

State of Arizona The Executive Budget

SUMMARY

FISCAL YEAR 2017

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GOVERNOR



JANUARY 2016

Provisions for Individuals with Disabilities

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The Budget Summary

The FY 2017 Executive Budget Recommendation achieves the first structurally balanced General Fund budget in more than a decade.

During the Great Recession, Arizona lost 300,000 jobs, saw a downgrading of its credit rating and, in fighting to maintain fiscal viability, was dually confronted by a historically weak economy and a persistent structural budget deficit.

As the economy has rebounded, the lost jobs have been largely recovered or replaced, and, with passage of the FY 2016 budget, State Government positioned itself to rebalance its spending and streamline its structure and operations. The results of these reforms have helped restore Arizona's credit rating and provided a path to the State's first structurally balanced General Fund budget since 2007.

Achieving structural balance required prudent decision-making and fiscal restraint. Maintaining it will require financial certainty and flexibility.

Certainty has been enhanced by the resolution of the K-12 inflation funding lawsuit, which defines the source and method for funding inflation of Arizona's public schools.

Flexibility will be enhanced by giving the Governor mid-year spending reduction authority – an effective instrument for fiscal management that exists in 21 states.

FY 2016 Budget Recommendation

The Executive Recommendation forecasts a current fiscal year structural deficit of \$24.2 million and an ending cash balance of \$484 million.

FY 2017 Budget Recommendation

The FY 2017 Executive Budget Recommendation projects a structural balance of \$173 million and an ending cash balance of \$621 million.

The FY 2017 Executive Budget Recommendation allows for General Fund spending to grow by less than 2% (compared to the previous year), which is less than the 3.2% forecast population growth plus inflation in 2017.

The Recommendation protects key State priorities, addresses immediate operating needs, deposits \$10 million into the Budget Stabilization Fund ("rainy day" fund) and recognizes that a legitimately balanced budget must contain funding to maintain and modernize the State's core infrastructure. Meeting that standard is evidenced by new and continuing investment in capital and information technology.

PUBLIC SAFETY

The Arizona-Mexico border is a major corridor for drug trafficking and human trafficking. The Executive Recommendation expands the DPS Border Strike Task Force to provide a unified command structure while leveraging federal resources in the fight against all forms of border-related crime.

The Executive Recommendation also recognizes the need to accommodate growth in the inmate population at Arizona's prisons; reduce prison population growth, by opening a community corrections center in Maricopa County; and align the Department of Juvenile Corrections appropriation with ongoing population declines at DJC facilities.

EDUCATION

Healthy, stable K-12 and higher education systems improve lives, promote economic growth, and enhance societal health. The FY 2017 Budget Recommendation provides certainty on K-12 spending and continues the process of defining the State's relationship with its universities.

K-12 Education. The FY 2017 Executive Budget Recommendation strongly emphasizes college and career preparedness for Arizona's students, including the introduction of two grant programs aimed at providing resources for career and technical education and college preparatory coursework.

To achieve success in college and their careers, Arizona's students must be held to high academic standards. In March 2015, the Governor called on the State Board of Education to fully review Arizona's English Language Arts and Mathematics Standards, and a supplemental appropriation is recommended to support the State Board of Education's review of those standards.

Effective leadership in K-12 schools promotes teacher quality and student achievement. The Executive Recommendation includes funding to the Governor's Office of Education for a new competitive grant program that will empower principals and other school leaders and enhance student achievement while transforming the learning experience in Arizona schools.

To foster the replication of Arizona's best public schools, the Recommendation provides for expanded access to high-performing schools for all of Arizona's K-12 students. The Recommendation transfers the existing School Facilities Board FY 2016 appropriation to the Governor's Office of Education in FY 2017 for the new Arizona Public School Credit Enhancement Program, which will lower the borrowing costs on new school

construction for eligible schools. The Recommendation also provides additional resources for Building Renewal.

The Executive Recommendation adds \$106 million in new K-12 funding to accommodate student growth and new policy changes, as well as polices that were enacted as part of the FY 2016 budget.

Higher Education. As Arizona’s economy and financial position continue to stabilize, the State must provide fiscal stability to its institutions of higher learning while continuing to contain costs. The Recommendation increases support for in-state students and requires the Board of Regents to commission an independent study to measure the cost of education for in-state students. The study will provide a benchmark to be used to evaluate cost-containment efforts and shape further State support of its universities.

HEALTH AND WELFARE

The Executive Budget Recommendation seeks to further enhance the protection of children and vulnerable adults while controlling costs.

Effective operation of the **Department of Child Safety (DCS)** is a major priority. The Executive Recommendation addresses factors contributing to backlogs and bottlenecks through the entirety of the DCS pipeline, from initial report intake to permanency placement. In conjunction with funding to address court delays that contribute to the length of time children are in State care, the Executive expects continued reduction in the number of open cases, continued improvement in agency response time, and safe reduction in the rate of growth of children in out-of-home care. In addition, the Recommendation establishes cost-control measures throughout the DCS budget to ensure that resources align appropriately with the State’s child safety needs.

The Executive Recommendation also provides for improvements at the State’s other health and welfare agencies.

- **Department of Economic Security:** More training and employment opportunities for Arizona’s disabled, and investments in child care that make it easier for low-income parents to remain at work.
- **DES and AHCCCS:** Restoration of preventive dental care for the disabled in an effort to limit future costs for members’ emergency care.
- **Department of Health Services:** Restructured resources to help the Arizona State Hospital comply with CMS safety standards.

GOVERNMENT THAT WORKS

The Executive Recommendation provides budget flexibility in future years by requesting that the Executive be given the ability, in response to adverse fiscal conditions, to make mid-year budget reductions. The Recommendation also:

- further protects State revenues from fraud;
- creates savings through strategic consolidations;
- continues ongoing investment in IT;

- deposits \$10 million into the Budget Stabilization Fund (or “rainy day” fund); and
- enhances the State’s stewardship of capital assets.

MAJOR GENERAL FUND BUDGET ISSUES, FY 2016

| | |
|--|-----------------|
| SFB: Building Renewal Grants..... | \$ 15.0 million |
| DCS: Central Administration..... | 11.0 million |
| DCS: Deferral Elimination..... | 11.0 million |
| Universities: HITF Correction | 4.1 million |
| Secretary of State: Presidential Primary | 2.1 million |

MAJOR GENERAL FUND BUDGET ISSUES, FY 2017

| | |
|--|-----------------|
| K-12: Department of Education..... | \$ 54.3 million |
| DPS: Border Security | 31.5 million |
| K-12: JTED Grant Program..... | 30.0 million |
| DOA: Capital | 25.7 million |
| Corrections: New Beds | 17.6 million |
| SFB: Building Renewal Grants..... | 15.0 million |
| Rainy Day Fund Deposit..... | 10.0 million |
| Parks: Capital Funding | 10.0 million |
| Corrections: Inmate Healthcare..... | 9.8 million |
| Universities: Resident Student Funding | 8.0 million |
| K-12: AP Incentives Testing..... | 6.0 million |
| DES: Adult Protective Services | 3.0 million |
| DES & AHCCCS: Adult Preventive Dental..... | 2.6 million |
| DHS: Additional Staff at ASH..... | 1.5 million |

PROJECTED ENDING BALANCES

| | |
|---------------|------------------|
| FY 2017 | \$ 620.8 million |
| FY 2018..... | .856.6 million |
| FY 2019 | 1,102.0 million |

Sources and Uses of Funds

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

- The *FY 2015 Preliminary Actual* column reflects currently known revenues and expenditures for FY 2015, from the State’s Accounting and Financial Information System.
- *FY 2016 Enacted* reflects the enacted appropriations.
- The *FY 2016 Recommendation* shows the Executive’s recommended changes to the enacted appropriations.
- The FY 2017-FY 2019 *Baseline* columns reflect the Executive’s revenue and expenditure projections based on updated caseload forecasts, without Governor’s Initiatives.
- The FY 2017-FY 2019 *Executive Recommendation* columns reflect the Executive’s revenue projections and expenditure recommendations, based on the FY 2017 Executive Recommendation.

Outcomes of the Executive Recommendation

The Executive Budget Recommendation provides total General Fund expenditure levels of \$9.48 billion in FY 2017, \$9.64 billion

in FY 2018, and \$9.93 billion in FY 2019. FY 2019 ends with a \$244 million structural balance and a \$1.1 billion ending balance. ●

General Fund Sources and Uses

\$ in thousands

| | FY 15 Prelim Actual | FY 16 Enacted | FY 16 Baseline | FY 16 Executive Rec | FY 17 Baseline | FY 17 Executive Rec | FY 18 Baseline | FY 18 Executive Rec | FY 19 Baseline | FY 19 Executive Rec |
|---|------------------------|--------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|
| SOURCES OF FUNDS | | | | | | | | | | |
| Beginning Balance | 577,400.0 | 12,000.0 | | 311,635.5 | | 484,014.0 | | 620,780.6 | | 856,644.4 |
| Ongoing Revenues | | | | | | | | | | |
| Base Revenues | 9,541,904.7 | 9,404,969.4 | | 9,843,782.0 | | 10,180,452.4 | | 10,553,037.4 | | 10,883,689.5 |
| <i>Urban Revenue Sharing</i> | (608,935.7) | (605,634.3) | | (605,634.3) | | (663,652.1) | | (683,599.7) | | (706,569.8) |
| Adjusted Base Revenues | 8,932,969.0 | 8,799,335.1 | | 9,238,147.7 | | 9,516,800.4 | | 9,869,437.8 | | 10,177,119.7 |
| Transfers and Newly Enacted Changes | | | | | | | | | | |
| Newly enacted changes | 0.0 | 52,433.2 | | 0.0 | | 0.0 | | 0.0 | | 0.0 |
| Budget Fund Transfers - HITF | 53,900.0 | 0.0 | | 0.0 | | 100,000.0 | | 0.0 | | 0.0 |
| Building Sales | 0.0 | 0.0 | | 0.0 | | 0.0 | | 2,636.4 | | 0.0 |
| Increase the DSH Cap | 11,000.0 | 15,000.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 |
| Tax Amnesty | 0.0 | 0.0 | | 15,000.0 | | 0.0 | | 0.0 | | 0.0 |
| Transfer from Other Funds | 5,760.3 | 220,194.5 | | 220,194.5 | | 0.0 | | 0.0 | | 0.0 |
| Subtotal Revenues | 9,003,629.3 | 9,086,962.8 | | 9,473,342.2 | | 9,616,800.4 | | 9,872,074.2 | | 10,177,119.7 |
| TOTAL SOURCES OF FUNDS | 9,581,029.3 | 9,098,962.8 | | 9,784,977.7 | | 10,100,814.4 | | 10,492,854.8 | | 11,033,764.1 |
| USES OF FUNDS | | | | | | | | | | |
| Operating Budget Appropriations | 9,110,470.2 | 9,096,729.8 | 78,861.0 | 9,201,780.5 | 146,465.5 | 9,373,397.3 | 282,583.2 | 9,565,921.2 | 298,907.6 | 9,864,899.4 |
| Capital | 24,200.0 | 6,200.0 | 0.0 | 6,200.0 | (6,200.0) | 25,737.9 | 0.0 | 5,337.9 | 0.0 | 5,337.9 |
| IT Projects | 35,500.0 | 7,783.0 | 0.0 | 7,783.0 | (7,783.0) | 11,881.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liquor | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 504.0 | 0.0 | 75.6 | 0.0 | 75.6 |
| Accounting System Operations | 0.0 | 0.0 | 0.0 | 0.0 | 223.4 | 454.4 | (35.9) | 397.0 | 947.5 | 361.9 |
| Hiring Freeze/Restructure | 0.0 | 0.0 | 0.0 | 0.0 | (7,959.1) | (7,959.1) | 0.0 | (7,959.1) | 0.0 | (7,959.1) |
| HITF Contribution Reduction | 0.0 | 0.0 | 0.0 | 0.0 | (10,121.4) | (10,121.4) | 0.0 | (10,121.4) | 0.0 | (10,121.4) |
| DFI Restructure | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (10,623.6) | 0.0 | (4,015.3) | 0.0 | (4,015.3) |
| Fleet Maintenance Charge | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 331.6 | 0.0 | 331.6 | 0.0 | 331.6 |
| Sale/ Lease-Back Lease-Purchase Payment | 84,123.7 | 84,114.6 | 0.0 | 84,114.6 | 2.8 | 84,117.4 | (2.3) | 84,115.1 | 6.9 | 84,122.0 |
| ADOA/DCS Transition | 19,500.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Woolsey Flood District | 34.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| County Funding | 7,650.5 | 6,000.5 | 0.0 | 6,000.5 | 0.0 | 6,000.5 | 0.0 | 6,000.5 | 0.0 | 6,000.5 |
| HB 2608 - PSPRS Transfer | 6,000.0 | 6,000.0 | 0.0 | 6,000.0 | 0.0 | 6,000.0 | 0.0 | 6,000.0 | 0.0 | 6,000.0 |
| Rio Nuevo Payment | 8,228.0 | 10,000.0 | 0.0 | 10,000.0 | 0.0 | 10,000.0 | 0.0 | 10,000.0 | 0.0 | 10,000.0 |
| Civic Center Payment | 20,449.0 | 20,449.0 | 0.0 | 20,449.0 | 0.0 | 20,449.0 | 2,000.0 | 22,449.0 | 547.3 | 22,996.3 |
| Parks Capital Debt Service | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (2,597.6) |
| Named Claimants | 184.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Retirement Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 546.6 | 546.6 | 0.0 | 546.6 | 0.0 | 546.6 |
| Administrative Adjustments | 98,692.4 | 70,000.0 | 0.0 | 70,000.0 | 0.0 | 70,000.0 | 0.0 | 70,000.0 | 0.0 | 70,000.0 |
| Unallocated Adjustment | 0.0 | 16.8 | 0.0 | 16.8 | (16.8) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reversions | (145,639.1) | (111,380.7) | 0.0 | (111,380.7) | 698.2 | (110,682.5) | (2,185.8) | (112,868.3) | (1,392.4) | (114,260.7) |
| TOTAL USES OF FUNDS | 9,269,393.8 | 9,195,913.0 | 78,861.0 | 9,300,963.7 | 115,856.2 | 9,470,033.7 | 282,359.2 | 9,636,210.4 | 299,016.9 | 9,931,717.7 |
| Transfer to Rainy Day Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10,000.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE | 311,635.5 | (96,950.2) | | 484,014.0 | 115,856.2 | 620,780.6 | 282,359.2 | 856,644.4 | 299,016.9 | 1,102,046.4 |
| On-going Revenues | 8,932,969.0 | 8,799,335.1 | | 9,238,147.7 | | 9,516,800.4 | | 9,869,437.8 | | 10,177,119.7 |
| On-going Expenditures | 9,269,393.8 | 9,195,913.0 | | 9,262,303.8 | | 9,343,515.3 | | 9,636,210.4 | | 9,931,717.7 |
| Structural Balance | (336,424.8) | (396,577.9) | | (24,156.1) | | 173,285.0 | | 233,227.3 | | 245,402.0 |

* FY 2016 and FY 2017 Executive Recommendation columns include baseline and initiative issues. FY 2018 and FY 2019 include only baseline changes, using the FY 2017 Executive Recommendation as the starting point.

Public Safety

Border security, slowing the rate of growth in the prison population, and meeting the need for new prison beds are the focal points of public safety funding.

Department of Public Safety

In recent years, drug and human trafficking crimes stemming from Arizona's border with Mexico have increased significantly. For example, according to the High Intensity Drug Trafficking Threat Assessment Report, seizures of heroin and methamphetamine by federal, state and local law enforcement agencies in Arizona increased by, respectively, 225% and 223% from 2010 to 2014. In comparison, the U.S. Drug Enforcement Administration reports that, from 2009 to 2013, such drug seizures nationwide increased by just 89%.

Disturbing trends of increased drug trafficking and increasing concerns about the magnitude of human trafficking place growing security demands on Arizona's law enforcement and human service agencies. In general, crimes stemming from breakdowns in border security are catalysts for consequences ranging from violent crime and highway accidents to more foster care placements and greater demand for health care.

BORDER STRIKE TASK FORCE

In response to this serious problem, in 2015 Governor Ducey created the Border Strike Task Force, which is housed in the Department of Public Safety (DPS) and has been conducting monthly border security operations since September 2015. In the first four months of its existence, the Border Strike Force has made over 300 arrests and seized 4,400 pounds of marijuana, 194 pounds of meth, and 21 pounds of heroin. In comparison, in the entire previous year, DPS seized 14 pounds of heroin. (One pound of heroin produces approximately 45,000 "hits.") An expansion of the Border Strike Task Force will significantly reduce the volume of human trafficking, drug smuggling and other criminal activity that occurs near and across the Arizona-Mexico border.

A larger force will provide a unified command structure while integrating the expertise and capabilities of law enforcement agencies statewide in partnering to address border-related crime. A successful expansion will involve partnerships with federal, county and local law enforcement agencies and require more boots on the ground.

To expand the Border Strike Task Force, the Executive recommends \$31.5 million from the General Fund: \$21.5 million one-time and \$10 million ongoing. This includes approximately \$1.5 million to be disbursed to border sheriffs for equipment and operations relating to the Border Strike Task Force. In addition, DPS has acquired from federal surplus, at no cost, three aircraft that can be used for border security surveillance and patrol operations. Acquiring the aircraft at no cost saved the State approximately \$10 million.

Highlights

Border Security

- The Executive Recommendation provides \$31.5 million to expand the DPS Border Strike Task Force, including \$1.5 million to be disbursed to border sheriffs for equipment and operations relating to the Task Force.

Corrections

- The DOC will contract for 2,000 male, medium-custody beds to come online in 2017 and 2018.
- To accommodate community-release inmates and slow prison population growth, the Executive recommends a community corrections center in Maricopa County.
- The Executive recommends adding 29 sergeant positions, at a cost of \$2.3 million, to bolster leadership at every maximum-custody unit.

Adult Corrections

During FY 2014 and FY 2015, Arizona's adult prison population grew by 1,925 inmates, an average of 80 inmates per month. The inmate population is projected to grow at an average rate of 75 inmates per month during FY 2016 and FY 2017.

As of December 16, 2015, the prison system's operating capacity (i.e., the sum of rated and temporary beds) was 43,943, with an overall vacancy rate of 2.8%. Operating capacity will increase by 1,000 male, medium-custody beds in September 2016. The inmate population is projected to reach 44,411 at the end of FY 2017.

BED MANAGEMENT

Since 2012, the fastest growing subset of the State's inmate population has been the male, medium-custody population (see chart above-right). The population of that custody level slightly exceeds the system's capacity, resulting in a vacancy (overflow) rate of (0.24%). A generally accepted safe vacancy rate is 5%.

The male, medium-custody population is projected to grow by 492 inmates (41 inmates per month) in each of FY 2016 and FY 2017, further straining the system's capacity for that custody level. The Executive recommends contracting with private prison providers for 2,000 male, medium-custody beds that will come online in two phases: 1,000 in July 2017 and 1,000 in July 2018.

SLOWING THE GROWTH IN PRISON POPULATION

The Executive seeks to slow the growth in the inmate population through a variety of strategies focused on reducing the rate of growth in DOC expenditures. Expanded use of the “community correction center” model represents a useful step toward that objective.

During FY 2015, DOC admitted 3,554 inmates into prison for technical violations of the conditions of their release. Technical violations can include neglecting to report to a parole officer and failing/refusing to take a drug test. Once readmitted to prison, technical violators stay for an average of 90 days, which in FY 2015 equated to 319,860 bed-days.

The DOC-operated Southern Region Community Corrections Center (SRCCC), located in Pima County, serves as an intermediate sanction for community-release inmates who accumulate technical violations. A technical violator sent to SRCCC is still on community release but is required to spend time at the facility. While at SRCCC, many offenders undergo programming (e.g., drug treatment or behavior modification) offered by DOC. Technical violators typically spend less than a week at SRCCC and, if they demonstrate compliance, are released back into the community. This alternative is significantly more cost-effective than sending offenders to prison for several months.

SRCCC services are not available to inmates in Maricopa County. The Executive recommends opening a 100-bed Northern Region Community Corrections Center (NRCCC) will provide services to Maricopa County inmates that are similar to services provided at SRCCC. It is estimated that 20 beds will be used for intensive drug treatment with housing, 40 for transitory housing, and 40 for sanctions for offenders who violate the terms of their community release.

By bringing these services to the majority of inmates on community release, it is expected that NRCCC will result in slowing the growth of the prison population. Also, sending violators to NRCCC rather than to prison will result in increased productivity, since violators are permitted to continue their employment while housed at NRCCC.

RE-ENTRY TO THE COMMUNITY

DOC predicts that, during FY 2016, it will release into the community 750 inmates who, upon their release, will be entitled



This chart shows the number of prison beds available for medium-custody inmates, assuming that, at any given time, 5% of the beds should be available as a safety margin for emergencies and the movement of inmates between facilities. A negative number of available beds indicates that there are more inmates than the needed number of beds.

to some type of Social Security benefit. For many inmates, access to money is a major factor in their successful re-entry into the community. The Executive recommends hiring a Re-entry Planner at a cost of \$103,500 to enroll eligible inmates for Social Security benefits to which they are legally entitled, to ensure that the receipt of benefits will start shortly after their release. These financial resources will help inmates obtain housing and promote a smoother re-entry into the community.

ADDITIONAL SERGEANTS

In compliance with the settlement of the *Parsons v. Ryan* litigation, DOC allows maximum-custody inmates to earn privileges, such as additional time out of their cells, by consistently complying with prison rules and regulations.

Because maximum-custody inmates tend to be the most violent of the custody levels, giving them additional unrestrained time out of their cells presents a potential security risk. The Executive recommends adding 29 sergeant positions, at a cost of \$2.3 million, to bolster leadership in every maximum-custody unit. •

Education

Recommended education funding for FY 2017 strongly emphasizes college and career preparedness for students and the ongoing capital needs of public schools.

