or other Board-approved energy and environmental design items.

ELECTED OFFICIALS' SALARIES

In 1970, the Legislature established the Commission on Salaries for Elective State Officers. The Commission is required to conduct a biennial salary review and make recommendations to the Governor regarding salaries for elected State officers, justices, judges of courts of record, the clerks of the Superior Court and others.

The Commission makes recommendations during even-numbered years. After receiving the recommendations, the Governor is required to include in the next budget transmitted to the Legislature the Governor's recommendations for exact rates of pay.

Elective State officers have not received a salary increase since 1999, with the following exceptions:

- In 2001, judges received a salary increase of approximately 6.5%. They are scheduled for another increase in 2007.
- Also in 2001, Corporation Commission members received a 9% salary increase.
- In 2003, the Clerks of the Court in both Maricopa and

Pima counties received a 13% salary increase, from \$73,000 to 79,500. That year the Clerks of the Court in the other counties also received a 13% salary increase, from \$50,000 to %56,500.

As the table below indicates, salaries for Arizona elected officials rank among the lowest in the nation.

Office	Salary	Rank
Governor	\$95,000	37
Secretary of State	\$70,000	41
Attorney General	\$90,000	37
Treasurer	\$70,000	43
Supt. of Public Instruction	\$85,000	45
Corporation Commission	\$79,500	38

Arizona judges' compensation is more competitive:

Chief Justice	\$129,500	22
Supreme Court Justices	\$126,525	20
Court of Appeals Judges	\$123,900	16
Superior Court Judges	\$120,750	12

Judges	Salary Effective January 1, 2007	Commission Proposed Salary	Commission Proposed Effective Date
Supreme Court, Chief Justice	129,150	169,600	January 1, 2009
Supreme Court Justices	126,525	164,300	January 1, 2009
Appellate Court Judges	123,900	159,000	January 1, 2009
Superior Court Judges	120,750	153,700	January 1, 2009

Elected Officials	Current Salary	Commission Proposed Salary	Commission Proposed Effective Date
Governor	95,000	169,600	January 1, 2011
Secretary of State	70,000	116,600	January 1, 2011
Attorney General	90,000	143,100	January 1, 2011
State Treasurer	70,000	111,300	January 1, 2011
Superintendent	85,000	132,500	January 1, 2011
Mine Inspector	50,000	79,500	January 1, 2011
Clerks of the Court: Maricopa & Pima	67,800	106,000	January 1, 2011
Clerks of the Court: Other Counties	56,500	84,800	January 1, 2011
Corporation Commissioners	79,500	100,700	January 1, 2009

 **Capital Outlay**

Revitalization and Infrastructure Development

The Capital Outlay Budget provides funding from the General Fund and other appropriated funds for two main categories of projects: Building Renewal and New Construction. Funding for capital projects is typically made through the Capital Outlay Bill, but it may also be approved through other Legislative enactments. The Capital Budget may also include recommendations for advanced appropriations.

For the purposes of capital planning and management, State Government is divided into three building systems:

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

The ADOA Building System contains 2,973 structures and comprises all State buildings except for the Department of Transportation (ADOT) and the Board of Regents, which oversees the three State universities.

The FY 2008 requests for New Construction capital from State agencies within the ADOA Building System exceeded \$331.1 million, while the Building Renewal requests was estimated at \$80.1 million. ADOT requested \$70.2 million for New Construction and \$7.9 million for Building Renewal.

FY 2008 CAPITAL PROJECT REQUESTS, BY AGENCY

AGENCY	NEW CONSTRUCTION	BUILDING RENEWAL
Department of Administration	\$23,637,500	\$9,882,800
Arizona State Courts Building	2,545,000	930,000
Department of Corrections	126,523,200	60,403,500
Department of Economic Security	9,363,500	1,263,500
Dept. of Emerg. & Military Affairs	65,106,300	2,694,600
Department of Health Services	38,532,400	531,400
Department Game & Fish	2,400,000	430,800
Dept. of Juvenile Corrections	11,755,000	2,000,000
Arizona Schools for Deaf & Blind	1,804,000	500,000
State Parks Department	16,750,000	250,000
Pioneers Home	500,000	195,000
Department of Public Safety	32,345,000	999,200
Department of Transportation	<u>70,160,400</u>	<u>7,895,500</u>
Total Needs - Request	\$401,422,300	\$87,976,300
General Fund	312,111,900	79,363,800
Other Funds	89,310,400	8,612,500

ADOA BUILDING SYSTEM

NEW CONSTRUCTION

The Executive recommends \$14.9 million in FY 2008 for New Construction projects.

