

State of Arizona Executive Budget

SUMMARY

FISCAL YEAR 2018

Douglas A. Ducey
GOVERNOR



JANUARY 2017

Provisions for Individuals with Disabilities

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Budget Summary

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The Budget Summary

The FY 2018 Executive Budget Recommendation increases the State's investment in education while preserving the General Fund's structural balance.

In FY 2017, after being confronted with a historically weak economy and a persistent structural deficit for ten years, State Government achieved its first structural balance in over a decade. Continued commitment to the prudent decision-making and fiscal restraint that eliminated the structural deficit in the current fiscal year will be essential to perpetuating structural balance in the years ahead.

The Executive is cautiously optimistic about Arizona's economic outlook as there is mounting evidence of an accelerating national economy going into calendar year 2017, which should lead to a stronger economy in Arizona.

While maintaining a structural balance is a priority in the short run, investing in education will yield significant benefits for Arizona in the long run. The Executive Budget Recommendation strives to pursue both priorities in tandem, increasing the State's investment in education within the capacity of the General Fund budget.

FY 2017 Budget Forecast

The Executive forecasts a current fiscal year structural surplus of \$5 million and an ending cash balance of \$119 million.

FY 2018 Budget Recommendation

The FY 2018 Executive Budget Recommendation prioritizes investments in K-12 and Higher Education and addresses important operational needs.

The Recommendation allows General Fund spending to grow by 1.8% and projects a structural balance of \$11 million and an ending cash balance of \$17 million.

Education

Arizona's high-quality K-12 and Higher Education systems are key factors in building a stronger economy, promoting future economic growth, and enhancing the lives of our citizens.

The FY 2018 Executive Recommendation builds on the passage of Proposition 123¹ by increasing funding for the K-12

system and provides for a major infrastructure investment for the future of the State's three public universities.² In total, over the next three years, the Executive Recommendation provides \$453 million above the baseline budget for public K-12 schools and universities.

K-12 EDUCATION

The FY 2018 Executive Budget Recommendation includes system-wide investments to benefit all public schools as well as targeted investments to move Arizona closer to achieving the Executive's education policy goals.

System-Wide Investments. Teacher pay, results-based funding, and enrollment reconciliation funding are prominent examples of system-wide investments provided in the Executive Budget Recommendation

Teacher Salary Increase. Attracting and retaining teachers in Arizona is an integral step in strengthening the public education system. The Executive Recommendation includes funding, phased-in over the next five years, for a permanent 2% salary increase for all teachers. This salary increase is intended to be *in addition to*, not in lieu of, any salary increases provided by local school systems over the next five years.

Results-Based Funding. Increasing access to the highest performing school district and charter schools is critical to improving educational outcomes, particularly in our low-income areas. The Executive Recommendation includes results-based funding to encourage the expansion of our highest performing public schools, including those schools with significant enrollment demand.

Enrollment Reconciliation Funding. Unforeseen declines in student enrollment can create fiscal challenges for schools districts, especially in meeting financial obligations such as teacher contracts. The Executive Recommendation provides enrollment reconciliation funding to help school districts reconcile actual enrollment to budgeted enrollment, mitigating mid-year funding challenges due to instances of declining enrollment.

Targeted Investments. In addition to making system-wide investments, the Executive Recommendation provides targeted resources to strengthen the K-12 pipeline, including additional

¹ Passed by Arizona voters in May 2016, Proposition 123 increases education funding by \$3.5 billion over the course of 10 years by allocating money from the General Fund and increasing annual distributions to education from the State Land Trust.

² The State's university system is composed of the University of Arizona, Arizona State University and Northern Arizona University.

support for high-need school districts and charters schools, incentives for teachers, and several initiatives that will help students advance and succeed beyond high school.

Reading Proficiency. Research indicates that reading ability at the end of the third grade is a strong predictor of educational and career success. While Arizona's Move on When Reading program has brought attention and focus to this important benchmark, achieving real progress will require the investment of financial resources.

To help raise the bar for third-grade reading proficiency, the Executive recommends funding for all-day kindergarten and early literacy for public schools in which 90% of students are eligible for free or reduced-price lunch. The additional funding will enable schools to implement evidence-based best practices known to increase early childhood literacy. The Executive also recommends additional resources to address early education needs of children (age 3 and younger) with disabilities, as a precursor to early literacy success.

Teacher Recruitment and Retention. Challenges associated with teacher recruitment and retention are typically higher in public schools that serve low-income students, especially in attracting high-quality educators. Additionally, more teachers who are qualified for STEM (science, technology, engineering and math) instruction are needed to prepare students for Arizona's 21st century economy.

To address the broader teacher shortage in high-need schools, the Executive Recommendation incentivizes teachers to fill open positions through a \$1,000 bonus for new teachers in public schools in which at least 60% of students qualify for free or reduced-price lunch. Additionally, to address the shortage of STEM teachers, the Executive recommends expanding the State's student loan forgiveness incentive for prospective math, science and special education teachers in low-income schools, particularly those in Arizona's rural and remote communities.

Career Enhancement. The Governor's endorsement of the community-based Achieve60AZ initiative³ seeks to align quality education outcomes to workforce demands. To that end, preparing Arizona's students for jobs in a rapidly evolving economy requires additional focus on a stronger K-12 pipeline into postsecondary education, and increasing affordability and accessibility in postsecondary attainment.

The Executive Recommendation enables matriculated students to finish a Joint Technical Education District program, at no cost to students, if they have completed more than 50% of the JTED program at the time they graduate from high school. Additionally, the Executive recommends funding for "college knowing and going" programs that help low-income students and their families complete the Free Application for Federal Student Aid (FASFA) and college applications.

³ The goal of Achieve60AZ is for 60% of Arizona adults, age 25-64, to have a professional certificate or college degree by 2030.

Other Initiatives. The Executive Recommendation also recognizes the need to expand rural schools' access to broadband connectivity, more effectively detect and respond to student hearing impairment, and ensure continued support to advance Arizona's academic standards and school accountability systems.

In total, the Executive Recommendation adds \$114 million in new K-12 initiatives, above the \$76 million in baseline adjustments for enrollment growth and inflation. Over the next three years, this additional investment will total \$327 million in new K-12 spending above the baseline.

HIGHER EDUCATION

With respect to Arizona's public universities, developing a world-class higher education system requires ongoing investment in university research and development. New research infrastructure will encourage innovation and expand economic opportunities for students by attracting high-quality faculty, who in turn will provide applied learning opportunities to students pursuing targeted career opportunities.

The Executive Recommendation makes a permanent commitment to the three universities to support approximately \$1 billion in new research and development infrastructure, including deferred maintenance projects, by diverting transaction privilege tax revenues paid by the universities to enable a new 30-year bond program. In support of this effort, the Recommendation calls for an investment of \$110 million in the first three years alone.

In addition, the Executive Recommendation includes \$15 million in one-time General Fund resources to give the universities budget flexibility in addressing high-priority needs and costs associated with Arizona resident students.

Further, while acknowledging higher education's role in shaping a workforce capable of performing the jobs of the future, the Executive Recommendation calls on Arizona's postsecondary institutions to respond to a critical current labor shortage: teachers.

The Executive directs the universities and community colleges to collaborate in the development of a new blueprint for teacher preparation and effectiveness. The blueprint, to be completed and presented within the next 90 days, will reflect established models of best practices in the field, and it will introduce new strategies to attract more of Arizona's top high school students to the teaching profession.

Health and Welfare

The Executive Recommendation seeks to build on recent Legislative investments for the protection of Arizona's children and vulnerable adults.

CHILD SAFETY

Less than one year after passage of the FY 2017 budget, the Department of Child Safety (DCS) is on target to meet or exceed all of the benchmark targets set by the Legislature during its 2016 session.

In making effective use of its substantial General Fund appropriation, DCS is consistently closing more investigations than are being opened, and it is seizing control of areas of historic cost volatility. Continued success is contingent upon redeveloping DCS' child welfare data system, and the Executive Recommendation continues funding improvements to this system.

Further, in seeking to maximize the well-being of vulnerable children, and recognizing the important role of kinship caregivers in promoting lifelong family connections and lessening the trauma to children removed from their homes, the Executive Recommendation provides new funding to alleviate the financial burden for kinship caregivers, almost half of which are grandparents.

VULNERABLE ADULTS

The Executive Recommendation also builds upon the Legislature's investments in protecting vulnerable adults.

Due to increasing caseloads at Adult Protective Services, the Executive recommends continuing one-time funding from FY 2017 and providing additional funding to protect more vulnerable adults.

In addition to continuing investments first made in FY 2017, the Executive Recommendation includes funding to give an adult receiving cash assistance the opportunity to earn back an additional 12 months of benefits, provided that (a) the individual is actively seeking work or training and (b) if the individual has school-age children, each child has a 90% school attendance record.

The Executive Recommendation also provides for improvements at the State's other health and welfare agencies, including new funding for:

- monitoring prescription drug use for AHCCCS⁴ members,
- responding to public health emergencies, and
- expanding the State Loan Repayment Program, which encourages health care professionals to practice in underserved areas of Arizona.

Good Government

Consistent with the Executive's commitment to running State Government "at the speed of business," the FY 2018 Executive Budget Recommendation provides funding for a

number of good-government initiatives and solutions to important operating needs.

Arizona's 34 State parks are valuable economic engines for nearby communities, and the Executive Recommendation seeks to transform the State Parks Board into an enterprise model, allowing the agency to invest quickly in emerging opportunities in rural Arizona.

The Executive also recommends:

- a one-time deposit to strengthen the Health Insurance Trust Fund's cash position;
- continued investment in transforming legacy information technology (IT) systems as well as continuing a commitment to enhancing cyber security; and
- prioritizing life and safety improvements to capital assets in the State's building system.

Public Safety

The Executive Recommendation's public safety priorities include lowering the recidivism rate among individuals who have been sentenced to Department of Corrections facilities, and testing of sexual assault kits.

Reducing the rate of recidivism (i.e., relapse into criminal behavior) reduces costs to the State, enhances public safety, and provides an opportunity for individuals who have paid their debt to society to become engaged and productive citizens.

The Executive Recommendation invests in recidivism reduction efforts for inmates while they are in the prison system and after they are released, in the form of:

- additional funding to hire substance abuse counselors and a re-entry planner within the Department of Corrections; and
- funding for a post-release fire crew for individuals who served on inmate fire crews while in prison.

Testing sexual assault kits can help law enforcement identify serial criminals, leading to increased public safety. In response to an October 2016 Department of Public Safety report on the number of untested sexual assault kits statewide, the Recommendation includes funding to fully eliminate the backlog.

Natural Resources

Managing water is vital to current and future generations of Arizona residents, and to the state's economy. The Executive Recommendation includes contingency funding over a three-year period to implement the State's drought contingency plan.

In addition to the investment in managing the State's water resources, the Executive Recommendation includes funding for:

- new equipment to enhance the safety of wildland firefighter crews, and

⁴ The Arizona Health Care Cost Containment System (AHCCCS) is Arizona's Medicaid agency.

- modernizing management and operations of State Trust Land.

By the Numbers

MAJOR GENERAL FUND BUDGET ISSUES, FY 2017

K-12 Education: 1% Cap:.....	\$ 19.8 million
Dept. of Child Safety (DCS)	8.0 million
DES: Prop. 206.....	7.7 million

MAJOR GENERAL FUND BUDGET ISSUES, FY 2018

K-12 Education.....	\$ 96.4 million
University Capital Investment Program	36.8 million
Health Insurance Trust Fund.....	30.0 million
School Facilities Board: Building Renewal Grants.....	17.2 million
University Capital and Operational Funding	15.0 million
DES: Adult Protective Services.	3.0 million
DES: Continued Improvements to the Safety Net.....	2.8 million
Water Resources: Drought Contingency Plan.....	2.0 million
Forester: Post-Release Fire Crew.....	1.5 million
DPS: Sexual Assault Kit Testing.....	1.2 million
DCS: Kinship Stipend.....	1.0 million

PROJECTED ENDING BALANCES

FY 2018	\$ 17 million
FY 2019	27 million

FY 2020	117 million
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PROJECTED STRUCTURAL BALANCES

FY 2018	\$ 11 million
FY 2019	12 million
FY 2020	92 million

Sources and Uses of Funds

The Executive Budget In-a-Flash that follows summarizes the Executive Budget Recommendation in tabular form. The statement presents the following:

- The *FY 2016 Preliminary Actual* column reflects currently known revenues and expenditures for FY 2016, from the State's Accounting and Financial Information System.
- The *FY 2017 Recommendation* shows the Executive's recommended changes to the FY 2017 enacted appropriations as displayed on the row titled, "Enacted Base Spending."
- The *FY 2018 Recommendation* column shows the Executive's revenue and expenditure projections for FY 2018 with expenditures projections based off the enacted FY 2017 appropriations.
- The *FY 2019-FY 2020 Executive Recommendation* columns reflect the Executive's revenue projections and expenditure recommendations, based on the FY 2018 Executive Recommendation.

Executive Budget In-A-Flash

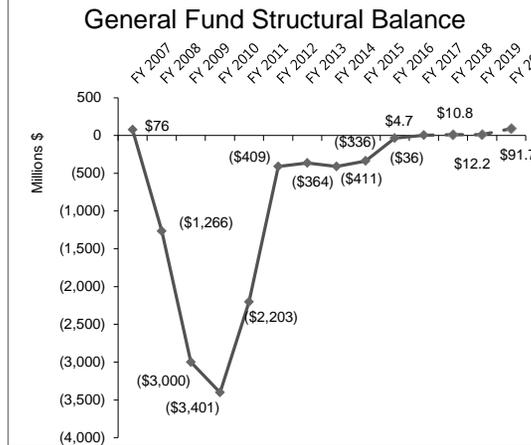
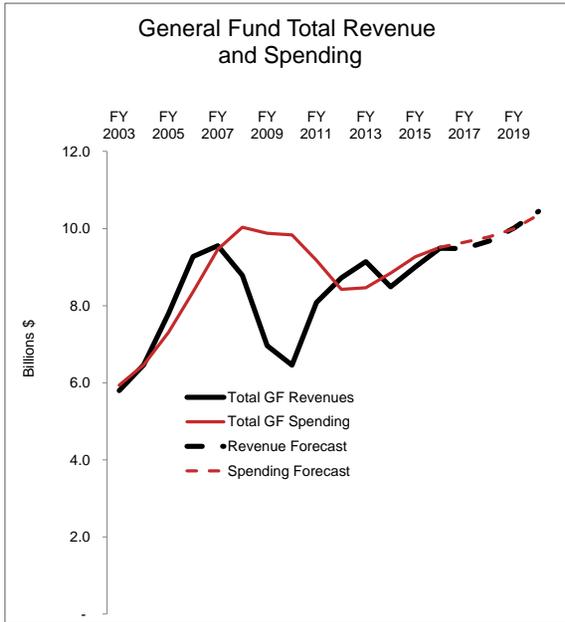


GENERAL FUND CASH FLOW

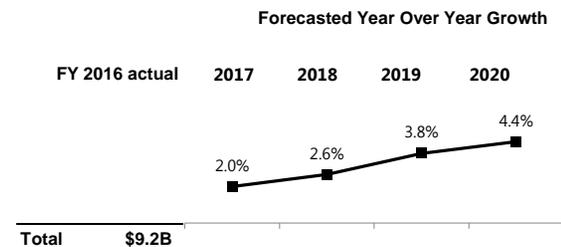
	Prelim Actual FY 2016	Executive Recommendation FY 2017	Executive Recommendation FY 2018	Executive Recommendation FY 2019	Executive Recommendation FY 2020	YOY ² % growth
Beginning Balance (thousands)	311,635	284,015	119,083	16,937	27,183	
Adj. Base Revenues	9,218,974	9,399,766	9,683,449	10,043,845	10,482,732	
New Revenue Changes	-	-	(38,438)	(36,924)	(37,675)	
One-time Revenues	267,257	79,362	38,102	0	-	
Total Revenues	9,797,866	9,763,143	9,802,196	10,023,858	10,472,240	
Enacted Base Spending	9,513,851	9,608,269	9,608,269	9,785,259	9,996,675	
Baseline Changes ¹		35,790	1,340	278,892	345,071	
New Initiatives		0	175,651	(67,476)	13,600	
Total Spending	9,513,851	9,644,059	9,785,259	9,996,675	10,355,346	3.6%
Ending Balance	284,015	119,083	16,937	27,183	116,894	