Highlights

K-12 Education

- The Executive recommends \$46.5 million in net new K-12 spending in FY 2017 for caseload, inflation and previously enacted policy changes.
- A three-year, \$30 million grant program rewards Joint Technical Education Districts (JTEDs) that produce high school graduates trained for career and technical education jobs in demand by Arizona business and industry.
- A \$6 million pilot program will offer incentives and reward schools offering college prep programs.
- The Recommendation includes \$100,000 for a competitive grant program to promote executive leadership in public schools.
- The Executive recommends \$3.2 million and \$4.6 million for support of the new student data system and tests and test security.
- To fund schools' current and ongoing capital needs, the Recommendation provides \$15 million for each of FY 2016 and FY 2017.
- Pending voter approval, public schools will receive an additional \$3.5 billion over ten years, without a tax increase.

Higher Education

- The Executive Recommendation includes \$8 million to help Arizona residents pursue higher education at the State's universities.

K-12 Education

During the 2015 1st Special Session, the Legislature passed and the Governor signed a historic plan to resolve pending litigation by infusing into Arizona's K-12 public education system an additional \$3.5 billion over ten years, without raising taxes.

The plan is contingent on voter approval of Proposition 123 in a May 2016 special election. Prop. 123 asks the voters to increase, from 2.5% to 6.9%, the distribution of funds to public schools from the Permanent State School Fund. The proposition also protects the State General Fund and the Permanent State School Fund from the impact of significant economic downturns.

If Prop. 123 passes, the plan will increase FY 2016 per-pupil funding by \$119, to \$3,600, through a combination of State General Fund dollars and an increase in distributions from the Permanent State School Fund. Additionally, for each of the next



five years, \$50 million will be provided for public schools' general maintenance and operations. In the subsequent five years, this amount will increase to \$75 million. In FY 2016, the plan will generate an additional \$224 million. Each year thereafter, the \$3,600 per-pupil funding will be adjusted for inflation. This spending plan will continue for the next ten years and is included in the FY 2017 base spending recommendation.

FY 2017 FUNDING CHANGES

The Executive Budget Recommendation for FY 2017 includes a total of \$106 million in net new spending for K-12 education. The new spending for FY 2017 includes funding for student growth and new policy changes and policies that were enacted as part of the FY 2016 Budget.

FY 2017 FUNDING RECOMMENDATION

The Executive Budget Recommendation supports over \$150 million in new baseline per-pupil spending for both student growth and inflation. This per-pupil spending is offset by property taxes and policy changes that were passed as part of last year's budget, resulting in a net General Fund increase of \$46.5 million. In addition to baseline changes, the Executive Budget Recommendation includes \$43.9 million in new initiatives that support the Arizona Department of Education and the newly aligned Governor's Office of Education, as well as \$15 million in building renewal and new school construction investments at the School Facilities Board.

FY 2016 FUNDING RECOMMENDATION

The Recommendation also includes two supplemental appropriations for FY 2016. In addition to the new building renewal for FY 2017, the Executive recommends \$15 million in building

renewal investments for FY 2016. The recommendation also includes an additional \$200,000 for the State Board of Education for FY 2016 to assist with the review of Arizona's standards that are already underway. The supplemental recommendations are in addition to the funding that was included as part of the Special Session.

The new funding plan passed in October 2015 added \$224 million to K-12 spending, made up of \$172 million from increased Land Trust distributions and \$52 million in additional General Fund investment. This spending plan will continue for the next ten years and is included in the FY 2017 base spending recommendation.

COLLEGE AND CAREER PREPAREDNESS

For many Arizona students, life after high school is uncertain. Governor Ducey believes that schools should help students find the career or college path that is right for them, before they leave high school. To accomplish this goal, the Executive Recommendation provides resources for career and technical education and college preparatory coursework.

Career and Technical Education Grants. Joint Technical Education Districts (JTEDs) provide Career and Technical Education (CTE) to over 75,000 Arizona students at central and satellite campuses. JTED students have a 97% graduation rate.

Quality CTE programs result in successful high school completion as well as a head start into the workforce. Additionally, these programs serve a significant role in economic development by providing Arizona businesses with valuable employees.

For FY 2017, the Executive recommends a competitive grant program, administered by the Governor's Office of Education, to JTEDs that work to partner with business and industry to produce graduates in high-demand employment sectors that will most benefit the local region. The three-year competitive grant program will award up to \$10 million annually, for a total of up to \$30 million over the life of the program.

College Preparation Rewards and Incentives. Students who participate in college preparation programs such as Advanced Placement (AP), International Baccalaureate (IB) and the Advanced International Certificate of Education (commonly known as the "Cambridge program") are more likely than the general student population to attend college. For these students, their high school diploma means more than high school graduation; it means they may have one to two years of college under their belts. That makes the thought of college more achievable and more affordable. However, Arizona ranks 32nd in the nation in AP performance, with only 26% of the state's students taking an exam. Only 22 schools statewide offer the IB program.

The Executive Recommendation includes a new \$6 million pilot program to incentivize schools to offer college preparation programs and to reward schools that already offer them. The incentives will include funds to pay for student testing fees, reward educators for student performance and growth, and encourage lower-income schools to participate. In order to create these programs in non-participating schools, scholarships will be available to provide teachers with the training they need to provide specialized instruction.

EXECUTIVE LEADERSHIP ACADEMY

In ensuring student achievement, school leadership is second in importance only to teacher quality. Governor Ducey believes that a school principal is more than an effective administrator; ideally, he or she is also a compelling leader who sets the tone and direction of a school culture that supports high expectations, creativity and innovation.

The Executive Recommendation includes \$100,000 in FY 2017 for a competitive grant program to be administered by the Governor's Office of Education. Funding will be available to entities engaged in leadership academy activities that are research-based, Arizona grown and locally delivered, with the goal of elevating student achievement, transforming the education process, and building the next generation of school leaders.

HIGHER STANDARDS

In March 2015, the Governor called on the State Board of Education to perform a full review of Arizona's English Language Arts and Mathematics Standards. The review is underway and is expected to be completed by the end of the 2015-2016 school year. The Executive Recommendation includes a \$200,000 supplemental to the Board for technical assistance in reviewing and replacing current standards.

BUILDING RENEWAL AND CAPITAL FINANCE

The School Facilities Board provides financial and technical assistance to school districts, using the grant-based Building Renewal Grant program to maintain school facilities.

Demand for funding and the volume of applications for building renewal have increased. Therefore, the Executive recommends a \$15 million non-lapsing supplemental appropriation (for FY 2016) and a \$15 million non-lapsing appropriation in FY 2017 to fund schools' capital needs.

In FY 2016, the Access Our Best Public Schools Fund was created to expand student access to high-performing schools. In FY 2017, the Executive proposes creation of the Arizona Public School Credit Enhancement Program, which will help Arizona's highest performing public schools obtain more favorable financing by guaranteeing the payment of principal and interest for capital projects.

Higher Education

State funding for higher education has gone through a series of changes in recent years to better align the State's investment with desired outcomes and economic realities. As Arizona's economy and financial position continue to stabilize, it is important to provide fiscal stability to its institutions of higher learning while continuing to contain costs.

The Executive Recommendation increases resources to help Arizona residents pursue higher education at the State's universities and community colleges.

IN-STATE STUDENT FUNDING

Arizona's universities use State funds not specifically allocated by the Legislature to offset the cost of educating in-state students. The Executive Recommendation provides \$8 million in additional FY 2017 funding to support that effort.

The new funding will be allocated directly to the three public universities based on in-state enrollment. Further, the Recommendation requires the Board of Regents to commission an independent study that measures the cost to educate in-state students at Arizona universities. The study will provide a benchmark to help evaluate cost-containment efforts and shape further State support.

UNIVERSITIES AND COMMUNITY COLLEGES

The FY 2016 Budget reduced the universities' appropriations based on projected savings from reduced employer-paid health insurance premiums. For FY 2017, the Executive Recommendation includes \$2.1 million to align universities' appropriations with updated projections for health insurance cost savings.

In addition, the Executive recommends exempting the universities and community colleges from the surcharge for the Department of Education longitudinal data system. This represents a savings of \$1.6 million to the universities and community colleges. •

Health and Welfare

In protecting children and vulnerable adults, additional funding focuses on investigative response time, operational efficiency, and administrative backlogs.

Department of Child Safety

The Department of Child Safety (DCS) is in its second year as a stand-alone agency. In that time it has operated with significantly higher accountability than its predecessor, the former DES Division of Children, Youth and Families (DCYF).

The heightened scrutiny of the State's child protection services has brought a sharp focus on resolving deficiencies and bottlenecks that contribute to growing caseloads and cost overruns.

In February 2015, a new Director was appointed to lead DCS; following a period of initial staff turnover, the new leadership team has begun to stabilize, and signs of progress are evident.

The number of open reports (reports under investigation or awaiting supervisor closure) has been steadily declining since April 2015. The out-of-home, year-over-year population growth rate (i.e., children who have been removed from their homes and are in State care) has also been declining from a relative high at the end of FY 2014 and is significantly reduced from the critical levels experienced in FY 2012 and FY 2013.

Notwithstanding these reductions, DCS faces significant operational and budget challenges. The Executive Recommendation addresses factors contributing to backlogs and bottlenecks throughout the DCS pipeline, from initial report intake to permanency placement. In conjunction with funding to address court delays that contribute to children's length of time in State care, the Executive expects DCS to safely reduce the State's out-of-home population growth rate to below 5% in FY 2017.

IMPROVE RESPONSE TIME AND REDUCE BACKLOG

In FY 2016, \$4.5 million in overtime funding was backed out of the DCS budget, as this was one-time funding that the Department received to address the report backlog. However, in the face of continued growth of initial reports, the need for those funds endures.

The Executive recommends \$4 million General Fund, backfilling the reduction of one-time funds to give DCS the budget capacity to meet its statutory responsibility to investigate all reports. This funding is recommended for flexible use – for overtime, increased case aides or strategic pay, as needed to address field offices' disparate needs and seasonality, and to enable a shift from overtime dependence to the more efficient use of case aides and strategic pay.

Accordingly, the Executive recommends repurposing DCS's overtime and retention pay special line items for similar flexible

Highlights

Department of Child Safety

- \$4 million to fund the child safety investigation caseload and improve investigative response time
- \$11 million to improve DCS operations and help avoid future cost overruns
- \$14.2 million in FY 2016 and \$18 million in FY 2017 to fully fund placements for children removed from their homes
- \$28.7 million in FY 2016 and \$21 million in FY 2017 to meet the projected need for in-home and out-of-home support services
- \$6.3 million to reduce attorney caseload and \$3 million for processing of dependency cases

Department of Economic Security

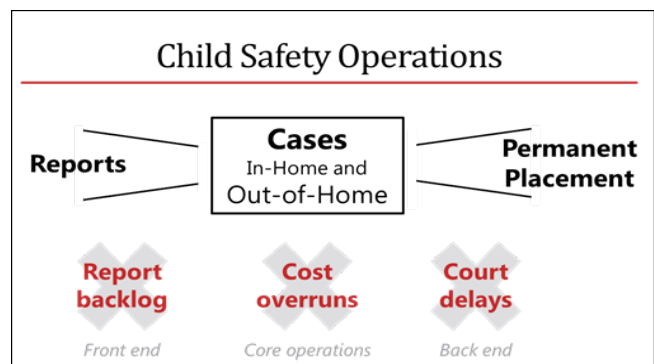
- \$3 million to improve Adult Protective Services casework efficiency and reduce investigator caseload
- Reinstatement of the ALTCS adult preventive dental benefit for the developmentally disabled
- \$6.4 million to adjust child-care rates for working and foster families
- \$5.15 million to help 4,100 waitlisted vocational rehabilitation clients gain employment

Department of Health Services

- \$5 million in FY 2016 and \$7.3 million in FY 2017 for the Arizona State Hospital to maintain current operations and achieve full compliance with CMS standards

AHCCCS

- Restore preventive dental benefits for elderly and physically disabled ALTCS patients



use, expanding its capacity to implement a strategic pay package while maintaining the flexibility for overtime and case aide needs.

Efforts undertaken in conjunction with the Government Transformation Office (GTO) to implement lean management best practices have led to significant recent improvements in the handling of new reports and the report backlog. Through the establishment of model field offices, implementation of new intake protocol, and high-frequency performance benchmarking, DCS has increased its report closure rate to over 100%, closing almost 4,000 more reports than were received in the first five months of FY 2016. By comparison, in the same period last year, over 7,400 fewer reports were closed, and the backlog of open reports grew by almost 4,400.

With the recommended funding, DCS is committed to accelerating its processing of the backlog, reducing the open report number by increasing closure rates to over 120% in FY 2017. This will be achieved while also continuing to improve response times to new reports. DCS is on track to improve its rate of timely responses from 61% at the end of FY 2015 to 85% by the end of this fiscal year, with the highest risk-level cases receiving a response within two hours.

REDUCE COST OVERRUNS BY IMPROVING OPERATIONS

At the core of the DCS pipeline are out-of-home placement and support service contract management. Cost overruns in these areas are an untenable consequence of weak contracts, limited oversight capacity, and inadequate internal controls. In the out-of-home support service line alone, costs rose to \$175 million in FY 2015 – a 34% increase over FY 2014. That rate of increase is significantly faster than the out-of-home population growth rate of 12%.

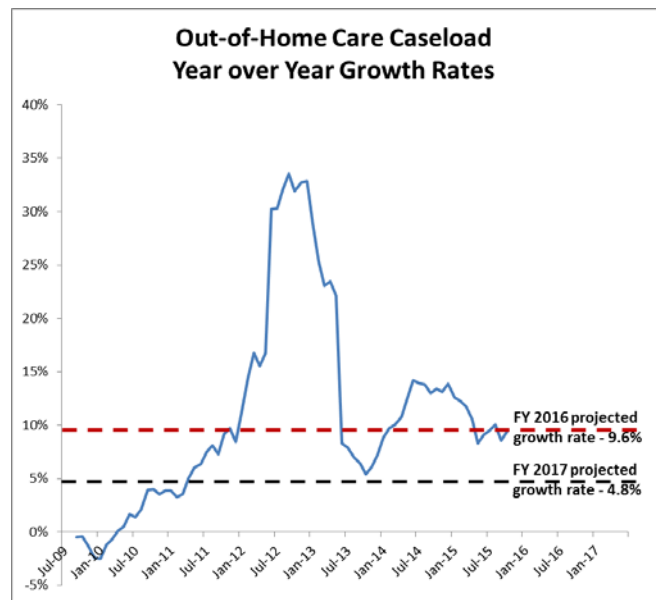
To facilitate implementation of appropriate cost controls, DCS has been assigned dedicated staff from the Government Transformation Office (GTO). Numerous core administrative functions are being evaluated and targeted for lean-management process improvements. DCS estimates that, in the support service funding lines alone, those efforts will produce \$8 million in avoided costs in FY 2016 and \$20 million in FY 2017.

To continue these efforts, the Executive recommends investing a maximum of \$11 million General Fund in DCS central operations, beginning in FY 2016. The funding backfills one-time monies provided during the Department’s creation, that were applied to administrative purposes; it is additionally intended to support DCS’s continued IT separation from the Department of Economic Security.

Funding will be released quarterly following completion of a staffing study of each administrative unit. The GTO will support the staffing review, and final staffing structures will be subject to approval by the Governor’s Office of Strategic Planning & Budgeting (OSPB) and the Governor’s Executive Staff.

FULLY FUND CHILDREN IN STATE CARE

Out-of-Home Placements. The Executive recommends fully funding placements for children who have been removed from



their homes: \$14.2 million General Fund in FY 2016 and \$18 million in FY 2017.

The DCS out-of-home population grew by 12.1% in FY 2015, with over 18,000 children in out-of-home care at the end of the fiscal year. This represented an increase from the FY 2014 growth rate of 8.8% but a continued decline from the FY 2013 growth rate of 27%. Since December 2014, monthly out-of-home growth rates dropped to below 10% in five of the six months from May to October 2015.

DCS is projecting an average 9.6% year-over-year growth rate for the out-of-home care population in FY 2016. Agency-wide improvements, including addressing hotline decision-making, permanency staff procedures and support service protocols are contributing to the Department’s efforts to eliminate internal bottlenecks and reduce repeat-reporting that drive up case-loads. Continued efforts are expected to further reduce the caseload growth rate to 4.8% in FY 2017.

In June 2015, in partnership with Child Help and the City of Phoenix, DCS established a temporary emergency placement facility to host children who are newly removed from their homes. The facility addresses the immediate crisis of children sleeping in DCS field offices until more permanent placements are identified.

The FY 2016 out-of-home care funding recommendation includes \$1.2 million to cover rent and operational costs associated with the Department’s emergency placement facility. The recommended funding is only a one-time appropriation as the emergency placement facility is a temporary solution that will be replaced with fully outsourced services.

Support Services Caseload. The Executive recommends funding the Department’s projected need for both in-home and out-of-home support services for children and families with open cases. The recommended funding level – \$28.7 million in FY 2016 and \$21 million in FY 2017 – holds DCS accountable to limiting support service growth to the population growth rate.

Support service funding covers a variety of services, including:

- transportation,
- counseling,
- parent aides,
- drug rehabilitation for parents seeking reunification, and
- child care for working foster parents.

Providing support services to children and families with in-home cases is an intervention that can stabilize families and prevent removals. Providing support services in out-of-home cases is often court-mandated and may be a step toward reunification or permanency.

Permanency Caseload. The Executive recommends \$8.8 million from the General Fund for DCS's FY 2017 projected caseload of children who have achieved permanent placements via adoption or permanent guardianship.

In FY 2015 and FY 2016, DCS received federal adoption incentive funds for exceeding adoption rate metrics from prior years. Accordingly, the Executive recommends a reduction of \$3.9 million General Fund in FY 2016 from the adoption funding line.

The adoption caseload is projected to grow from an average of 21,045 in FY 2015 to 23,242 in FY 2016 and 25,542 in FY 2017, representing 10.4% and 9.9% year-over-year growth rates, respectively. The permanent guardianship caseload growth rate is expected to drop to 1.7% in FY 2016, from 2.3% in FY 2015, and hold steady at 2% into FY 2017, leading to an average of 2,666 children in permanent guardianship placements.

ADDRESSING COURT DELAYS

Attorneys and support staff are necessary to protect vulnerable youth by providing adequate legal assistance in dependency cases. The Attorney General's Protective Services Section (PSS) handles dependency cases for DCS. The work of PSS on dependency cases is directly related to the number of children in out-of-home care.

Higher than average turnover (approximately 20%) at PSS, coupled with a growing number of DCS delinquency cases, has significantly increased the attorney caseload. PSS defines a "manageable caseload" as 100 cases per attorney; if no action is taken to remedy the situation, by FY 2017 the average number of cases per attorney is projected to be 176.7.

The Executive recommends an increase of \$6.3 million in FY 2017 to reduce attorney caseload, giving attorneys adequate time to properly review and prepare for each dependency case. The Executive further recommends expenditure authority for matched federal dollars. Hiring an additional 43 attorneys and 42 support staff in PSS would reduce the number of cases per attorney to 110 by FY 2017, which is a 38% reduction from the current outlook and a more manageable level for attorneys.

Judiciary. The Superior Court in each county addresses child dependency case petitions. Judicial officers, court clerks and their staff are crucial for resolving these cases and lowering the number of children in out-of-home care.

Courts have experienced a significant increase in the number of dependency petitions. In FY 2006, 3,464 dependency petitions

were filed; by FY 2014, that number more than doubled to 7,086.

The caseload growth in dependency filings has overwhelmed the courts' efforts to make calendars and case processing more efficient. For example, in FY 2006, courts were able to conduct 84% of Preliminary Protective Hearings within seven days from the child's removal; in FY 2014, that number declined to 50%, contributing to the problem of children remaining in out-of-home care for extended periods of time.

Caseloads will continue to climb at an unmanageable rate unless the courts' capacity is increased to allow timely processing of cases.

The Executive recommends a one-time, non-lapsing increase of \$3 million in FY 2017 to address the dependency case backlog and increase the courts' capacity for timely processing of dependency cases. The Administrative Office of the Courts (AOC) will distribute funding to each Superior Court; that funding will be treated as grant monies. The Executive recommends that, with these one-time monies, courts hire only *pro tem* judges and other temporary staff. Semiannual expenditure reporting to OSPB will be required.

LITIGATION COSTS

DCS faces two class-action lawsuits, *B.K. v. McKay* and *A.D. v. Washburn*. The Executive recommends funding the costs of litigation from these two suits for two years, totaling \$2.9 million. Additionally, given the unpredictability of litigation timelines, the Executive recommends providing both years' anticipated litigation costs upfront, in FY 2016, in a non-lapsing special line.

In FY 2016 and FY 2017, the Department expects to incur Attorney General's Office fees and discovery costs, including expert witness fees. The funding recommendation covers the Department's service agreement with the Attorney General's Office, anticipated expert witness fees, and staff time for file production, case review and witness preparation.

ELIMINATION OF PAYMENT DEFERRAL

The Executive recommends appropriating \$11 million from the General Fund to eliminate DCS's deferral of payments. This appropriation allows DCS to pay its FY 2016 bills from service and placement providers during FY 2016, rather than delaying payment until FY 2017. This proposal will eliminate future payment deferrals.

The deferral is a structural deficit in the DCS budget that results in cash flow and accounting challenges, both for the Department and for the providers that receive late payments. Many of the Department's support service and placement providers are small businesses for which DCS is their sole customer; therefore, late payments may cause significant financial distress for providers on which DCS depends.