GENERAL FUND

Department of Corrections. The Executive recommends an annual commitment of \$5.2 million for Phase II of an eight-year replacement schedule designed to replace cell doors and locks at State prisons. The project's magnitude and the complexity of relocating inmates during construction make it impossible to carry out the project without phasing the work. Funding to address these public safety needs has been requested in several preceding budget cycles. Deferring support for this project will continue to compromise security through the prison system and increase liability and personal risks to officers and other personnel. Additionally, the cost to maintain the useful life of the buildings is increasing, which forces the Department to face broken and non-functioning components on an emergency basis rather than through system replacement. This approach is disruptive to management and leads to higher operating costs and creates inefficient systems.

Tucson Office Complex. The Executive Recommendation includes \$1.5 million for mold abatement, rehabilitation and majors repairs to address water damage at the Tucson Office Complex. After discovering that water has been leaking into the atrium of the building at 400 W. Congress, Risk Management inspected the damage and found mold in the building. ADOA has contracted with an architect to determine the extent of the problem throughout the three-building complex and to recommend a course of action.

Department of Juvenile Corrections. The Executive recommends \$885,000 to replace air-cooling and electrical systems at DJC's Black Canyon housing unit. These facilities have evaporative cooling systems that are deteriorating and beyond their life expectancy. The evaporative cooling units cannot adequately cool the housing. The humidity levels and temperature create health concerns for residents who are on medication or are pregnant.

LEASE PURCHASE FINANCE

The Executive recommends \$7.4 million for FY 2008 debt service payments on \$79 million in new 15-year Certificates of Participation (COP) for replacement of the Forensic Unit at the Arizona State Hospital, construction of water and

sewage treatment plants, and design and implementation of a Centennial Mall Corridor, including renovation of the underutilized Arizona State Laboratory.

Department of Health Services. The current Arizona State Hospital (ASH) wing, designated as the Forensic Unit, is housed in a 50-year old building that contains asbestos, which provides an unhealthy and dangerous environment for patients and medical staff. Due to the age and condition of the current structure, it is not cost-effective to renovate the building as a forensic unit that would meet security and health standards. Forensic patients require treatment and rehabilitation as well as the equivalent of Level 5 security as defined by the Department of Corrections. The Executive recommends funding of approximately \$32.2 million for demolition and construction of a new Forensic Unit at ASH to provide functional and secured facility for forensic patients.

Department of Corrections. The Recommendation includes \$6.8 million to construct water and sewage treatment plants and water storage facilities at the Tucson, Lewis, Winslow/Apache, and Douglas prison complexes. The untreated groundwater is deteriorating pipes, water heaters, evaporative coolers and other system components. The current plant is outdated and non-compliant with environmental standards and constitutes a health risk to persons inside and outside of the prison. This situation presents a substantial liability to the State and continues to pose a public health risk.

Department of Administration, Capitol Mall Commission. The Executive recommends \$40 million to begin implementing core components identified in the Capital Mall Centennial Plan, including the renovation and modernization of the old State health laboratory that is presently not fully utilized. Additionally, funding is recommended to design and develop the core area of the Capitol Mall to align it with Arizona’s history and its vision for the future. This initiative reflects efforts from various public and private entities. As envisioned in the Plan, the Capitol Mall will feature a series of sustainable connective infrastructures that make public spaces and services more accessible and facilitate more effective governance.