GENERAL FUND STRUCTURAL BALANCE

	Prelim Actual FY 2016	Enacted + Supplemental FY 2017	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	YOY % growth
Ongoing Revenues	9,218,974	9,399,766	9,645,011	10,006,921	10,445,057	4.4%
Ongoing Spending	9,254,521	9,395,091	9,634,181	9,994,675	10,353,346	3.6%
Structural Balance	(35,548)	4,674	10,830	12,246	91,711	



GENERAL FUND REVENUE GROWTH FORECAST

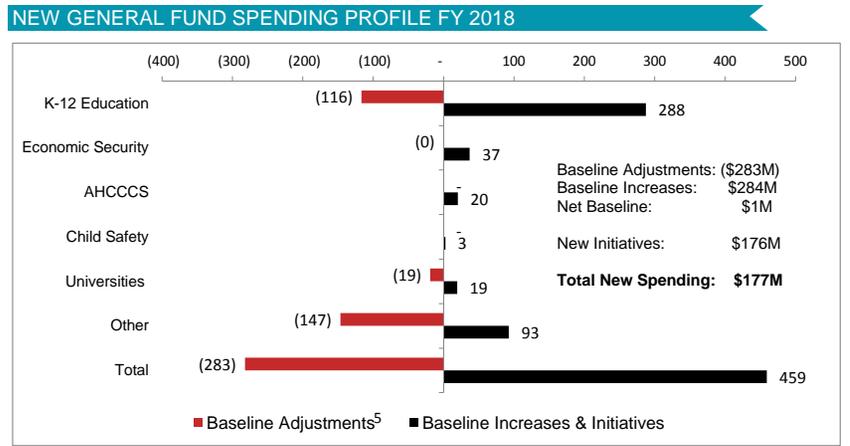
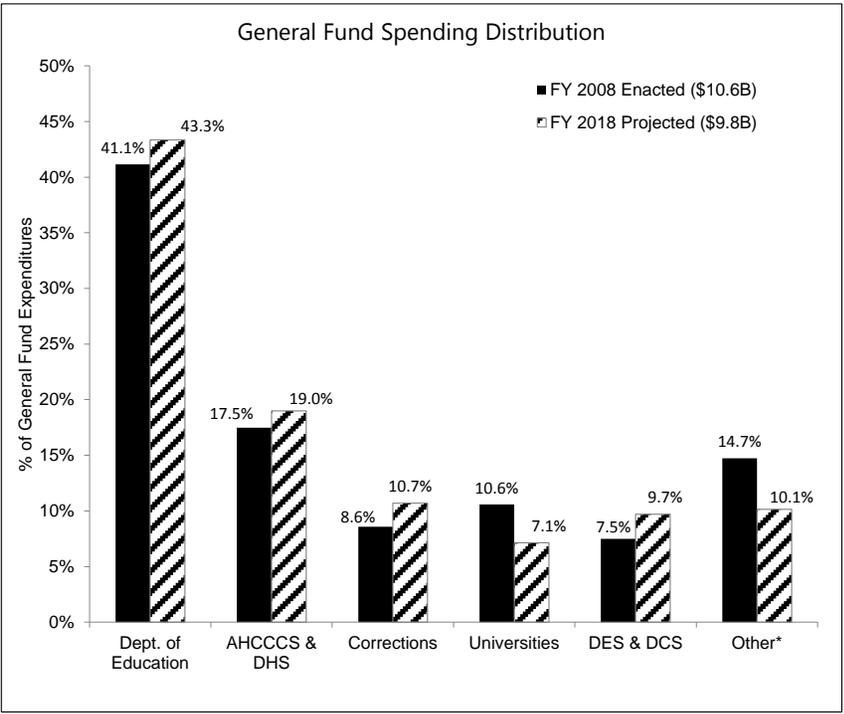


¹Baseline change in FY 2017 represents \$36M in supplementals, including \$20M to resolve the 1% cap issue, \$8M for DCS, \$7.7M for Prop. 206, and \$0.2M for Land Department water rights.

²Year-over-year growth is the recommended FY 2018 compared to the originally enacted FY 2017 amounts.

The FY 2018 Executive Budget Recommendation allows for General Fund spending to grow by 1.8% (compared to the enacted FY 17), which is less than the 3.7% forecasted inflation (2.1%) plus population growth (1.6%) in 2018.

GENERAL FUND SPENDING						New FY 2017 Spending: \$ 35,790,230
						New FY 2018 Spending: \$ 176,990,166
(thousands)	Prelim Actual FY 2016	Executive Recommendation FY 2017	Baseline Issues FY 2018	New Initiatives FY 2018	Executive Recommendation FY 2018 ⁴	YOY ³ % growth
Dept. of Education	3,941,874	4,089,209	75,955	95,200	4,240,531	4%
AHCCCS	1,205,162	1,750,941	18,379	1,704	1,771,024	1%
Corrections	1,035,108	1,046,683	0	518	1,047,201	0%
Universities	864,921	698,472	(14,789)	15,000	698,684	0%
Economic Security	523,934	537,857	31,661	5,373	567,158	7%
Child Safety	402,413	387,179	4,217	(1,700)	381,697	1%
Health Services	602,739	86,552	0	0	86,552	0%
Other Agencies	823,659	831,900	(35,794)	0	818,440	-2%
Capital Projects	6,200	18,000	0	0	18,000	0%
IT Projects	7,783	14,882	542	6,998	7,539	-49%
Other	100,059	182,384	(78,831)	52,558	148,435	-19%
Total	9,513,851	9,644,059^A	1,340^B	175,651^C	9,785,259	1.8%



- A Supplemental: spending in current year for baseline or initiatives.**
FY 2017 Supplemental: \$36M (Added to FY 2017 Enacted Base of \$9,608.3M)
All is for baseline issues.
- B Baseline: caseload, cost adjustments and spending necessary to provide the current level of service.**
FY 2018 Baseline: \$1M
Virtually all spending is for caseload or cost adjustments.
Most of new baseline spending is ongoing.
- C Initiatives: Investment to achieve the Executive's Goals**
FY 2018 Initiatives: \$176M
\$93.1M is one-time (53%).

³Year-over-year growth is the recommended FY 2018 compared to the originally enacted FY 2017 amounts.
⁴The amounts in the FY 2018 Recommendation column is not equal to the sum of the FY 2017 and other FY 2018 columns because of supplementals included in the FY 2017 Recommendation. For example, K-12 Education includes \$20M in FY 2017 for the adjustment to the county 1% property tax cap.
⁵Baseline Adjustments include FY 2017 one-time appropriations and *previously enacted reductions*.

GENERAL FUND SPENDING BREAKDOWN

KEY HIGHLIGHTS - INITIATIVE SPENDING

\$129M for Education in FY 2018 above the baseline
 \$114M for the K-12 system in FY 2018
 (\$95.2M at ADE, \$17.2M at SFB, \$0.8M at ASDB, and \$0.4M at Postsecondary Education \$15M for Universities)

DEPARTMENT OF EDUCATION

\$19.8M FY 2017 Supplemental

\$19.8M to resolve the 1% cap issue

\$76M FY 2018 Baseline

\$76.5M for enrollment growth (1.25%, 1.25% in FY17)

\$76.3M for inflation (1.24%, 0.99% in FY17)

\$19.8M to account for the 1% cap issue

\$14.8M for higher average cost per pupil

\$5M for the college credit by exam incentive program

(\$0.1M) to remove one-time funding for geographic literacy

(\$1.1M) adjusting one-time funding for DSCS

(\$1.8M) for lower JTED funding for high school graduates

(\$16M) for increased distributions from the PLETF

(\$19.5M) adjusting for the multisite charter SSW phase down

(\$31M) adjusting one-time funding

(\$47M) from new construction property tax savings

\$95.2M FY 2018 Initiative

\$37.6M to implement results based funding

\$20M for enrollment reconciliation funding

\$13.6M to phase-in a 2% teacher pay increase over 5 years

\$10M for all-day Kindergarten and early literacy funding

\$6.4M for a \$1000 new teacher bonus in high need schools

\$5M for Arizona broadband education initiative

\$1.1M for K-12 academic standards

\$1M to provide JTED completion grants

\$0.3M for school leadership training

\$0.2M for computer science initiative

\$0.1M for jobs for Arizona's graduates

(\$0M) for additional Board of Ed Resources

SCHOOL FACILITIES BOARD

(\$16.9M) FY 2018 Baseline

(\$15.5M) to remove one-time funding

(\$1.2M) for new school facilities

(\$0.2M) for declining debt service

\$17.2M FY 2018 Initiative

\$17.2M for new building renewal grants

UNIVERSITIES

(\$14.8M) FY 2018 Baseline

(\$14.8M) adjustments for one-time capital and refinancing

\$15M FY 2018 Initiative

\$7.6M for one-time capital funding - ASU

\$4.2M for one-time capital funding - UA

\$3.2M for one-time capital funding - NAU

ECONOMIC SECURITY

\$7.7M FY 2017 Supplemental

\$7.7M to pay for Prop 206

\$31.7M FY 2018 Baseline

\$16.2M for DDD caseload growth

\$15.6M to pay for Prop 206

(\$0.1M) for removing one-time funding

\$5.4M FY 2018 Initiative

\$3M for Adult Protective Services

\$2.8M for continued improvements to safety net

(\$0.4M) for eliminating the fingerprint requirement

AHCCCS

\$18.4M FY 2018 Baseline

\$12.7M for caseload growth

\$5.6M to pay for Prop 206

\$1.7M FY 2018 Initiative

\$0.2M for prescription drug review initiative

\$1.5M for emergency dental services

DEPARTMENT OF WATER

\$2.9M FY 2018 Initiative

\$2M for drought contingency planning

\$0.5M for general streams adjudications personnel

\$0.2M for active area management personnel

\$0.1M for legal support for adjudications

\$0.1M for GIS Personnel

CHILD SAFETY

\$8M FY 2017 Supplemental

\$7M for support services

\$1M for child care services

\$4.2M FY 2018 Baseline

\$4.2M for adoption services

(\$1.7M) FY 2018 Initiative

(\$2.7M) to remove backlog privatization monies

\$1M for financial assistance to kinship caregivers

IT PROJECTS

\$10.8M FY 2018 Baseline

\$10.8M for DCS CHILDS replacement project

\$7M FY 2018 Initiative

\$7M for DOR's IT System replacement

OTHER INCREASES

\$0.2M FY 2017 Supplemental

\$0.2M for Central Arizona Project fees

(\$107.9M) FY 2018 Baseline

\$1.5M for the youth success program

\$1.1M for Community Colleges

\$0.8M for Central Arizona Project fees

(\$15.2M) remove one-time funding for border strike force

(\$96.1M) remove other one-time funding¹

\$33M FY 2018 Initiative

\$30M deposit into the Health Insurance Trust Fund

\$1.5M for a post-release fire crew

\$1.2M for additional education investments²

\$1.2M for sexual assault kit testing at DPS

\$0.5M for DOC recidivism programs

\$0.3M for additional fire safety resources

(\$1.7M) other investments and reductions

OVERALL SPENDING

\$1M FY 2018 Net Baseline Increase

(\$283M) Baseline Adjustments

\$284M Baseline Increases

\$176M FY 2018 Initiative

\$177M FY 2018 Total New Spending

Footnotes:

¹This includes large reductions in one-time funding such as (\$86.5M) for transportation projects in FY 2017.

²This includes the \$0.8M for early childhood literacy at the Arizona School for Deaf and Blind (ASDB) and \$0.4 at the Postsecondary Education Commission for teacher loan forgiveness and the FAFSA completion initiative.

Education

The Executive Recommendation provides an additional \$453 million, three-year investment in teachers, students and classrooms, including ongoing support for a \$1 billion funding plan for university R&D and deferred maintenance projects.

K-12 Education

During FY 2017, Arizona K-12 education received the first full year of increased funding, totaling \$311 million, made possible by voter approval of Proposition 123.⁵ In FY 2018, Prop. 123 revenues will increase to \$318 million.

The FY 2018 Executive Budget Recommendation builds on the passage of Proposition 123 by increasing system-wide support and making targeted program-related investments that will help fulfill the Executive's objective of Arizona being among the nation's highest quality public education systems.

In addition to an increased \$76 million in new baseline budget adjustments for K-12 enrollment growth and inflation in FY 2018, the Executive Recommendation provides an additional \$453 million in resources to K-12 and higher education over the next three years.

FY 2018 FUNDING RECOMMENDATION

The Executive Budget Recommendation includes a total of \$168 million in new baseline per-pupil spending for increased student growth and mandatory inflation. The General Fund share of that increase is partially offset by property taxes generated by new construction, increased distributions from the Permanent School Fund, and previously enacted policy changes, resulting in a net baseline General Fund increase of \$76 million in the K-12 baseline budget.

In addition to an increase in the baseline budget, the Executive Budget Recommendation also includes \$114 million in new K-12 initiatives, including new funding for building renewal and new school construction programs at the School Facilities Board.

FY 2017 SUPPLEMENTAL FUNDING RECOMMENDATION

The Executive Recommendation includes a \$19.8 million supplemental appropriation in FY 2017 to comply with State requirements related to the 1% property tax cap. The State is required to backfill any primary property tax costs that exceed

1% of the full cash value of a home after the Homeowner Rebate.

By limiting the backfill to \$1 million per county, Laws 2016, Chapter 15 would have reduced the State's FY 2017 requirement by \$19.8 million, but in July 2016 the law was found to be unconstitutional.

TACKLING THE TEACHER SHORTAGE

The FY 2018 Executive Recommendation continues the Executive's commitment, which began with Proposition 123, to raising salaries for all teachers.

2% Teacher Salary Increase. Due largely to passage of Prop. 123, many teachers have received, for the first time in several years, much-deserved pay raises.

To enhance teacher recruitment and retention statewide, the Executive recommends the five-year phase-in of a 2% salary increase for all public school teachers. The 2% increase will be in addition to any other salary increases that schools provide from other sources, such as annual inflation adjustments (projected to be 1.24% in FY 2018, 2% in FY 2019, and 2% in FY 2020). The Executive recommends \$13.6 million in FY 2018 and a total of \$81.6 million over the next three years to pay for the phase-in.

New Teacher Bonuses. Schools that serve a higher percentage of low-income students experience a higher-than-average rate of teacher turnover and find it more difficult to attract highly qualified teachers.

To help address those challenges, the Executive Recommendation includes \$6.4 million in FY 2018, and a total of \$19 million over the next three years, to support teacher recruitment in low-income school districts and charter schools. The Recommendation will fund a bonus of \$1,000 for every new teacher that is hired by a school district or charter in which more than 60% of students qualify for free or reduced-price lunch.

Teacher Loan Forgiveness. While Arizona's teacher shortage exists to varying degrees statewide, it is especially critical in rural and remote communities, especially for educators qualified to teach math, science, and special education.

The Math, Science, and Special Education (MSSE) Teacher Loan Forgiveness Program offers forgivable loans to students pursuing a teaching degree at a postsecondary institution and who agree, upon graduation, to teach math, science, or special

⁵ Passed by Arizona voters in May 2016, Proposition 123 increases education funding by \$3.5 billion over the course of 10 years by allocating money from the General Fund and increasing annual distributions from the State Land Trust to education.

education in an Arizona public school. The Executive recommends \$250,000 to expand the MSSE program to support 61 students per year in our most needy rural communities.

REWARDING HIGH-QUALITY EDUCATIONAL OUTCOMES

Results-Based Funding. While Arizona is home to some of the highest performing schools in the country, more needs to be done to encourage expansion of our top public schools to increase access for all students statewide. The FY 2018 Executive Recommendation implements the Executive's promise to expand access for all students, no matter where they live or can afford to live, to a high quality education by recommending \$38 million to implement new Results-Based Funding. The program will provide:

- \$400 per pupil to schools that achieve AzMerit test scores in the top 10% of all schools that serve a student population in which 60% or more of students qualify for free or reduced-price lunch.
- \$225 per pupil to schools that achieve AzMerit test scores in the top 10% of all schools and serve a student population in which less than 60% of students qualify for free or reduced-price lunch.

Enrollment Reconciliation Funding. Unforeseen declines in enrollment can create unique mid-year fiscal challenges for school districts.