ICAC TRANSFER TO THE ATTORNEY GENERAL

Since FY 2015, DCS has received \$350,000 from the General Fund to support joint federal/local efforts to investigate child pornography. The funding is transferred entirely to the Arizona

Internet Crimes Against Children Task Force (AZICAC) led by the Phoenix Police Department's ICAC Unit. Laws 2015, Chapter 245 further increased State support for ICAC, establishing the ICAC Fund within the Attorney General's Office and allocating to the Fund \$900,000 annually from State lottery proceeds. The Attorney General's Office distributes those monies to AZICAC as well.

In order to reduce duplication of effort – both accounting and oversight – the Executive recommends moving the DCS ICAC appropriation to the Attorney General's Office and consolidating it into the Attorney General's ICAC Fund. This appropriation transfer will consolidate the two State funding streams that flow to AZICAC.

REDUCE GENERAL FUND LIABILITY

The Executive Recommendation for DCS includes a variety of funding solutions designed to offset General Fund need, totaling \$25 million in FY 2017 and \$22 million in FY 2016. The funding solutions include:

- shifting unused federal Temporary Assistance for Needy Families (TANF) funds from DES;
- increasing federal child welfare fund draw-downs through improved eligibility determination accuracy;
- application of federal Victim of Crime Act (VOCA) grant funds from the Department of Public Safety; and
- use of the remaining DCS one-time transition monies.

Department of Economic Security

The Department of Economic Security (DES) seeks to make Arizona stronger by providing temporary assistance to those in need, protecting Arizona's most vulnerable citizens, and helping low-income working families and persons with disabilities to achieve independence. The Executive Budget Recommendation is intended to support DES in its mission, with a focus on protecting vulnerable adults and enhancing child care and vocational rehabilitation.

ADULT PROTECTIVE SERVICES

In FY 2016, DES was appropriated \$1.2 million and 11.0 FTE to manage growing caseloads at Adult Protective Services (APS). While the appropriation was based on forecast 4% growth in new reports for FY 2015, actual caseload growth was 19%. In addition, investigators are hindered by an outdated database that impedes their field access to important information.

To improve casework efficiency, with the goal of reducing average caseloads from 137 cases per investigator (in FY 2015) to less than 100 cases per investigator, the Executive recommends a General Fund appropriation of \$3 million, which includes 21.0 new FTE positions and \$1 million to update the APS database.

ALTCS ADULT PREVENTIVE DENTAL

The Arizona Long Term Care System (ALTCS) is a single federally defined program providing services through two State agencies:

AHCCCS, which serves the elderly and physically disabled, and the DES, which serves the developmentally disabled.

Compared to the general public, individuals with disabilities are more susceptible to oral diseases that can further jeopardize their health. Without proper dental care, developmentally disabled persons who experience dental pain may exhibit behavioral problems that result in inappropriate behavioral intervention. Further, without proper treatment, clients may seek assistance from more expensive emergency care services.

After the Division of Developmental Disabilities implemented a dental pilot program in FY 2007, the Arizona Health Care Cost Containment System (AHCCCS) expanded preventive dental services in FY 2008 to all ALTCS adults, up to an annual limit of \$1,000 per member. However, this service was eliminated at both AHCCCS and DES during the recession.

Due to the importance of providing quality care to Arizona's most vulnerable residents and avoiding the costs of emergency treatments, the Executive recommends \$1.2 million from the General Fund to reinstate the ALTCS adult preventive dental benefit for the developmentally disabled. The Executive also recommends \$1.4 million in the AHCCCS budget, for a total General Fund impact of \$2.6 million.

CHILD CARE MARKET RATE SURVEY

Federal Child Care Development Fund (CCDF) guidelines state that subsidy payments to child care providers should be set at the 75th percentile of the most current Market Rate Survey (currently dating to 2014). DES bases its child care subsidy payments on the 2000 Market Rate Survey, which contains the oldest data used by any state. Consequently, a single parent of two children in child care may have to contribute up to 42% of his or her gross monthly income to cover the remaining child care costs. The federal government has the authority to withhold CCDF funding from a state unless that state makes an effort to comply with the specified guidelines.

To protect Arizona's CCDF funding, the Executive recommends \$6.4 million from the General Fund to raise the provider rate to the 50th percentile of the 2004 Market Rate Survey in FY 2017. That will make child care more affordable for Arizona's low-income families and help working parents stay on the job.

VOCATIONAL REHABILITATION

The Arizona Rehabilitation Services Administration delivers services to the physically and mentally disabled, to help them achieve employment and independence. The population to be served is divided into three priority categories:

- individuals with severe disabilities that seriously limit three or more functional capacities;
- individuals with severe disabilities that seriously limit *one* or more functional capacities; and
- individuals with disabilities that *do not limit* one or more functional capacities.

Only the most severely disabled category is being served. As a consequence, at the beginning of FY 2016, almost 4,200 individuals from the other two categories were on a waitlist. The

Department projects this number to grow to over 4,900 in FY 2017.

The Executive recommends \$4.7 million from the General Fund and \$450,000 from the Spinal and Head Injuries Trust Fund to help 4,104 waitlisted clients obtain employment.

TANF SURPLUS

Since August 2012, when the lifetime benefit was reduced from 36 months to its current 24-month limit, the Cash Assistance caseload has declined by 40%. That trend has resulted in a surplus of Temporary Assistance for Needy Families (TANF) funding in the Cash Assistance program line.

Due to the level of need at DCS and the ability to use TANF monies for child safety, the Executive recommends transferring to DCS this TANF surplus, in the amount of \$13.6 million in FY 2016 and \$11 million in FY 2017.

Department of Health Services

ARIZONA STATE HOSPITAL

The Department of Health Services (DHS) operates the Arizona State Hospital (ASH), which provides 360 beds for long-term psychiatric treatment of the seriously mentally ill in Arizona. ASH operates three programs for the seriously mentally ill:

- the Civil Adult Rehabilitation Program, which has 117 beds and provides treatment to individuals who are civilly committed after failing to respond to treatment in a community hospital;
- the Forensic Adult program, which has 143 beds and provides treatment for two seriously mentally ill populations (individuals not fit to stand trial and individuals who have been convicted of a crime); and
- the Arizona Community Protection and Treatment Center, which has 100 beds and provides treatment for individuals who have been convicted of a crime and are classified as sexually violent persons.

ASH is primarily funded through the General Fund and the Arizona State Hospital Fund (ASH Fund). In FY 2016, 84% of ASH funding comes from the General Fund, 14% is from the ASH Fund, and 2% comes from a combination of smaller funding streams, including the State Hospital Land Earnings Fund.

The Executive recommends a total increase of \$5 million from the General Fund in FY 2016 and \$7.3 million from the General Fund in FY 2017. The recommended funding will allow ASH to (a) maintain current operations and (b) implement DHS's Plan of Correction, which will achieve full compliance with standards issued by the Centers for Medicare and Medicaid Services (CMS). Those funding objectives are discussed separately below.

Maintaining Current Operations. Revenues deposited into the ASH Fund are collected from counties and from AHCCCS, the State's Medicaid program. DHS can bill counties for 100% of the daily cost of care for Restoration to Competency (RTC) patients and 31% of the daily cost of care for Sexually Violent Persons. Also, DHS can bill Medicaid for a maximum of 30 days for

patients ages 21 to 64, but there is no limit on the number of Medicaid days for patients under age 21 or over age 64.

Since FY 2011, both the RTC population and the number of Medicaid-funded days of care have dropped. Therefore, there has been less revenue from county and federal sources into the ASH Fund.

Due to this insufficiency of revenues, DHS has been using the balance in the ASH Fund since FY 2011 to fund operations. At the beginning of FY 2016, the ASH Fund balance dropped to \$599,900. ASH Fund revenues are forecast to be only \$5 million in FY 2016 and again in FY 2017, resulting in a \$4.6 million shortfall in both fiscal years.

The Executive recommends an ongoing \$4.6 million increase from the General Fund in FY 2016 and 2017, with a corresponding \$4.6 million reduction in the ASH Fund in both FY 2016 and FY 2017. This General Fund increase will resolve the ASH Fund's ongoing structural imbalance, allowing DHS to fund current operations at ASH.

To fund the cost of prescription drugs at ASH, since FY 2013 DHS has used unspent funds appropriated through the Non-Medicaid Seriously Mentally Ill special line item. In FY 2015, this cost was \$2.4 million. For FY 2016, DHS was appropriated \$1.2 million from the General Fund to partially offset the cost of prescription drugs at ASH.

In FY 2017, the Non-Medicaid Seriously Mentally Ill special line item is moving to AHCCCS as part of the transfer of the Behavioral Health Services program from DHS to AHCCCS, leaving DHS unable to fund the cost of prescription drugs at ASH. To fully fund the forecast cost of prescription drugs at ASH in FY 2017, the Executive recommends a \$1.2 million increase from the General Fund.

CMS Compliance. In May 2015, CMS surveyed ASH and issued a Statement of Deficiencies, citing the hospital as failing to maintain a safe environment and adequate nursing staff.

DHS responded to the Statement of Deficiencies by submitting to CMS a detailed Plan of Correction. A major aspect of this plan adds nursing and security officer positions at the ASH campus to better monitor patients. CMS has found the plan satisfactory at this time, but DHS does not have budget capacity to add staff at ASH.

To fully implement the DHS Plan of Correction and satisfy concerns about patient safety and care as expressed in the McGregor Report, the Executive recommends \$378,000 from the General Fund in FY 2016 and \$1.5 million from the General Fund in FY 2017 to fund the Department's request to hire an additional 15.0 FTE Security Officer and 14.0 FTE Nurse positions. The additional security officers will allow DHS to add four positions for ASH's three campuses, with an additional three positions to float among the three campuses as needed to address security concerns. The additional nurses will allow DHS to meet licensing requirements for nursing staff levels, which are based on patient needs.

AHCCCS

ALTCS ADULT PREVENTIVE DENTAL

Arizona Long Term Care System (ALTCS) adults who lack preventive dental services face heightened health risks, including periodontal disease, pneumonia and worsening diabetic conditions. As previously discussed, to avoid the cost of emergency services due to the lack of preventive dental care, the Executive recommends an additional \$1.2 million from the General Fund to DES to restore preventive dental benefits for developmentally disabled ALTCS patients, up to an annual maximum of \$1,000.

As ALTCS is one program provided through two State agencies, the Executive Recommendation includes an additional \$1.4 million for adult elderly and physically disabled ALTCS patients whose services are provided through AHCCCS. Thus, the proposal to restore dental coverage for adults totals \$2.6 million General Fund statewide.

COLLECTIONS AND FRAUD PREVENTION

In response to a recommendation from the Auditor General's 2012 AHCCCS sunset audit, the Executive recommends an additional \$107,300 in General Fund appropriation and 3.0 FTE positions to create a Collections Unit and to review health provider records.

The Collections Unit will focus on collecting the \$15 million in outstanding legal settlement awards that are due to AHCCCS. Auditing health care providers will ensure that they are properly and accurately billing Arizona's Medicaid program.

IT SECURITY AND PERFORMANCE

In recent years there have been numerous security breaches in private-sector and government computer systems, including one at the Maricopa Community Colleges, the resolution of which has cost \$20 million to date.

The AHCCCS IT systems include records for approximately five million current and former enrollees. To protect current and

former members' personal information, in recent years AHCCCS has implemented a series of tools to significantly improve its security environment. To further this effort, the Executive recommends \$280,600 General Fund and 2.0 FTE positions to provide for a third-party consultant to conduct an external review of security vulnerabilities within AHCCCS and to augment the agency's IT security resources.

Currently, it takes up to a month to review and address issues discovered in regular security scans. This recommendation will allow staff to use automated tools to track and respond to threats in real time.

Additionally, as system performance is crucial for the agency's efficiency, the Executive recommends \$463,300 General Fund and 2.0 FTE positions to implement tools to identify and resolve IT system performance issues and coordinate the agency's IT assets to ensure compliance with vendors' licensing requirements. With the proposed performance management software, network issues that now require a day to troubleshoot and resolve can be identified nearly instantaneously. Faster problem resolution means less system down time and greater staff productivity.

In sum, the Executive recommends a total of 4.0 FTE positions and \$743,900 General Fund, of which \$290,500 is one-time funding, to improve the security posture of the AHCCCS IT systems, implement system performance-enhancement tools, and systematically coordinate IT assets.

BEHAVIORAL HEALTH SERVICES TRANSFER

Laws 2015, Chapter 19 (the Agency Consolidation Budget Reconciliation Bill) requires the transfer of funding and management for the Behavioral Health Services program from DHS to AHCCCS, effective July 1, 2016.

To implement this transfer, the Executive recommends a reduction in the DHS budget and a corresponding increase in the AHCCCS budget. This consolidation is estimated to generate savings of \$607,500 for the General Fund by eliminating duplicate administrative functions. •

Natural Resources

Sound management and strategic investment are fundamental to wise stewardship of Arizona’s water supply, public lands and recreation infrastructure.

State Forester

The Executive recommends specific measures aimed at protecting the first responders who put their lives on the line to extinguish wildfires and safeguard Arizona’s beauty and ecological diversity. As part of the recent Yarnell Hill settlement, the State Forester is responsible for implementing safety enhancements. The Executive recommends key investments that are intended to improve firefighter safety.

Safety. Communication of information during a wildfire can be greatly improved by use of new “common operating picture” (COP) software that provides critical real-time information about a fire and is accessible in the field. The COP allows users to instantly view and edit layers of images and statistical data from multiple sources to effectively track the fire and the precise location of firefighters. Access to the COP will be shareable across State agencies. The Executive recommends an annual \$65,000 for the software, plus a one-time \$20,000 customization fee.

Transportation. The Executive Recommendation includes the purchase of a new wildland fire engine (\$112,500) and inmate fire crew carrier (\$190,000). The Forester’s fleets are aging, increasingly unreliable, and only partially compliant with current safety standards. The Forester has shown resourcefulness in purchasing and repurposing used federal surplus vehicles, and adding new vehicles will be an important first step in updating the fleet.

Game and Fish Department

Providing quality service to constituents and conducting conservation efforts are among the Game and Fish Department’s primary functions. Funding for the Department is derived mostly from hunting and fishing license fees, not from the General Fund.

Hunting. The Department is dedicated to following through on its commitment to provide more services and amenities for hunting and fishing enthusiasts. Enhancements funded by the recommended \$700,000 will attempt to attract more hunters, provide grants to land owners in exchange for hunter access to their property, and support habitat restoration.

Legal Representation. Due to increased federal involvement in management of Arizona wildlife populations, the Department has had to play a legal role in defending Arizona’s interests and navigating complex and inconsistent federal regulations. The Executive recommends \$320,000 for increased legal representation by the Arizona Attorney General’s Office.



Equipment. As with other State agencies, the Game and Fish Department uses the Department of Public Safety’s statewide communications system and towers. Game and Fish is responsible for its equipment at those towers, and the Executive recommends \$102,000 for each of the next three years for equipment replacement. In addition, the Executive recommends:

- \$373,500 to replace seven vehicles that are expected to reach mileage in excess of 125,000;
- \$66,700 (ongoing) to replace body armor vests;
- \$246,000 to replace the two oldest, highest meter-hour boats in the Department’s fleet; and
- \$874,900 to add boat storage structures for State-owned boats at ten locations.

Invasive Species. In the continuing fight against quagga mussels and other aquatic invasive species, the Executive recommends three additional mobile decontamination units and a truck to transport them, at a total cost of \$125,000, and \$250,000 for prevention research.

Department of Water Resources

Preserving its water supply is critical to Arizona’s ability to grow and thrive for future generations. The Department of Water Resources is entrusted as the State’s collaborative leader of this effort among state and national stakeholders.

The Department requires increased flexibility in implementing the Governor’s Water Initiative. The Executive Recommendation calls for expanded use of the special line appropriation, which is \$500,000 annually, for Colorado River litigation expenses, allowing the Department to use the existing appropriation for all expenses relating to the Colorado River supply. •

Government That Works

Agency consolidation, operational integrity, responsible stewardship and revenue protection will help meet the public's expectations for quality in State Government.

Sound Fiduciary Management

The Governor is unable to require State agencies to curtail spending without Legislative approval. In at least 21 states, governors have some form of authority to order agencies to reduce spending below the appropriated level for the year. The Executive recommends permanent statute to provide the Governor with this fiscal management tool.

Further, the Executive Recommendation provides for depositing \$10 million in the Budget Stabilization Fund ("rainy day" fund).

Stewardship of Capital Assets

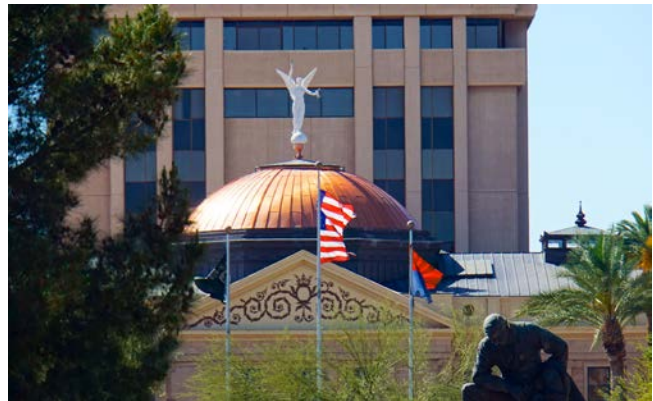
DOA BUILDING SYSTEM

The Department of Administration (DOA) building system includes an inventory of 4,211 buildings and structures with a total area of 23.5 million square feet and a replacement value estimated at \$4.5 billion. The Executive recommends a \$20.4 million General Fund capital appropriation to fund the most urgent capital needs in the DOA building system. The Executive's capital outlay plan for FY 2017 leverages one-time resources to address building renewal and other priority capital projects, improve the operation and safety of State facilities, and mitigate the risk of expensive emergency repairs.

Fire & Life Safety Infrastructure. Fire alarm systems have a typical life expectancy of 10 to 15 years, and there is an ongoing need for replacement of fire systems within the DOA building system. The Executive Recommendation provides for the replacement of fire alarm systems that have exceeded their life expectancy, are functionally obsolete, or are in various stages of failure. Specifically, the Executive recommends \$5 million to replace fire and life safety infrastructure within the DOA building system and \$4.6 million for the same purpose at the State prison in Florence.

HVAC Upgrades. The ability to control temperatures inside State buildings is essential to their operation. Many HVAC (heating, ventilating and air conditioning) systems throughout the DOA building system have exceeded their useful lives and are at risk of failure, which could result in expensive emergency replacements and temporarily uninhabitable buildings.

The Executive recommends that \$4.3 million be allocated to HVAC upgrades at the Arizona State Hospital, where many components are nearing the end of their useful lives. The Executive Recommendation also provides \$6.5 million for major upgrades at the Capitol Mall and Tucson Office Complex, where



Highlights

- The Governor should be allowed to curtail State agency spending.
- \$20.4 million will fund the most urgent capital needs in the Department of Administration building system.
- Major renovations will occur at 1740 W. Adams St.
- \$9 million from the Capital Outlay Stabilization Fund will be used for general building renewal.
- ADOT will receive \$1.2 billion for highway construction projects scheduled to start in FY 2017, \$9.7 million for building construction and renewal, and \$1.7 million to maintain 149 new highway lane-miles added in FY 2016.
- \$32 million in total funds is recommended for multiple IT projects continued from previous years, expanding the State's IT security and support infrastructure.
- Consolidation of various agencies into larger related agencies will enhance efficiency and reduce funding needs.
- Protection of State revenues will be enhanced through compliance with Tobacco Settlement requirements and fraud prevention in the State's Medicaid program.

HVAC system components are more than 20 years old and at risk of failure.

Major Building Renovations. In FY 2017, it is expected that the 1740 W. Adams St. building will be vacant. The Executive recommends a renovation of that building, funded through a rent increase and General Fund appropriation, at a total cost of \$4.2 million. The recommended rent will increase to \$17.85 per rental square foot, which is approximately 90% of the current Phoenix-area market rate for comparable office space. The rent

increase will generate \$8.8 million, of which \$5.3 million has a General Fund impact.

It has been difficult to find State agency tenants for the Scottsdale properties at 9535 and 9545 East Doubletree Ranch Road, as they are 25 miles from the Capitol Mall. As a result, the Doubletree Ranch Road properties are 60% vacant, and it is not cost effective for DOA to heat, cool and provide maintenance and mailroom services to those facilities.

The Executive proposes that in FY 2018, after renovations have been completed at 1740 W. Adams, tenants in the Doubletree Ranch Road buildings move to the newly renovated building. Additionally, the Executive recommends selling the Doubletree Ranch Road building, with proceeds deposited into the General Fund. A recent assessment valued the Doubletree Ranch Road properties at \$2.6 million.

Building Renewal. As many of the State's building components and structural systems have exceeded their expected useful lives, building-renewal money is an increasingly important investment in the State's infrastructure.

Estimated renewal needs are based on a statutory formula that considers the age and replacement value of the buildings. The Executive recommends \$9 million from the Capital Outlay Stabilization Fund for general building renewal.

In addition to building-renewal funding for the DOA System, the Executive recommends \$787,000 from the Game and Fish Fund for cyclical maintenance for replacing or renovating major building system components of the Department's 280-plus structures.

ADOT BUILDING SYSTEM

The ADOT system includes an inventory of 1,221 buildings and structures having a total area of 3.3 million square feet and a replacement value estimated at \$725 million. For FY 2017, the Executive recommends, from the State Highway Fund, \$5.5 million for new capital projects and \$4.2 million for building renewal needs.

ADOT Building Construction. By 2019, ADOT plans to build 34 vehicle wash systems in remote locations where commercial options are unavailable. Pollutants such as motor oil, road tar and de-icer salts accumulate on highway maintenance vehicles and equipment, which can cause premature deterioration of the assets and, if not removed in a controlled setting, damage the environment. In FY 2017, the \$5.5 million recommended above will fund the construction of 10 vehicle wash systems.