OTHER FUNDS

Game and Fish Department. The Executive recommends \$2.1 million from other funds in FY 2008 for Game and Fish Department projects. This amount includes \$1.6 million from the Capital Improvement Fund, \$237,000 from the Game and Fish Fund, and \$275,000 from the Watercraft Licensing Fund.

Flagstaff Regional Office Remodel and Expansion. The recommendation includes \$1.1 million to develop approximately 1,800 square feet of office space and file storage to alleviate space concerns in the Regional Office. The available space will be configured to create adequate work environment and provide suitable space for activities and events.

New Construction	Cost	Source
Prison Cell Doors and Locks	\$5,200,000	General Fund
Black Canyon School Housing Units	\$885,000	General Fund
Mold Abatement, Tucson Office	\$1,500,000	General Fund
Lease Purchase		
Capitol Mall Centennial Plan	\$40,000,000	General COP: \$7.4 million annually to make payments related to \$79 million COP financing
Prison Water/Sewage Treatment Plants	\$6,800,000	
Arizona State Hospital: Forensic Unit	\$32,200,000	
Building Renewal		
DOA - Statewide Projects	\$14,310,600	General Fund
Agency-Specific	\$5,435,000	COSF
	2,166,000	Other Funds

Robin Butte Levee Repair and Ditch Conversion. The recommendation includes \$228,000 to repair the levee along the south perimeter of the Robbins Butte Wildlife Area, which was damaged by a flood in 2003. Benefits include a more resilient armoring of the entire structure, providing properly engineered and long-term protection from the larger flow events in the adjoining wash. Of this recommended amount, \$53,000 will be allocated to replace a ditch, in the eastern portion of Robbins Butte, with a pipeline system.

Shooting Range Access Improvements. The recommendation includes \$198,000 from the Capital Improvement Fund to continue a phased approach to resurfacing selected roadways at Ben Avery Shooting Facility. Additionally, the Department’s four other shooting ranges are remote and accessible only by poorly maintained roadways. This funding will allow the Department to continue its efforts in providing long-term shooting range access improvements. The recommended amount includes \$48,000 to repair the water system at the seven-mile shooting range in the Kingman area. The current system does not provide adequate flow to allow proper operation of the existing facilities at capacity. Rehabilitation of the water system will allow operation of the facilities and prevent back-flow problems.

Becker Lake Facilities Improvement. The recommendation includes \$120,000 from the Capital Improvement Fund to repair and construct ADA-compliant facilities. The modification is needed to address facilities that are inadequate and represent a risk liability. These improvements will provide enhanced access and comply with safety design standards.

Emergency Maintenance and Repairs. The Executive recommends from the Game and Fish Fund \$30,000 as a continuing appropriation to address emergency facility repairs that require immediate attention. This allocation is separate from building renewal projects and is used for all statewide facilities.

DPS Microwave Tower. The recommendation includes \$207,000 from the Game and Fish Fund to upgrade the communication system maintained by DPS. The Legislature

appropriated \$207,000 in FY 2007, 2008 and 2009 for this project.

Covered Storage for Equipment. The Executive recommends \$195,000 from the Watercraft Licensing Fund to construct shade canopies at various regional offices to protect various equipment and machinery.

Department Headquarters. The Executive recommends \$80,000 from the Watercraft Licensing Fund to enable the program to pay its share of the construction of the Department's new office building. The construction of this project has been approved.

ADOA BUILDING SYSTEM

BUILDING RENEWAL

The Executive Recommendation provides \$21.9 million for Building Renewal, including \$14.3 million from the General Fund, \$5.4 million from the Capital Outlay Stabilization Fund, \$1.6 million from the Exposition and State Fair Fund, \$474,200 from the Game and Fish Fund, and \$60,000 from the State Lottery fund.

Pursuant to Laws 1986, Chapter 85, appropriations for Building Renewal are based on a formula approved by the Joint Committee on Capital Review. The formula takes into account a building's replacement value, age and life cycle. The formula does not consider deferred maintenance resulting from less than 100% funding in prior years.

The ADOA Building System historically has been funded through a combination of the General Fund and the Capital Outlay Stabilization Fund (COSF), which consists of rent payments on about 35 State-owned buildings. Since funding is dependent on Legislative appropriation, it must compete for funding during each budget cycle.