The Executive recommends a \$20 million one-time non-lapsing appropriation to help school districts reconcile actual enrollment and budgeted enrollment funding to address contractual obligations and commitments to teachers.

A school district that experiences an actual enrollment decline of more than 2% compared to the previous year will qualify for Enrollment Reconciliation Funding equal to the revenue that would otherwise be lost by a decline exceeding 2%. Enrollment Reconciliation Funding will allow qualifying school districts to avoid major operational disruptions as they manage lower funding due to an instance of declining enrollment.

CLOSING THE ACHIEVEMENT GAP

Achieve60AZ. It is estimated that, by the year 2020, 60% of all Arizona jobs will require some level of postsecondary training. Currently, only 42% of Arizonans have completed a two-year or four-year degree or received a non-degree credential.

To address those requirements, and to help workers qualify for the highly technologized jobs in demand now and in the foreseeable future, Arizona must increase the number of working adults that obtain education beyond a high school diploma.

As a partner in the community-based Achieve60AZ initiative, the Executive is committed to advancing best practices that, by

2030, will result in 60% of working-age adults holding a postsecondary degree, certificate or credential.

In order to meet that goal, the State has adopted the Arizona Education Progress Meter, a set of common education metrics intended to drive policy to improve the state's PK-20⁶ pipeline in support of a strong Arizona economy. In addition to the postsecondary attainment goal mentioned above, the metrics include:

- preschool enrollment (with a quality component),
- third-grade level reading,
- proficiency of eighth-grade math (Algebra),
- high school completion,
- youth enrollment in school or working, and
- enrollment in postsecondary education.

The Executive Recommendation introduces several strategies that support the goals of the Arizona Education Progress Meter.

All-Day Kindergarten and Early Literacy Funding. Research shows that a student's reading proficiency by the end of third grade is a strong predictor of high school graduation and future career success. The percentage of students who pass the English Language Arts portion of the AzMerit test is notably lower in school districts and charters in which a high percentage of students are eligible for free or reduced-price lunch.

Since its inception, the State's Move on When Reading program has brought significant focus to the need for early literacy, from preschool to third grade. While this increased focus has yielded some results, the expectation of proficiency for third grade reading must be increased to capture more positive outcomes. The Executive intends to partner with the State Board of Education and the Arizona Department of Education to make the necessary policy adjustments to implement a higher level of expectation for third grade reading proficiency.

The Executive recommends targeted funding for all-day kindergarten and other successful early literacy strategies, from preschool to third grade, in school districts and charter schools in which more than 90% of students are eligible for free or reduced-price lunch. Using targeted literacy plans already required under the Move on When Reading program, the recommended funds will empower public schools to decide how to best use their resources to increase literacy based on their students' unique needs.

Strategies beyond all-day kindergarten could include, but are not limited to:

- general preschool programs,
- longer K-3 school days or a longer school year,

⁶ Pre-Kindergarten to Graduate Degree

- reading interventions, and
- coaches.

The Executive Recommendation includes \$10 million in FY 2018 and \$50 million over the next three years to fund this early literacy initiative. (Distribution of early literacy dollars to qualifying districts and charters is based on a calculation of \$1,244 per kindergarten pupil in FY 2018 and \$2,488 per kindergarten student in FY 2019 and FY 2020.)

JTED Completion Grants. Under current law, Joint Technical Education Districts (JTEDS) do not receive State funding in FY 2018 for students who have graduated from high school.

The Executive recommends \$1 million to establish JTED completion grants to enable students, who have graduated from high school and have completed more than 50% of a JTED program, to finish the JTED program that they started but did not complete. The grant funding will be distributed upon qualifying students' successful completion of a JTED program.

FAFSA Completion Initiative. More than half of Arizona's K-12 students live at or below the poverty line. For the vast majority of those students, enrolling in postsecondary education requires financial aid.

Nationally, the federal government provides 80% of all financial aid, and the process of qualifying begins with the Free Application for Federal Student Aid (FAFSA). In April 2015, only 24% of eligible Arizona students filed the FAFSA.

In 2014, to increase the number of students who complete the application, the U.S. Department of Education authorized the Arizona Commission for Postsecondary Education (and comparable entities in other states) to share with schools limited data about students' FAFSA filing status.

To help close the achievement gap for low-income students and increase the percentage of first-generation Arizonans who go to college, the Executive recommends \$114,700 to expand the Commission for Postsecondary Education's FAFSA Completion Initiative.

Arizona Broadband for Education Initiative (Rural Schools). As schools expand innovative and successful digital learning platforms, school-based bandwidth must grow significantly. Unfortunately, many rural schools do not have a scalable broadband connection and, thus, have limited capacity to support digital learning and the instructional technology platforms that support learning.

Improving broadband access for rural schools becomes an increasingly important step toward closing the achievement gap and enhancing equity among Arizona's public school students. The Executive recommends \$5 million in FY 2018 to expand broadband access to many of Arizona's rural school districts and charter schools. The State investment will be leveraged against one-time federal enhanced E-Rate funding, to allow rural schools to substantially enhance broadband access at little to

no cost to the school. This enhanced E-Rate program expires in FY 2018.

Early Intervention for Children with Disabilities. Recent clinical studies suggest that early detection of hearing loss (among children age three and younger), followed by appropriate intervention, minimizes the need for extensive services during the school years. The more in-person services that are provided to parents and young children, the better are the outcomes in later years.

Arizona School for the Deaf and Blind (ASDB) certified early intervention specialists provide support to families to help them understand the potential impact of hearing or visual impairment on their child's development. This involves not just hardware support (such as hearing aids or glasses), but more personalized support such as educating parents on methods of possible communication with their child and strategies for supporting their child's development.

The Executive recommends \$800,000 to increase the number of home visits per month for ASDB's birth-to-three program.

21ST CENTURY STANDARDS, ACCOUNTABILITY AND CURRICULUM

In March 2015, the Governor called on the State Board of Education to perform a full review and replacement of Arizona's English Language Arts and Mathematics Standards. In December 2016, the Board adopted Arizona's new academic standards.

Developed by over 230 teachers devoting over 7,300 man-hours, and after 10,000 public comments and over 50 statewide hearings, the Arizona academic standards are slated for implementation in school year 2019-2020.

The Executive Recommendation for FY 2018 includes \$1.1 million to fund 10.5 existing FTE positions at the Arizona Department of Education. The positions are responsible for the continuous review of all of Arizona's academic standards, including mathematics and English language arts. In the upcoming year, these positions are critical for the technical support and professional development of the next significant review, which will focus on academic standards for social studies and science.

Finally, the Executive Recommendation continues support for programs that promote high educational outcomes in partnership and collaboration with the philanthropic community.

Great Schools, Great Leaders. The Executive recommends \$250,000 in matching funds to expand school leadership training opportunities through the Beat the Odds School Leadership Academy. In partnership with Helios Education Foundation, the Burton Family Foundation, and the Governor's Office, the Center for the Future of Arizona plans to use the recommended resources to: (a) create 50 slots to train school

leaders in effective management strategies, and (b) expand the cadre of training coaches and facilitators.

Governor's Partnership for K-12 Computer Science. The Executive Recommendation includes \$200,000 in matching funds to advance a statewide computer science initiative through the development of new academic standards for computer science, including coding, and professional development opportunities for all teachers, to help them incorporate computer science into their teaching and learning strategies.

Jobs for Arizona's Graduates. The Executive recommends \$100,000 for Jobs for Arizona's Graduates, a highly successful school-based dropout and intervention program for at-risk youth.

BUILDING RENEWAL AND CAPITAL FINANCE

Using a grant-based program, the School Facilities Board provides financial and technical assistance to school districts to maintain school facilities. To meet the increased volume of building renewal applications and funding demands, for FY 2018 the Executive recommends a \$17 million non-lapsing appropriation for building renewal to fund schools' capital needs.

Higher Education

The Executive's recommendations for postsecondary education will help to ensure that Arizona universities are more competitive with top research universities, provide an excellent and affordable education for in-state students, attract and retain highly-skilled teachers, and address Arizona workforce needs.

RESEARCH AND DEVELOPMENT

Developing a higher education system primed to prepare graduates for professional opportunities in an evolving economy requires ongoing investment in university research and development. In response, the Executive provides ongoing support for a \$1 billion funding plan for university R&D infrastructure and deferred maintenance projects.

The Importance of University R&D. University R&D infrastructure plays a large role in expanding opportunities for students, staff and the Arizona economy. In 2003, the State pledged \$34.6 million per year for 23 years (2008–2031) to support university R&D. With this General Fund appropriation, universities have been able to bond and invest in key projects, including science and technology buildings, medical research and biomedical buildings, and laboratory facilities.

As an example of how the new R&D infrastructure has significantly impacted the state, in November 2016 the Arizona Board of Regents reported that, since 2008, the number of science, technology, engineering and math (STEM) degrees has increased by 94%, and that, since 2003, university invention disclosures have increased by 154%.

Turning Vision into Reality. The Board of Regents' 2020 Vision addresses several goals of Arizona's universities,

including research excellence "to increase the research capabilities and performance of the Arizona University System to a level of competitive prominence with peer rankings of top American research universities." Additional bonding capacity and a guaranteed revenue stream for debt repayment will help make this vision a reality for Arizona's three public universities (the University of Arizona, Arizona State University, and Northern Arizona University).

New R&D infrastructure will stimulate research and help attract high-quality faculty to Arizona's universities. Other benefits include numerous opportunities for student employment and developing new public-private partnerships between Arizona universities and the business sector, likely yielding high economic returns and further aligning education outcomes to workforce needs.

In addition to R&D infrastructure, the universities have a large need for deferred maintenance funding. In FY 2016, the universities reported \$671 million in deferred maintenance needs and numerous hazardous facility conditions. Funding dedicated to building maintenance will be beneficial for building upkeep and student safety.

Funding Plan. The aforementioned \$1 billion ongoing investment will be supported by redirecting transaction privilege tax (TPT) revenues paid by the universities, which includes an estimated \$30.3 million State component and \$6.5 million State-shared component.

The Executive recommends that the \$30.3 million state component be used for capital investments, including R&D infrastructure and deferred maintenance projects. This ongoing State component, in addition to a university match, will enable universities to bond for approximately \$1 billion over 30 years and make substantial investments in R&D infrastructure and deferred maintenance. TPT growth related to the State component is capped at 2% annually for capital investments. Any TPT revenue growth above 2% annual growth will be provided to universities for general operating expenditures.

In addition to the estimated \$30.3 million State component, the approximate \$6.5 million State-shared component, and all related future TPT revenue growth, will be made available to the universities for general operating expenditures, including resident student costs.

PRODUCING TEACHERS

While acknowledging higher education's essential long-term role in shaping a workforce capable of success in an increasingly sophisticated and dynamic economy, the Executive Recommendation calls on Arizona's public postsecondary institutions to respond to a critical current labor shortage: teachers.

Our state's three public universities must assist the State in implementing a new blueprint for teacher success and retention. A teacher-focused approach should consider the use of established successful models of best practices already in the

field and new strategies that provide a more robust tool kit to compel more of our best and brightest into the teaching profession. Also, new models must provide the necessary professional development support and incentives to assist prospective teachers through their preparatory programs, as they enter the classroom, and as they become firmly rooted in their careers as teacher leaders.

The Executive requests that, within the next 90 days, the three public universities, in partnership with Arizona's community colleges, provide a plan that:

- prepares students, as efficiently and effectively as possible, for their course of study and future careers as educators;
- integrates existing and creates new professional support networks to help teachers to share and learn best practices from each other;
- implements new accelerated models for high-demand disciplines (such as STEM) and for career changers (college graduates who want to teach) that result in professional certification; and
- develops stronger, more structured partnership opportunities between the universities and school systems to build early commitments for teacher employment.

OTHER FUNDING NEEDS

The Executive further recommends \$15 million in one-time General Fund support for university capital improvements and operating expenditures, providing universities with budget flexibility to address their high-priority needs and provide additional support to Arizona resident students.

Public Safety

In seeking to enhance public safety, the FY 2018 Executive Budget Recommendation provides a strong emphasis on reducing the rate of recidivism – i.e., relapse of former inmates into criminal behavior – and expanding the State’s access to forensic evidence that can lead to criminal convictions.

INMATE SUBSTANCE ABUSE

Substance abuse is strongly correlated to the number of people committing crimes and is a driver of the number of inmates in State prisons. Continuing access to substance abuse treatment reduces the likelihood that inmates will re-offend and represents a real public safety benefit for Arizona residents.

Treatment of substance abuse by inmates carries a significant cost, but that cost pales in comparison to the direct and indirect financial impacts of *not* providing treatment, with respect to the costs borne by crime victims, law enforcement agencies, the courts, and the corrections system. By all measurable criteria, treatment is a far preferable alternative in curbing behavior and protecting Arizona citizens.

A Department of Corrections facility, the Maricopa Reentry Center (MRC), serves to facilitate offenders’ successful re-integration into the community following their incarceration. To increase the MRC’s intensive drug treatment capacity, the Executive recommends funding an additional six Substance Abuse Counselors for \$400,000 in FY 2018.

The additional counselors will allow the MRC to treat up to 80 individuals at a time for drug-related problems, with the objectives of reducing recidivism and decreasing the number of technical violators who could return to prison.

The Executive also recommends \$100,000 in FY 2018 for an additional Re-Entry Planner to work with inmates who, after their release, require additional and specialized referrals and assistance.

INMATE POST-RELEASE FIRE CREW

The Executive’s focus on decreasing recidivism extends beyond Department of Corrections drug treatment and re-entry counseling efforts. A major factor in recidivism is the former inmate’s ability to find work, and the Executive Recommendation provides a new initiative in supporting that objective.

The State operates 12 inmate fire crews that play an important role in fire prevention and suppression efforts statewide. The Forester provides participating inmates with valuable forest fire training that helps them work toward gaining the skills and certification necessary to pursue employment as firefighters after their release from prison.

Establishing a *post-release* fire crew would provide former members of the inmate fire crews with employment opportunities following their release. As part of the post-release fire crew, members could further develop their skills and complete their training for a permanent firefighting position.

To further help former inmates reintegrate into the community, the Executive recommends \$1.5 million to establish and operate a 20-member post-release firefighting crew.

ELIMINATE BACKLOG OF UNTESTED SEXUAL ASSAULT KITS

Sexual assault kits are used to gather and preserve physical evidence following an allegation of sexual assault. Testing of sexual assault kits by crime labs provides DNA and other evidence that can be shared among law enforcement agencies and lead to convictions of offenders in cold cases and subsequent crimes.

According to the Department of Public Safety (DPS), there are 6,424 untested sexual assault kits in Arizona, and the Executive is committed to eliminating the backlog of untested kits. Federal grants of approximately \$6.1 million have already been secured to test about 4,400 of these kits. The \$500,000 appropriated in FY 2017 is expected to cover the cost of testing 600 kits, leaving a funding shortfall for testing the remaining 1,400 kits.

The Executive recommends a one-time appropriation of \$1.2 million to completely eliminate the backlog of untested sexual assault kits in Arizona. DPS will allocate the funds to other agencies as needed to ensure completion of the testing.

ADULT STANDARD PROBATION GROWTH

The number of convicted offenders on Adult Standard Probation increased by over 6% in both FY 2015 and FY 2016. The rising number of probationers is driven by two primary factors: probation sentences and probation “tail” sentences.

A probation tail requires an individual, after serving their incarceration sentence, to complete a term of probation under the supervision of the Superior Court. With a rising number of individuals sentenced with probation tails, similar growth is anticipated in FY 2017 and FY 2018.

Probation (\$3.69 per probationer per day) is less costly than incarceration (\$65 per prison inmate per day). A.R.S. § 12-251(a) prohibits a probation officer from supervising more than 65 adult standard probationers. Probation projections indicate that the number of adult standard probationers in FY 2018 will rise above currently funded levels.

In an effort to maintain the 65 probationer per officer standard and preserve public safety, the Executive recommends

\$783,800 for 19 Adult Standard Probation Officers. The recommended funding will increase the State's capacity to

identify and address offender needs and work toward correcting criminal behavior, ultimately lowering recidivism rates.

Health and Welfare

Health and welfare programs within State Government provide services and support for Arizona's most needy and vulnerable citizens. The State seeks to constantly improve its service delivery in meeting legitimate needs in the areas of child safety, assistance for low-income individuals and families, and public health.

