

State of Arizona

Executive Budget

SUMMARY

FISCAL YEAR 2023

Douglas A. Ducey
GOVERNOR



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Budget Summary

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The Budget Summary

The final Executive Budget of the Ducey Administration continues to fuel State Government at full throttle, sustaining the momentum that has made Arizona a shining example through times of adversity and prosperity.

"From paying off billions in debt to taking our Rainy Day Fund to a record-breaking \$1 billion, securing a high credit rating and cutting taxes for hardworking Arizonans, we're making fiscally responsible decisions that benefit the people we serve: the citizens of Arizona. Our Fiscal Year 2023 Executive Budget keeps this stewardship going. We're making targeted investments in education, public safety, border security, infrastructure and the things that matter to Arizonans."

Gov. Doug Ducey

For seven years, the State of Arizona has thrived with the support of a governing philosophy built on balanced budgets and low debt; a tax and regulatory code that rewards work and innovation; an education framework that funds and rewards student achievement; a border strategy that severely disrupts international drug and criminal organizations and addresses human suffering; and a commitment to effective stewardship of State assets and Arizona's unmatched quality of life.

In sharp contrast, in the winter of 2014-2015, State leaders faced tough decisions in dealing with a State budget that was broken, and in the red to the tune of over \$1 billion.

In seeking to overcome the grave fiscal challenges that to many observers, special interests, and public officials seemed insurmountable, two roads diverged: the "easy" path of tried-and-failed budget gimmicks and tax increases, and the path of discipline, marked by budget cuts and difficult decisions supported by an unyielding commitment to long-term solutions.

Choosing the latter path, the Governor and Legislature were determined that the State must live within its means – a proven, common-sense approach that has produced:

- greater efficiencies and customer friendliness;
- leaner State agencies;
- fiscally responsible spending plans, with minimal drag on Arizona's economy and supported by historic economic growth;
- lower taxes;
- budget surpluses; and
- the largest Rainy Day Fund in Arizona history.

Even with the onset of COVID-19, the Executive adhered to common-sense strategies informed by data and designed to

preserve Arizonans' lives and livelihoods. State Government mobilized immense State and federal resources to address the unprecedented economic, education, and health effects of the pandemic. Unlike the situations in "blue" states, Arizona's underlying pro-business tax and regulatory environment, coupled with the fundamental belief in the basic freedom that people should go about their daily lives as they see fit, has attracted record numbers of people and businesses.

As a result of the Executive's determination not to shut down the economy broadly or for an extended time, Arizona's recovery has been one of the nation's fastest and most robust. At the time of this writing, Arizona had become just the third state to recover the total number of jobs lost to the COVID-19 recession. While summer 2021 saw dampened growth in many regions, Arizona was one of several similarly governed, high-performing states.

FY 2022 Budget Forecast

The state's economic momentum contributed to a 2021 Legislative session of remarkable achievements that offer broad-based benefits for Arizonans statewide:

- an income tax reduction to the lowest flat rate in the country;
- a cap on taxation of Arizona small businesses, thereby avoiding a crushing 77% tax hike due to an ill-conceived ballot initiative;
- the single largest debt reduction in State history;
- full funding of the K-12 Additional Assistance formula for the first time since the Great Recession;
- a comprehensive forest management strategy, with the necessary funding to fight wildfires and reduce future fire risk, through the Healthy Forest initiative, a multi-pronged effort to reduce wildfire fuels statewide via private partnerships and the use of trained inmates to treat overgrown forests;
- a sweeping child care plan that strengthens and expands the child care network across Arizona, with more support for quality settings and enhancements to early literacy learning;
- preservation of Arizona's water supply through investments in modern water infrastructure that continue the

state's proud tradition of water conservation and management;

- border security funding for the Arizona National Guard's mission in southern Arizona, along with assisting county and local law enforcement agencies with costs attributed to illegal immigration; and
- expanding the capacity and improving the safety of Arizona roads and bridges, along with significant investments in broadband throughout the state.