ADOT Building Renewal. The Executive recommends \$4 million from the State Highway Fund and \$232,000 from the State Aviation Fund for building renewal.

Highway Construction. The Recommendation supports a \$1.2 billion transportation infrastructure program in FY 2017. The FY 2017 debt service on existing ADOT construction bonds is \$314.9 million. In accordance with State law, actual expenditure levels are determined within the scope of the Five-Year Highway Construction Program approved by the State Transportation Board. Construction projects and debt service payments are supported by fuel taxes, vehicle registration fees, vehicle license

taxes, federal funding, and a half-cent Maricopa County sales tax.

Highway Construction Projects Beginning in FY 2017 and Debt Service Payments

| | |
|--|------------------------|
| Construction | \$58,109,000 |
| Urban Controlled Access ¹ | 560,991,000 |
| Pavement Preservation Maintenance | 214,019,000 |
| Other ² | 46,972,000 |
| Debt Service ³ | 314,947,000 |
| Total | \$1,195,038,000 |

¹Includes expenditures from the HURF for controlled access, Maricopa Regional Area Road Fund and Pima Association of Governments (PAG) Regional Transportation Authority.

²Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

³Includes \$153,138,000 for HURF bonds (\$126,141,000 for statewide program and \$26,997,000 MAG program); \$142,646,000 for Maricopa Regional Area Road Fund Bonds; and \$19,163,000 for Grant Anticipation Notes as of June 30, 2015.

Highway Maintenance. As the State highway system grows, the resources needed to maintain the system increase. In FY 2016, new construction will add about 149 highway lane-miles. The FY 2017 Executive Recommendation provides \$1.7 million to properly maintain the new highway miles based on cost estimates developed by ADOT through internal tracking of actual maintenance expenditures. The Department has calculated that the average costs to maintain an urban lane-mile and a rural lane-mile are, respectively, \$21,300 and \$4,500 per year.

In addition, the Recommendation provides \$4.3 million for the systematic inspection and repair of drainage infrastructure and \$1.5 million for freeway lighting. A recent assessment of State drainage infrastructure revealed that a significant portion of the system is more than 50% blocked or otherwise in substandard condition. ADOT has reduced freeway lighting outages to 7% by temporarily redirecting highway maintenance funds to lighting from other areas, and the Executive Recommendation will enable ADOT to maintain the improved freeway lighting without diverting resources from other needs.

STATE PARKS CAPITAL DEVELOPMENT NEEDS

Unlike most states, in Arizona the State Parks do not have a funding source dedicated solely to capital needs. State Parks could vastly improve recreational opportunities and services, as well as generate increased revenues, if capital improvements were made. The Executive recommends a one-time \$10 million General Fund loan to the agency in FY 2017. The loan is to be repaid to the General Fund with interest after construction is completed, using new revenues generated by State Parks. This innovative model will be monitored and evaluated as a pilot program.

GAME AND FISH HATCHERY RENOVATION

Built in the 1970s, the Sterling Springs Hatchery is due for renovation. As the Game and Fish Department's role in fostering Arizona's sport fishing industry provides a strong return on investment, renovating the hatchery is priority. The Executive recommends a one-time appropriation from the Game and Fish Fund for that purpose.

Improving Efficiency through Technology

Considering the rapid rate of change in technological advances and opportunities, optimizing the State's IT systems must continue to be a major strategic focus and a hallmark of good government.

The State is engaged in a number of projects to centralize and enhance the technology that supports its service delivery mechanisms. The Executive Recommendation continues moving toward completion of multiple IT projects from previous years, invests in new critical projects, and expands the IT security and support infrastructure upon which State services depend.

LARGE AUTOMATION PROJECTS

In FY 2014, a statewide IT management plan specified that certain IT projects be consolidated with centralized oversight and project management provided by the Department of Administration's Strategic Enterprise Technology (ASET) Division. The plan also stipulated that funding for several new and continuing technology projects come through the Automation Projects Fund.

In FY 2016, this plan included:

- replacing the Arizona Financial Information System (AFIS);
- replacing the Arizona Department of Education data system;
- replacing the Department of Child Safety's CHILDS system;
- replacing the Department of Corrections Inmate Management System (AIMS);
- making enhancements to the Department of Economic Security's IT security;
- developing ASET's statewide infrastructure projects; and
- developing the Department of Environmental Quality's e-licensing system.

The Executive recommends that the appropriations made for FY 2016 and earlier for these projects be non-lapsing into FY 2017, including all FY 2016 appropriations and the FY 2015 appropriations to the AFIS replacement, CHILDS replacement, and Adult Inmate Management System replacement projects.

In total, the Executive recommends that \$32 million in appropriated funds for FY 2017 be administered from the Automation Projects Fund and managed by DOA for continuing IT projects, of which \$11.9 million will come from the General Fund.

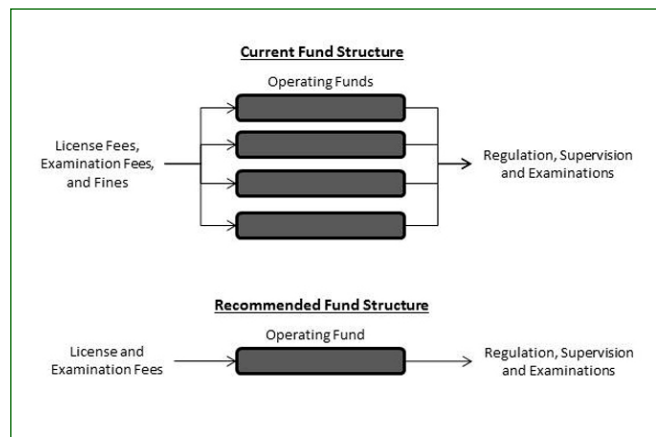
Consolidation and Savings Measures

DEPARTMENT OF FINANCIAL INSTITUTIONS FUND RESTRUCTURE

To better serve Arizona's financial industry, increase fee transparency, improve operational efficiency, utilize more reliable funding sources, and transfer Department operations away from the General Fund while also creating a net benefit to the General Fund, the Executive recommends a restructuring of funds at the Department of Financial Institutions (DFI).

Under the present structure, DFI's operating expenditures for regulation and supervision are made from four separate funds: General Fund, Financial Services Fund, Banking Department Revolving Fund, and Board of Appraisal Fund. Three of these funds receive revenue from licensing and examination fees. The fourth fund receives revenue from fines on the industry, creating the potential for a conflict of interest. Finally, in recent years the Financial Services Fund has accumulated a large fund balance.

The recommended fund restructure would consolidate operating expenditures for regulation and supervision from four funds into a single appropriated fund: the Financial Institutions Fund. The consolidation will give DFI opportunities for operational efficiency, allow it to shift operating expenditures away from fines on the industry, and redirect excess fund balances to benefit the General Fund.



DEPARTMENT OF FIRE, BUILDING AND LIFE SAFETY

The Executive recommends eliminating the Department of Fire, Building and Life Safety (DFBLS) by relocating and consolidating components into existing agencies with similar missions. DFBLS consolidation aids in government efficiency, preserves critical functions, and offers the potential for cost savings.

Relocating the components and functions of DFBLS entails consolidating the Office of the State Fire Marshal (OFM) within the State Forester, the Office of Manufactured Housing (OMH) within the Department of Housing, and the Homeowners Association (HOA) dispute process within the Department of Real Estate.

OFM serves to reduce hazards to life and property through enforcement of the Arizona Fire Codes by performing inspections and fire investigations, providing public education, and adopting fire protection codes. OFM is primarily responsible for inspecting State buildings and all school buildings. When possible, OFM partners with local fire departments to outsource those functions. The State Forester is an appropriate fit for OFM, as the two agencies interact with the same constituencies, share similar emergency management functions, and are involved with the State Fire School.

OMH maintains standards of safety and quality for all manufactured homes, factory-built buildings, and accessory structures. The Department of Housing (DOH) is a fit for OMH, as the OMH receives limited funding through the U.S. Department of

Housing and Urban Development (HUD), and DOH already houses another HUD program, the Low Income Housing Tax Credit.

The HOA dispute process provides a venue for Arizona homeowner associations to resolve disputes without pursuing civil court action. The Department of Real Estate is an appropriate fit for the HOA dispute process, as realtors often deal with HOA issues and many community managers are licensed realtors.

GEOLOGICAL SURVEY CONSOLIDATION

The Arizona Geological Survey was originally housed at the University of Arizona. While the Survey was formally established as an independent State agency in 1988, it retains strong collegial and logistical ties with University faculty and staff. Both engage in rigorous academic geoscience research that greatly benefits the state.

For FY 2017, the Executive recommends consolidating the Arizona Geological Survey within the University of Arizona. This model, adopted by 20 states, is designed to enhance synergies by streamlining services and location of geological mapping data to better serve stakeholders. It presents potential for greater opportunities to successfully leverage research grant funding, can provide a direct pipeline of student researchers to the survey, and should help attract high-profile geologists.

The Executive recommends moving the Oil and Gas Conservation Commission to the Department of Environmental Quality.

OSHA REVIEW BOARD CONSOLIDATION

The OSHA Review Board reviews cases involving violations of Arizona's occupational health and safety laws at one phase of the process, while the Industrial Commission reviews violations at two phases. The two agencies maintain strong ties, with the Industrial Commission preparing the OSHA Review Board's budget and paying the Board's bills.

The Executive recommends consolidating the OSHA Review Board with the Industrial Commission of Arizona as one budget unit. The Board officially has no FTE employees and typically spends less than \$1,500 annually. Considering the similarity of their functions, their close ties and the Board's size, consolidation represents an opportunity to reduce the duplication of budget unit processes.

ELIMINATE DES FINGER IMAGING REQUIREMENT

In order to prevent multiple fraudulent enrollments in the Supplemental Nutrition Assistance Program (SNAP) and TANF cash assistance program, Arizona requires applicants to be fingerprinted. The operation of this requirement is supported by the General Fund.

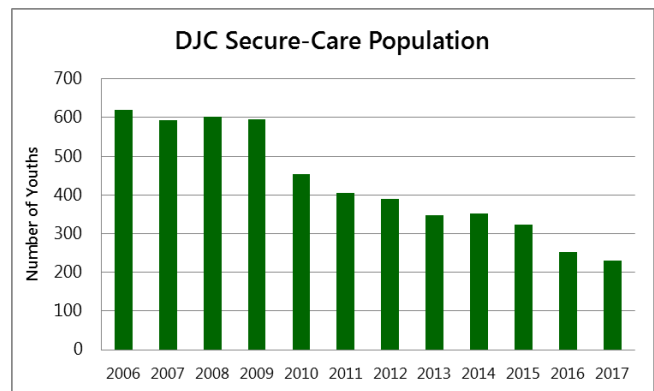
Arizona is the only state that uses taxpayer dollars to subsidize the finger imaging requirement for those federal programs. The Department performs more than 20 other measures to prevent fraud and multiple enrollments, such as Social Security number verification, multiple-address listing report, and an electronic disqualified recipient system cross-match. In FY 2014, the finger imaging requirement identified only 10 duplicate applications in over 1.1 million total applications, or 0.001%. In relation to the

State cost of the program, this comes out to be \$85,620 per duplicate application.

The Executive recommends eliminating the finger imaging requirement and saving the General Fund \$856,200.

Juvenile Corrections

As the following chart illustrates, the youth population at the Department of Juvenile Corrections facilities continues to decline. Due to the decreasing DJC youth population, the Executive recommends a reduction of (\$1.9 million) in FY 2017.



Protection of State Revenues

IMPROVED ADMINISTRATION AND ENFORCEMENT OF TOBACCO REGULATIONS

In 1998, the State of Arizona entered into the Tobacco Master Settlement Agreement (MSA) to resolve litigation brought against major tobacco product manufacturers to recover costs associated with tobacco use. The agreement provides for payments of approximately \$100 million per year to State health care beneficiaries. However, this revenue stream is conditional on the State meeting its obligations under the Agreement. Among other things, the MSA required the Department of Revenue (DOR) to diligently administer and enforce tobacco tax statutes.

In 2006, some participating cigarette manufacturers refused to pay Arizona and other states the full annual payment amount, alleging failure to comply with the MSA. The matter was submitted to an arbitration panel, and in 2012 the State entered into an adjusted agreement that explicitly heightens enforcement standards. In order to guarantee full receipt of future payments under the MSA, the State and DOR are obligated to comply with the enhanced terms.

To provide continued receipt of approximately \$100 million in health funds, the Executive recommends an ongoing \$1.6 million General Fund appropriation to the Department for a new electronic luxury tax filing system and an additional 11.0 FTE administration and enforcement positions. This will help the Department efficiently and quickly gather the information it needs to meet the MSA's enforcement standards, and share that information with the Attorney General as required.

AHCCCS FRAUD PREVENTION

As noted in the Health and Welfare summary, in response to a recommendation in the Auditor General's 2012 sunset audit of AHCCCS, the Executive recommends an additional 3.0 FTE positions to create a Collections Unit and review health provider records.

The Collections Unit will focus on collecting \$15 million in outstanding legal settlement awards to which AHCCCS is entitled, while auditing health providers will enhance proper and accurate billings to the State's Medicaid program. •

The Economy

During FY 2017, Arizona should continue to achieve economic growth that outpaces the nation.

In 2015 the U.S. economy is expected to grow at a rate of about 2.5%, and prospects for 2016 are only slightly better. The national economic picture is clouded by challenging demographics, the need for retirement saving, and lingering concerns over debt burdens, and by slow-growth economies abroad and the threat of disruptive geopolitical shocks.

Nevertheless, consumer attitudes remain generally positive, and the labor market continues to improve. For many, optimism is buoyed by falling energy prices that have provided a significant boost to disposable incomes.

The general consensus for growth in 2016 and beyond is that consumer spending (especially with respect to housing) and business investment will overcome challenges elsewhere, and that moderate, steady growth in GDP and employment will continue. Few observers predict accelerating growth, but there are no immediate signs of recession.

National Outlook

Over the next three years, bright spots will include consumer durables, housing and automobiles with business investment returning to historical rates. This will occur against a backdrop of relatively low energy prices, rising interest rates, and a continued strong labor market. If it occurs, faster growth would likely come from higher-than-expected levels of consumer spending, home buying, and business expansion; however, it is difficult to identify a catalyst for more rapid acceleration in these areas.

Pessimists cite adverse demographics, as Baby Boomers retire and the number of people in prime working age declines; anti-business impacts of government regulation; burdens associated with health care obligations; an archaic tax code; and growing international unrest.

EMPLOYMENT

The U.S. labor market continues to improve. By many measures, the overall U.S. unemployment rate is nearing “full employment,” with recent monthly gains eclipsing 200,000 per month. Still there remains some evidence that portions of the workforce are underemployed or involuntarily working part-time.

Employment growth is expected to average about 2% in 2016, with consensus forecasts calling for mild slowing and unemployment rates briefly dipping below 5% before stabilizing around that level.



As the trend toward more service jobs continues, job quality will become a greater concern. For overall wage appreciation, old-line manufacturing jobs will need to be replaced by higher-quality service employment opportunities. Jobs requiring knowledge and skills will be at a premium, with occupations that involve repetitive tasks coming under increased pressure due to automation.

CONSUMER SPENDING

In the last two years, consumer confidence has improved dramatically at the national level and been sharply boosted by recent declines in energy prices. The most likely scenario suggests that national consumer confidence will hold at near normal levels over the next three years.

Consensus projections suggest that consumer spending alone will contribute more than 2% to GDP growth in 2016. Durables, automobiles and housing will be areas of high demand. The catalyst for spending is a strong labor market, with modestly rising wages; improved household wealth; higher discretionary incomes due to the sharp decline in gasoline prices; and, despite the Fed's December rate hike, a still-favorable interest rate environment.

INTEREST RATES

To the surprise of many economists, interest rates languished at low levels throughout much of 2015, with only modest increases expected in 2016. Consensus projections call for overall rate increases in the vicinity of 50 to 100 basis points over the next year, with moderate increases thereafter. Downward pressure on rates has come from a very accommodative Federal Reserve, a very low inflation environment, and slow economic growth – especially internationally.

Most of the catalysts for this low interest rate environment will remain in place in 2016 even as the Federal Reserve moves along a slow path toward monetary policy normalization. Since announcing a quarter-point increase in target interest rates, one-year Treasury effective rates have risen approximately 30 basis points to just under 0.7%.

This low to moderate interest rate environment will help support ongoing consumer durable purchases and business investment. Actually, the headwinds in the credit markets may come not from interest rates, but from banks' ability to find borrowers and investors who meet the criteria imposed following the excesses of the financial crisis.

Since the recession, recovery in investments levels has been slow, and overall residential and non-residential fixed investment remains well below pre-recession highs. Housing starts both nationally and within Arizona remain depressed, and overall mortgage activity remains low. In nominal terms, total mortgage debt outstanding remains nearly 8% below the pre-crisis peak, and the pace of originations continues to lag – even as supply constraints push prices towards previous highs. National, state and local policies that improve credit access and ease restrictions on putting capital to work should pay immediate growth dividends.

BUSINESS SPENDING

At the national level, corporate profit growth in 2016 will be in line with growth observed in 2015, with slower growth projected thereafter. Along with improvements in the demand for products and services, strong balance sheets in the business sector will support business investment and expansion. Consensus forecasters see investments in the technology sectors with modest increases in physical commercial/industrial structures.

Weakness will continue in extraction industries as commodities, oil and gas continue to be pressured. Alternatively, health care, multi-family and sectors that require commercial space will see increased demands and make requisite investment. Growth in information technology equipment investments is expected to be robust for 2016-2017, in comparison to the past several years, as the refresh cycle gains momentum.

VALUE OF THE DOLLAR

In 2015, the dollar continued to appreciate against a basket of foreign currencies, with upward pressure coming from improving economic conditions in the U.S., especially in comparison with other countries.

Few economists see any substantial deterioration in the value of the dollar over the next several years, although the consensus view is that the dollar will reach its peak for this cycle in early 2016 and moderate downward slightly thereafter. This view assumes that global growth will take place in 2016 at rates faster than observed in recent years. Should the global economy continue to stall, the pace of dollar appreciation and its adverse impact on commodity prices and U.S. export activity will likely continue.

CURRENT EVENTS AND RISKS

Many indicators of the U.S. economy are pointing to the continued steady growth scenario. Sentiment is bolstered by low inflation rates, a steadily improving employment outlook, and a consumer whose spending behavior is unaffected by the pressures of de-leveraging and debt reduction and who is inclined to increase purchases. As the pace of Baby Boomer retirements grows, there will be more opportunities for younger workers to fill slots, and confidence will continue to grow.

Downside risk exists in the form of possible unforeseen shocks, either man-made or otherwise; the drag from continued dysfunction in Washington; and slower growth outside the U.S. However, many economists point to pent-up demand, cash on the sidelines, improved overall household debt loads, a boost from lower fuel costs, and an advancing technology refresh cycle as opportunities for the economy to accelerate. Federal policymakers could provide an assist by lifting regulatory constraints, encouraging infrastructure investments (e.g., roads, bridges, water systems, etc.).

While the overall consensus is that growth will be steady nationally, there remain significant economic risks. The economy is still in a fragile state and more susceptible to crisis than usual, with the psychological imprints of the Great Recession still fresh in the nation's collective memory.

A surprise to the upside might be less likely, given Federal Budget realities and an aging Baby Boomer population, but moderate inflation, lower energy costs and a few quarters of better-than-expected growth might have an extremely therapeutic impact on consumer confidence.

Arizona Outlook

Arizona continues to display overall economic growth that outpaces the nation. Bright spots are found largely in the service sector, including business and technical services, with health care and financial services doing well.

Impediments to growth in 2016 continue to be the lack of significant domestic in-migration, a sluggish electronics manufacturing sector, and the binding impacts of sequester on Arizona's aerospace and defense (A&D) manufacturing activities. Notwithstanding its performance relative to other states, Arizona's growth remains very slow by state historical comparisons, especially at this point in the business cycle.

However, it is possible that the measured pace of growth to date sets the stage for sustainable expansion in 2016-2017:

- Arizona's defense sector may be poised to emerge from the doldrums of weakened defense-related spending, as there are indications that the major fiscal drag from sequester is behind us.
- Electronics manufacturing should benefit from an acceleration of the desktop/server computer refresh cycle.
- The state's ongoing income and property tax reforms should help drive growth by lowering production and investment costs for manufacturing activities.

- Construction – in particular, single-family homes – is poised to be on the upswing for the next two years, in sharp contrast to the past several years.

The case for optimism is based upon a slightly more positive outlook in the basic manufacturing industries, robust growth in the financial services and health services sectors, expansion of profession and technical services, and, of course, improving outlooks in construction and home building. Also, recent growth across the West creates the opportunity for business activity to spill over into Arizona rather than remaining confined to other states. The competitive advantages for living and doing business in Arizona that have buoyed growth for much of the past 50 years remain largely in place, and this should bode well for the future – especially over the next two to three years.

Pessimists point to lingering challenges in job creation, wage stability and overall job quality. There are also concerns over the “age” of the recovery, which is now in its sixth year, and improved growth in coastal states that has eroded some of the traditional attraction of land-locked Arizona.

EMPLOYMENT

Job creation continues to be a challenge. Arizona’s approximate 2.5% job growth, while healthy compared to recent years, was sluggish by historical standards. However, there were encouraging signs in some sectors, e.g., construction, professional and technical services, and finance and insurance.

In 2016 most economists again see growth in the 2.5-2.7% range, with lagging sectors including manufacturing, the A&D sector, and government. The service sector will continue to add jobs, with only those in specialized and professional services paying above median salaries. Hospitality and food services will continue to flourish, and demand for qualified construction workers will continue to build.