Child Safety

In recent years, critical developments within Arizona's child safety agencies made reforming the manner in which the State protects the children within its care an urgent priority. Those reforms have resulted in significant progress in the areas of child welfare investigations, improving in-home services, reducing the out-of-home child population, and increasing funding for foster care providers.

In its 2016 session, the Legislature made a significant funding commitment to the Department of Child Safety (DCS). Central to this landmark budget agreement were a number of benchmarks intended to heighten accountability and encourage goal-setting in key areas of the Department's operations.

Less than one year after passage of the FY 2017 budget, DCS is on target to meet or exceed all of its benchmark targets.

- For the first time in years, the agency is consistently completing more investigations than are being opened.
- Rapid-response efforts are placing children in stable settings within hours, not days, after they have been removed from their homes.
- The ratio of families receiving in-home services, which can mitigate the need to remove a child from the home, is on the rise.
- Targeted family-finding and permanency efforts are getting children out of group homes and into kinship placements and foster families in record numbers.

Additionally, areas of historic cost volatility and cost overruns, including in support service program areas and staff overtime pay, have been stabilized by improved budgeting, process improvements at field offices, and renegotiated contracts.

Nonetheless, the amount of work remaining before DCS will have achieved true stability should not be understated. Procurement for replacing the Department's child welfare technology system is underway, with a mobile solution expected to be launched for caseworkers in the summer of 2017. Additionally, the Department continues to tackle contract renegotiations focused on service quality, process-improvement

projects that will free caseworkers to devote more time to families, and initiatives to safely drive down the population of children in the State's care.

REDUCING THE BACKLOG

When Governor Ducey took office, the State faced a backlog of over 16,000 inactive child welfare cases, the majority involving investigations that had been dormant for more than 60 days.

Since the beginning of 2015, in partnership with a private contractor, DCS has reduced the backlog of inactive cases by more than 80%.

The target adopted in the 2016 Legislative session was for the backlog to drop below 1,000 by the end of FY 2017. That is a level that would indicate effective elimination of the backlog. With the backlog already under 3,000, the Department expects to beat the June 2017 benchmark. Given this positive trend, the Executive recommends phasing out, after this fiscal year, the ongoing appropriation of funds dedicated to eliminating the backlog.

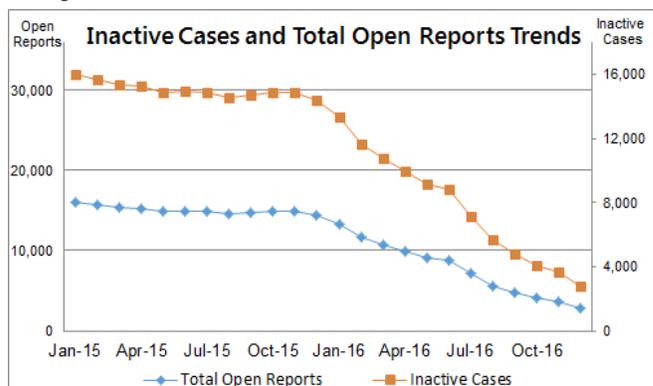
SAFE REDUCTION OF THE OUT-OF-HOME POPULATION

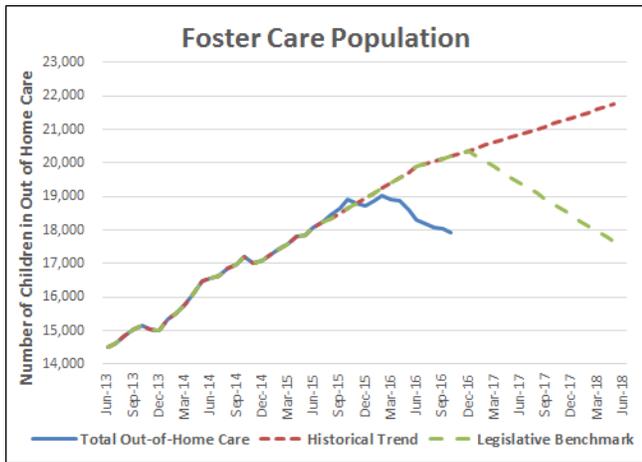
Over the last 11 years, the population of children in State care grew by over 90%. Starting in 2016, that trend has been reversed.

The Legislative benchmark established in the 2016 session set an expectation that the out-of-home population would remain above 20,000 children at the end of 2016, before beginning to decrease in earnest during the first quarter of 2017.

In fact, the decrease began far earlier. By the end of 2016, the out-of-home population had been decreased to fewer than 18,000 children, and DCS is on track to reach the Legislative target of 17,500 over a year ahead of schedule.

A number of factors are contributing to this welcome change.





First, the number of calls to the DCS hotline has stabilized, and the number of new reports each month has begun to drop, due largely to hotline process improvements that include increased quality control.

Second, DCS has made a noted shift toward application of in-home services, to the extent that providers are actually challenged to keep up with the new area of demand.

Other significant factors include a reduced waitlist for out-of-home services (which had been a contributing factor to court delays) and a continued high level of staff and provider performance in supporting adoptions and permanency efforts.

FULLY FUNDING SUPPORT SERVICES

The Executive recommends a one-time current-year supplemental General Fund appropriation of \$8 million to fully fund child care and other support services for children in State care. DCS will leverage the General Fund supplemental to draw down matching federal monies through its IV-E waiver program.

DCS Child Care monies support children who are in licensed and unlicensed foster care and who, while remaining in their own homes, are receiving in-home prevention, mitigation or reunification services.

The Department's out-of-home support service funding covers a variety of services, including transportation, counseling, parent aides, drug testing and rehabilitation, and supervised visits. The provision of services is frequently court-mandated, and DCS's ability to provide high-quality services in a timely manner is a direct factor in safely reducing the population of children in State care.

FINANCIAL ASSISTANCE TO KINSHIP CAREGIVERS

Kinship placements tend to maintain and promote lifelong family connections and lessen the disruption of removal. Thus, kinship caregivers, which include grandparents, aunts and uncles, and fictive kin (i.e., caregivers who are regarded as being part of a family even though they are not related by either blood or marriage) are the preferred placement for children.

The Executive recommends providing an additional \$1 million in resources for kinship caregivers.

ADOPTION SUPPORT

Adoption services funding covers adoption home recruitment costs, adoption legal expenses, and maintenance and special services subsidies for adopted children. The Executive recommends \$4.2 million from the General Fund to fully support the growing population of adopted children.

In FY 2016, year-over-year growth of the adoption caseload averaged 9.6%, with 24,091 children receiving adoption subsidies at the end of the year, and that growth rate is expected to continue in FY 2017 and FY 2018.

The Judiciary: Family and Juvenile Appeals

In recent years, the Arizona Court of Appeals, Division I, which includes Maricopa County, has experienced a substantial increase in dependency cases and Family Court appeals.

Specifically, in the last four years the number of juvenile appeal cases increased by 66%, and the number of family appeal cases increased by 23%. Continued growth in appeals is expected, as additional funding was provided in FY 2017 to both the Superior Court and the Attorney General to process the Department of Child Services' dependency cases.

To effectively process juvenile and family appeals, Division I relies heavily on both staff attorneys, who provide general support to judges, and deputy clerks, who assist with case processing.

The Executive Recommendation includes \$148,800 in General Fund for a staff attorney and a deputy clerk position to allow Division I to keep up with the growing rate of juvenile and family appeals and to better serve Arizona children and families.

Assistance for Needy and Vulnerable Citizens

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.

ADULT PROTECTIVE SERVICES

For FY 2017, the Department was appropriated \$2 million on a one-time basis to manage growing Adult Protective Services (APS) caseloads. As evidence of caseload growth during 2016, calls to the APS hotline increased by 17.7% over the prior year, and the caseload of 45 cases per APS worker remain approximately 28% above the State's target level of 35.

For FY 2018, the Executive recommends that the funding from last year's one-time appropriation be made ongoing, as the current and anticipated rates of caseload growth continue to warrant those resources.

The Executive further recommends an additional \$1 million in FY 2018 to continue progress towards meeting the per-

worker caseload target. In total, the recommended funding will provide 15 new FTE positions, including hotline staff, caseworkers, financial exploitation unit investigators, a registered nurse to address medically complex cases, and specialized staff to engage in continuous improvement efforts.

HOME AND COMMUNITY BASED SERVICES FOR THE ELDERLY

Providing home and community-based services to the elderly is intended to allow seniors to remain in their own homes for a longer period of time than would otherwise be attainable.

According to the American Association of Retired Persons (AARP), 87% of adults age 65 and older would prefer, as they age, to stay in their current home and community. Home and community-based services provide the assistance necessary for them to achieve that objective, by helping seniors with essential daily activities such as bathing, dressing, and meal preparation. It also provides for visiting nurses and home health aides.

By providing these services, the State not only helps the elderly realize their goals of staying in their own homes; it also captures the added benefit of reducing the high cost of placing vulnerable adults into the long-term care system.

In FY 2018, the Executive recommends continuing the \$700,000 appropriated as one-time funding from FY 2017.

EARLY INTERVENTION PROGRAM

Early Intervention referrals are made by parents, teachers, caregivers and physicians when they suspect that a child may have a developmental delay. When a referral is made, DES is required to pay for the cost of an evaluation by a contracted medical provider, to determine whether the child has a potential developmental delay.

Early detection of developmental delays plays a critical role in shaping a child's future, especially as it relates to ensuring access to the resources and therapies required to help them succeed in school.

In recent years, the number of referrals has been increasing steadily, growing by 6% in FY 2016. DES attributes this growth in part to a national trend of heightened focus on early childhood development. Additionally, in keeping with the broader medical inflation trend, the average cost of an evaluation has increased from \$400 (FY 2015 average) to \$464 (FY 2016 average).

For FY 2018, the Executive recommends \$2 million to address increases in referrals and costs in the Early Intervention program.

CONTINUED IMPROVEMENTS TO OUR SAFETY NET

The FY 2018 Executive Recommendation for DES includes a \$2.7 million appropriation to cover the costs of making available Temporary Assistance for Needy Families (TANF) cash assistance payments to qualifying recipients to earn back up to 12 additional months of benefits.

To be eligible for this opportunity, the recipient must be in full compliance at all times with all work search and training

requirements. Further, if the recipient has school-age children, each child must have a 90% or higher attendance record.

PROPOSITION 206 MINIMUM WAGE INCREASE

In the November 2016 election, Arizona voters passed Proposition 206, which increases the minimum wage in Arizona from \$8.05 to \$12 over four years. The state's minimum wage increased to \$10 on January 1, 2017, and will increase further to \$10.50 on January 1, 2018.

The new law impacts contract providers of home care and nursing facility services for Arizona Long-Term Care System (ALTCs) members who are served by the DES Division of Developmental Disabilities (DDD) and the AHCCCS elderly and physically-disabled program, as some contractor staff earned less than \$10 per hour prior to January 1.

To maintain a healthy network of care providers, which is a condition of receiving the federal match for Medicaid, the Executive recommends an increase in the DES budget of \$15.6 million from the General Fund in FY 2018 and a \$7.7 million supplemental General fund appropriation for FY 2017. In addition, the Executive recommends \$5.6 million for the AHCCCS elderly and physically-disabled ALTCs program in FY 2018. The recommended funding will allow DES and AHCCCS to increase capitation rates to cover the hourly wage increases required of the contractors.

Health Services

PUBLIC HEALTH EMERGENCY FUNDING

The Department of Health Services (DHS) receives \$16.7 million in federal funding for public health emergency planning and response, approximately 66% of which is transferred to counties.

Given the rapid rise and spread of Zika and other global health diseases, authority to spend monies quickly can help mitigate the spread of a disease. If its federal resources are exhausted, there is no dedicated source of funding that DHS could use to respond rapidly to a public health emergency.

To ensure the immediate availability of necessary resources, the Executive recommends an ongoing appropriation of \$500,000 from the Indirect Cost Fund, to be used only in the event of a public health emergency declaration by the Governor. Depending on the nature of the emergency, the recommended amount would fund response services for one to five weeks.

HEALTH CARE SHORTAGE AREAS

An estimated 2.8 million Arizonans live in areas of primary care shortages, and 2.3 million live in areas of dental care shortages. Additionally, the entire state is considered to have shortages of mental health care providers.

DHS estimates that eliminating those shortages will require 1,036 full-time health care providers (416 primary care professionals, 416 dentists, and 204 psychiatrists).

The Department operates a Student Loan Repayment Program for physicians, dentists, pharmacists, advance practice providers and behavioral health providers who agree to practice for a minimum of two years in areas in which there is a shortage of medical professionals.

- Physicians and dentists can receive up to a maximum of \$65,000 in student loan subsidies for the first two years of service and, for participants who serve for more than two years, \$35,000 for each subsequent year of service until their student loan is repaid.
- Similarly, advance practice providers, pharmacists and behavioral health providers can receive a maximum of \$50,000 in subsidies for the first two years of service and, for participants who serve for more than two years, \$25,000 for each subsequent year until their student loan is repaid.

To pay for the program, DHS uses \$650,000 from the Emergency Medical Services fund and \$200,000 in federal grant funds. With an additional state match, the Department could apply for up to \$1 million in federal funding.

In FY 2017, the program has 38 practitioners receiving an average award of \$22,400. In the most recent application cycle, the Department received 30 qualifying applications but, due to a lack of funding, made only made seven awards.

To enhance the Student Loan Repayment Program, the Executive recommends an ongoing appropriation of \$350,000 from the Indirect Cost Fund. This additional appropriation will allow DHS to apply for the full \$1 million in federal matching funds and, depending on the amount of federal funding received, to expand the program up to 51 participants.

ADULT EMERGENCY DENTAL SERVICES

Children in AHCCCS are currently eligible for both preventive and emergency dental care services. Laws 2016, Ch. 122 provided Arizona Long-term Care System (ALTCs) members receiving services through AHCCCS and DES with a \$1000 capped preventive and emergency dental benefit.

However, no dental benefits are available for the remaining 850,000 adult AHCCCS members. This means that these members do not have access to any services provided by a dentist, and they can only receive dental services if a dental condition is severe enough to require the services of a physician or oral surgeon.

The Executive recommends establishing an emergency dental benefit for all adult AHCCCS members, capped at \$1000 per year. This will improve health outcomes and decrease the

incidence of avoidable medical conditions for AHCCCS members. Based on data provided by AHCCCS, the Executive estimates a general fund cost of \$1.6 million in FY 2018 to provide all adults in AHCCCS with emergency dental care.

Decreasing Opioid Abuse

Prescription drug abuse has increased dramatically in recent years. Between 2010 and 2015, prescription drug-related hospital admissions in Arizona increased by 155%. Over the last decade, the number of prescription drug overdose deaths in Arizona has increased by 44%.

The Executive recommends \$220,900 to fund five positions at the Arizona Health Care Cost Containment System (AHCCCS). Using improved data analytics, those positions will be dedicated to identifying needs for member interventions and opportunities to prevent provider waste due to drug abuse.

Specifically, the Executive proposes that, among the five new positions:

- two will focus on medical management and case review processes,
- two auditor/investigators will review and assess member referral and utilization data for anomalies that may indicate improper opioid prescribing, and
- one data analyst will build a database of member and provider data.

Natural Resources

Maintaining Arizona's water supply, preserving the state's forests, and maximizing the value of State Trust Land are vital factors in our state's future. The Executive recommends investments that are crucial for effective management and stewardship of Arizona's natural resources.

Drought Contingency Planning

Arizona, California and Nevada's entitlements to the Colorado River water were confirmed in 1963. When Congress authorized the Central Arizona Project (CAP) in 1968, it was determined that, in the event of shortage, the volume of water available to the CAP would be reduced before other uses in Arizona and California would be affected.

In 2007, Colorado River Basin States and the federal government entered into an agreement quantifying shortage volumes based on elevations in Lake Mead. At the time the Executive Budget Recommendation was published, the surface elevation of Lake Mead was 1,080 feet. If the elevation drops below 1,075, 1,050, and 1,025 feet, the amount of water for Arizona is increasingly reduced at each step. If the lake's surface elevation drops below 1,025 feet, Arizona will lose access to 480,000 acre-feet of water from the Colorado River, or enough water for about a million family households for one year. The Department estimates a 50% chance of Lake Mead falling below an elevation of 1,075 feet in 2018, and a 30% chance of falling below 1,025.