Most of the spending increases that were included in the FY 2022 budget are one-time (versus ongoing), which honors a core tenet of the Governor's focus on fiscal sustainability and avoiding over-burdening the State's budget, as was done in the mid-2000s with disastrous fiscal consequences.

In the current fiscal year, revenue performance continues to exceed expectations, and the Executive anticipates a current fiscal year structural surplus of \$2.43 billion and an ending cash balance of \$1.98 billion.

Figure 1
Total General Fund Revenues

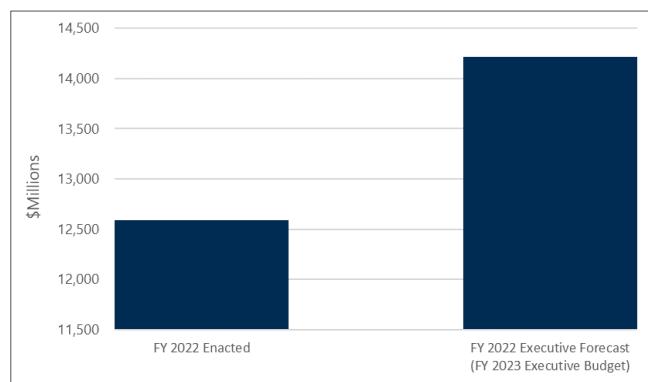


Table 1
FY 2022 Cash and Structural Balances

	Cash Balance	Structural Balance
FY 2022 Enacted Budget Expectations	\$ 202,292,900	\$ 317,474,100
FY 2022 Current Executive Forecast	\$ 1,982,491,300	\$ 2,433,169,400

FY 2023 Budget Forecast

The FY 2023 Executive Budget does not let up, continuing the momentum that has made Arizona a success in the areas of education, public safety, natural resources, and infrastructure.

Including the baseline changes and Executive initiatives, the Executive forecasts a structural surplus of \$552 million, resulting in a projected ending cash balance of \$1.02 billion.

Average total spending growth over the last seven years was 6.5%, compared to 8.4% in the seven years leading up to the Great Recession.

Under the Executive's FY 2023 spending plan, average spending growth over the next three years is 3.5%, which is below the levels of the mid-2000s and just slightly above the 10-year average of 3.4%.

Education

As they recover from the detrimental effects of the pandemic and remote learning, students continue to excel in and out of the classroom, and the Executive is committed to supporting them on their path to success. The historic and targeted investments of State and federal resources will:

- ensure that all students across Arizona have access to new remedial learning opportunities;
- close the school achievement gap through a student-centered and results-driven approach; and
- prepare students for the ever-changing world and workforce.

Upon enactment, the FY 2023 Executive Budget will complete an eight-year investment of \$11 billion in K-12 education since 2015.

The FY 2023 Executive Budget allocates \$450.3 million of new General Fund spending for K-12 and higher education.

K-12 EDUCATION

Arizona parents have worked tirelessly since the onset of COVID-19 to keep their children on track. The Executive intends to blend remedial learning opportunities this summer with larger, structural changes in how the State addresses schools that chronically underperform.

The FY 2023 Executive Budget:

- uses federal recovery monies to support summer camp of math, reading, and American civics instruction, free of charge, to reach hundreds of thousands of students;
- closes the school achievement gap and elevates the effectiveness of underperforming schools through evidence-based strategies and targeted resources;
- modernizes and expands the Executive's Results-Based Funding program, which rewards Arizona's top-performing schools for achieving student success;
- converts the Arizona Industry Credential Incentive Program from a demonstration project, which has seen significant success, into an ongoing funded initiative that has resulted in thousands of high school students earning industry credentials in fields that have severe workforce shortages;
- encourages civics excellence by rewarding teachers and schools with bonuses for every student who earns at least

- a 95% score on the United States citizenship test, a prerequisite for high school graduation; and
- invests the highest amount of total dollars in school building renewal funding in the program's history, to meet the needs of all anticipated grant requests and fully fund school construction needs.