The State has not fully funded the formula in recent years, and deferred maintenance costs have risen to approximately \$169 million for the ADOA Building System. The Executive Recommendation focuses on addressing some of the highest priorities to protect life and safety, ensure business continuity and preserve the State's assets.

GENERAL FUND

The Executive Recommendation provides \$14.3 million to enable ADOA to address its highest priorities in major maintenance and repair of State-owned buildings. Limited General Fund monies have been approved for Building Renewal. In FY 2007, the Legislature appropriated \$3.8 million from the General Fund. Analysis and review of the State's buildings indicate that conditions are deteriorating and costs to maintain them continue to increase. While the General Fund recommendation is only at 48% of the formula funding, it is directed at meeting a variety of deferred maintenance items and deficiencies that have become a high priority. Absence of adequate funding for Building Renewal has created threats to building reliability and safety. The list

below depicts the most critical known areas of attention within the ADOA Building System.

CAPITAL OUTLAY STABILIZATION FUND (COSF)

The Executive recommends \$5.4 million in COSF monies for Building Renewal. This funding level is at 18.2% of formula funding but is \$2 million, or 59.8%, above the FY 2007 appropriation of \$3.4 million.

The COSF consists of rents paid from approximately 35 buildings within the ADOA system; however, there are 2,973 facilities within the System that are supported by Building Renewal monies. Since not all buildings make rent payments into the COSF, the Fund is unable to support Building Renewal needs for the entire ADOA Building System. Unless an alternative funding source can be identified, the General Fund should provide support to maintain and preserve the State's assets. The COSF continues to be strained because, statutorily, it is used to fund utilities, preventive maintenance and a portion of ADOA's operating budget.

OTHER FUNDS

The Executive Recommendation includes \$2.1 million for Building Renewal, reflecting 100% formula funding for each agency within the ADOA Building System that has its own funding source. The funding includes \$1.6 million from the Exposition and State Fair Fund, \$474,200 from the Game and Fish Fund, and \$60,000 from the State Lottery Fund.

For details on ADOA Building System's Building Renewal recommendations, see the table on the next two pages.