The State must take action, with other stakeholders, to protect Lake Mead from falling to unhealthy levels that could result in economically disruptive reductions to Arizona's Colorado River allocation. Conserving significant volumes of water now can decrease the likelihood of that outcome in the future.

The Arizona Department of Water Resources has been in negotiations with California, Nevada and the U.S. Bureau of Reclamation to prepare a plan that will conserve water in Lake Mead and reduce the likelihood of the lake dropping to critical levels. The Department has also met extensively with Arizona stakeholders about the plan, and those discussions are continuing.

The plan will conserve 1,234,000 acre-feet over three years, and 410,000 acre-feet will require a cost outlay of approximately \$61.5 million dollars. The federal government is evaluating a payment of \$42 million toward this cost, and Arizona entities are being asked by the Department to contribute a total of \$19.5 million. The State of Arizona's share would be \$2 million per year for three years. The Executive recommends that level of funding, which will allow Arizona to continue its tradition of responsible management of its water supply.

Legal and Technical Support

The Department of Water Resources is statutorily required to provide legal and hydrological technical assistance in court cases involving water rights. The rate at which the court is expected to adjudicate water rights claims is anticipated to significantly increase in the next year. That increase will require a corresponding increase in the technical assistance that the Department provides to the court.

Arizona courts' powers to adjudicate claims that include claims of tribes and the federal government were won in a 1983 case before the U.S. Supreme Court. Part of that victory was premised on the Department's ability to provide technical assistance to Arizona courts in a timely manner.

The U.S. Supreme Court left open the possibility that, if sufficient progress was not being made in state court, the water rights cases could be returned to federal court. Thus, the Department must be able to provide timely and comprehensive assistance in order for Arizona courts to retain jurisdiction.

To provide the Department with the resources necessary to meet its technical assistance responsibilities, the Executive recommends an additional \$598,900 for one attorney and six research analysts.

Department of Forestry and Fire Management

As new technologies become available and communications improve, the State can better protect its first responders. To that end, the Executive recommends \$169,000 to update the dispatch system to meet national standards and avoid technical glitches during fire communications, and to provide satellite-supported GPS trackers for firefighters to improve safety when fighting fires in the most remote parts of the State.

State Trust Land

The State Land Department manages 9.2 million acres of State Trust land. To best maintain its commitment to maximizing returns for Trust beneficiaries, including selling land promptly when the land is at its highest market value, the Department must operate as an efficient, asset-management enterprise.

Because Arizona schools are the primary beneficiaries of the State Trust Land, managing the Trust strategically yields a direct statewide benefit. The Executive recommends key investments to increase the Department's efficiency and maximize returns:

- \$750,000 to re-assess selected federal water permits to maximize the land values in those areas;

- \$500,000 to contract for engineering, hydrology and infrastructure studies, and market research that enhance Land Trust values; and
- \$500,000 to digitize the paper-based application processes used by right-of-way applicants and potential purchasers or lessees of Trust Land.

Government that Works

Responsible stewardship of the State's capital assets, revenue-generating enterprises at State parks, large automation projects, and enhanced cyber security will help meet the public's expectations for quality in State Government.

Stewardship of Capital Assets

The Department of Administration (DOA) building system includes an inventory of 4,268 buildings and structures with a total area of 23.5 million square feet.

The Executive recommends an \$18 million General Fund capital appropriation to fund capital needs in the DOA building system. The Executive's capital outlay plan for FY 2018 leverages one-time resources to address priority capital projects, including improving the safety and operations of State facilities and mitigating the risk of expensive repairs.

Fire and Life Safety. Fire alarm systems have a typical life expectancy of 10 to 15 years. 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. The Executive Recommendation includes \$6.7 million at DOA facilities and \$4.6 million at Department of Corrections facilities to replace and repair fire and life safety infrastructure.

Further, the Department of Corrections (ADC) is charged with handling the incarceration of over 40,000 prisoners. Functioning and reliable cell doors and locks are required in order to keep inmates, ADC workers and prison visitors safe. Decades of use, combined with high levels of humidity caused by the use of evaporative coolers, have degraded the quality of many cell doors and locks across the ADC system. The Executive recommends appropriating \$1.1 million to fund the replacement of doors and locks at the most critical units.

HVAC Upgrades. The ability to regulate and 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 costly emergency replacements and temporarily uninhabitable buildings. The Executive recommends \$3.6 million for air handler upgrades for facilities on the Capitol Mall.

Statewide Modular Office and Remote Housing Replacement. To support Arizona's highway system, Department of Public Safety (DPS) Highway Patrol officers are stationed at reasonable travel intervals throughout the state. With large distances between Arizona's population centers, it is necessary

to maintain remote housing units and modular office units at certain locations across the state.

Newer units offer energy efficiency and cost less to operate and maintain. Additionally, higher quality living conditions offer more incentive for Highway Patrol officers and their families to relocate to rural parts of Arizona.

The Executive recommends \$1.9 million for the replacement of four remote housing units and six modular office units.

State Parks

Nearly all of Arizona's 34 State parks are located in rural communities and serve as important economic assets for nearby communities. A 2014 Northern Arizona University study estimated the economic impact of State parks to be \$226 million, representing a six-fold return on agency spending.

State parks do not receive any General Fund support and are funded primarily by revenues generated from park user fees.

In FY 2016, visitor fees from the parks generated \$16 million in revenue to the State Parks Revenue Fund (SPRF), an increase of 18% since FY 2014. However, appropriation authority has remained at \$12.8 million.

To manage this increasing growth and development successfully, and to position the agency for continued growth and economic development for rural Arizona, the Executive recommends changing the State Parks Revenue Fund to continuously appropriated status starting in FY 2018. This change will allow State parks to run more like a business and have the flexibility of a full enterprise model, especially as opportunities to invest in revenue-boosting projects arise. The new proposal calls for the agency to engage in the following FY 2018 projects:

- **Rockin' River State Park (Camp Verde)**, at a cost of \$7 million, with an estimated return on investment of \$1.1 million per year.
- **Redesign and Revamp of Buckskin State Park (Parker)**, at a cost of \$6.3 million, with an estimated return on investment of \$2.2 million per year.

For FY 2018 and beyond, the agency plans to be flexible with its resources to leverage public-private partnerships that can further enhance economic development in rural Arizona.

Department of Administration

Large Automation Projects

The State is engaged in centralizing and enhancing the technology that supports its service-delivery mechanisms. The statewide IT management plan specifies that certain IT projects are to be consolidated, with centralized oversight and project management provided by the Department of Administration's Arizona Strategic Enterprise Technology (ASET) Office.

The Executive Recommendation continues to support the ASET Office in moving toward completion of IT projects from previous years, investing in new critical projects, and expanding the IT security and support infrastructure upon which State services depend. For these efforts, the Executive recommends \$17.8 million from the General Fund to replace the child welfare data system at the Department of Child Safety and invest in the IT infrastructure at the Department of Revenue.

DCS CHILDS Replacement. The Department of Child Safety (DCS), in coordination with the Department of Administration, is in the third year of planning and development to replace CHILDS, the State's child welfare data system.

The new system, Guardian, is a secure cloud-based system that will employ mobile technology to assist DCS with key functions and service delivery, including intake processing, case management, provider management, and financial management. The planning and feasibility study for the replacement project was completed in FY 2016, and procurement for the platform and mobile solution are underway.

The mobile solution will employ mobile equipment and software to assist the Agency with key functions, reducing the data-entry burden and allowing caseworkers to spend more time in the field with families, children and providers.

In addition to the mobile solution project, in FY 2018 DCS plans to begin the decommissioning of the CHILDS system and the technical integration of the hotline, provider management, data warehouse, document manager, case management, financial management and other components as needed.

Additionally, the new system will achieve DCS compliance with federal requirements and provide a secure and functional IT backbone for Arizona's child welfare system.

DOR IT Infrastructure. The Department of Revenue (DOR) operates its systems out of three State-owned data centers that house equipment that is at or past the end of its product life cycle.

To modernize the Department's infrastructure and ensure the reliable operation of the State's critical tax systems, the Executive recommends funding to upgrade the Department's IT infrastructure and relocate it to an off-site data center. The off-site data center will improve service delivery through reliably and securely maintaining the Department's IT systems.

Continuing Commitment to Cyber Security

Businesses and government agencies across the country are under constant threat of cyber-attack. According to the U.S. Department of Defense, available cyber security controls can cover approximately 95% of an organization's cyber security risk.

The State of Arizona and its agencies are responsible for safeguarding highly sensitive information. In an effort to continue the commitment toward improving cyber security for State systems, the Executive recommends \$4.8 million from other funds to further implement cyber controls recommended by the Department of Defense.

State Employee Health Insurance

The Health Insurance Trust Fund (HITF) supports the State's self-insured medical, pharmacy and dental claims for State employees. In FY 2016, annual claims growth increased to approximately 7.6%, far above the 4.1% forecast.

The Executive recommends \$60 million for HITF: \$30 million from the General Fund and \$30 million allocated from other funds. This one-time funding will allow the Department more time to assess whether the 2016 growth in claims is temporary or persistent.

The Economy

Arizona's economic growth is outpacing the nation as a whole, setting the stage for sustainable expansion throughout the three-year budget window.

The general consensus for economic growth in 2017 and beyond is that consumer demand and business investment will grow at faster paces than in recent years. Federal adoption of investment-friendly reforms may cause an acceleration of those positive economic trends.

In a marked change from the beginning of 2016, many economists are now predicting growth in the area of 2.5% for 2017 and beyond. Consumers appear to be particularly optimistic; since the November 2016 elections, the University of Michigan consumer sentiment index has surged, rising from 87.2 in October to 98.0 in December (+12.4%, toward levels last seen in 2004).

Uncertainties linger as the U.S. transitions from secular stagnation to an economy prone to more traditional cyclical pressures and spurts of inflation and normal recession, but that pattern should unfold over several years.

Threats to economic improvement come from abroad – e.g., slowing growth in China and political uncertainty in Europe – as well as at home, in the form of continuing demographic change characterized by an aging population profile.

National Outlook

The national outlook can be viewed with cautious optimism. On the heels of a brief slowdown in 2016, there is mounting evidence of accelerating growth going into 2017, which should have positive downstream effects on Arizona's economy and on State revenues.

The most recent consensus outlook suggests a real GDP growth trajectory through 2020 at approximately 2% to 2.5%, or toward the upper end of the post-recession range. Bright spots will be in consumer durables, housing and automobiles, with business investment growing at historically robust rates. This will occur against a backdrop of relatively low energy prices, rising interest rates, and a continued strong labor market, with wages moving upward as full employment is pressured. The consensus outlook does not account for faster pre-recession rates of growth because:

- governments and individuals have shunned debt,
- the population is aging,
- growth in the labor force is slowing, and

- the impacts of ongoing regulation impede capital formation.

Policy changes over the next few years could, in the medium term, alter this baseline considerably.

EMPLOYMENT

The U.S. labor market continues to improve, although job creation will slow as full employment nears and the population continues to age.

Given a slowing population growth and an aging population, overall U.S. employment may be at or near "full employment," and the national unemployment rate may not have much farther to fall. Still, there remains some evidence that portions of the workforce are underemployed or involuntarily working part-time, and there are significant regional differences in the health of the labor market.

Consensus projections for employment growth approach the 2% level over the next two years, with unemployment rates remaining below 5%.

CONSUMER SPENDING

Consumer confidence has improved dramatically at the national level and has been sharply boosted by the labor market's solid growth and a newfound economic optimism beginning in the fourth quarter of 2016. The most likely scenario suggests that national consumer confidence maintains near current levels over the next three years.

The ongoing 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 very favorable interest rates. The adverse demographics – e.g., large numbers of retiring Baby Boomers – will contribute relatively little to consumer spending, but, over time, spending by Millennials will help fill the gap.

INTEREST RATES

Recent movements in the credit markets suggest that rates should be on the rise after several years of historically low levels. Rate pressure will come from:

- a steadily growing economy,
- financial and tax reforms that encourage more savings,

- a likely increase in the amount of government borrowing in the short term, and
- rising inflation that will influence the Federal Reserve to move forward on the tightening cycle (although, if interest rates increase between 50 and 100 basis points higher in 2017/2018 than in 2016, rates will continue to be historically low).

Overall, the consensus forecast is that interest and inflation rates will likely trend higher in the short term, which could put corresponding pressure on the State's financial position.

BUSINESS SPENDING

At the national level, after-tax corporate profit growth in 2017 will likely accelerate from 2016 as markets (particularly commodity and investment markets) improve. This acceleration could temporarily increase if federal corporate tax rates are reduced and/or an incentive to repatriate foreign subsidiary profits is enacted.

Along with improvements in the demand for products and services, strong balance sheets in the private sector will support business investment and expansion. Overall, new tax and regulatory policies at both the state and federal levels will be a likely catalyst for growth over the next several years.

VALUE OF THE DOLLAR

In 2016, 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. Higher dollar values have been an impediment for commodity prices and for U.S. export activity.

Few economists see any substantial deterioration in the value of the dollar over the next several years. Exchange rate stability presumes that global growth will take place in 2017 at rates faster than observed in recent years. If the global economy continues its tepid performance, the dollar will continue to appreciate. In the short run, higher interest rates will also contribute to dollar strength, provided that inflation remains tame.

CURRENT EVENTS AND RISKS

Many indicators of the U.S. economy are pointing to continued steady growth:

- low inflation rates,
- a steadily improving job market picture, and
- consumers who appear to be less concerned with the pressures of de-leveraging and debt reduction and are positioned to increase purchases.

As the pace of Baby Boomer retirements increases, there will be more opportunities for younger workers to fill vacated positions, and confidence will continue to grow.

While downside risk invariably exists in the form of possible unforeseen shocks (man-made or otherwise), continued political uncertainty, and slower growth outside the United States, many economists point to opportunities for economic acceleration, such as:

- pent-up demand,
- cash on the sidelines,
- improved overall household debt loads,
- a boost from lower fuel costs, and
- an advancing technology refresh cycle.

The overall consensus among economists is that growth will accelerate, and the risk of recession has fallen precipitously.

Arizona Outlook

In comparison to the nation as a whole, the Arizona economy continues to display better-than-average overall growth. The measured pace of growth sets the stage for sustainable expansion throughout the three-year budget window, despite the apparent age of the current post-recession period.

In recent years, the state's pre-recession growth base has been relatively quiet. However, there are indications that the fiscal drag from construction and traditional manufacturing has passed, and that acceleration into new spaces and novel sectors (e.g., computer data centers, high tech manufacturing, and the sharing economy) is underway.

Construction – especially single-family homes – is poised to be a solid stimulus for the next two years, and one national real estate organization has predicted that Arizona will lead the nation in real estate in 2017.

The case for continued optimism is supported by three conditions:

- National recovery from the brief commodity-driven slowdown seen in the first half of 2016 appears to be solidly underway, driven by a newly confident consumer.
- Pro-growth State Government policies – including pro-business tax reforms and business-friendly regulatory policies – should continue to attract both new business investment and additional domestic migration.
- There are indications that, beginning in 2017, the State may get additional support on these fronts at the federal level.

Together, according to *Forbes* magazine, these favorable attributes combine to make Arizona's "job and economic growth forecasts over the next five years among the best in the U.S."

EMPLOYMENT

Arizona remains below full employment, and it should continue to outpace both the nation and its population in terms of

job growth, contributing to a lower unemployment rate and fueling additional in-migration.

The Executive forecast calls for employment growth in the area of 2.5% in 2017 and approaching 3% the following year.

PERSONAL INCOME

As with employment, Arizona's aggregate Personal Income (PI) growth continues to outpace the national average. Executive estimates call for PI growth to reach 5.5% in 2018, up from the current level of approximately 4%.

IN-MIGRATION

For decades, the pace of domestic in-migration has held the key to Arizona's growth. Prominent among the state's historical attractions for newcomers have been job opportunities, affordable housing, and an attractive climate. Arizona continues to feature all of these attributes, particularly as an improved housing market pushes prices in closed-access states such as California beyond the reach of younger households.

With Arizona's favorable business and housing attributes as a foundation, and with the prime working-age population growing again due to the maturing of the Millennial generation, the pace of Arizona's in-migration should continue to improve.