HIGHER EDUCATION

The public universities provide the ideal catalyst for continuing Arizona's status as an economically capable, resilient, and successful state. To achieve that objective, the Executive Budget makes key investments in higher education programs that are designed to provide students with the skills needed to meet the labor demands of Arizona's rapidly growing economy.

The FY 2023 Executive Budget:

- permanently restores the STEM and Workforce funding formulas – which pay for programming, instruction, and student support – for Maricopa, Pima, and Pinal community colleges for the first time since the Great Recession;
- provides rural community colleges with additional State support to cover the costs of maintenance, operations, and initiatives that are unique to the region that each college serves;
- ensures permanent State funding for the University system's "New Economy" initiative, which is designed to boost post-secondary attainment, reduce the time required to obtain a degree, and increase the number of graduates in critical high-demand industries; and
- expands the State's promise to make a university education more accessible for Arizona students from all financial backgrounds.

Public Safety

The Executive Budget bolsters the border crisis, addresses critical staffing shortages, modernizes public safety equipment, and improves services and facilities in Arizona's correctional system.

BORDER SECURITY

Border Security Fund Deposit. First created as an FY 2021 supplemental appropriation in the enacted FY 2022 budget with a \$55 million deposit, the Border Security Fund provides resources to counties, cities, and towns to pay for overtime, bed management at jail facilities, and transportation associated with illegal immigration. The Border Security Fund also helps county courts and prosecutors recruit and retain staff, to expand their capacity to aggressively pursue border-related offenses.

The Executive Budget includes another \$50 million deposit to continue to hold accountable all domestic and foreign violators of Arizona law.

Border Strike Force Expansion. Established in 2015, the Border Strike Force is a collaboration of law enforcement agencies to secure the Arizona-Mexico border and combat transnational organized crime.

Recognizing the dangerous circumstances at the border, due in large part to federal inaction, the Executive Budget doubles the Border Strike Force at the Department of Public Safety (DPS) and triples local law enforcement grants to the county sheriffs. These resources will enable more investigations into unlawful activity surrounding illegal crossings, trespassing, vehicle theft, smuggling, and trafficking.

Commercial Vehicle Enforcement Task Force. To align agency responsibilities for ports of entry, DPS has established the Commercial Vehicle Enforcement Task Force.

With the Arizona Department of Transportation as a participating agency, the Task Force allows DPS to form a single management structure to dispatch the necessary personnel, based on safety priorities, along Arizona's domestic and international borders.

Staffing Shortages. The Executive Budget includes an enterprise-wide pay package that targets specific hard-to-fill positions throughout State Government. DPS and the Department of Corrections, Rehabilitation & Reentry (ADCRR) collectively comprise 70% of the total initiative. Those agencies have faced some of the greatest operational challenges, due to below-market compensation.

Corrections

A Real Second Chance. Since taking office, Governor Ducey has introduced a number of initiatives aimed at safely reducing the State's prison population while protecting public safety.

Providing inmates pathways to employment, treating drug addiction inside prison, and offering opportunities for a basic education are all proven approaches to reducing the rate of recidivism, i.e., the relapse of former inmates into criminal behavior.

The FY 2022 budget includes a one-time appropriation to engage third-party organizations in offering substance abuse counseling. In recognition of the vast need and ongoing shortage of substance abuse counseling, the FY 2023 Executive Budget makes this appropriation permanent. Additionally, the Executive Budget seeks to expand the Therapeutic Community drug treatment model that, as a demonstration project at the Tucson complex, has seen early success.

Inmate employment activities are a key factor in promoting successful reentry. Funding provided in the FY 2023 Executive Budget will allow Arizona Correctional Industries to establish an automotive upfitting and repair-and-maintenance center at the Red Rock complex that will help maintain the State's vehicle fleet and upfit public safety vehicles, resulting in significant cost savings for several agencies.