	General Fund	COSF
Department of Administration		
Renovate traction elevator system - 1600 W. Monroe	0	1,500,000
Replace electrical service entrance, main panels - 1300/1400 W. Washington	0	400,000
Replace cooling towers and 180 water source heat pumps - 15 S. 15th Ave.	0	1,000,000
Replace roof membrane - 1624/1688 W. Adams	0	225,000
Replace roof membrane - 1740 W. Adams	0	125,000
Replace air handler #1 - 1535 W. Jefferson	0	250,000
Reseal windows to building - 1535 W. Jefferson	0	175,000
Replace air handler (125 HP motor) - 1740 W. Adams	0	600,000
Replace eight DX HVAC units - 1502 W. Washington	0	60,000
Replace three five-ton heat pumps & ductwork - 1802 W. Jackson	0	50,000
Replace six large air handlers - House & Senate	800,000	0
Replace seven water source heat pumps - 1101 W. Washington	0	60,000
Renovate two garage elevators - 15 S. 15th Ave.	0	0
Replace carpet – 402/416 W. Congress	0	230,000
Replace roof - 1700 Executive Tower main roof	0	200,000
Replace 30 evaporative coolers - 1919 W. Jefferson	0	60,000
Corrections		
Replace 96 30-year-old A/C-heating units - ASPC-Douglas	\$220,000	0
Upgrade reject water (treatment plant) evaporation ponds - ASPC-Lewis	\$800,000	0
Replace main water line - ASPC-Douglas Complex	475,000	0
Replace aging water storage tank - ASPC-Tucson	\$975,800	0
Upgrade water distribution system, replace asbestos containing pipe - ASPC-Florence	\$998,300	0
Replace ADC training bureau (COTA) fire alarm system	350,000	0
Upgrade security control system - ASPC-Eyman Special Management Unit 2	525,000	0
Re-roof housing units - Cocopah unit, ASPC-Tucson	205,000	0
Juvenile Corrections		
Replace service entrance section (SES)/substation - Black Canyon School	0	0
Install eight 10-ton gas packs, two girls housing units - Black Canyon School	400,000	0
Install fire sprinkler system, two girls housing units - Black Canyon School	330,000	0
Emergency power upgrades: Eagle Point and Adobe Mountain schools	1,000,000	0
Replace/upgrade HVAC system for Admin/EDU - Catalina Mountain School	500,000	0
Statewide roof replacements	500,000	0
CMS water tank replacement	100,000	0
Emergency and Military Affairs		
Upgrade fire alarm systems to Class A - Nine readiness centers	320,000	0
Upgrade fire main loop system - Papago Military Reservation	300,000	0
Renovate restrooms and upgrade to ADA standards - Roosevelt Armory	75,000	0
Renovate restrooms and upgrade to ADA standards - Flagstaff Armory	65,000	0
Renovate restrooms and upgrade to ADA standards - Nogales Armory	65,000	0
Public Safety		
Statewide roof replacements (Tucson, Douglas, Needles Mtn., Wikieup housing, fleet, Knutson Street)	245,000	0
Statewide HVAC replacements (nine locations)	52,000	0
Statewide carpet replacement (eight buildings)	150,000	0
ADA restroom upgrade - Phoenix compound supply CI operations	85,000	0
School for Deaf & Blind		
Replace fire alarm system - Phoenix Day School Campus	715,000	0
Replace roof - Vocational building, Tucson Campus	150,000	0
Replace 16 15-year-old HVAC units (215 total tons)	275,000	0
Re-zone library/media center HVAC system - Phoenix Day School	0	56,000
Upgrade lock system - Tucson Campus	80,000	0
Resurface track - Phoenix Day School	100,000	0
Courts Building		
HVAC thermal storage system replacement	1,100,000	0
Replace roof	400,000	0
Replace defective primary air distribution ducts and install energy efficiency fixtures	295,000	0
Prescott Historical Society		
Replace roof - Bashford House	0	42,000
Replace cooling tower - Museum Complex	0	30,000
Economic Security		
ADA bathroom modifications - ATP-Coolidge (five buildings with nine bathrooms)	550,000	0
Replace five buildings' roofs (four at ATP-Coolidge & 1717 W. Jefferson)	175,000	0
Replace HVAC, ductwork, electrical (20 units at ATP-Tucson and two 10-ton units at ATP-Coolidge)	100,000	0

	General Fund	COSF
Renovate well #1 - ATP-Coolidge	0	37,000
Replace interior water pipes (asbestos abatement) - ATP-Coolidge (11 buildings)	0	150,000
Replace 10-year-old HVAC controls, 13 buildings - statewide	0	90,000
Health Services		
Replace plate and frame heat exchanger - Central Plant	97,500	0
Upgrade fire alarm panels	120,000	0
ADA upgrades to dietary building restrooms	110,000	0
Dietary sewer replacement	132,000	0
Replace cast iron sewer lines - Granada Hall	162,000	0
Replace two 500-gallon hot water storage tanks, install two condensate recovery tanks - Central Plant	63,000	0
Retrofit light fixtures, install occupancy sensors for energy conservation	0	95,000
Install recycled water holding tank to substitute cooling tower water for irrigation	150,000	0
TOTAL RECOMMENDATION	14,310,600	5,435,000

ADOT BUILDING SYSTEM

NEW CONSTRUCTION

The Executive recommends \$14.3 million to the Department of Transportation for new capital improvement projects. The amount includes \$13.5 million from the State Highway Fund and \$845,000 from the State Aviation Fund. For Building Renewal, the Executive Recommendation provides \$3.9 million, or 49.6% of the formula funding. Included in the recommendation is \$3.8 million from the State Highway Fund and \$141,100 from the State Aviation Fund.

STATE HIGHWAY FUND

Surprise Customer Service Center. The Executive recommends \$3.96 million to construct a 14,500-square-foot Motor Vehicle Division service center in Surprise. The current MVD facility is inadequate and cannot accommodate the business volume from the area's growing population. The Department needs to expand capacity to meet the area's service needs and comply with business and public safety standards.