RISKS

The most serious risk to Arizona comes from a scenario, as in previous years, in which the nation falls back into recession due to macroeconomic conditions beyond local control. Catalysts for a national downturn include another financial episode triggered by a debt crisis and/or a geopolitical or natural shock.

In contrast to recent years, an upswing in the housing cycle and continued evidence of a more diversified economy would provide some measure of insulation against the effects of a nationwide downturn in the economy.

UPSIDE POTENTIAL

As was noted above, key assets that have historically attracted many Arizonans to the state remain in place and are poised to become more prominent.

In addition, the nation's aging Millennial population and rising housing prices elsewhere should bolster Arizona's traditionally strong in-migration rates.

The state's business environment continues to become more favorable, due to the continued phase-in of tax, education and regulatory reforms.

Perhaps most important relative to the State's post-recession baseline, Arizona may finally enjoy a lessening of the federal government as a significant impediment to near-term growth prospects.

REVENUE OUTLOOK

While the Arizona economy continues to grow, overall revenue growth has been slower in comparison to historical averages.

The reasons: Arizona's tax base grows in response to inflation, domestic net in-migration, and rising demand for consumer durables. The current low inflation environment has a dampening effect on collections, and domestic in-migration has slowed markedly. Also, reliance on the traditional Transaction Privilege Tax (TPT) to produce revenue, with its focus on the consumption of goods in an era of increasing transition to the consumption of services, creates an increasingly significant hurdle.

Achieving the FY 2018 Baseline Revenue Forecast. Overall, "Big 3"⁷ revenue flows to date are on track for realizing the FY 2017 forecast, leaving State Government well positioned to achieve the Executive's four-year estimate going into FY 2018.

Year-to-date, weakness in the Corporate Income Tax has been mostly offset by strength in the Individual Income and Insurance Premium taxes (posting 0.5% and 5.2% gains, respectively, over forecast).

The State's Transaction Privilege Tax, a key bellwether of overall revenue collections, has been largely consistent with expectations, posting a gain of over 4% through November 2016.

Further, in FY 2018 there will not be a recurrence of one-time structural impediments, such as the 10% increase in required Urban Revenue Sharing payments, that restrained overall revenue growth in FY 2017.

Assuming achievement of the Executive forecast of 2% ongoing revenue growth for FY 2017 and continued improvement in the national and state economies, State Government is well positioned to achieve or exceed 2.6% growth in FY 2018.

RECOMMENDED REVENUE POLICY CHANGES

Indexing the Personal Exemption for Inflation. Every year, inflation contributes to the rising costs of goods and services and erodes household purchasing power. Some increase in take-home pay is required just to preserve Arizona families' standard of living. However, because of the progressive nature of the income tax, this higher income can bump the taxpayer into a higher marginal tax bracket, causing a real tax increase without any corresponding change in real income.

In FY 2016, the Executive championed efforts to eliminate this hidden tax increase by indexing the income tax brackets for inflation, complementing the already indexed standard deduction.

Now, the Executive recommends completing this process by joining 19 other states and the federal government in indexing

⁷ Corporate Income Tax, Individual Income Tax, and Transaction Privilege Tax

the Personal Exemption, a needed reform that would reduce income tax revenues by approximately \$3 million per year

beginning in FY 2018.

General Fund Revenue Summary

	(in thousands)				
	Actual	Estimate	Estimate	Estimate	Estimate
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
TAXES					
Individual Income	3,956,921.7	4,098,630.0	4,282,790.0	4,468,980.2	4,659,811.0
Corporate Income	549,626.3	483,840.0	389,390.1	353,540.1	363,735.1
Sales and Use	4,299,153.9	4,486,570.0	4,676,870.0	4,896,710.1	5,126,121.0
Property Taxes	38,483.3	27,150.0	29,950.0	23,250.0	25,610.0
Luxury Taxes	59,046.0	55,838.0	55,400.0	52,419.0	52,864.0
Insurance Premium Taxes	490,576.3	485,627.1	502,800.0	507,828.0	517,985.0
Estate Taxes	-	-	-	-	-
Other Taxes	7,958.5	8,544.0	8,532.0	8,735.0	8,891.0
TOTAL TAXES	9,401,766.0	9,646,199.1	9,945,732.1	10,311,462.4	10,755,017.1
OTHER REVENUES					
Licenses, Fees & Permits/Misc.	167,863.0	162,735.0	168,426.4	171,723.1	177,367.6
Interest Earnings	13,488.0	10,500.0	10,200.0	9,700.0	9,200.0
Lottery	64,972.7	82,622.0	79,880.0	87,844.0	95,186.0
Transfers & Reimbursements	82,651.8	66,970.0	68,817.0	66,222.0	68,899.0
TOTAL REVENUES	9,730,741.5	9,969,026.1	10,273,055.5	10,646,951.5	11,105,669.7
ADJUSTMENTS					
Urban Revenue Sharing	(605,634.3)	(663,582.2)	(680,770.1)	(687,370.5)	(700,782.0)
Disproportionate Share	93,866.3	94,321.6	91,163.9	84,264.7	77,844.5
Temporary Transaction Privilege Tax	198.7	-	-	-	-
Scheduled Fund Transfers	220,349.1	79,362.0	38,101.6	-	-
Tax Amnesty Program	46,709.3	-	-	-	-
Recommended Revenue Changes	-	-	(38,438.2)	(36,924.9)	(37,675.0)
GRAND TOTAL REVENUES	9,486,230.6	9,479,127.5	9,683,112.7	10,006,920.8	10,445,057.2

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

FY 2018 Executive Recommendations by Agency

(Dollars in Thousands)

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Appropriated</u>	<u>Non-</u> <u>Appropriated</u>	<u>All</u> <u>Funds</u>
Board of Accountancy	0.0	2,024.4	0.0	2,024.4
Acupuncture Board of Examiners	0.0	212.3	0.0	212.3
Department of Administration	152,885.7	270,943.6	1,179,784.1	1,603,613.4
Office of Administrative Hearings	860.5	0.0	749.5	1,610.0
African-American Affairs	125.0	0.0	12.3	137.3
Department of Agriculture	9,247.7	1,434.4	18,294.5	28,976.6
Arizona Health Care Cost Containment System	1,771,023.8	331,033.5	11,719,179.9	13,821,237.2
Commission on the Arts	0.0	0.0	2,288.9	2,288.9
Board of Athletic Training	0.0	159.1	0.0	159.1
Attorney General - Department of Law	24,957.9	45,133.0	49,573.1	119,664.0
Automobile Theft Authority	0.0	6,495.5	0.0	6,495.5
Board of Barbers	0.0	341.8	0.0	341.8
Board of Behavioral Health Examiners	0.0	1,759.1	0.0	1,759.1
Board for Charter Schools	1,185.2	0.0	29.0	1,214.2
Department of Child Safety	381,696.5	595,879.7	208.6	977,784.8
Board of Chiropractic Examiners	0.0	451.1	0.0	451.1
Citizens' Clean Elections Commission	0.0	0.0	10,423.4	10,423.4
Commerce Authority	21,800.0	0.0	33,169.4	54,969.4
Community Colleges	55,384.1	0.0	0.0	55,384.1
Constable Ethics Standards & Training Board	0.0	0.0	246.3	246.3
Registrar of Contractors	0.0	12,165.4	4,666.8	16,832.2
Corporation Commission	611.6	26,568.9	825.0	28,005.5
Department of Corrections	1,047,200.5	54,047.7	63,617.3	1,164,865.5
Board of Cosmetology	0.0	1,995.6	155.5	2,151.1
Criminal Justice Commission	0.0	6,445.4	10,867.4	17,312.8
Schools for the Deaf and the Blind	22,178.1	11,582.3	17,576.8	51,337.2
Commission for the Deaf and the Hard of Hearing	0.0	4,604.3	0.0	4,604.3
Board of Dental Examiners	0.0	1,214.5	0.0	1,214.5
Early Childhood Development and Health Board	0.0	0.0	150,893.0	150,893.0
Department of Economic Security	567,158.4	291,845.0	3,331,640.1	4,190,643.5
State Board of Education	1,192.8	0.0	0.0	1,192.8
Department of Education	4,240,530.9	248,869.8	1,809,717.0	6,299,117.7
Department of Emergency and Military Affairs	12,619.5	0.0	57,044.7	69,664.2
Department of Environmental Quality	2,823.6	76,623.2	74,253.1	153,699.9
Office of Economic Opportunity	484.1	0.0	4,295.3	4,779.4
Arizona Finance Authority	0.0	0.0	205,017.5	205,017.5
Governor's Office for Equal Opportunity	189.1	0.0	0.0	189.1
Board of Equalization	643.0	0.0	0.0	643.0
Board of Executive Clemency	952.6	0.0	43.6	996.2
Exposition & State Fair	0.0	12,113.3	0.0	12,113.3
Department of Financial Institutions	1,478.2	4,018.6	1,079.6	6,576.4
Board of Fingerprinting	0.0	0.0	617.3	617.3
Department of Forestry and Fire Management	11,855.3	0.0	43,616.8	55,472.1
Board of Funeral Directors & Embalmers	0.0	373.3	0.0	373.3
Game & Fish Department	0.0	43,264.8	77,384.0	120,648.8
Department of Gaming	1,779.5	16,318.7	1,400.3	19,498.5
Office of the Governor	6,849.9	0.0	29,874.9	36,724.8

FY 2018 Executive Recommendations by Agency

(Dollars in Thousands)

	General Fund	Other Appropriated	Non- Appropriated	All Funds
Governor's Office of Strategic Planning and Budgeting	1,994.0	0.0	0.0	1,994.0
Department of Health Services	86,551.7	52,270.2	358,568.1	497,390.0
Governor's Office of Highway Safety	0.0	0.0	11,373.7	11,373.7
Arizona Historical Society	2,722.9	0.0	1,136.7	3,859.6
Prescott Historical Society of Arizona	824.5	0.0	829.8	1,654.3
Department of Homeland Security	0.0	0.0	30,561.1	30,561.1
Board of Homeopathic Medical Examiners	0.0	87.3	0.0	87.3
Department of Housing	0.0	318.5	111,643.4	111,961.9
Independent Redistricting Commission	1,115.3	0.0	0.0	1,115.3
Industrial Commission of Arizona	0.0	19,881.3	20,967.1	40,848.4
Department of Insurance	5,824.3	0.0	28,730.7	34,555.0
Judiciary	110,712.6	41,312.1	29,252.6	181,277.3
Department of Juvenile Corrections	24,180.4	16,479.8	1,324.3	41,984.5
Land Department	13,293.3	7,247.4	971.0	21,511.7
Auditor General	18,066.5	0.0	1,960.3	20,026.8
House of Representatives	13,201.5	0.0	0.0	13,201.5
Joint Legislative Budget Committee	2,488.3	0.0	0.0	2,488.3
Legislative Council	8,215.4	0.0	0.0	8,215.4
Senate	9,408.5	0.0	0.0	9,408.5
Department of Liquor Licenses and Control	0.0	3,197.9	947.9	4,145.8
Lottery Commission	0.0	120,017.1	1,379,996.0	1,500,013.1
Massage Therapy	0.0	461.1	0.0	461.1
Medical Board	0.0	6,784.0	10.0	6,794.0
Mine Inspector	1,212.5	112.9	409.2	1,734.6
Naturopathic Physicians Board of Medical Examiners	0.0	180.2	0.0	180.2
Navigable Stream Adjudication Commission	124.0	200.0	0.0	324.0
Board of Nursing	0.0	4,804.8	414.7	5,219.5
Nursing Care Ins. Admin. Examiners	0.0	445.4	0.0	445.4
Board of Occupational Therapy Examiners	0.0	220.7	0.0	220.7
Board of Dispensing Opticians	0.0	164.0	0.0	164.0
Board of Optometry	0.0	260.1	0.0	260.1
Board of Osteopathic Examiners	0.0	905.5	0.0	905.5
Parks Board	0.0	3,150.0	26,532.5	29,682.5
Personnel Board	0.0	375.3	0.0	375.3
Board of Pharmacy	0.0	2,258.2	1,123.7	3,381.9
Board of Physical Therapy Examiners	0.0	448.2	0.0	448.2
Pioneers' Home	0.0	6,492.6	28.1	6,520.7
Board of Podiatry Examiners	0.0	172.4	0.0	172.4
Commission for Postsecondary Education	1,761.5	1,534.1	1,710.9	5,006.5
Power Authority	0.0	0.0	37,652.0	37,652.0
Board for Private Postsecondary Education	0.0	486.9	277.0	763.9
Board of Psychologist Examiners	0.0	555.5	0.0	555.5
Department of Public Safety	107,242.2	167,690.5	97,142.5	372,075.2
Public Safety Personnel Retirement System	0.0	0.0	12,804.4	12,804.4
Radiation Regulatory Agency	1,563.1	848.1	1,165.1	3,576.3
Department of Real Estate	2,994.9	0.0	178.9	3,173.8
Residential Utility Consumer Office	0.0	1,331.4	0.0	1,331.4

FY 2018 Executive Recommendations by Agency

(Dollars in Thousands)

	General Fund	Other Appropriated	Non- Appropriated	All Funds
Board of Respiratory Care Examiners	0.0	358.3	0.0	358.3
Arizona State Retirement System	0.0	24,884.2	212,471.0	237,355.2
Department of Revenue	29,998.3	46,234.9	588.0	76,821.2
School Facilities Board	228,342.8	0.0	320,431.5	548,774.3
Department of State - Secretary of State	14,969.2	3,681.5	4,277.2	22,927.9
Board of Tax Appeals	266.6	0.0	0.0	266.6
Board of Technical Registration	0.0	2,204.4	11.2	2,215.6
Office of Tourism	7,112.0	0.0	22,799.9	29,911.9
Department of Transportation	50.4	383,070.3	2,529,766.4	2,912,887.1
Treasurer	1,205.1	5,018.1	103.2	6,326.4
Governor's Office on Tribal Relations	57.5	0.0	13.5	71.0
Board of Regents	16,928.4	0.0	179,559.9	196,488.3
ASU - Tempe	258,930.9	593,126.2	1,629,891.8	2,481,948.9
ASU - Polytechnic	22,688.4	44,303.3	67,111.9	134,103.6
ASU - West	29,413.5	45,790.5	136,865.5	212,069.5
Northern Arizona University	107,169.5	147,283.3	380,956.5	635,409.3
University of Arizona - Main Campus	194,921.8	405,141.1	1,320,565.9	1,920,628.8
University of Arizona - Health Sciences Center	68,631.2	47,491.4	550,629.8	666,752.4
Department of Veterans' Services	6,054.1	31,147.6	5,327.1	42,528.8
Veterinary Medical Examining Board	0.0	584.8	0.0	584.8
Department of Water Resources	15,871.0	2,119.1	9,039.3	27,029.4
	9,753,821.6	4,311,050.8	28,426,666.3	42,491,538.7