The proposed competitive salary package complements the Second Chance initiative. Improved staff coverage throughout the ADCRR system supports safe, improved, and consistent access to programming opportunities, allowing inmates to receive the support and education they need to reform and become productive members of society.

Prison Safety. In addition to providing salary increases that will address staffing shortages for key agency positions, the Executive Budget continues to invest in the workplace environment and staff security tools at prison complexes, providing:

- full funding of ADCRR's building renewal formula, immediate fire and life safety projects, and a four-year plan to replace all evaporative cooling systems with new air-conditioning systems;
- security equipment to improve contraband detection and enforcement;
- additional vehicles to improve the safety and reliability of transporting inmates between complexes and the efficiency of carrying out community supervision across the state; and
- the additional resources necessary to complete the deactivation of the Florence prison.

Health and Welfare

COVID-19 RESPONSE

Public Health. Since the start of the COVID-19 pandemic, the State has made significant investments in response to the emergency. In partnership with the Governor's Office, Legislature, and our counties and tribes, the Department of Health Services has allocated \$1.5 billion in state and federal resources toward several critical response efforts. Priority investments include \$474 million in testing and contact tracing to monitor the spread of the virus, \$234 million for PPE and equipment purchases to slow the spread and prevent transmission, and \$210 million for health care staffing enhancements to address shortages and provide premium pay to front-line workers, ensuring that Arizonans are protected.

SAFE, HEALTHY FAMILIES

Kinship Families. "Kinship care" refers to the raising of children by grandparents, other extended family members, and family-like adults, due to the parents' absence. Kinship caregivers are well-positioned to maintain and promote lifelong family connections and lessen the disruption of removal.

Between FY 2015 and FY 2021, the number of Arizona kinship placements changed from 6,685 to a projected 6,505.

The Executive Budget's significant investment will reduce the financial barriers of kinship care and allow thousands of children in uncertain circumstances to be cared for by family instead of being placed in congregate care settings. Additionally, the

Department of Child Safety (DCS) plans to review its kinship licensing process, which would allow more kinship caregivers to become licensed foster parents. Licensing would double kinship caregivers' monthly stipend from \$300 to \$600, without any additional State match.

Healthy Families AZ. The Executive Budget doubles this voluntary home-visiting program, which supports families at high risk of abuse or neglect. DCS currently provides parenting support for 4,000 families, and the Executive Budget will expand that capacity to 8,000 families by FY 2025. The results from this program are undeniable, as lower rates of abuse and neglect put families on a better lifelong trajectory for years after the support is completed.

CASA Volunteer Retention. The Executive Budget takes a major step in bolstering the Court Appointed Special Advocates (CASA) program, which relies on volunteers to serve as case workers and advocates for children who are involved with the juvenile justice system.

With the addition of 15 new staff, the Courts will provide more trauma-mitigation training, recruit more volunteers, and improve the level of support to volunteers.

ADULT PROTECTION

The Executive Budget includes the funding necessary to add staff that will help protect vulnerable adults from neglect and abuse.

Based on the current caseload trends, by FY 2023 the average Adults Protective Services (APS) investigator caseload is expected to balloon to 90 cases per investigator – nearly four times the recommended average. The Executive Budget funds 67 new positions to reach the recommended caseload average and expedite the processing time for getting help to senior and vulnerable adults.

HOME AND COMMUNITY-BASED SERVICES

Due to a provision of the American Rescue Plan Act of 2021, there is a temporary 10% increase to the FMAP rate for certain Medicaid expenditures for home and community-based services (HCBS). The State has until March 31, 2024, to expend the additional federal dollars.

The Executive Budget provides increases in Federal Expenditure Authority for AHCCCS and DES to spend the additional funds, which will help implement or expand key initiatives.