PERSONAL INCOME

Arizona’s aggregate personal income growth rate, as reported by the Bureau of Economic Analysis, was slow by historical standards at about 4.7%, and most economists expect more of the same for 2016.

Part of the challenge is a very low inflationary environment in which wage inflation is virtually nonexistent. Prospects for acceleration exist as the employment picture improves, though this may be offset somewhat by a slowdown in capital income as investment markets cool in response to an aging recovery and monetary tightening. As growth in overall incomes returns, it is likely that consumer confidence will continue to accelerate.

Any resurgence in inflation will bolster this personal income growth scenario, but that is unlikely given the recent energy price declines. Still, the energy price erosion will free up disposable personal income for many households, which will help to bolster consumer confidence, spending and overall economic activity.

IN-MIGRATION

The pace of domestic in-migration has held the key to growth in Arizona for decades. And though most direct metrics – e.g.,

housing starts and electrical hookups – do not show much activity, the pace of movement into the state compares favorably with that of the nation.

As has been the case for several years, far fewer people are moving today than historically. Since World War II, the historical appeal of Arizona has consisted of jobs, affordable housing and an attractive climate, but those attractions have been undermined in recent years by a sluggish national and local economy, the inability to sell homes in key sourcing states, and the massive loss of wealth and damage to credit scores that many potential movers suffered in the Great Recession.

Those factors abate with every passing year, and many of the attributes that have sustained Arizona’s people magnetism for decades remain in place today. Demographics suggest that Arizona will see significant growth in retiree populations as the economy and incomes improve. It is likely that in-migration rates will improve in 2016 and beyond, and the pace of that resurgence will be important for Arizona’s growth trajectory.

RISKS

The risks to the Arizona economy remain but lessen with each passing year. With an upswing in the housing cycle, risks should diminish further.

The most serious risk to Arizona comes from a scenario in which the nation falls back into recession due to overdone monetary tightening or external shocks. A national recession would significantly delay recovery in Arizona, since it will damage cyclically sensitive sectors while further impeding in-migration.

UPSIDE POTENTIAL

As was suggested earlier, Arizona’s housing sector is poised to grow, and it would take very little stimulus for this growth to accelerate as it has done many times before. Younger Americans have been forced to delay household formation – marriage, home buying, etc. – by high debts, weak job prospects, and changing social mores. However, if this behavior changes, the demographic effect on growth could shift from moderately negative to modestly positive. This is particularly true for a state like Arizona, whose favorable land use regulations and ample space have made it historically attractive to domestic migrants.

The FY 2016 Executive Revenue Forecast

Arizona’s General Fund is on track to realize the FY 2016 Executive revenue forecast. Year-to-date, revenues are more than 5% above the same period for last year, and well over the enacted budget estimate. To some extent, this outperformance was driven by relatively weak growth in the first half of 2015 and the one-time “tax amnesty” program, the results of which are still being measured and which may be causing a temporary overestimation of current ongoing revenues. In light of those circumstances, the current fiscal year is expected to finish with ongoing revenues of approximately \$9.2 billion, or 3.4% above last year.

Transaction Privilege Tax revenues have continued their post-recession trend of being the reliable bellwethers of “Big 3”

revenues, posting 3.5% growth through November. This is consistent with the Executive's "slow but steady" forecast. Growth in the overall TPT base will likely improve with the increased taxable consumption driven by falling gasoline prices and an improving labor market, but growth in the General Fund share of those revenues will likely be dampened somewhat by changes in the Contracting and Retail classifications by TPT reform. The General Fund receives a smaller share of Retail revenues than it does for the Contracting class, and the effect of reform has been to shift a significant amount of contracting activity into the Retail classification.

Individual Income Tax has exhibited unusually high volatility over the past three years, a situation that was driven largely by changes in federal tax policy. That volatility should level out, thanks to passage of a number of permanent tax law extenders. To date, individual income taxes have returned 6.9% over last year – more than enough to achieve the approximately 5% called for in the forecast.

Corporate Income Tax (CIT) remains by far the most volatile and difficult to forecast of the Big 3. An unexpectedly strong year for corporate receipts in FY 2015 was a significant contributor to overall revenue outperformance, and this trend has shown signs of continuation so far this year. Despite an Executive forecast of negative overall growth (driven mostly by the ongoing phasing-in of the rate reductions in the 2011 JOBS bill), the CIT posted a positive 4.9% year-over-year growth through November 2015. Some of this may be due to issues with the timing of filings, and growth may level out in the back half of the year as taxpayers fully account for tax law changes in their payments.

The FY 2017 Executive Revenue Forecast

Given the Governor's pledge to achieve a structurally balanced budget in FY 2017, it is critical that the Executive achieve its revenue forecast in that year. As such, construction of the forecast has been conservative, but realistic. For perspective, the average rate of General Fund growth over the last 25 years has been about 3.8% per year – well above the four-year forecast.

The Executive expects to receive approximately \$9.5 billion in ongoing revenues in FY 2017, or 3% more than in FY 2016. The slowdown in revenue growth versus the year prior is partially attributable to the relative outperformance in FY 2015. Specifi-

cally, the strong showing in income taxes that year will drive a large increase in required Urban Revenue Sharing payments in 2017 (which are on a two-year lag), reducing the effective General Fund share of tax revenues. Thus, the effective slowdown in overall receipts should not be seen as a negative reflection on economic prospects, nor should it be assumed to make achievement of the forecast "easy."

In fact, underlying the Executive forecast is expected continued improvement in the Arizona economy. It is clear that the Federal "fiscal cliff" drove some of the recent volatility in revenues, and that there will be lasting impacts for Arizona going forward. However, some likely slowdown in the volatile capital gains portion of revenues should be offset by acceleration in Transaction Privilege Tax revenue growth and robust Income Tax Withholding receipts. The latter will be driven by continued labor market improvement and wage inflation, while the former will be buoyed by rising consumer confidence and a continued recovery in retail. Finally, ongoing labor market growth and robust business investment in-flows should help offset continuing declines in corporate income tax rates.

UP AND DOWNSIDE POTENTIAL

The risk to the revenue forecasts are that (a) demographic changes, coupled with changes in attitudes toward debt and home ownership, act to dampen consumption to levels well below historical norms for some time and (b) the U.S. economy takes a path similar to Japan over the past 20 years, with low/negative inflation and an aging population.

Perhaps more likely is a scenario in which the U.S. economy weathers the impact of Baby Boomer retirements, younger workers find opportunities as the Boomers leave the workforce, greater opportunities in the labor force rekindle labor mobility and domestic in-migration into Arizona, and mobile businesses take advantage of the abundant opportunities presented in Arizona and some of the state's historical momentum returns.

In this scenario, the nominal U.S. economy grows at a 5-6% rate, with modest inflation averaging 2% to 3%. In this case, spending rates increase slightly, and capital gains income opportunities prevail.

Any acceleration in the transition to this higher nominal growth trajectory will result in higher revenue flows for Arizona. •

General Fund Revenue Summary

| | Actual FY 2015 | Estimate FY 2016 | Estimate FY 2017 | Estimate FY 2018 | Estimate FY 2019 |
|--------------------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| TAXES | | | | | |
| Individual Income | 3,761,344.0 | 3,940,570.0 | 4,147,140.0 | 4,366,938.4 | 4,541,049.8 |
| Corporate Income | 663,003.0 | 616,761.0 | 563,325.0 | 503,590.0 | 478,746.0 |
| Sales and Use | 4,190,533.0 | 4,330,620.0 | 4,502,544.8 | 4,691,651.7 | 4,851,167.8 |
| Property Taxes | 36,515.8 | 42,341.0 | 30,988.0 | 33,466.0 | 26,185.0 |
| Luxury Taxes | 56,746.9 | 56,210.0 | 55,740.0 | 55,400.0 | 54,860.0 |
| Insurance Premium Taxes | 449,546.0 | 448,603.0 | 453,300.0 | 455,000.0 | 472,290.0 |
| Estate Taxes | - | - | - | - | - |
| Other Taxes | 11,024.3 | 9,760.0 | 10,273.0 | 10,391.0 | 10,607.0 |
| TOTAL TAXES | 9,168,713.0 | 9,444,865.0 | 9,763,310.8 | 10,116,437.1 | 10,434,905.7 |
| OTHER REVENUES | | | | | |
| Licenses, Fees & Permits/Misc. | 144,142.5 | 159,897.0 | 169,630.0 | 182,194.0 | 194,738.0 |
| Interest Earnings | 10,214.3 | 10,100.0 | 9,900.0 | 9,700.0 | 9,500.0 |
| Lottery | 66,096.2 | 72,730.0 | 75,550.0 | 80,490.0 | 84,600.0 |
| Transfers & Reimbursements | 64,916.8 | 62,320.0 | 67,740.0 | 73,270.0 | 75,900.0 |
| TOTAL REVENUES | 9,541,904.7 | 9,843,782.0 | 10,180,452.4 | 10,553,037.4 | 10,883,689.5 |
| ADJUSTMENTS | | | | | |
| Urban Revenue Sharing | (608,935.0) | (605,634.3) | (663,652.1) | (683,599.7) | (706,569.8) |
| Scheduled Fund Transfers | 70,660.3 | 220,194.0 | 100,000.0 | 2,636.7 | - |
| Tax Amnesty Program | - | 15,000.0 | - | - | - |
| GRAND TOTAL REVENUES | 9,003,630.0 | 9,473,341.7 | 9,616,800.4 | 9,872,074.5 | 10,177,119.7 |

Note : Projected impacts from tax law changes are included in the forecast.



Executive Budget In-A-Flash

BUDGET GOALS

Balance budget

- Structural balance in FY 2017
- Maintain the long-term health of the General Fund

Manage risk

- Maintain reserve – keep for a rainy day
- Allow for mid-year adjustments

Spend responsibly

- Strengthen our schools
- Opportunity for all
- Protect our communities
- Small and efficient government

CASH FLOW

| | Prelim Actual FY 2015 | Executive Recommendation FY 2016 | Executive Recommendation FY 2017 | Executive Recommendation FY 2018 | Executive Recommendation FY 2019 | |
|-------------------------------|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------|
| Beginning Balance (thousands) | 577,400 | 311,635 | 484,014 | 620,781 | 856,644 | |
| Adj. Base Revenues | 8,932,969 | 9,238,148 | 9,516,800 | 9,869,438 | 10,177,120 | |
| New Revenue Changes | - | - | - | - | - | |
| One-time Revenues | 70,660 | 235,195 | 100,000 | 2,636 | - | |
| Total Revenues | 9,003,629 | 9,473,342 | 9,616,800 | 9,872,074 | 10,177,120 | |
| Enacted Base Spending | 9,269,394 | 9,195,913 | 9,195,913 | 9,480,034 | 9,636,210 | |
| Baseline Changes | - | 78,861 | 115,856 | 282,359 | 299,017 | YOY |
| New Initiatives | - | 26,190 | 168,265 | (126,182) | (3,510) | % growth |
| Total Spending | 9,269,394 | 9,300,964 | 9,480,034 | 9,636,210 | 9,931,718 | 3.07% |
| Ending Balance | 311,635 | 484,014 | 620,781 | 856,644 | 1,102,046 | |

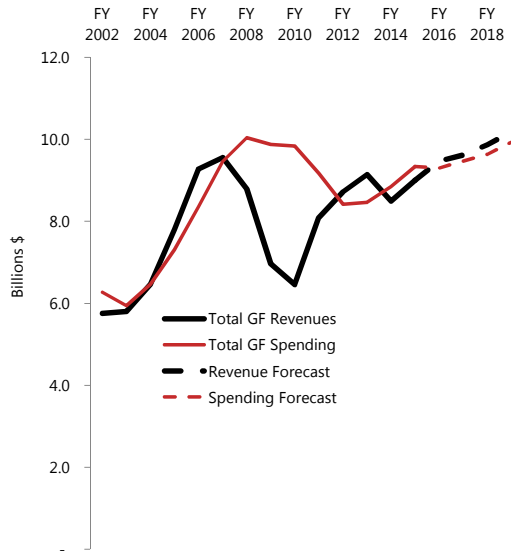
STRUCTURAL BALANCE

| | Prelim Actual FY 2015 | Enacted + Supplemental FY 2016 | Forecast FY 2017 | Forecast FY 2018 | Forecast FY 2019 | YOY % growth |
|---------------------------|--------------------------|-----------------------------------|---------------------|---------------------|---------------------|-----------------|
| Ongoing Revenues | 8,932,969 | 9,238,148 | 9,516,800 | 9,869,438 | 10,177,120 | 3.1% |
| Ongoing Spending | 9,269,394 | 9,262,304 | 9,343,515 | 9,636,210 | 9,931,718 | 3.1% |
| Structural Balance | (336,425) | (24,156) | 173,285 | 233,227 | 245,402 | |

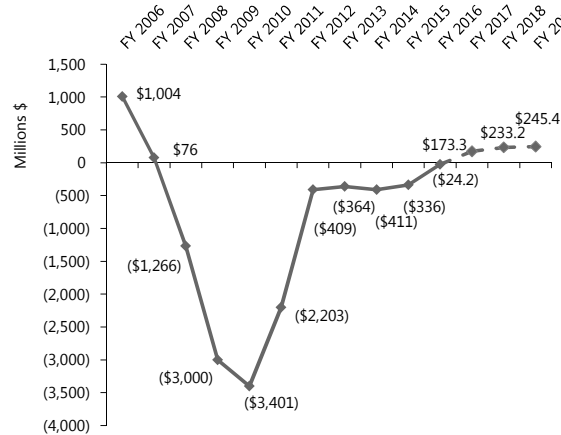
REVENUE GROWTH FORECAST

| | FY 2015 actual | Forecasted Year Over Year Growth | | | |
|---------------------------------|----------------|----------------------------------|-------------|-------------|-------------|
| | | 2016 | 2017 | 2018 | 2019 |
| Transaction Privilege Tax (TPT) | \$4.2B | 3.3% | 4.0% | 4.2% | 3.4% |
| Individual Income Tax (IIT) | \$3.8B | 4.8% | 5.2% | 5.3% | 4.0% |
| Corporate Income Tax (CIT) | \$0.7B | -7.0% | -8.7% | -10.6% | -4.9% |
| Other | \$0.3B | | | | |
| Total | \$8.9B | 3.4% | 3.0% | 3.7% | 3.1% |

General Fund Total Revenue and Spending



General Fund Structural Balance



The FY 2017 Executive Budget Recommendation allows for General Fund spending to grow by less than 2% (compared to the previous year), which is less than the 3.2% forecasted population growth plus inflation in 2017.

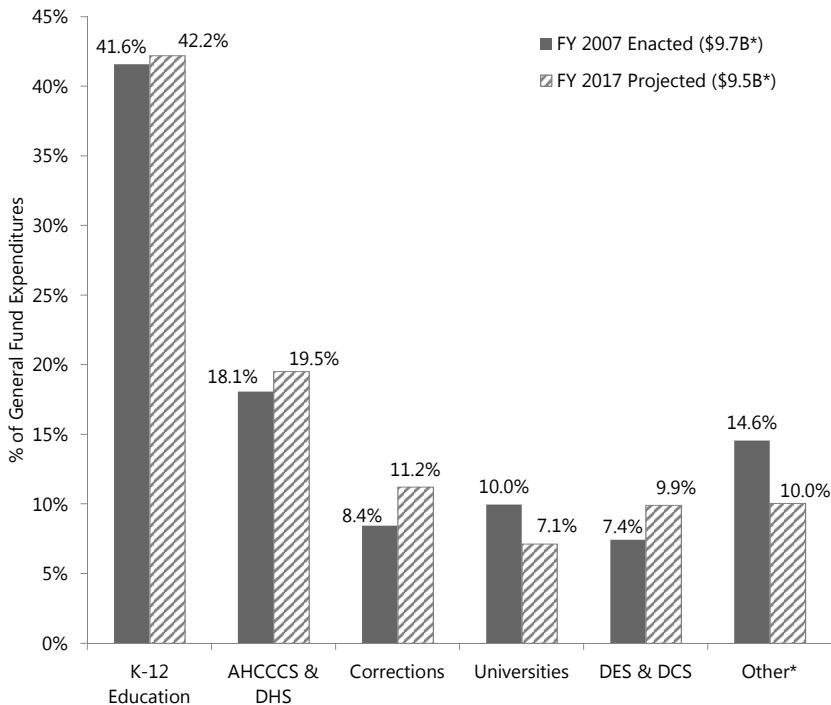
SPENDING

New FY 2016 Spending: \$ 105,050,725

New FY 2017 Spending: \$ 284,120,747

| | Prelim Actual | Executive Recommendation | Baseline Issues | New Initiatives | Executive Recommendation | YOY % growth |
|-------------------------|------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------|--------------|
| (thousands) | FY 2015 | FY 2016 | FY 2017 | FY 2017 | FY 2017 | |
| K-12 Education (ADE) | 3,835,254 | 3,941,874 | 46,461 | 7,799 | 3,996,133 | 1.4% |
| Health Care (AHCCCS) | 1,225,883 | 1,205,162 | 547,516 | 2,210 | 1,754,888 | 46% |
| Corrections | 996,846 | 1,035,087 | 27,519 | 3,988 | 1,061,408 | 2.5% |
| Universities | 768,422 | 664,921 | 5,951 | 8,000 | 674,796 | 1.5% |
| Economic Security (DES) | 482,587 | 504,282 | 32,371 | 14,521 | 543,074 | 7.7% |
| Child Safety (DCS) | 361,005 | 404,245 | 49,794 | (10,320) | 395,923 | -2.1% |
| Health Services (DHS) | 619,489 | 625,291 | (511,553) | 1,513 | 92,698 | -85% |
| Other Agencies | 820,984 | 820,918 | (51,592) | 102,491 | 854,478 | 4.1% |
| Capital Projects | 24,200 | 6,200 | (6,200) | 25,738 | 25,738 | 315% |
| IT Projects | 35,500 | 7,783 | (7,783) | 11,882 | 11,882 | 53% |
| Other | 99,224 | 85,200 | (16,626) | 443 | 69,017 | -19% |
| Total | 9,269,394 | 9,300,964 ^A | 115,856 ^B | 168,265 ^C | 9,480,034 | 1.93% |

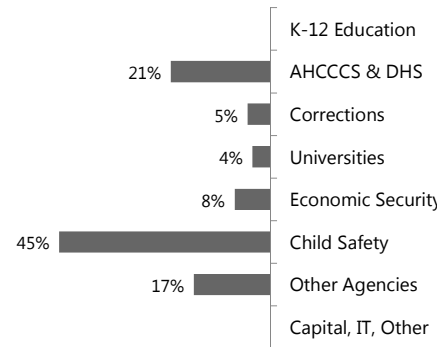
General Fund Spending Distribution



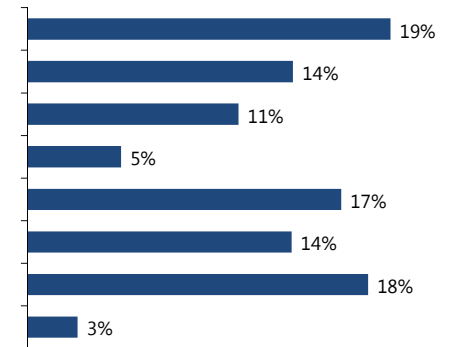
* excludes admin adjustments, revertsments, transfers, and capital

NEW SPENDING PROFILE

FY 2016 supplemental



FY 2017 baseline and initiatives



A Supplemental: spending in current year for baseline or initiatives.
 FY 2016 Supplemental: \$105.1M (Added to FY 2016 Enacted Base of \$9,195.9M)
 \$78.9M is for baseline issues.

B Baseline: caseload, cost adjustments and spending necessary to provide the current level of service.
 FY 2017 Baseline: \$115.9M
 Virtually all spending is for caseload or cost adjustments.
 Virtually all spending is ongoing.

C Initiatives: other spending.
 FY 2017 Initiatives: \$168.3M
 \$136.8M is one-time (81%).

SPENDING BREAKDOWN

K-12 EDUCATION

SETTLEMENT TERMS

- \$3.5B in additional funds over 10 years
- Resets base per pupil funding at \$3,600, up from \$3,427
- In FY 2016, \$52.4M additional General Fund and \$172.0M additional land trust funds, for base funding increase

\$46.5M FY 2017 Baseline (\$188.4M in land trust funds)
\$91.2M for enrollment growth (1.55%, 1.4% in FY16)
 \$60.5M for inflation (1.04%, 1.6% in FY16)
 \$26.0M to supplement Homeowner's Rebate
 \$4.9M to offset Commercial Property Tax phase-down
 (\$40.0M) from switching districts to current year funding
 (\$39.9M) from new construction property tax savings
 (\$30.0M) JTED reduction
 (\$16.3M) from increased land trust projections
 (\$7.3M) from multi-site charter small school weight
 (\$2.6M) from district-sponsored charter phase-out
\$7.8M FY 2017 Department of Education Initiatives
 \$4.6M for tests and test security
 \$3.2M for data system support
\$36.3M Other Education Initiatives
 \$30.0M for three-year JTED grant program
 \$6.0M for AP testing grants
 \$200,000 for updating K-12 academic standards
 \$100,000 for Principal Academies

UNIVERSITIES

\$4.1M FY 2016 Supplemental for HITF correction
\$6.0M FY 2017 Baseline for debt service and HITF correction
\$8.0M FY 2017 Initiatives
 \$4.3M for resident student funding - ASU
 \$2.2M for resident student funding - UA
 \$1.5M for resident student funding - NAU

HEALTH CARE (AHCCCS)

\$547.5M FY 2017 Baseline
 \$517.3M for the transfer of Behavioral Health Services
 \$24.1M for behavioral health services caseload growth
 \$6.7M for acute and long-term care caseload growth
 (\$607,500) in administrative savings from BHS transfer
\$2.2M FY 2017 Initiatives
 \$1.4M for preventive dental care for long-term patients
 \$743,900 for security and performance improvement
 \$107,300 for fraud prevention

In FY 2016 a hiring freeze was imposed on new State hires. The FY 2017 Executive Budget reduces Agency's General Fund appropriations in accordance with expected hiring freeze-related savings.