Vehicle Wash System, Statewide Program. The Executive recommends \$2 million to install vehicle wash systems that meet EPA and ADEQ regulations regarding controlled water distribution.

Safford Maintenance Facility Replacement. The recommendation provides \$3.2 million for demolition and for construction of a 17,500 square-foot equipment service facility. The current structure is old and no longer meets the highway maintenance needs for Safford and its vicinity.

De-Icing Materials Storage Buildings. The Executive recommends \$1.8 million to build five storage facilities to house bulk sand, cinders and materials used during the winter months for highway de-icing operations. Some of these materials are being stored outside, where exposure to moisture and freezing temperatures makes their use difficult.

Asphalt Storage Tanks. The Recommendation provides \$1.4 million to purchase and install five 10,000-gallon as-

phalt storage tanks with containment basins. The existing tanks are old, deteriorating or defective and have become environmental concerns. To ensure protection of surface and groundwater, environmental regulation requires that the Department replace these tanks and attain compliance.

ADOT Business Headquarters. The recommendation includes \$250,000 to prepare specifications for a new administrative building on the current Phoenix site between 17th and 18th Avenues and between Madison Street and the railroad tracks. The current ADOT administrative complex is comprised of five buildings whose average age is over 50 years. The existing structure poses safety and health concerns. The Capitol Mall Centennial Plan also supports this project.

Highway Construction. The Executive Recommendation supports a \$2.2 billion transportation infrastructure program for FY 2008. The funding level would provide \$1.3 billion for highway construction, \$402 million for debt service, and \$452 million for highway maintenance, administration and motor vehicle services. In accordance with statute, the actual expenditures levels are determined within the scope of the Five Year Highway Construction Program

FY 2008 Highway Construction Program Costs

Construction ¹	\$ 362,800
Pavement Preservation Maintenance	133,200
Other ²	196,000
MAG Regional Program ³	430,100
Debt Service ⁴	323,700
Total	\$ 1,445,800

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

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

³ Includes \$430,056,000 for Proposition 400, MAG Regional Plan – Phase I.

⁴ Includes \$103,327,000 for HURF statewide construction bonds; \$61,117,000 for HURF Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$41,631,000 for Maricopa Regional Area Road Fund bonds; and \$51,636,000 for Grant Anticipation Notes and \$66,000,000 of BFO repayments from the State Highway Fund.

as approved by the State Transportation Board.

Controlled Access Highways. The Executive recommends \$106.3 million from the distribution formula for dedicated highway revenues for the construction of urban freeways. The current allocation provides 75% to the Maricopa Association of Governments (MAG) and 25% to the Pima County Association of Governments (PAG).

Debt Service. The Executive recommends \$103 million from the State Highway Fund for the appropriated portion of the debt service on bonds in FY 2008. The Legislature has authorized the Department to issue bonds against the Highway User Revenue Fund (HURF). These bond payments are the sole obligation and enforceable only from the HURF.

STATE AVIATION FUND

Grand Canyon Airport Infrastructure Improvement. The Executive recommends \$845,000 to clean, repair and bring into compliance two water storage tanks at the Grand Canyon Airport. The recommended funding includes \$210,000 to renovate and improve restroom facilities to increase functionality and capacity to handle increasing passenger traffic at the airport.

Airport Planning and Development. The Executive Recommendation provides \$32.8 million from the State Avia-

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

BOARD OF REGENTS BUILDING SYSTEM

NEW CONSTRUCTION

Arizona State University College of Construction. The Executive recommends \$1.7 million for FY 2008 debt service payments on \$20 million in new 20-year Certificates of Participation (COPs) to support designing and building the ASU College of Construction. The recommended funding is the State's contribution. Other public and private entities will be donating another \$43 million for the establishment of the new College of Construction. ■

Acknowledgement

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

Special thanks to Gary Yaquinto, who served as OSPB Director
from January 2005 through December 2006

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