Natural Resources

Fire Safety. The western U.S. has experienced drier, warmer weather over the last several years. Those conditions, combined with population growth and forests that have not been adequately maintained primarily by the federal government, have resulted in increased State spending on wildfires. The Executive Budget continues to invest in the Arizona Healthy Forest Initiative by including \$36.2 million for the Initiative's second phase. The

Executive Budget also increases funding by 400% for the Department of Forestry and Fire Management to prepare for and respond to wildfires. Adding to the Arizona Healthy Forest Initiative, the Executive Budget contemplates funding for the Department to engage in Good Neighbor Authority agreements with the federal government.

Public Recreation. The Executive Budget includes a one-time transfer of \$38.2 million in transaction privilege tax (TPT) revenue to the State Park Revenue Fund in FY 2022 as part of a total \$176.7 million, 44-project investment in the State Parks System. This investment will serve as a catalyst in modernizing and advancing the Parks System for the benefit of visitors in the near term and ensuring that those State assets are available for enjoyment by future generations.

Government That Works

The FY 2023 Executive Budget leverages the solid progress, achieved since 2015, that has made State Government work better for current and future Arizonans through solid advances in cybersecurity and IT; economically beneficial investments in roads and bridges; increasing the competitiveness of State employee pay and benefits; and exercising responsible stewardship of State assets.

Internal technology advancements include:

- continued development of a Business One-Stop web portal that will serve as a convenient and valuable resource to help companies and individuals seamlessly plan, start, and grow Arizona businesses and relocate businesses from other states; and
- modernization of several critical services platforms for State Government, including the payroll, accounting, unemployment insurance, Medicaid payment, and tax collection systems, along with industry-specific, efficiency-focused IT investments in the Department of Agriculture and the Department of Water Resources.

Road and bridge funding includes:

- an unprecedented State investment of \$400 million to draw down federal infrastructure funding to complete the long-awaited widening of Interstate 10 between Phoenix and Tucson; and
- providing \$50 million in Rural Transportation Grants to smaller communities, helping improve their competitiveness when applying for federal matching funds.

For State employees, the Enterprise Compensation Strategy provides:

- an ongoing base salary increase for 27,000 employees that targets positions based on high vacancy and turnover rates and uncompetitive pay rates; and

- a permanent fix to the State's Health Insurance Trust Fund, which pays for medical, pharmacy, and dental insurance for State employees and serves as key recruitment tool for the State.

The State's commitment to responsible **stewardship of capital assets** includes:

- full funding of the Department of Administration's building renewal needs (for the first time since 1988) to address deferred maintenance;
- capital funding targeted mainly at life and safety and HVAC replacement projects at the Department of Corrections, Rehabilitation & Reentry; and
- reduction of the State's physical footprint through a major demolition initiative and the continued implementation of the Arizona Connected Workforce State Compression Plan.

For **Arizonans**, the Executive Budget secures Arizona's fiscal future by making the single largest Budget Stabilization Fund (BSF) deposit in a fiscal year - \$425 million – bringing the fund balance to its highest level since inception, at \$1.4 billion, or 10% of projected FY 2023 General Fund revenues.