Exemptions: Public safety-related entities, including Child Safety, Corrections, the Department of Public Safety, and the Department of Emergency and Military Affairs, are exempted from hiring freeze-related budget reductions. Agencies that do not receive General Fund, the Secretary of State and the Attorney General's Office are also excluded.

CHILD SAFETY

\$47.8M FY 2016 Supplemental
 \$39.0M for caseload growth
 \$15.0M for central administration and overtime
 \$11.0M to eliminate deferral
 \$2.9M for litigation
 \$1.9M to resolve AG structural deficit
 (\$22.0M) in funding solutions to offset General Fund need
\$39.5M FY 2017 Baseline and Initiatives
Fully fund children in State care
 \$21.0M for support service caseload growth
 \$18.0M for out-of-home placement caseload growth
 \$8.8M for permanency subsidy caseload growth
Improve operations
 \$11M for central administration, operations and IT separation
 \$4.0M for case aides, overtime and strategic pay
 \$1.9M to resolve AG structural deficit
 (\$350,000) to shift ICAC grant to AG
Reduce General Fund liability
 (\$25.0M) in funding solutions to offset General Fund need

ECONOMIC SECURITY

\$8.1M FY 2016 Supplemental
 \$8.1M for DDD caseload growth
\$32.4M FY 2017 Baseline
 \$30.0M for DDD Medicaid population growth
 \$2.4M for DDD room and board
\$14.5M FY 2017 Initiatives
 \$6.4M for child care subsidy rate increase
 \$4.7M for vocational rehabilitation
 \$3.0M for adult protective services
 \$1.2M for ALTCS Adult Preventative Dental
 (\$856,200) from streamlining SNAP and TANF requirements

HEALTH SERVICES

\$22.6M FY 2016 Supplemental
 \$17.6M for behavioral health services caseload growth
 \$4.6M to resolve revenue shortfall at Arizona State Hospital
 \$378,300 for security officers and nurses
(\$511.6M) FY 2017 Baseline
 \$4.6M to resolve revenue shortfall at Arizona State Hospital
 \$1.2M to backfill prescription drug funding at ASH
 (\$517.3M) to transfer Behavioral Health Services to AHCCCS
\$1.5M FY 2017 Initiatives
 \$1.5M for security officers and nurses

CORRECTIONS

\$5.2M FY 2016 Supplemental
 \$5.2M to extend Corizon health contract, delays procurement
\$27.5M FY 2017 Baseline
 \$17.6M for 1,000 medium custody beds
 \$9.8M for inmate health care adjustment
 \$1.0M for retirement contribution adjustment
 (\$929,100) from removal of leap year adjustment
\$4.0M FY 2017 Initiatives
 \$2.3M for maximum custody sergeants
 \$1.6 for Northern Community Corrections Center
 \$103,500 for re-entry planners

CAPITAL & IT

\$25.7M FY 2017 ADOA Capital Initiatives
 \$20.4M for high priority building system upgrades
 \$5.3M for major building renovations on Capitol Mall
\$11.9M FY 2017 IT Initiatives
 \$7.3M to finish Education data system
 \$4.6M to begin design and build of Child Safety data system

OTHER

\$17.1M FY 2016 Supplemental
 \$15.0M for School Facilities Board building renewal grants
 \$2.1M for Presidential Preference Election
 \$746,700 to restore Army and Air Guard facilities state match
 \$408,300 for Attorney General support to DCS
 \$146,700 Forester risk management increase
 (\$1.3M) from Schools Facilities Board debt service reduction
(\$74.3M) FY 2017 Baseline
\$66.6M FY 2017 Initiatives
 \$31.5M for border security, strike force expansion
 \$15.0M for School Facilities Board building renewal grants
 \$10.0M for State Parks capital projects
 \$10.0M for Budget Stabilization Fund transfer
 \$6.3M for Attorney General support to DCS
 \$3.0M for Court dependency surge
 \$1.6M for tobacco tax enforcement operations
 \$1.5M for state match to Army and Air Guard facilities
 (\$12.3M) other issues

STATEWIDE HIRING FREEZE

| Agency | FY 2017 Reduction |
|---------------------|-------------------|
| Economic Security | (\$2.6M) |
| Health Services | (\$1.8M) |
| AHCCCS | (\$603,000) |
| Revenue | (\$573,400) |
| Other (26 agencies) | (\$2.4M) |
| Total | (\$8.0M) |

FY 2017 Executive Recommendations by Agency

| | General Fund | Other Appropriated | Non- Appropriated | All Funds |
|---|-----------------|-----------------------|----------------------|--------------|
| Board of Accountancy | 0.0 | 1,939.1 | 0.0 | 1,939.1 |
| Acupuncture Board of Examiners | 0.0 | 178.2 | 0.0 | 178.2 |
| Department of Administration | 112,374.0 | 247,017.3 | 1,058,648.8 | 1,418,040.1 |
| Office of Administrative Hearings | 861.7 | 0.0 | 749.5 | 1,611.2 |
| African-American Affairs | 125.0 | 0.0 | 0.0 | 125.0 |
| Department of Agriculture | 9,219.6 | 1,439.8 | 16,719.7 | 27,379.1 |
| Arizona Health Care Cost Containment System | 1,754,888.4 | 214,186.9 | 10,969,914.8 | 12,938,990.1 |
| Board of Appraisal | 0.0 | 0.0 | 0.0 | 0.0 |
| Commission on the Arts | 0.0 | 0.0 | 2,318.6 | 2,318.6 |
| Board of Athletic Training | 0.0 | 118.9 | 0.0 | 118.9 |
| Attorney General - Department of Law | 31,110.8 | 45,104.6 | 50,404.3 | 126,619.7 |
| Automobile Theft Authority | 0.0 | 5,297.5 | 66.5 | 5,364.0 |
| Board of Barbers | 0.0 | 370.3 | 0.0 | 370.3 |
| Board of Behavioral Health Examiners | 0.0 | 1,760.5 | 0.0 | 1,760.5 |
| Board for Charter Schools | 1,194.1 | 0.0 | 48.5 | 1,242.6 |
| Department of Child Safety | 395,922.6 | 524,235.5 | 1.1 | 920,159.2 |
| Board of Chiropractic Examiners | 0.0 | 451.4 | 0.0 | 451.4 |
| Citizens' Clean Elections Commission | 0.0 | 0.0 | 11,732.6 | 11,732.6 |
| Commerce Authority | 21,800.0 | 0.0 | 26,888.0 | 48,688.0 |
| Community Colleges | 54,768.7 | 0.0 | 0.0 | 54,768.7 |
| Constable Ethics Standards & Training Board | 0.0 | 0.0 | 379.2 | 379.2 |
| Registrar of Contractors | 0.0 | 12,187.5 | 4,666.8 | 16,854.3 |
| Corporation Commission | 614.2 | 26,441.1 | 825.0 | 27,880.3 |
| Department of Corrections | 1,061,407.5 | 53,277.2 | 72,839.6 | 1,187,524.3 |
| Board of Cosmetology | 0.0 | 1,807.7 | 0.0 | 1,807.7 |
| Criminal Justice Commission | 0.0 | 6,447.8 | 13,020.4 | 19,468.2 |
| Schools for the Deaf and the Blind | 21,596.4 | 11,561.4 | 21,059.2 | 54,217.0 |
| Commission for the Deaf and the Hard of Hearing | 0.0 | 4,312.8 | 0.0 | 4,312.8 |
| Board of Dental Examiners | 0.0 | 1,215.5 | 0.0 | 1,215.5 |
| Early Childhood Development and Health Board | 0.0 | 0.0 | 152,509.5 | 152,509.5 |
| Department of Economic Security | 543,074.1 | 294,031.8 | 3,374,057.5 | 4,211,163.4 |
| State Board of Education | 1,325.2 | 379.8 | 0.0 | 1,705.0 |
| Department of Education | 3,996,133.3 | 245,527.3 | 1,818,233.1 | 6,059,893.7 |
| Department of Emergency and Military Affairs | 12,626.2 | 0.0 | 55,933.6 | 68,559.8 |
| Department of Environmental Quality | 2,823.6 | 69,272.9 | 77,488.7 | 149,585.2 |
| Governor's Office for Equal Opportunity | 189.0 | 0.0 | 0.0 | 189.0 |
| Board of Equalization | 642.8 | 0.0 | 0.0 | 642.8 |
| Board of Executive Clemency | 956.0 | 0.0 | 41.2 | 997.2 |
| Exposition & State Fair | 0.0 | 11,616.1 | 0.0 | 11,616.1 |
| Department of Financial Institutions | 0.0 | 6,075.4 | 347.4 | 6,422.8 |
| Board of Fingerprinting | 0.0 | 0.0 | 594.0 | 594.0 |
| Department of Fire, Building and Life Safety | 2,202.0 | 0.0 | 703.7 | 2,905.7 |
| State Forester | 9,399.8 | 0.0 | 25,490.0 | 34,889.8 |
| Board of Funeral Directors & Embalmers | 0.0 | 376.2 | 0.0 | 376.2 |
| Game & Fish Department | 0.0 | 47,731.1 | 66,921.0 | 114,652.1 |
| Department of Gaming | 1,779.5 | 16,367.0 | 1,370.0 | 19,516.5 |
| Geological Survey | 0.0 | 0.0 | 319.3 | 319.3 |

FY 2017 Executive Recommendations by Agency

| | General Fund | Other Appropriated | Non- Appropriated | All Funds |
|---|-----------------|-----------------------|----------------------|--------------|
| Office of the Governor | 6,889.0 | 0.0 | 21,724.6 | 28,613.6 |
| Governor's Office of Education | 36,648.0 | 0.0 | 0.0 | 36,648.0 |
| Governor's Office of Strategic Planning and Budgeting | 1,994.0 | 0.0 | 0.0 | 1,994.0 |
| Department of Health Services | 92,697.7 | 47,159.8 | 315,130.3 | 454,987.8 |
| Governor's Office of Highway Safety | 0.0 | 0.0 | 12,131.2 | 12,131.2 |
| Arizona Historical Society | 3,157.2 | 0.0 | 1,231.7 | 4,388.9 |
| Prescott Historical Society of Arizona | 825.8 | 0.0 | 726.2 | 1,552.0 |
| Department of Homeland Security | 0.0 | 0.0 | 19,881.0 | 19,881.0 |
| Board of Homeopathic Medical Examiners | 0.0 | 102.8 | 0.0 | 102.8 |
| Department of Housing | 0.0 | 318.5 | 96,985.7 | 97,304.2 |
| Independent Redistricting Commission | 1,115.3 | 0.0 | 0.0 | 1,115.3 |
| Commission of Indian Affairs | 57.4 | 0.0 | 14.8 | 72.2 |
| Industrial Commission of Arizona | 0.0 | 19,940.3 | 3,412.5 | 23,352.8 |
| Department of Insurance | 5,856.0 | 0.0 | 33,511.4 | 39,367.4 |
| Judiciary | 109,178.0 | 41,018.8 | 31,407.8 | 181,604.6 |
| Department of Juvenile Corrections | 25,084.6 | 17,232.1 | 1,833.9 | 44,150.6 |
| Land Department | 4,957.5 | 17,445.1 | 800.0 | 23,202.6 |
| Auditor General | 17,933.3 | 0.0 | 1,940.3 | 19,873.6 |
| House of Representatives | 13,289.5 | 0.0 | 0.0 | 13,289.5 |
| Joint Legislative Budget Committee | 2,490.9 | 0.0 | 0.0 | 2,490.9 |
| Legislative Council | 8,233.3 | 0.0 | 0.0 | 8,233.3 |
| Senate | 8,223.9 | 0.0 | 0.0 | 8,223.9 |
| Department of Liquor Licenses and Control | 0.0 | 3,459.3 | 904.5 | 4,363.8 |
| Lottery Commission | 0.0 | 110,234.5 | 1,230,321.6 | 1,340,556.1 |
| Massage Therapy | 0.0 | 469.7 | 0.0 | 469.7 |
| Medical Board | 0.0 | 6,643.0 | 0.0 | 6,643.0 |
| Mine Inspector | 1,215.2 | 112.8 | 344.2 | 1,672.2 |
| Naturopathic Physicians Board of Medical Examiners | 0.0 | 183.7 | 0.0 | 183.7 |
| Navigable Stream Adjudication Commission | 126.6 | 200.0 | 0.0 | 326.6 |
| Board of Nursing | 0.0 | 4,802.6 | 414.7 | 5,217.3 |
| Nursing Care Ins. Admin. Examiners | 0.0 | 446.1 | 0.0 | 446.1 |
| Board of Occupational Therapy Examiners | 0.0 | 172.0 | 0.0 | 172.0 |
| Board of Dispensing Opticians | 0.0 | 139.8 | 0.0 | 139.8 |
| Board of Optometry | 0.0 | 211.4 | 0.0 | 211.4 |
| OSHA Review Board | 10.8 | 0.0 | 0.0 | 10.8 |
| Board of Osteopathic Examiners | 0.0 | 908.8 | 0.0 | 908.8 |
| Parks Board | 10,000.0 | 14,500.0 | 16,766.4 | 41,266.4 |
| Personnel Board | 0.0 | 375.7 | 0.0 | 375.7 |
| Office of Pest Management | 0.0 | 1,699.5 | 113.5 | 1,813.0 |
| Board of Pharmacy | 0.0 | 2,140.5 | 710.5 | 2,851.0 |
| Board of Physical Therapy Examiners | 0.0 | 487.0 | 0.0 | 487.0 |
| Pioneers' Home | 0.0 | 6,204.9 | 14.1 | 6,219.0 |
| Board of Podiatry Examiners | 0.0 | 148.2 | 0.0 | 148.2 |
| Commission for Postsecondary Education | 1,396.8 | 1,534.8 | 931.4 | 3,863.0 |
| Power Authority | 0.0 | 0.0 | 35,900.1 | 35,900.1 |
| Board for Private Postsecondary Education | 0.0 | 396.3 | 273.0 | 669.3 |
| Board of Psychologist Examiners | 0.0 | 476.5 | 0.0 | 476.5 |

FY 2017 Executive Recommendations by Agency

| | General Fund | Other Appropriated | Non- Appropriated | All Funds |
|--|-----------------|-----------------------|----------------------|--------------|
| Department of Public Safety | 125,511.0 | 165,749.4 | 75,982.9 | 367,243.3 |
| Public Safety Personnel Retirement System | 0.0 | 0.0 | 99,251.0 | 99,251.0 |
| Department of Racing | 0.0 | 0.0 | 0.0 | 0.0 |
| Radiation Regulatory Agency | 1,565.0 | 851.2 | 1,090.7 | 3,506.9 |
| Department of Real Estate | 2,985.2 | 0.0 | 185.1 | 3,170.3 |
| Residential Utility Consumer Office | 0.0 | 1,335.0 | 0.0 | 1,335.0 |
| Board of Respiratory Care Examiners | 0.0 | 300.1 | 0.0 | 300.1 |
| Arizona State Retirement System | 0.0 | 27,565.0 | 272,775.8 | 300,340.8 |
| Department of Revenue | 31,918.9 | 47,253.7 | 3,040.1 | 82,212.7 |
| School Facilities Board | 204,551.6 | 0.0 | 291,253.0 | 495,804.6 |
| Department of State - Secretary of State | 15,006.5 | 3,683.5 | 4,070.5 | 22,760.5 |
| State Boards Office | 0.0 | 0.0 | 0.0 | 0.0 |
| Board of Tax Appeals | 266.4 | 0.0 | 0.0 | 266.4 |
| Board of Technical Registration | 0.0 | 2,922.6 | 20.4 | 2,943.0 |
| Office of Tourism | 7,110.4 | 0.0 | 20,889.4 | 27,999.8 |
| Department of Transportation | 50.4 | 376,296.4 | 2,799,385.5 | 3,175,732.3 |
| Treasurer | 1,205.1 | 5,044.0 | 0.0 | 6,249.1 |
| Uniform State Laws | 0.0 | 0.0 | 0.0 | 0.0 |
| Board of Regents | 16,928.4 | 0.0 | 165,762.7 | 182,691.1 |
| ASU - Tempe | 247,686.1 | 545,883.2 | 1,479,914.8 | 2,273,484.1 |
| ASU - Polytechnic | 22,328.0 | 37,722.9 | 60,808.9 | 120,859.8 |
| ASU - West | 28,945.0 | 45,841.4 | 114,219.6 | 189,006.0 |
| Northern Arizona University | 102,277.1 | 145,206.2 | 350,516.4 | 597,999.7 |
| University of Arizona - Main Campus | 188,237.9 | 356,648.8 | 1,313,240.3 | 1,858,127.0 |
| University of Arizona - Health Sciences Center | 68,393.5 | 44,053.8 | 349,765.7 | 462,213.0 |
| Department of Veterans' Services | 6,077.8 | 32,167.5 | 3,237.0 | 41,482.3 |
| Veterinary Medical Examining Board | 0.0 | 655.1 | 0.0 | 655.1 |
| Water Infrastructure Finance Authority | 0.0 | 0.0 | 275,958.6 | 275,958.6 |
| Department of Water Resources | 12,803.1 | 2,356.3 | 10,955.1 | 26,114.5 |
| Department of Weights and Measures | 0.0 | 0.0 | 0.0 | 0.0 |
| | 9,472,262.7 | 3,991,429.2 | 27,344,040.5 | 40,807,732.4 |

General Fund Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| Department of Administration | 180,297.9 | 100,492.4 | 100,492.4 | 112,374.0 | 11,881.6 |
| Office of Administrative Hearings | 862.5 | 861.7 | 861.7 | 861.7 | 0.0 |
| African-American Affairs | 40.4 | 125.0 | 125.0 | 125.0 | 0.0 |
| Department of Agriculture | 8,252.2 | 8,287.4 | 8,287.4 | 9,219.6 | 932.2 |
| Arizona Health Care Cost Containment System | 1,155,737.2 | 1,205,162.3 | 1,205,162.3 | 1,754,888.4 | 549,726.1 |
| Attorney General - Department of Law | 23,242.8 | 23,623.7 | 24,032.0 | 31,110.8 | 7,487.1 |
| Board for Charter Schools | 896.4 | 1,200.9 | 1,200.9 | 1,194.1 | (6.8) |
| Department of Child Safety | 355,199.4 | 356,448.2 | 404,245.0 | 395,922.6 | 39,474.4 |
| Commerce Authority | 31,788.4 | 26,800.0 | 26,800.0 | 21,800.0 | (5,000.0) |
| Community Colleges | 71,906.4 | 55,045.3 | 55,045.3 | 54,768.7 | (276.6) |
| Corporation Commission | 606.1 | 614.2 | 614.2 | 614.2 | 0.0 |
| Department of Corrections | 976,257.4 | 1,029,900.6 | 1,035,087.4 | 1,061,407.5 | 31,506.9 |
| Schools for the Deaf and the Blind | 21,225.5 | 21,596.4 | 21,596.4 | 21,596.4 | 0.0 |
| Department of Economic Security | 482,462.2 | 496,181.9 | 504,281.9 | 543,074.1 | 46,892.2 |
| State Board of Education | 204.4 | 1,325.2 | 1,525.2 | 1,325.2 | 0.0 |
| Department of Education | 3,779,600.0 | 3,941,873.9 | 3,941,873.9 | 3,996,133.3 | 54,259.4 |
| Department of Emergency and Military Affairs | 5,378.4 | 11,102.7 | 11,849.4 | 12,626.2 | 1,523.5 |
| Department of Environmental Quality | 7,000.0 | 7,000.0 | 7,000.0 | 2,823.6 | (4,176.4) |
| Governor's Office for Equal Opportunity | 188.3 | 189.0 | 189.0 | 189.0 | 0.0 |
| Board of Equalization | 501.2 | 642.8 | 642.8 | 642.8 | 0.0 |
| Board of Executive Clemency | 906.1 | 956.0 | 956.0 | 956.0 | 0.0 |
| Department of Financial Institutions | 3,004.6 | 3,008.0 | 3,008.0 | 0.0 | (3,008.0) |
| Department of Fire, Building and Life Safety | 1,917.1 | 2,202.0 | 2,202.0 | 2,202.0 | 0.0 |
| State Forester | 8,763.6 | 9,012.3 | 9,159.0 | 9,399.8 | 387.5 |
| Department of Gaming | 0.0 | 1,779.5 | 1,779.5 | 1,779.5 | 0.0 |
| Geological Survey | 941.7 | 941.0 | 941.0 | 0.0 | (941.0) |
| Office of the Governor | 4,954.8 | 6,889.0 | 6,889.0 | 6,889.0 | 0.0 |
| Governor's Office of Education | 0.0 | 0.0 | 0.0 | 36,648.0 | 36,648.0 |
| Governor's Office of Strategic Planning and Budgeting | 1,994.0 | 1,994.0 | 1,994.0 | 1,994.0 | 0.0 |
| Department of Health Services | 611,180.1 | 602,738.3 | 625,290.5 | 92,697.7 | (510,040.6) |
| Arizona Historical Society | 3,156.0 | 3,157.2 | 3,157.2 | 3,157.2 | 0.0 |
| Prescott Historical Society of Arizona | 735.7 | 825.8 | 825.8 | 825.8 | 0.0 |
| Independent Redistricting Commission | 913.8 | 1,115.3 | 1,115.3 | 1,115.3 | 0.0 |
| Commission of Indian Affairs | 54.3 | 57.4 | 57.4 | 57.4 | 0.0 |
| Department of Insurance | 5,312.9 | 5,867.4 | 5,867.4 | 5,856.0 | (11.4) |
| Judiciary | 109,943.4 | 106,178.0 | 106,178.0 | 109,178.0 | 3,000.0 |
| Department of Juvenile Corrections | 40,762.4 | 26,984.6 | 26,984.6 | 25,084.6 | (1,900.0) |
| Land Department | 12,506.4 | 12,520.5 | 12,520.5 | 4,957.5 | (7,563.0) |
| Auditor General | 18,246.4 | 17,933.3 | 17,933.3 | 17,933.3 | 0.0 |
| House of Representatives | 5,897.1 | 13,289.5 | 13,289.5 | 13,289.5 | 0.0 |
| Joint Legislative Budget Committee | 2,308.4 | 2,490.9 | 2,490.9 | 2,490.9 | 0.0 |
| Legislative Council | 4,471.3 | 8,233.3 | 8,233.3 | 8,233.3 | 0.0 |
| Senate | 7,648.0 | 8,223.9 | 8,223.9 | 8,223.9 | 0.0 |