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
Department of Administration	106,696.8	108,382.4	108,382.4	152,885.7	44,503.3
Office of Administrative Hearings	861.6	860.5	860.5	860.5	0.0
African-American Affairs	121.5	125.0	125.0	125.0	0.0
Department of Agriculture	8,160.3	9,162.7	9,162.7	9,247.7	85.0
Arizona Health Care Cost Containment System	1,144,448.5	1,750,941.4	1,750,941.4	1,771,023.8	20,082.4
Attorney General - Department of Law	23,497.4	24,664.8	24,664.8	24,957.9	293.1
Board for Charter Schools	1,024.4	1,185.2	1,185.2	1,185.2	0.0
Department of Child Safety	410,766.7	379,179.4	387,179.4	381,696.5	2,517.1
Commerce Authority	26,722.7	21,800.0	21,800.0	21,800.0	0.0
Community Colleges	55,045.3	54,312.7	54,312.7	55,384.1	1,071.4
Corporation Commission	608.1	2,611.6	2,611.6	611.6	(2,000.0)
Department of Corrections	1,016,639.1	1,046,682.6	1,046,682.6	1,047,200.5	517.9
Schools for the Deaf and the Blind	20,182.5	21,378.1	21,378.1	22,178.1	800.0
Department of Economic Security	511,764.3	530,124.4	537,857.2	567,158.4	37,034.0
State Board of Education	1,139.1	1,094.0	1,094.0	1,192.8	98.8
Department of Education	3,945,768.2	4,069,375.8	4,089,208.7	4,240,530.9	171,155.1
Department of Emergency and Military Affairs	10,710.8	12,619.5	12,619.5	12,619.5	0.0
Department of Environmental Quality	7,000.0	2,823.6	2,823.6	2,823.6	0.0
Office of Economic Opportunity	0.0	1,068.7	1,068.7	484.1	(584.6)
Governor's Office for Equal Opportunity	187.3	189.1	189.1	189.1	0.0
Board of Equalization	525.3	643.0	643.0	643.0	0.0
Board of Executive Clemency	892.6	952.6	952.6	952.6	0.0
Department of Financial Institutions	2,904.3	2,978.2	2,978.2	1,478.2	(1,500.0)
Department of Fire, Building and Life Safety	2,173.1	0.0	0.0	0.0	0.0
Department of Forestry and Fire Management	8,264.4	10,442.8	10,442.8	11,855.3	1,412.5
Department of Gaming	1,779.5	1,979.5	1,979.5	1,779.5	(200.0)
Geological Survey	936.8	0.0	0.0	0.0	0.0
Office of the Governor	6,031.6	6,849.9	6,849.9	6,849.9	0.0
Governor's Office of Strategic Planning and Budgeting	1,993.9	1,994.0	1,994.0	1,994.0	0.0
Department of Health Services	597,792.8	86,551.7	86,551.7	86,551.7	0.0
Arizona Historical Society	3,157.2	2,722.9	2,722.9	2,722.9	0.0
Prescott Historical Society of Arizona	807.4	824.5	824.5	824.5	0.0
Department of Housing	0.0	811.4	811.4	0.0	(811.4)
Independent Redistricting Commission	1,093.9	1,115.3	1,115.3	1,115.3	0.0
Department of Insurance	5,036.4	5,824.3	5,824.3	5,824.3	0.0
Judiciary	105,787.0	113,017.7	113,017.7	110,712.6	(2,305.1)
Department of Juvenile Corrections	25,357.3	24,180.4	24,180.4	24,180.4	0.0
Land Department	12,401.8	12,491.4	12,715.9	13,293.3	801.9
Auditor General	17,933.3	18,066.5	18,066.5	18,066.5	0.0
House of Representatives	13,265.6	13,201.5	13,201.5	13,201.5	0.0
Joint Legislative Budget Committee	2,490.9	2,488.3	2,488.3	2,488.3	0.0
Legislative Council	8,233.3	8,215.4	8,215.4	8,215.4	0.0
Senate	7,654.7	9,408.5	9,408.5	9,408.5	0.0

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
Department of Liquor Licenses and Control	41.7	0.0	0.0	0.0	0.0
Mine Inspector	1,161.9	1,212.5	1,212.5	1,212.5	0.0
Navigable Stream Adjudication Commission	121.3	124.0	124.0	124.0	0.0
Parks Board	423.0	0.0	0.0	0.0	0.0
Commission for Postsecondary Education	1,396.8	1,396.8	1,396.8	1,761.5	364.7
Department of Public Safety	91,456.4	121,195.7	121,195.7	107,242.2	(13,953.5)
Radiation Regulatory Agency	1,593.2	1,563.1	1,563.1	1,563.1	0.0
Department of Real Estate	2,551.7	2,994.9	2,994.9	2,994.9	0.0
Department of Revenue	28,393.7	29,998.3	29,998.3	29,998.3	0.0
School Facilities Board	230,378.0	228,094.4	228,094.4	228,342.8	248.4
Department of State - Secretary of State	14,586.7	14,969.2	14,969.2	14,969.2	0.0
Board of Tax Appeals	262.3	266.6	266.6	266.6	0.0
Office of Tourism	7,103.7	7,112.0	7,112.0	7,112.0	0.0
Department of Transportation	1,249.5	50.4	50.4	50.4	0.0
Treasurer	945.2	1,205.1	1,205.1	1,205.1	0.0
Governor's Office on Tribal Relations	56.9	57.5	57.5	57.5	0.0
Board of Regents	21,928.4	16,928.4	16,928.4	16,928.4	0.0
ASU - Tempe	241,538.2	256,000.7	256,000.7	258,930.9	2,930.2
ASU - Polytechnic	22,323.4	22,688.4	22,688.4	22,688.4	0.0
ASU - West	28,945.0	29,413.5	29,413.5	29,413.5	0.0
Northern Arizona University	102,047.8	106,317.0	106,317.0	107,169.5	852.5
University of Arizona - Main Campus	180,704.4	198,493.2	198,493.2	194,921.8	(3,571.4)
University of Arizona - Health Sciences Center	68,393.5	68,631.2	68,631.2	68,631.2	0.0
Department of Veterans' Services	5,958.7	6,054.1	6,054.1	6,054.1	0.0
Department of Water Resources	11,810.1	13,012.6	13,012.6	15,871.0	2,858.4
Department of Weights and Measures	1,180.4	0.0	0.0	0.0	0.0
General Fund Operating Total	9,184,409.7	9,491,120.9	9,526,911.1	9,753,821.6	262,700.7

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Board of Accountancy</u>					
Accountancy Board Fund	1,569.6	1,937.0	1,937.0	2,024.4	87.4
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners Fund	141.9	178.5	178.5	212.3	33.8
<u>Department of Administration</u>					
Personnel Division Fund	11,915.1	12,857.9	12,857.9	12,857.9	0.0
Capital Outlay Stabilization Fund	15,618.6	18,069.6	18,069.6	18,069.6	0.0
Department of Revenue Administrative Fund	0.0	0.0	0.0	3,000.0	3,000.0
Corrections Fund	121.8	570.4	570.4	570.4	0.0
Information Technology Fund	2,571.1	3,436.0	3,436.0	4,586.0	1,150.0
Industrial Commission Admin Fund	0.0	0.0	0.0	1,017.4	1,017.4
Air Quality Fund	488.3	927.3	927.3	927.3	0.0
Underground Storage Tank Revolving Fund	0.0	0.0	0.0	3,200.0	3,200.0
Public Safety Equipment Fund	0.0	0.0	0.0	1,000.0	1,000.0
Concealed Weapons Permit Fund	0.0	0.0	0.0	2,500.0	2,500.0
State Web Portal Fund	4,013.4	4,542.4	4,542.4	11,790.8	7,248.4
Automation Projects Fund	12,965.0	47,774.7	47,774.7	56,422.8	8,648.1
Special Employee Health Fund	4,934.1	5,256.1	5,256.1	5,256.1	0.0
Motor Pool Revolving Fund	6,871.5	10,151.3	10,151.3	10,151.3	0.0
Special Services Fund	0.0	592.2	592.2	809.9	217.7
State Surplus Property Fund	1,951.3	2,947.0	2,947.0	2,947.0	0.0
Admin - Surplus Property/Federal Fund	44.1	464.5	464.5	464.5	0.0
Risk Management Fund	89,127.6	93,046.3	108,305.0	92,580.6	(465.7)
Arizona Financial Information System Collections Fund	7,063.1	9,406.3	9,406.3	9,406.3	0.0
Automation Operations Fund	19,278.5	23,937.6	23,937.6	31,540.6	7,603.0
Telecommunications Fund	1,529.5	2,020.1	2,020.1	1,845.1	(175.0)
Agency Total	178,493.0	235,999.7	251,258.4	270,943.6	34,943.9
<u>Department of Agriculture</u>					
Air Quality Fund	0.0	1,434.4	1,434.4	1,434.4	0.0
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Tax and Health Care Fund	34,498.5	72,998.2	72,998.2	69,788.4	(3,209.8)
Tobacco Products Tax Fund	18,162.2	18,747.2	18,747.2	17,941.5	(805.7)
Substance Abuse Services Fund	0.0	2,250.2	2,250.2	2,250.2	0.0
Children's Health Insurance Program Fund	2,424.1	3,674.9	7,674.9	93,603.8	89,928.9
Budget Neutrality Compliance Fund	2,612.2	3,563.3	3,563.3	3,670.7	107.4
Prescription Drug Rebate Fund	105,718.1	113,778.9	113,778.9	143,778.9	30,000.0
Agency Total	163,415.1	215,012.7	219,012.7	331,033.5	116,020.8
<u>Commission on the Arts</u>					
Arizona Arts Trust Fund	0.0	1,500.0	1,500.0	0.0	(1,500.0)
<u>Board of Athletic Training</u>					
Athletic Training Fund	107.7	119.1	119.1	159.1	40.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Attorney General - Department of Law</u>					
Consumer Protection/Fraud Revolving Fund	4,172.0	5,575.7	5,575.7	6,312.2	736.5
Attorney General Antitrust Revolving Fund	158.3	244.3	244.3	246.8	2.5
Attorney General Collection Enforcement Fund	6,803.7	6,845.2	6,845.2	6,848.5	3.3
Attorney General Agency Services Fund	0.0	0.0	0.0	67.4	67.4
State Aid to Indigent Defense Fund	769.4	0.0	0.0	0.0	0.0
Interagency Service Agreements	14,194.6	15,508.5	15,508.5	15,508.5	0.0
Victims Rights Fund	3,704.8	3,758.9	3,758.9	3,758.9	0.0
Internet Crimes Against Children	0.0	900.0	900.0	900.0	0.0
Risk Management Fund	8,697.3	9,406.7	9,406.7	9,406.7	0.0
Attorney General Legal Services Cost Allocation Fund	2,073.9	2,080.4	2,080.4	2,084.0	3.6
Agency Total	40,574.0	44,319.7	44,319.7	45,133.0	813.3
<u>Automobile Theft Authority</u>					
Automobile Theft Authority Fund	5,099.5	5,295.5	5,295.5	6,495.5	1,200.0
<u>Board of Barbers</u>					
Board of Barbers Fund	308.8	370.7	370.7	341.8	(28.9)
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiners Fund	1,532.4	1,759.1	1,759.1	1,759.1	0.0
<u>Department of Child Safety</u>					
Temporary Assistance for Needy Families (TANF) Fund	149,323.9	149,472.7	149,472.7	149,472.7	0.0
Child Care and Development Fund	27,000.0	27,000.0	27,000.0	27,000.0	0.0
DCS Expenditure Authority	316,199.9	415,269.4	415,269.4	415,269.4	0.0
Child Abuse Prevention Fund	1,459.3	1,459.3	1,459.3	1,459.3	0.0
Children and Family Services Training Program Fund	207.9	207.1	207.1	207.1	0.0
Risk Management Fund	0.0	0.0	0.0	2,471.2	2,471.2
Agency Total	494,191.0	593,408.5	593,408.5	595,879.7	2,471.2
<u>Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board Fund	398.7	451.1	451.1	451.1	0.0
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	8,510.0	12,165.4	12,165.4	12,165.4	0.0
<u>Corporation Commission</u>					
Utility Regulation Revolving Fund	13,672.9	14,098.4	14,098.4	14,098.4	0.0
Security Regulatory and Enforcement Fund	5,525.2	4,909.6	4,909.6	5,152.9	243.3
Public Access Fund	6,051.9	6,558.8	6,558.8	6,558.8	0.0
Securities Investment Management Fund	711.4	708.9	708.9	708.9	0.0
Arizona Arts Trust Fund	49.6	49.9	49.9	49.9	0.0
Agency Total	26,011.0	26,325.6	26,325.6	26,568.9	243.3

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Department of Corrections</u>					
Corrections Fund	17,028.5	32,817.8	32,817.8	32,812.3	(5.5)
State Education Fund for Correctional Education Fund	394.5	669.5	669.5	669.5	0.0
DOC - Alcohol Abuse Treatment Fund	253.5	555.5	555.5	555.5	0.0
Transition Program Fund	1,400.1	2,400.1	2,400.1	2,400.1	0.0
Prison Construction and Operations Fund	11,685.6	13,686.3	13,686.3	12,500.0	(1,186.3)
Inmate Store Proceeds Fund	0.0	0.0	0.0	386.3	386.3
Penitentiary Land Earnings Fund	979.2	979.3	979.3	2,062.5	1,083.2
State Charitable, Penal & Reformatory Land Earnings Fund	1,796.9	1,861.5	1,861.5	2,661.5	800.0
Agency Total	33,538.4	52,970.0	52,970.0	54,047.7	1,077.7
<u>Board of Cosmetology</u>					
Cosmetology Board Fund	1,707.6	1,805.2	1,805.2	1,995.6	190.4
<u>Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	509.1	646.6	646.6	646.6	0.0
Victim Compensation and Assistance Fund	3,397.4	4,220.6	4,220.6	4,220.6	0.0
Drug and Gang Prevention Resource Center Fund	145.5	604.5	604.5	604.5	0.0
State Aid to County Attorneys Fund	730.2	973.7	973.7	973.7	0.0
Agency Total	4,782.2	6,445.4	6,445.4	6,445.4	0.0
<u>Schools for the Deaf and the Blind</u>					
Schools for the Deaf and Blind Fund	11,363.4	11,582.3	11,582.3	11,582.3	0.0
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecom for the Deaf Fund	3,302.4	4,309.5	4,309.5	4,604.3	294.8
<u>Board of Dental Examiners</u>					
Dental Board Fund	1,138.5	1,214.5	1,214.5	1,214.5	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	32,903.2	56,040.2	56,040.2	56,040.2	0.0
Temporary Assistance for Needy Families (TANF) Fund	70,816.2	72,964.7	72,964.7	72,964.7	0.0
Child Care and Development Fund	93,558.5	107,773.6	107,773.6	107,773.6	0.0
Special Administration Fund	2,485.7	5,528.7	5,528.7	2,928.7	(2,600.0)
Child Support Enforcement Administration Fund	14,791.2	16,632.6	16,632.6	16,632.6	0.0
Domestic Violence Services Fund	2,500.0	4,000.0	4,000.0	2,500.0	(1,500.0)
Public Assistance Collections Fund	9.6	421.9	421.9	421.9	0.0
Department Long-Term Care System Fund	27,901.0	26,559.6	26,559.6	28,559.6	2,000.0
Spinal and Head Injuries Trust Fund	1,293.0	2,323.7	2,323.7	2,323.7	0.0
Health Services Lottery Fund	0.0	700.0	700.0	700.0	0.0
Agency Total	246,258.4	293,945.0	293,945.0	291,845.0	(2,100.0)
<u>State Board of Education</u>					
Teacher Certification Fund	162.7	0.0	0.0	0.0	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
Department of Education					
School Accountability Fund Prop 301 Fund	0.0	7,000.0	7,000.0	7,000.0	0.0
Teacher Certification Fund	1,908.9	2,342.7	2,342.7	2,342.7	0.0
State Web Portal Fund	0.0	500.0	500.0	0.0	(500.0)
Empowerment Scholarship Account Fund	398.3	797.9	797.9	797.9	0.0
Professional Development Fund	276.3	2,700.0	2,700.0	2,700.0	0.0
Tribal College Dual Enrollment Program	0.0	250.0	250.0	250.0	0.0
Public Institution Permanent School Earnings Fund	219,440.5	219,804.2	219,804.2	235,779.2	15,975.0
Agency Total	222,024.0	233,394.8	233,394.8	248,869.8	15,475.0
Department of Environmental Quality					
DEQ Emissions Inspection Fund	25,154.6	32,620.5	32,620.5	30,570.5	(2,050.0)
Hazardous Waste Management Fund	1,110.0	1,734.6	1,734.6	1,734.6	0.0
Air Quality Fund	8,798.3	8,236.4	8,236.4	7,361.4	(875.0)
Underground Storage Tank Revolving Fund	0.0	22.0	22.0	22.0	0.0
Recycling Fund	945.2	1,352.9	1,352.9	2,352.9	1,000.0
Permit Administration Fund	5,506.8	7,114.1	7,114.1	9,327.4	2,213.3
Emergency Response Fund	43.1	132.8	132.8	132.8	0.0
Solid Waste Fee Fund	732.2	1,239.0	1,239.0	1,239.0	0.0
Water Quality Fee Fund	6,314.3	10,507.4	10,507.4	10,507.4	0.0
Indirect Cost Fund	11,467.8	13,375.2	13,375.2	13,375.2	0.0
Agency Total	60,072.3	76,334.9	76,334.9	76,623.2	288.3
Exposition & State Fair					
Arizona Exposition and State Fair Fund	11,290.7	11,613.3	11,613.3	12,113.3	500.0
Department of Financial Institutions					
Financial Services Fund	1,305.6	1,453.0	1,453.0	3,203.5	1,750.5
Board of Appraisal Fund	532.1	815.1	815.1	815.1	0.0
Agency Total	1,837.7	2,268.1	2,268.1	4,018.6	1,750.5
Board of Funeral Directors & Embalmers					
Funeral Directors and Embalmers Fund	338.1	373.3	373.3	373.3	0.0
Game & Fish Department					
Game and Fish Fund	31,788.9	35,687.6	35,687.6	36,173.3	485.7
Watercraft Licensing Fund	3,066.3	5,187.8	5,187.8	5,728.3	583.8
Game/Non-game Fund	113.2	345.8	345.8	345.8	0.0
Capital Improvement Fund	1,000.9	1,001.2	1,001.2	1,001.2	0.0
Wildlife Endowment Fund	16.2	16.2	16.2	16.2	0.0
Agency Total	35,985.5	42,238.6	42,238.6	43,264.8	1,069.5
Department of Gaming					
Lottery Fund	300.0	300.0	300.0	300.0	0.0
Permanent Tribal-State Compact Fund	1,622.7	2,081.8	2,081.8	2,081.8	0.0
Arizona Benefits Fund	9,280.2	11,050.9	11,050.9	11,050.9	0.0
Racing Regulation Fund	2,468.2	2,886.0	2,886.0	2,886.0	0.0
Agency Total	13,671.1	16,318.7	16,318.7	16,318.7	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Department of Health Services</u>					
Tobacco Tax Hlth Care Fund MNMI Account Fund	47,966.7	700.0	700.0	700.0	0.0
Capital Outlay Stabilization Fund	1,513.9	1,559.9	1,559.9	1,559.9	0.0
Health Services Licenses Fund	8,751.8	9,232.3	9,232.3	9,232.3	0.0
Child Care and Development Fund	828.8	872.3	872.3	872.3	0.0
Disease Control Research Fund	0.0	250.0	250.0	0.0	(250.0)
Health Research Fund	2,496.3	4,000.0	4,000.0	4,000.0	0.0
Emergency Medical Services Operating Fund	4,810.4	5,357.9	5,357.9	5,357.9	0.0
Newborn Screening Program Fund	6,040.8	7,130.1	7,130.1	7,643.1	513.0
Substance Abuse Services Fund	1,350.2	0.0	0.0	0.0	0.0
Substance Abuse Services - Alcohol Fund	900.0	0.0	0.0	0.0	0.0
Nursing Care Institution Protection Fund	22.0	138.2	138.2	138.2	0.0
Environmental Lab License Revolving Fund	695.9	924.2	924.2	924.2	0.0
Child Fatality Review Fund	94.9	94.7	94.7	94.7	0.0
Vital Records Electronic Systems Fund	1,113.0	3,619.5	3,619.5	3,619.5	0.0
The Arizona State Hospital Fund	8,814.2	9,562.0	9,562.0	6,762.0	(2,800.0)
DHS State Hospital Land Earnings Fund	601.4	880.1	880.1	970.0	89.9
DHS - Indirect Cost Fund	8,030.6	8,546.1	12,346.1	10,396.1	1,850.0
Agency Total	94,030.9	52,867.3	56,667.3	52,270.2	(597.1)
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners Fund	74.3	103.0	103.0	87.3	(15.7)
<u>Department of Housing</u>					
Housing Trust Fund	318.5	318.5	318.5	318.5	0.0
<u>Industrial Commission of Arizona</u>					
Industrial Commission Admin Fund	19,136.3	19,881.3	19,881.3	19,881.3	0.0
<u>Judiciary</u>					
Supreme Court CJEF Disbursements Fund	6,274.2	9,800.4	9,800.4	9,800.4	0.0
Judicial Collection - Enhancement Fund	16,289.6	20,033.1	20,033.1	20,033.1	0.0
Defensive Driving Fund	3,193.4	4,198.5	4,198.5	4,198.5	0.0
Court Appointed Special Advocate Fund	2,681.2	2,943.2	2,943.2	3,343.2	400.0
Confidential Intermediary Fund	294.2	488.9	488.9	488.9	0.0
Drug Treatment and Education Fund	500.2	502.9	502.9	502.9	0.0
State Aid to Courts Fund	2,399.8	2,945.1	2,945.1	2,945.1	0.0
Health Services Lottery Fund	0.0	250.0	250.0	0.0	(250.0)
Agency Total	31,632.6	41,162.1	41,162.1	41,312.1	150.0
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Dist Fund	499.3	1,631.5	1,631.5	1,631.5	0.0
State Education Fund for Committed Youth Fund	1,509.8	1,588.2	1,588.2	1,588.2	0.0
Local Cost Sharing Fund	12,000.0	11,260.0	11,260.0	11,260.0	0.0
State Charitable, Penal and Reformatory Land Fund	1,972.9	2,000.1	2,000.1	2,000.1	0.0
Agency Total	15,982.0	16,479.8	16,479.8	16,479.8	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Land Department</u>					
Environmental Special Plate Fund	150.0	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	1,716.9	4,036.9	4,526.9	6,486.9	2,450.0
Agency Total	1,866.9	4,797.4	5,287.4	7,247.4	2,450.0
<u>Legislative Council</u>					
Telecom for the Deaf Fund	0.0	250.0	250.0	0.0	(250.0)
<u>Department of Liquor Licenses and Control</u>					
Liquor Licenses Fund	2,892.2	3,007.4	3,007.4	3,197.9	190.5
<u>Lottery Commission</u>					
Lottery Fund	97,520.4	113,437.8	116,430.3	120,017.1	6,579.3
<u>Massage Therapy</u>					
Massage Therapy Board Fund	425.0	470.1	470.1	461.1	(9.0)
<u>Medical Board</u>					
Medical Examiners Board Fund	6,472.3	6,463.6	6,463.6	6,784.0	320.4
<u>Mine Inspector</u>					
Aggregate Mining Reclamation Fund	30.3	112.9	112.9	112.9	0.0
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board Fund	163.7	184.2	184.2	180.2	(4.0)
<u>Navigable Stream Adjudication Commission</u>					
Arizona Water Banking Fund	170.9	200.0	200.0	200.0	0.0
<u>Board of Nursing</u>					
Nursing Board Fund	4,701.8	4,784.8	4,784.8	4,804.8	20.0
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Admin/ACHMC Fund	379.5	445.4	445.4	445.4	0.0
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	169.2	170.7	170.7	220.7	50.0
<u>Board of Dispensing Opticians</u>					
Dispensing Opticians Board Fund	119.4	140.0	140.0	164.0	24.0
<u>Board of Optometry</u>					
Board of Optometry Fund	204.0	210.1	210.1	260.1	50.0
<u>Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board Fund	756.2	940.5	940.5	905.5	(35.0)
<u>Parks Board</u>					
State Parks Revenue Fund	12,652.6	15,986.9	17,486.9	3,150.0	(12,836.9)
<u>Personnel Board</u>					
Personnel Division Fund	269.7	375.3	375.3	375.3	0.0
<u>Office of Pest Management</u>					
Pest Management Fund	1,373.6	0.0	0.0	0.0	0.0
<u>Board of Pharmacy</u>					
Pharmacy Board Fund	2,066.6	2,135.2	2,135.2	2,258.2	123.0
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	438.7	484.2	484.2	448.2	(36.0)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Pioneers' Home</u>					
Pioneers' Home State Charitable Earnings Fund	4,020.5	4,145.7	4,145.7	4,463.7	318.0
Pioneers' Home Miners' Hospital Fund	1,724.7	2,028.9	2,028.9	2,028.9	0.0
Agency Total	5,745.2	6,174.6	6,174.6	6,492.6	318.0
<u>Board of Podiatry Examiners</u>					
Podiatry Examiners Board Fund	118.6	148.4	148.4	172.4	24.0
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	1,299.8	1,534.1	1,534.1	1,534.1	0.0
<u>Board for Private Postsecondary Education</u>					
Private Postsecondary Education Fund	996.2	396.1	396.1	486.9	90.8
<u>Board of Psychologist Examiners</u>					
Psychologist Examiners Board Fund	415.3	475.4	475.4	555.5	80.1
<u>Department of Public Safety</u>					
State Highway Fund	7,273.2	7,301.8	7,301.8	7,301.8	0.0
Arizona Highway Patrol Fund	20,397.1	24,113.1	24,113.1	24,113.1	0.0
Automobile Theft Authority Fund	0.0	3,000.0	3,000.0	0.0	(3,000.0)
Safety Enforcement and Transportation Infrastructure Fund	1,236.5	1,551.8	1,551.8	1,551.8	0.0
Drug and Gang Prevention Resource Center Fund	0.0	1,000.0	1,000.0	0.0	(1,000.0)
Crime Laboratory Assessment Fund	772.4	870.2	870.2	870.2	0.0
Auto Fingerprint Identification Fund	1,396.6	2,910.2	2,910.2	2,917.6	7.4
DNA Identification System Fund	5,068.4	4,969.6	4,969.6	4,969.6	0.0
Public Safety Equipment Fund	2,072.7	2,893.7	2,893.7	3,393.7	500.0
Crime Laboratory Operations Fund	13,136.5	13,597.3	13,597.3	13,597.3	0.0
Gang and Immigration Intelligence Team Enforcement Mission Fund	4,316.6	2,527.7	2,527.7	2,527.7	0.0
Fingerprint Clearance Card Fund	0.0	0.0	0.0	700.0	700.0
State Aid to Indigent Defense Fund	626.0	700.0	700.0	700.0	0.0
Motorcycle Safety Fund	205.0	205.0	205.0	205.0	0.0
Parity Compensation Fund	2,115.5	2,129.4	2,129.4	3,302.7	1,173.3
Concealed Weapons Permit Fund	1,060.9	3,489.0	3,489.0	1,409.7	(2,079.3)
Highway User Revenue Fund	96,409.2	96,006.1	96,006.1	96,006.1	0.0
DPS Criminal Justice Enhancement Fund	2,864.4	2,860.5	2,860.5	2,860.5	0.0
Risk Management Fund	1,228.1	1,263.7	1,263.7	1,263.7	0.0
Agency Total	160,179.1	171,389.1	171,389.1	167,690.5	(3,698.6)
<u>Radiation Regulatory Agency</u>					
State Radiologic Technologist Certification Fund	230.4	271.6	271.6	271.6	0.0
Radiation Regulatory Fee Fund	586.4	576.5	576.5	576.5	0.0
Agency Total	816.8	848.1	848.1	848.1	0.0
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving Fund	1,221.9	1,331.4	1,331.4	1,331.4	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners Fund	290.7	300.3	300.3	358.3	58.0
<u>Arizona State Retirement System</u>					
Retirement System Appropriated Fund	22,401.8	24,684.2	24,684.2	22,384.2	(2,300.0)
LTD Trust Fund	2,071.9	2,800.0	2,800.0	2,500.0	(300.0)
Agency Total	24,473.7	27,484.2	27,484.2	24,884.2	(2,600.0)
<u>Department of Revenue</u>					
Tobacco Tax and Health Care Fund	630.5	678.3	678.3	678.3	0.0
Veterans' Income Tax Settlement Fund	0.0	1,900.0	1,900.0	0.0	(1,900.0)
Department of Revenue Administrative Fund	44,793.6	45,158.7	45,158.7	45,158.7	0.0
DOR Liability Setoff Fund	266.9	397.9	397.9	397.9	0.0
Agency Total	45,691.1	48,134.9	48,134.9	46,234.9	(1,900.0)
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	724.6	2,941.1	2,941.1	2,941.1	0.0
Records Services Fund	535.1	740.4	740.4	740.4	0.0
Agency Total	1,259.7	3,681.5	3,681.5	3,681.5	0.0
<u>State Boards Office</u>					
Special Services Fund	140.6	0.0	0.0	0.0	0.0
<u>Board of Technical Registration</u>					
Technical Registration Board Fund	1,986.7	2,916.4	2,916.4	2,204.4	(712.0)
<u>Department of Transportation</u>					
State Aviation Fund	1,427.4	1,615.8	1,615.8	2,081.8	466.0
State Highway Fund	469,237.3	348,128.3	348,128.3	356,923.1	8,794.8
Transportation Department Equipment Fund	16,805.1	18,474.6	18,474.6	18,474.6	0.0
Safety Enforcement and Transportation Infrastructure Fund	1,326.9	1,868.3	1,868.3	1,868.3	0.0
Air Quality Fund	74.2	161.7	161.7	161.7	0.0
Vehicle Inspection and Title Enforcement Fund	973.4	1,450.2	1,450.2	1,450.2	0.0
Motor Vehicle Liability Insurance Enforcement Fund	1,065.7	1,308.7	1,308.7	1,308.7	0.0
Driving Under Influence Abatement Fund	112.3	152.2	152.2	152.2	0.0
Highway User Revenue Fund	641.6	649.7	649.7	649.7	0.0
Agency Total	491,663.9	373,809.5	373,809.5	383,070.3	9,260.8
<u>Treasurer</u>					
Boating Safety Fund	0.0	2,183.8	2,183.8	2,183.8	0.0
Treasurer Empowerment Scholarship Account Fund	79.7	79.4	79.4	79.4	0.0
Budget Stabilization Fund	587.8	0.0	0.0	0.0	0.0
State Treasurer's Operating Fund	2,410.0	2,559.3	2,559.3	2,559.3	0.0
State Treasurer's Management Fund	196.6	195.6	195.6	195.6	0.0
Agency Total	3,274.1	5,018.1	5,018.1	5,018.1	0.0
<u>ASU - Tempe</u>					
ASU Collections - Appropriated Fund	535,392.3	593,126.2	593,126.2	593,126.2	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2016 Expenditures	FY 2017 Appropriation	FY 2017 Executive Budget	FY 2018 Executive Budget	FY 2018 Changes and Adjustments
<u>ASU - Polytechnic</u>					
ASU Collections - Appropriated Fund	36,031.8	42,303.3	42,303.3	42,303.3	0.0
Technology and Research Initiative Fund	2,000.0	2,000.0	2,000.0	2,000.0	0.0
Agency Total	38,031.8	44,303.3	44,303.3	44,303.3	0.0
<u>ASU - West</u>					
ASU Collections - Appropriated Fund	41,531.7	44,190.5	44,190.5	44,190.5	0.0
Technology and Research Initiative Fund	1,600.0	1,600.0	1,600.0	1,600.0	0.0
Agency Total	43,131.7	45,790.5	45,790.5	45,790.5	0.0
<u>Northern Arizona University</u>					
NAU Collections - Appropriated Fund	145,286.6	147,283.3	147,283.3	147,283.3	0.0
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated Fund	336,900.4	405,141.1	405,141.1	405,141.1	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A Main Campus - Collections - Appropriated Fund	46,882.0	47,491.4	47,491.4	47,491.4	0.0
<u>Department of Veterans' Services</u>					
Veterans' Conservatorship Fund	422.2	899.2	899.2	0.0	(899.2)
State Home for Veterans Trust Fund	30,191.4	31,147.6	31,147.6	31,147.6	0.0
Agency Total	30,613.6	32,046.8	32,046.8	31,147.6	(899.2)
<u>Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board Fund	464.9	651.9	651.9	584.8	(67.1)
<u>Department of Water Resources</u>					
Arizona Water Banking Fund	0.0	1,211.4	1,211.4	1,211.4	0.0
Water Resources Fund	544.7	641.4	641.4	641.4	0.0
Assured and Adequate Water Supply Administration Fund	26.6	266.3	266.3	266.3	0.0
Agency Total	571.3	2,119.1	2,119.1	2,119.1	0.0
<u>Department of Weights and Measures</u>					
Air Quality Fund	1,374.9	0.0	0.0	0.0	0.0
Motor Vehicle Liability Insurance Enforcement Fund	177.6	0.0	0.0	0.0	0.0
Agency Total	1,552.5	0.0	0.0	0.0	0.0
Other Appropriated Funds Operating Total	3,780,073.7	4,142,094.8	4,170,136.0	4,311,050.8	168,999.3

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Resources

Governor's Office of Strategic Planning and Budgeting

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[Executive Budgets for FY 2018 and Previous Years](#)

State Agency Technical Resources

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

[Managing for Results](#), Arizona's Strategic Planning Handbook

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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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