General Fund Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| Mine Inspector | 1,152.1 | 1,215.2 | 1,215.2 | 1,215.2 | 0.0 |
| Navigable Stream Adjudication Commission | 188.9 | 126.6 | 126.6 | 126.6 | 0.0 |
| Board of Nursing | 150.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| OSHA Review Board | 0.9 | 10.8 | 10.8 | 10.8 | 0.0 |
| Parks Board | 0.0 | 0.0 | 0.0 | 10,000.0 | 10,000.0 |
| Pioneers' Home | 1,599.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commission for Postsecondary Education | 1,396.8 | 1,396.8 | 1,396.8 | 1,396.8 | 0.0 |
| Department of Public Safety | 85,779.0 | 93,374.8 | 93,374.8 | 125,511.0 | 32,136.2 |
| Department of Racing | 2,014.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Radiation Regulatory Agency | 1,466.5 | 1,595.0 | 1,595.0 | 1,565.0 | (30.0) |
| Department of Real Estate | 2,507.2 | 2,985.2 | 2,985.2 | 2,985.2 | 0.0 |
| Department of Revenue | 46,287.7 | 30,338.6 | 30,338.6 | 31,918.9 | 1,580.3 |
| School Facilities Board | 179,680.5 | 216,878.1 | 230,609.4 | 204,551.6 | (12,326.5) |
| Department of State - Secretary of State | 14,468.9 | 24,306.5 | 26,412.4 | 15,006.5 | (9,300.0) |
| Board of Tax Appeals | 263.9 | 266.4 | 266.4 | 266.4 | 0.0 |
| Office of Tourism | 9,103.7 | 7,110.4 | 7,110.4 | 7,110.4 | 0.0 |
| Department of Transportation | 0.9 | 50.4 | 50.4 | 50.4 | 0.0 |
| Treasurer | 778.4 | 1,205.1 | 1,205.1 | 1,205.1 | 0.0 |
| Board of Regents | 19,928.4 | 16,928.4 | 16,928.4 | 16,928.4 | 0.0 |
| ASU - Tempe | 292,451.0 | 241,538.2 | 243,821.4 | 247,686.1 | 6,147.9 |
| ASU - Polytechnic | 26,018.7 | 22,328.0 | 22,328.0 | 22,328.0 | 0.0 |
| ASU - West | 33,519.0 | 28,945.0 | 28,945.0 | 28,945.0 | 0.0 |
| Northern Arizona University | 119,371.2 | 102,007.6 | 102,047.8 | 102,277.1 | 269.5 |
| University of Arizona - Main Campus | 210,546.2 | 180,704.4 | 182,457.0 | 188,237.9 | 7,533.5 |
| University of Arizona - Health Sciences Center | 69,585.3 | 68,393.5 | 68,393.5 | 68,393.5 | 0.0 |
| Department of Veterans' Services | 5,218.2 | 6,077.8 | 6,077.8 | 6,077.8 | 0.0 |
| Department of Water Resources | 11,809.3 | 12,803.1 | 12,803.1 | 12,803.1 | 0.0 |
| Department of Weights and Measures | 1,362.1 | 1,399.0 | 1,399.0 | 0.0 | (1,399.0) |
| General Fund Operating Total | 9,083,913.5 | 9,186,855.7 | 9,291,906.4 | 9,472,262.7 | 285,407.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Board of Accountancy</u> | | | | | |
| Accountancy Board Fund | 1,400.8 | 1,939.1 | 1,939.1 | 1,939.1 | 0.0 |
| <u>Acupuncture Board of Examiners</u> | | | | | |
| Acupuncture Board of Examiners Fund | 144.3 | 159.1 | 159.1 | 178.2 | 19.1 |
| <u>Department of Administration</u> | | | | | |
| Personnel Division Fund | 12,665.4 | 12,885.1 | 12,885.1 | 12,885.1 | 0.0 |
| Capital Outlay Stabilization Fund | 15,902.9 | 18,082.8 | 18,082.8 | 22,327.1 | 4,244.3 |
| Special Administration Fund | 0.0 | 0.0 | 0.0 | 1,294.7 | 1,294.7 |
| Corrections Fund | 352.7 | 571.2 | 571.2 | 571.2 | 0.0 |
| Information Technology Fund | 2,791.6 | 2,942.1 | 2,942.1 | 3,469.9 | 527.8 |
| Air Quality Fund | 577.4 | 927.3 | 927.3 | 927.3 | 0.0 |
| Inmate Store Proceeds Fund | 0.0 | 0.0 | 0.0 | 1,000.0 | 1,000.0 |
| State Web Portal Fund | 3,940.8 | 4,543.0 | 4,543.0 | 10,193.0 | 5,650.0 |
| Automation Projects Fund | 30,520.9 | 24,794.4 | 24,794.4 | 31,526.3 | 6,731.9 |
| Special Employee Health Fund | 4,094.8 | 5,262.3 | 25,222.3 | 5,262.3 | 0.0 |
| Penitentiary Land Earnings Fund | 0.0 | 0.0 | 0.0 | 1,000.0 | 1,000.0 |
| State Charitable, Penal & Reformatory Land Earnings Fund | 0.0 | 0.0 | 0.0 | 1,000.0 | 1,000.0 |
| DOC Special Services Fund | 0.0 | 0.0 | 0.0 | 4,000.0 | 4,000.0 |
| Motor Pool Revolving Fund | 7,123.1 | 10,148.8 | 10,148.8 | 10,148.8 | 0.0 |
| Special Services Fund | 0.0 | 0.0 | 0.0 | 540.7 | 540.7 |
| State Surplus Property Fund | 2,770.0 | 2,397.9 | 2,397.9 | 2,397.9 | 0.0 |
| Admin - Surplus Property/Federal Fund | 51.2 | 464.6 | 464.6 | 464.6 | 0.0 |
| Risk Management Fund | 72,353.4 | 92,022.9 | 99,682.6 | 95,222.6 | 3,199.7 |
| Arizona Financial Information System Collections Fund | 0.0 | 7,567.8 | 7,567.8 | 9,377.7 | 1,809.9 |
| Automation Operations Fund | 21,251.4 | 23,964.1 | 23,964.1 | 31,384.7 | 7,420.6 |
| Telecommunications Fund | 1,766.6 | 1,848.4 | 1,848.4 | 2,023.4 | 175.0 |
| Agency Total | 176,162.1 | 208,422.7 | 236,042.4 | 247,017.3 | 38,594.6 |
| <u>Office of Administrative Hearings</u> | | | | | |
| Healthcare Group Fund | 0.0 | 12.3 | 0.0 | 0.0 | (12.3) |
| <u>Department of Agriculture</u> | | | | | |
| Air Quality Fund | 0.0 | 0.0 | 0.0 | 1,439.8 | 1,439.8 |
| <u>Arizona Health Care Cost Containment System</u> | | | | | |
| Tobacco Tax and Health Care Fund | 34,178.8 | 31,180.0 | 31,180.0 | 72,998.2 | 41,818.2 |
| Tobacco Products Tax Fund | 19,284.3 | 17,331.4 | 17,331.4 | 18,747.2 | 1,415.8 |
| Substance Abuse Services Fund | 0.0 | 0.0 | 0.0 | 2,250.2 | 2,250.2 |
| Children's Health Insurance Program Fund | 6,340.3 | 7,674.4 | 7,674.4 | 1,891.0 | (5,783.4) |
| Budget Neutrality Compliance Fund | 2,538.3 | 3,482.9 | 3,482.9 | 3,597.0 | 114.1 |
| Prescription Drug Rebate Fund | 79,020.9 | 83,778.8 | 114,703.3 | 114,703.3 | 30,924.5 |
| Agency Total | 141,362.7 | 143,447.5 | 174,372.0 | 214,186.9 | 70,739.4 |
| <u>Board of Appraisal</u> | | | | | |
| Board of Appraisal Fund | 616.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| <u>Board of Athletic Training</u> | | | | | |
| Athletic Training Fund | 104.0 | 118.9 | 118.9 | 118.9 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Attorney General - Department of Law</u> | | | | | |
| Consumer Protection/Fraud Revolving Fund | 5,195.2 | 5,094.0 | 5,094.0 | 5,094.0 | 0.0 |
| Attorney General Antitrust Revolving Fund | 148.5 | 244.8 | 244.8 | 244.8 | 0.0 |
| Attorney General Collection Enforcement Fund | 6,455.6 | 6,869.7 | 6,869.7 | 6,869.7 | 0.0 |
| State Aid to Indigent Defense Fund | 726.2 | 799.4 | 799.4 | 0.0 | (799.4) |
| Interagency Service Agreements | 14,072.7 | 14,773.0 | 14,773.0 | 16,373.0 | 1,600.0 |
| Victims Rights Fund | 3,752.6 | 3,759.4 | 3,759.4 | 3,759.4 | 0.0 |
| Internet Crimes Against Children | 0.0 | 0.0 | 0.0 | 1,250.0 | 1,250.0 |
| Risk Management Fund | 8,685.0 | 9,426.9 | 9,426.9 | 9,426.9 | 0.0 |
| Attorney General Legal Services Cost Allocation Fund | 1,949.6 | 2,086.8 | 2,086.8 | 2,086.8 | 0.0 |
| Agency Total | 40,985.4 | 43,054.0 | 43,054.0 | 45,104.6 | 2,050.6 |
| <u>Automobile Theft Authority</u> | | | | | |
| Automobile Theft Authority Fund | 5,065.0 | 5,297.5 | 5,297.5 | 5,297.5 | 0.0 |
| <u>Board of Barbers</u> | | | | | |
| Board of Barbers Fund | 306.2 | 335.4 | 335.4 | 370.3 | 34.9 |
| <u>Board of Behavioral Health Examiners</u> | | | | | |
| Behavioral Health Examiners Fund | 1,551.8 | 1,760.5 | 1,760.5 | 1,760.5 | 0.0 |
| <u>Department of Child Safety</u> | | | | | |
| Temporary Assistance for Needy Families (TANF) Fund | 131,765.6 | 132,000.4 | 145,609.7 | 143,000.4 | 11,000.0 |
| Child Care and Development Fund | 27,000.0 | 27,000.0 | 27,000.0 | 27,000.0 | 0.0 |
| DCS Expenditure Authority | 313,850.9 | 330,400.0 | 330,685.9 | 352,567.9 | 22,167.9 |
| Child Abuse Prevention Fund | 1,300.0 | 1,459.3 | 1,459.3 | 1,459.3 | 0.0 |
| Children and Family Services Training Program Fund | 61.0 | 207.9 | 207.9 | 207.9 | 0.0 |
| Agency Total | 473,977.5 | 491,067.6 | 504,962.8 | 524,235.5 | 33,167.9 |
| <u>Board of Chiropractic Examiners</u> | | | | | |
| Chiropractic Examiners Board Fund | 377.5 | 451.4 | 451.4 | 451.4 | 0.0 |
| <u>Registrar of Contractors</u> | | | | | |
| Registrar of Contractors Fund | 8,137.0 | 12,187.5 | 12,187.5 | 12,187.5 | 0.0 |
| <u>Corporation Commission</u> | | | | | |
| Utility Regulation Revolving Fund | 13,608.0 | 14,161.3 | 14,161.3 | 14,161.3 | 0.0 |
| Security Regulatory and Enforcement Fund | 4,718.0 | 4,898.7 | 4,898.7 | 4,930.7 | 32.0 |
| Public Access Fund | 6,170.7 | 6,541.4 | 6,541.4 | 6,586.4 | 45.0 |
| Securities Investment Management Fund | 715.1 | 712.6 | 712.6 | 712.6 | 0.0 |
| Arizona Arts Trust Fund | 50.1 | 50.1 | 50.1 | 50.1 | 0.0 |
| Agency Total | 25,261.9 | 26,364.1 | 26,364.1 | 26,441.1 | 77.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Corrections</u> | | | | | |
| Corrections Fund | 30,017.6 | 30,017.8 | 30,017.8 | 32,817.8 | 2,800.0 |
| State Education Fund for Correctional Education Fund | 458.5 | 673.4 | 673.4 | 674.4 | 1.0 |
| DOC - Alcohol Abuse Treatment Fund | 214.4 | 555.3 | 555.3 | 555.3 | 0.0 |
| Transition Program Fund | 1,222.2 | 1,603.3 | 1,603.3 | 1,803.3 | 200.0 |
| Prison Construction and Operations Fund | 13,223.1 | 13,686.0 | 13,686.0 | 13,686.0 | 0.0 |
| Penitentiary Land Earnings Fund | 979.2 | 979.2 | 979.2 | 1,379.2 | 400.0 |
| State Charitable, Penal & Reformatory Land Earnings Fund | 338.8 | 1,861.2 | 1,861.2 | 2,361.2 | 500.0 |
| Agency Total | 46,453.7 | 49,376.2 | 49,376.2 | 53,277.2 | 3,901.0 |
| <u>Board of Cosmetology</u> | | | | | |
| Cosmetology Board Fund | 1,771.4 | 1,807.7 | 1,807.7 | 1,807.7 | 0.0 |
| <u>Criminal Justice Commission</u> | | | | | |
| Criminal Justice Enhancement Fund | 532.4 | 648.8 | 648.8 | 648.8 | 0.0 |
| Victim Compensation and Assistance Fund | 3,118.1 | 4,094.7 | 4,094.7 | 4,220.5 | 125.8 |
| Drug and Gang Prevention Resource Center Fund | 158.6 | 239.1 | 239.1 | 604.9 | 365.8 |
| State Aid to County Attorneys Fund | 730.2 | 973.6 | 973.6 | 973.6 | 0.0 |
| Agency Total | 4,539.3 | 5,956.2 | 5,956.2 | 6,447.8 | 491.6 |
| <u>Schools for the Deaf and the Blind</u> | | | | | |
| Schools for the Deaf and Blind Fund | 11,460.7 | 11,561.4 | 11,561.4 | 11,561.4 | 0.0 |
| <u>Commission for the Deaf and the Hard of Hearing</u> | | | | | |
| Telecom for the Deaf Fund | 3,523.1 | 4,312.8 | 4,312.8 | 4,312.8 | 0.0 |
| <u>Board of Dental Examiners</u> | | | | | |
| Dental Board Fund | 1,116.0 | 1,215.5 | 1,215.5 | 1,215.5 | 0.0 |
| <u>Department of Economic Security</u> | | | | | |
| Indirect Cost Recovery Fund - A | 0.0 | 1,000.0 | 1,000.0 | 1,000.0 | 0.0 |
| Workforce Investment Grant Fund | 41,730.5 | 56,050.5 | 56,050.5 | 56,050.5 | 0.0 |
| Temporary Assistance for Needy Families (TANF) Fund | 85,648.8 | 86,727.7 | 73,118.4 | 75,727.7 | (11,000.0) |
| Child Care and Development Fund | 73,873.3 | 107,773.6 | 107,773.6 | 107,773.6 | 0.0 |
| Special Administration Fund | 2,817.3 | 2,939.7 | 2,939.7 | 2,939.7 | 0.0 |
| Child Support Enforcement Administration Fund | 9,789.9 | 16,719.6 | 16,719.6 | 16,719.6 | 0.0 |
| Domestic Violence Shelter Fund | 2,220.0 | 2,220.0 | 2,220.0 | 2,220.0 | 0.0 |
| Public Assistance Collections Fund | 30.8 | 424.6 | 424.6 | 424.6 | 0.0 |
| Department Long-Term Care System Fund | 28,930.8 | 31,251.3 | 31,251.3 | 28,851.3 | (2,400.0) |
| Spinal and Head Injuries Trust Fund | 1,807.2 | 1,874.8 | 1,874.8 | 2,324.8 | 450.0 |
| Agency Total | 246,848.6 | 306,981.8 | 293,372.5 | 294,031.8 | (12,950.0) |
| <u>State Board of Education</u> | | | | | |
| Teacher Certification Fund | 0.0 | 379.8 | 379.8 | 379.8 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Education</u> | | | | | |
| School Accountability Fund Prop 301 Fund | 0.0 | 7,000.0 | 7,000.0 | 7,000.0 | 0.0 |
| Teacher Certification Fund | 2,050.4 | 1,971.8 | 1,971.8 | 1,971.8 | 0.0 |
| Empowerment Scholarship Account Fund | 200.1 | 399.0 | 399.0 | 800.0 | 401.0 |
| Technology Based Language Development Fund | 0.0 | 246.8 | 246.8 | 0.0 | (246.8) |
| Public Institution Permanent School Earnings Fund | 46,475.5 | 47,359.5 | 219,440.5 | 235,755.5 | 188,396.0 |
| Agency Total | 48,726.0 | 56,977.1 | 229,058.1 | 245,527.3 | 188,550.2 |
| <u>Department of Emergency and Military Affairs</u> | | | | | |
| Emergency Response Fund | 128.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| <u>Department of Environmental Quality</u> | | | | | |
| DEQ Emissions Inspection Fund | 25,896.6 | 28,381.7 | 28,381.7 | 28,381.3 | (0.4) |
| Hazardous Waste Management Fund | 1,107.5 | 1,738.8 | 1,738.8 | 1,738.8 | 0.0 |
| Air Quality Fund | 3,335.1 | 5,369.3 | 5,369.3 | 5,369.3 | 0.0 |
| Underground Storage Tank Revolving Fund | 0.0 | 22.0 | 22.0 | 22.0 | 0.0 |
| Recycling Fund | 787.8 | 1,356.3 | 1,356.3 | 1,356.3 | 0.0 |
| Permit Administration Fund | 4,860.3 | 7,129.7 | 7,129.7 | 7,129.7 | 0.0 |
| Emergency Response Fund | 0.0 | 132.8 | 132.8 | 132.8 | 0.0 |
| Solid Waste Fee Fund | 591.8 | 1,241.0 | 1,241.0 | 1,241.0 | 0.0 |
| Water Quality Fee Fund | 5,798.5 | 10,528.0 | 10,528.0 | 10,528.0 | 0.0 |
| Indirect Cost Fund | 12,772.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Indirect Cost Recovery Fund | 0.0 | 13,373.7 | 13,373.7 | 13,373.7 | 0.0 |
| Agency Total | 55,149.6 | 69,273.3 | 69,273.3 | 69,272.9 | (0.4) |
| <u>Exposition & State Fair</u> | | | | | |
| Arizona Exposition and State Fair Fund | 11,307.0 | 11,616.1 | 11,616.1 | 11,616.1 | 0.0 |
| <u>Department of Financial Institutions</u> | | | | | |
| Financial Services Fund | 1,134.2 | 1,457.7 | 1,457.7 | 0.0 | (1,457.7) |
| Board of Appraisal Fund | 0.0 | 821.4 | 821.4 | 0.0 | (821.4) |
| Financial Institutions Fund | 0.0 | 0.0 | 0.0 | 6,075.4 | 6,075.4 |
| Agency Total | 1,134.2 | 2,279.1 | 2,279.1 | 6,075.4 | 3,796.3 |
| <u>Board of Funeral Directors & Embalmers</u> | | | | | |
| Funeral Directors and Embalmers Fund | 326.3 | 352.2 | 352.2 | 376.2 | 24.0 |
| <u>Game & Fish Department</u> | | | | | |
| Game and Fish Fund | 30,477.7 | 35,877.7 | 37,629.7 | 40,300.0 | 4,422.3 |
| Watercraft Licensing Fund | 3,067.0 | 5,134.1 | 5,134.1 | 6,067.5 | 933.4 |
| Game/Non-game Fund | 154.0 | 346.5 | 346.5 | 346.5 | 0.0 |
| Capital Improvement Fund | 999.7 | 1,000.9 | 1,000.9 | 1,000.9 | 0.0 |
| Wildlife Endowment Fund | 0.0 | 16.2 | 16.2 | 16.2 | 0.0 |
| Agency Total | 34,698.4 | 42,375.4 | 44,127.4 | 47,731.1 | 5,355.7 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Gaming</u> | | | | | |
| Lottery Fund | 300.0 | 300.0 | 300.0 | 300.0 | 0.0 |
| Permanent Tribal-State Compact Fund | 1,726.4 | 2,089.9 | 2,089.9 | 2,089.9 | 0.0 |
| Arizona Benefits Fund | 9,448.0 | 11,082.9 | 11,082.9 | 11,082.9 | 0.0 |
| Racing Regulation Fund | 0.0 | 2,894.2 | 2,894.2 | 2,894.2 | 0.0 |
| Agency Total | 11,474.4 | 16,367.0 | 16,367.0 | 16,367.0 | 0.0 |
| <u>Governor's Office of Education</u> | | | | | |
| <u>Department of Health Services</u> | | | | | |
| Tobacco Tax Hlth Care Fund MNMI Account Fund | 35,388.3 | 35,467.0 | 36,002.4 | 700.0 | (34,767.0) |
| Capital Outlay Stabilization Fund | 1,559.8 | 1,559.9 | 1,559.9 | 1,559.9 | 0.0 |
| Health Services Licenses Fund | 8,896.0 | 9,264.2 | 9,264.2 | 9,264.2 | 0.0 |
| Child Care and Development Fund | 879.4 | 876.1 | 876.1 | 876.1 | 0.0 |
| Health Research Fund | 1,997.5 | 3,000.0 | 3,000.0 | 3,000.0 | 0.0 |
| Emergency Medical Services Operating Fund | 4,556.0 | 5,368.8 | 5,368.8 | 5,368.8 | 0.0 |
| Newborn Screening Program Fund | 5,774.5 | 6,738.3 | 6,738.3 | 7,138.3 | 400.0 |
| Substance Abuse Services Fund | 1,350.0 | 1,350.2 | 1,350.2 | 0.0 | (1,350.2) |
| Substance Abuse Services - Alcohol Fund | 900.0 | 900.0 | 900.0 | 0.0 | (900.0) |
| Nursing Care Institution Protection Fund | 45.1 | 138.2 | 138.2 | 138.2 | 0.0 |
| Environmental Lab License Revolving Fund | 720.5 | 926.4 | 926.4 | 926.4 | 0.0 |
| Child Fatality Review Fund | 91.7 | 95.0 | 95.0 | 95.0 | 0.0 |
| Vital Records Electronic Systems Fund | 2,075.0 | 3,629.0 | 3,629.0 | 3,629.0 | 0.0 |
| The Arizona State Hospital Fund | 10,308.6 | 9,575.3 | 5,024.0 | 5,024.0 | (4,551.3) |
| DHS State Hospital Land Earnings Fund | 585.0 | 650.0 | 650.0 | 880.1 | 230.1 |
| DHS - Indirect Cost Fund | 9,451.8 | 8,559.8 | 8,559.8 | 8,559.8 | 0.0 |
| Agency Total | 84,579.3 | 88,098.2 | 84,082.3 | 47,159.8 | (40,938.4) |
| <u>Board of Homeopathic Medical Examiners</u> | | | | | |
| Homeopathic Medical Examiners Fund | 92.6 | 102.8 | 102.8 | 102.8 | 0.0 |
| <u>Department of Housing</u> | | | | | |
| Housing Trust Fund | 314.6 | 318.5 | 318.5 | 318.5 | 0.0 |
| <u>Industrial Commission of Arizona</u> | | | | | |
| Industrial Commission Admin Fund | 18,895.5 | 19,940.3 | 19,940.3 | 19,940.3 | 0.0 |
| <u>Judiciary</u> | | | | | |
| Supreme Court CJEF Disbursements Fund | 6,560.2 | 9,905.8 | 9,905.8 | 9,905.8 | 0.0 |
| Judicial Collection - Enhancement Fund | 17,651.8 | 20,037.1 | 20,037.1 | 20,037.1 | 0.0 |
| Defensive Driving Fund | 3,072.1 | 4,197.3 | 4,197.3 | 4,197.3 | 0.0 |
| Court Appointed Special Advocate Fund | 2,548.4 | 2,942.8 | 2,942.8 | 2,942.8 | 0.0 |
| Confidential Intermediary Fund | 257.5 | 488.4 | 488.4 | 488.4 | 0.0 |
| Drug Treatment and Education Fund | 500.2 | 502.4 | 502.4 | 502.4 | 0.0 |
| State Aid to Courts Fund | 2,427.7 | 2,945.0 | 2,945.0 | 2,945.0 | 0.0 |
| Agency Total | 33,017.9 | 41,018.8 | 41,018.8 | 41,018.8 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Juvenile Corrections</u> | | | | | |
| Juvenile Corrections CJEF Dist Fund | 207.5 | 531.3 | 531.3 | 1,631.3 | 1,100.0 |
| State Education Fund for Committed Youth Fund | 1,826.2 | 1,600.7 | 1,600.7 | 1,600.7 | 0.0 |
| Local Cost Sharing Fund | 0.0 | 12,000.0 | 12,000.0 | 12,000.0 | 0.0 |
| State Charitable, Penal and Reformatory Land Fund | 549.3 | 2,000.1 | 2,000.1 | 2,000.1 | 0.0 |
| Agency Total | 2,583.1 | 16,132.1 | 16,132.1 | 17,232.1 | 1,100.0 |
| <u>Land Department</u> | | | | | |
| Environmental Special Plate Fund | 173.1 | 260.5 | 260.5 | 260.5 | 0.0 |
| Due Diligence Fund | 0.0 | 500.0 | 500.0 | 500.0 | 0.0 |
| Trust Land Management Fund | 3,863.9 | 3,764.9 | 3,764.9 | 1,255.0 | (2,509.9) |
| Trust Land Administration Fund | 0.0 | 0.0 | 0.0 | 11,392.7 | 11,392.7 |
| Land Fee Fund | 0.0 | 0.0 | 0.0 | 4,036.9 | 4,036.9 |
| Agency Total | 4,037.1 | 4,525.4 | 4,525.4 | 17,445.1 | 12,919.7 |
| <u>Department of Liquor Licenses and Control</u> | | | | | |
| Liquor Licenses Fund | 3,125.8 | 3,355.3 | 3,355.3 | 3,459.3 | 104.0 |
| <u>Lottery Commission</u> | | | | | |
| Lottery Fund | 61,910.9 | 108,854.6 | 106,626.8 | 110,234.5 | 1,379.9 |
| <u>Massage Therapy</u> | | | | | |
| Massage Therapy Board Fund | 434.4 | 455.8 | 455.8 | 469.7 | 13.9 |
| <u>Medical Board</u> | | | | | |
| Medical Examiners Board Fund | 5,742.9 | 6,426.0 | 6,426.0 | 6,643.0 | 217.0 |
| <u>Mine Inspector</u> | | | | | |
| Aggregate Mining Reclamation Fund | 20.6 | 112.8 | 112.8 | 112.8 | 0.0 |
| <u>Naturopathic Physicians Board of Medical Examiners</u> | | | | | |
| Naturopathic Board Fund | 163.3 | 179.7 | 179.7 | 183.7 | 4.0 |
| <u>Navigable Stream Adjudication Commission</u> | | | | | |
| Arizona Water Banking Fund | 200.0 | 200.0 | 200.0 | 200.0 | 0.0 |
| <u>Board of Nursing</u> | | | | | |
| Nursing Board Fund | 4,247.3 | 4,802.6 | 4,802.6 | 4,802.6 | 0.0 |
| <u>Nursing Care Ins. Admin. Examiners</u> | | | | | |
| Nursing Care Institution Admin/ACHMC Fund | 387.3 | 422.1 | 422.1 | 446.1 | 24.0 |
| <u>Board of Occupational Therapy Examiners</u> | | | | | |
| Occupational Therapy Fund | 171.7 | 172.0 | 172.0 | 172.0 | 0.0 |
| <u>Board of Dispensing Opticians</u> | | | | | |
| Dispensing Opticians Board Fund | 133.8 | 136.8 | 136.8 | 139.8 | 3.0 |
| <u>Board of Optometry</u> | | | | | |
| Board of Optometry Fund | 193.7 | 230.2 | 230.2 | 211.4 | (18.8) |
| <u>Board of Osteopathic Examiners</u> | | | | | |
| Osteopathic Examiners Board Fund | 757.9 | 803.7 | 803.7 | 908.8 | 105.1 |
| <u>Parks Board</u> | | | | | |
| State Parks Revenue Fund | 13,294.1 | 12,854.8 | 12,854.8 | 14,500.0 | 1,645.2 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Personnel Board</u> | | | | | |
| Personnel Division Fund | 311.6 | 375.7 | 375.7 | 375.7 | 0.0 |
| <u>Office of Pest Management</u> | | | | | |
| Pest Management Fund | 1,329.2 | 1,699.5 | 1,699.5 | 1,699.5 | 0.0 |
| <u>Board of Pharmacy</u> | | | | | |
| Pharmacy Board Fund | 1,940.8 | 2,020.5 | 2,020.5 | 2,140.5 | 120.0 |
| <u>Board of Physical Therapy Examiners</u> | | | | | |
| Physical Therapy Fund | 396.3 | 480.4 | 480.4 | 487.0 | 6.6 |
| <u>Pioneers' Home</u> | | | | | |
| Pioneers' Home State Charitable Earnings Fund | 2,490.4 | 4,164.9 | 4,164.9 | 4,164.9 | 0.0 |
| Pioneers' Home Miners' Hospital Fund | 1,856.4 | 2,040.0 | 2,040.0 | 2,040.0 | 0.0 |
| Agency Total | 4,346.8 | 6,204.9 | 6,204.9 | 6,204.9 | 0.0 |
| <u>Board of Podiatry Examiners</u> | | | | | |
| Podiatry Examiners Board Fund | 123.1 | 148.2 | 148.2 | 148.2 | 0.0 |
| <u>Commission for Postsecondary Education</u> | | | | | |
| Postsecondary Education Fund | 1,299.0 | 1,534.8 | 1,534.8 | 1,534.8 | 0.0 |
| <u>Board for Private Postsecondary Education</u> | | | | | |
| Private Postsecondary Education Fund | 363.9 | 996.3 | 996.3 | 396.3 | (600.0) |
| <u>Board of Psychologist Examiners</u> | | | | | |
| Psychologist Examiners Board Fund | 362.6 | 448.5 | 448.5 | 476.5 | 28.0 |
| <u>Department of Public Safety</u> | | | | | |
| State Highway Fund | 6,743.9 | 7,273.2 | 7,273.2 | 7,331.3 | 58.1 |
| Arizona Highway Patrol Fund | 18,908.7 | 20,397.1 | 20,397.1 | 23,199.1 | 2,802.0 |
| Safety Enforcement and Transportation Infrastructure Fund | 1,090.5 | 1,559.1 | 1,559.1 | 1,559.1 | 0.0 |
| Crime Laboratory Assessment Fund | 871.3 | 870.3 | 870.3 | 872.4 | 2.1 |
| Auto Fingerprint Identification Fund | 2,820.6 | 2,910.5 | 2,910.5 | 2,910.5 | 0.0 |
| DNA Identification System Fund | 6,013.8 | 6,297.3 | 6,297.3 | 4,997.3 | (1,300.0) |
| Public Safety Equipment Fund | 2,534.4 | 2,893.0 | 2,893.0 | 2,893.0 | 0.0 |
| Crime Laboratory Operations Fund | 13,306.5 | 14,660.6 | 14,660.6 | 13,660.6 | (1,000.0) |
| Gang and Immigration Intelligence Team Enforcement Mission Fund | 4,345.3 | 2,390.0 | 2,390.0 | 2,527.7 | 137.7 |
| State Aid to Indigent Defense Fund | 700.0 | 700.0 | 700.0 | 700.0 | 0.0 |
| Motorcycle Safety Fund | 205.0 | 205.0 | 205.0 | 205.0 | 0.0 |
| Parity Compensation Fund | 1,950.1 | 2,115.5 | 2,115.5 | 2,139.7 | 24.2 |
| Concealed Weapons Permit Fund | 966.1 | 1,391.4 | 1,391.4 | 1,450.1 | 58.7 |
| Highway User Revenue Fund | 89,255.0 | 96,409.2 | 96,409.2 | 97,192.5 | 783.3 |
| DPS Criminal Justice Enhancement Fund | 2,873.4 | 2,864.4 | 2,864.4 | 2,872.7 | 8.3 |
| Risk Management Fund | 1,233.7 | 1,228.1 | 1,228.1 | 1,238.4 | 10.3 |
| Automation Operations Fund | 287.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 154,105.8 | 164,164.7 | 164,164.7 | 165,749.4 | 1,584.7 |
| <u>Department of Racing</u> | | | | | |
| Racing Regulation Fund | 2,848.1 | 0.0 | 0.0 | 0.0 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Radiation Regulatory Agency</u> | | | | | |
| State Radiologic Technologist Certification Fund | 271.0 | 272.5 | 272.5 | 272.5 | 0.0 |
| Radiation Regulatory Fee Fund | 571.4 | 578.7 | 578.7 | 578.7 | 0.0 |
| Agency Total | 842.4 | 851.2 | 851.2 | 851.2 | 0.0 |
| <u>Residential Utility Consumer Office</u> | | | | | |
| Residential Utility Consumer Office Revolving Fund | 1,025.1 | 1,335.0 | 1,335.0 | 1,335.0 | 0.0 |
| <u>Board of Respiratory Care Examiners</u> | | | | | |
| Board of Respiratory Care Examiners Fund | 271.9 | 300.1 | 300.1 | 300.1 | 0.0 |
| <u>Arizona State Retirement System</u> | | | | | |
| Retirement System Appropriated Fund | 22,540.0 | 25,181.6 | 25,181.6 | 24,765.0 | (416.6) |
| LTD Trust Fund | 2,103.1 | 2,800.0 | 2,800.0 | 2,800.0 | 0.0 |
| Agency Total | 24,643.1 | 27,981.6 | 27,981.6 | 27,565.0 | (416.6) |
| <u>Department of Revenue</u> | | | | | |
| Tobacco Tax and Health Care Fund | 544.8 | 678.9 | 678.9 | 678.9 | 0.0 |
| Department of Revenue Administrative Fund | 24,215.7 | 46,407.5 | 46,407.5 | 45,176.8 | (1,230.7) |
| DOR Liability Setoff Fund | 380.2 | 398.0 | 398.0 | 1,398.0 | 1,000.0 |
| Agency Total | 25,140.8 | 47,484.4 | 47,484.4 | 47,253.7 | (230.7) |
| <u>School Facilities Board</u> | | | | | |
| <u>Department of State - Secretary of State</u> | | | | | |
| Election Systems Improvement Fund | 1,715.6 | 2,941.5 | 2,941.5 | 2,941.5 | 0.0 |
| Records Services Fund | 693.5 | 742.0 | 742.0 | 742.0 | 0.0 |
| Agency Total | 2,409.1 | 3,683.5 | 3,683.5 | 3,683.5 | 0.0 |
| <u>State Boards Office</u> | | | | | |
| Special Services Fund | 154.6 | 215.8 | 215.8 | 0.0 | (215.8) |
| <u>Board of Technical Registration</u> | | | | | |
| Technical Registration Board Fund | 1,844.4 | 2,122.6 | 2,122.6 | 2,922.6 | 800.0 |
| <u>Department of Transportation</u> | | | | | |
| State Aviation Fund | 1,623.5 | 1,622.9 | 1,622.9 | 1,622.9 | 0.0 |
| State Highway Fund | 335,576.4 | 341,899.7 | 341,899.7 | 349,410.2 | 7,510.5 |
| Transportation Department Equipment Fund | 17,739.4 | 18,545.5 | 18,545.5 | 18,545.5 | 0.0 |
| Safety Enforcement and Transportation Infrastructure Fund | 1,878.7 | 1,875.5 | 1,875.5 | 1,875.5 | 0.0 |
| Air Quality Fund | 41.0 | 74.2 | 74.2 | 162.2 | 88.0 |
| Vehicle Inspection and Title Enforcement Fund | 1,450.6 | 1,458.1 | 1,458.1 | 1,458.1 | 0.0 |
| Motor Vehicle Liability Insurance Enforcement Fund | 1,691.2 | 1,082.6 | 1,082.6 | 2,416.1 | 1,333.5 |
| Driving Under Influence Abatement Fund | 88.4 | 153.2 | 153.2 | 153.2 | 0.0 |
| Highway User Revenue Fund | 528.9 | 652.7 | 652.7 | 652.7 | 0.0 |
| Agency Total | 360,618.1 | 367,364.4 | 367,364.4 | 376,296.4 | 8,932.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2015 Expenditures | FY 2016 Appropriation | FY 2016 Executive Budget | FY 2017 Executive Budget | FY 2017 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Treasurer</u> | | | | | |
| Boating Safety Fund | 1,690.4 | 2,183.8 | 2,183.8 | 2,183.8 | 0.0 |
| Border Security Trust Fund | 0.0 | 12.1 | 12.1 | 12.1 | 0.0 |
| Treasurer Empowerment Scholarship Account Fund | 30.0 | 79.7 | 79.7 | 79.7 | 0.0 |
| Budget Stabilization Fund | 1,000.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Treasurer's Operating Fund | 2,585.4 | 2,571.8 | 2,571.8 | 2,571.8 | 0.0 |
| State Treasurer's Management Fund | 166.1 | 196.6 | 196.6 | 196.6 | 0.0 |
| Agency Total | 5,471.9 | 5,044.0 | 5,044.0 | 5,044.0 | 0.0 |
| <u>ASU - Tempe</u> | | | | | |
| ASU Collections - Appropriated Fund | 512,843.2 | 551,220.9 | 548,937.7 | 545,883.2 | (5,337.7) |
| <u>ASU - Polytechnic</u> | | | | | |
| ASU Collections - Appropriated Fund | 29,587.4 | 35,722.9 | 35,722.9 | 35,722.9 | 0.0 |
| Technology and Research Initiative Fund | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 0.0 |
| Agency Total | 31,587.4 | 37,722.9 | 37,722.9 | 37,722.9 | 0.0 |
| <u>ASU - West</u> | | | | | |
| ASU Collections - Appropriated Fund | 40,992.4 | 44,241.4 | 44,241.4 | 44,241.4 | 0.0 |
| Technology and Research Initiative Fund | 1,600.0 | 1,600.0 | 1,600.0 | 1,600.0 | 0.0 |
| Agency Total | 42,592.4 | 45,841.4 | 45,841.4 | 45,841.4 | 0.0 |
| <u>Northern Arizona University</u> | | | | | |
| NAU Collections - Appropriated Fund | 132,857.5 | 145,286.6 | 145,246.4 | 145,206.2 | (80.4) |
| <u>University of Arizona - Main Campus</u> | | | | | |
| U of A Main Campus - Collections - Appropriated Fund | 261,006.0 | 361,149.6 | 359,397.0 | 356,648.8 | (4,500.8) |
| <u>University of Arizona - Health Sciences Center</u> | | | | | |
| U of A Main Campus - Collections - Appropriated Fund | 44,963.1 | 44,053.8 | 44,053.8 | 44,053.8 | 0.0 |
| <u>Department of Veterans' Services</u> | | | | | |
| Veterans' Conservatorship Fund | 659.3 | 902.9 | 902.9 | 902.9 | 0.0 |
| State Home for Veterans Trust Fund | 30,132.7 | 30,986.6 | 31,264.6 | 31,264.6 | 278.0 |
| Agency Total | 30,792.0 | 31,889.5 | 32,167.5 | 32,167.5 | 278.0 |
| <u>Veterinary Medical Examining Board</u> | | | | | |
| Veterinary Medical Examiners Board Fund | 526.8 | 545.2 | 545.2 | 655.1 | 109.9 |
| <u>Department of Water Resources</u> | | | | | |
| Arizona Water Banking Fund | 0.0 | 1,448.5 | 1,448.5 | 1,448.5 | 0.0 |
| Water Resources Fund | 5.6 | 641.2 | 641.2 | 641.2 | 0.0 |
| Assured and Adequate Water Supply Administration Fund | 52.4 | 266.6 | 266.6 | 266.6 | 0.0 |
| Agency Total | 58.0 | 2,356.3 | 2,356.3 | 2,356.3 | 0.0 |
| <u>Department of Weights and Measures</u> | | | | | |
| Air Quality Fund | 1,301.8 | 1,439.8 | 1,439.8 | 0.0 | (1,439.8) |
| Motor Vehicle Liability Insurance Enforcement Fund | 273.3 | 329.4 | 329.4 | 0.0 | (329.4) |
| Agency Total | 1,575.1 | 1,769.2 | 1,769.2 | 0.0 | (1,769.2) |
| Other Appropriated Funds Operating Total | 3,237,064.1 | 3,680,883.2 | 3,903,492.3 | 3,991,429.2 | 310,546.0 |

Resources

Visit the Governor's Office of Strategic Planning and Budgeting at www.azospb.gov

Budget

FY 2016 Executive Budget – Summary

FY 2016 Executive Budget – State Agency Budgets

FY 2016 Executive Budget – Sources and Uses of State Funds and Appendix

Statement of Federal Funds for Fiscal Years 2014 through 2016

Calculation of the Appropriation Limit for Fiscal Years 2013 and 2014

Strategic Planning

[Five-Year Strategic Plans for State Agencies and the Master List of State Government Programs](#) includes:

- Expenditures for each function or program of state government
- Goals and performance measures for Fiscal Years 2014 through 2016
- Agencies' strategic issues and strategies for addressing them for the next five years
- Agencies' resource needs for the next five years

Historical Perspective

[Revenue and Expenditure Data](#)

[Executive Budgets and Strategic Planning Documents from Previous Years](#)

Monthly Updates

Year-to-Date General Fund Revenue Collections

Monthly Budget Reports, including (a) Agencies' Statements of Year-to-Date Revenues and Expenditures for Every Fund, and Projections for the Remainder of the Fiscal Year and (b) Agencies' Statements of Year-to-Date Expenditures from Appropriations, and Projections for the Remainder of the Fiscal Year.

<http://www.azospb.gov/index.html>

State Agency Technical Resources

[Agency Budget Development Software and Training Resources](#)

[Managing for Results](#), Arizona's Strategic Planning Handbook (recognized by the Council of State Governments as an Exemplary State Management Program)

Other Helpful Links

[Arizona's Official Website](#)

[Governor's Website](#)

[The Arizona Experience Website](#)

[State Agencies' Websites](#)

Searchable database of the State accounting system ([Openbooks](#))

[Arizona Employment Statistics](#)

[Arizona Population Statistics](#)

[FY 2016 Appropriations Report](#)

Acknowledgement

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

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|-------------------------------|--|
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