Major General Fund Budget Issues, FY 2022 and FY 2023

In Millions of Dollars

Fiscal Security: Budget Stabilization Fund Deposit	\$ 425.0
Water Resources: Arizona Water Resilience Strategy.....	334.0
School Facilities Board (SFB): Building Renewal Grants (including FY 2022 supplemental)	276.4
Enterprise Compensation Strategy	217.0
Capital: Building Renewal and Capital Projects Statewide.....	186.2
K-12: Baseline Enrollment Growth and Inflation	123.7
SFB: New Schools	89.6
K-12: Results-Based Funding Modernization.....	60.8
K-12: Operation Excellence	58.0
DEMA: Border Security Fund Deposit.....	50.0
Universities: Continue New Economy Initiatives.....	46.0
Department of Forestry and Fire Management (DFFM): Arizona Forest Initiative Phase II	32.5
Universities: HITF Backfill	20.3
DPS: Replacement Vehicles and Aircraft.....	19.9
DCS: Foster Care and Kinship Support.....	19.8
DFFM: Fire Suppression Fund Increase	16.8
ADOA: Business One-Stop Phase II	15.6
DPS: Border Strike Force: State and Local Support	11.6
Community Colleges: STEM Funding Restoration.....	10.8
DPS: Inflation and Equipment Funding.....	10.5
DCS: Healthy Families Arizona	10.0
DOR: Tax System Modernization	9.2
DES: Adult Protective Services Reporting Growth	8.2
DHS: Arizona State Hospital Operations	6.7

K-12: Continuation of Arizona Industry Credentials Incentive Program.....	6.0	FY 2025.....	1,142.9
Universities: Freedom School Funding.....	5.0		
K-12: Civics Excellences Incentive Bonus.....	5.0		
PROJECTED ENDING BALANCES			
FY 2022.....	1,982.5	FY 2022.....	2,433.2
FY 2023.....	1,017.4	FY 2023.....	522.4
FY 2024.....	899.4	FY 2024.....	386.7
		FY 2025.....	698.5

The Economy

While higher inflation and slower economic and job growth are expected to persist nationwide in 2022, the Executive anticipates that Arizona will continue to outperform the nation, thanks to continued pro-growth economic, regulatory, tax and public-health policies.

"Instead of going on a spending spree, in Arizona we've lived within our means. New citizens and businesses choose our state every day, our budget is balanced, and our economy is roaring. Fiscal responsibility and smart policies matter."

Gov. Doug Ducey

Following the short but severe pandemic-related recession of early 2020, the U.S. economy experienced rapid growth into 2021, averaging over 6% during the first half of the year.

However, in an economy characterized by unprecedented volatility, consumer and producer prices surged and national employment growth slowed mid-way through the year, and real gross domestic product (GDP) growth dropped sharply in the third quarter to just over 2%. While GDP is expected to show a temporary acceleration in the fourth quarter of 2021, the Executive anticipates that, nationally, higher inflation and slower economic and job growth will persist in 2022.

The prospect of trillions in additional federal spending, new taxes, and new labor-market regulations and mandates in the coming months further jeopardizes the nation's already precarious position.

On the bright side, strong household balance sheets, interest rates that remain low despite rising inflation, and the strongest wage growth in decades create plenty of opportunity, particularly in states like Arizona whose policies favor individual liberty and autonomy.

Despite souring sentiments in the face of 40-year-high inflation rates and employment levels still below their pre-pandemic peak, consumer demand remains resilient, growing at an annualized rate of 17% in October 2021 and averaging over 10% during the calendar year to date. This demand is buoyed at least in part by strong consumer balance sheets created over the past year by various federal stimulus packages.

Unfortunately, this demand cannot be efficiently met by businesses, due to a variety of constraints – supply-chains strained during the pandemic; a persistent labor shortage; and a shift in consumption from services toward goods that markets could not rapidly accommodate.

Labor force participation rates have declined nationally, as former workers have chosen flexibility and safety over their previous work status. Ostensibly temporary federal transfer

payments in the form of enhanced unemployment benefits, stimulus checks, refundable tax credits with no work requirements, and more have undoubtedly exacerbated this labor shortage. Federal regulatory burdens and business mandates are aggravating factors. The result has been, and will likely continue to be, higher prices.

Arizona has weathered the storm particularly well compared to most states, benefiting from a robust pre-pandemic economy, State Government's competitive and pro-business tax and regulatory policies, and, unlike many states, the Executive's determination not to shut down the economy broadly or for an extended period. While summer 2021 featured dampened growth in many regions, Arizona was one of several similarly governed, high-performing states.

THE NATION

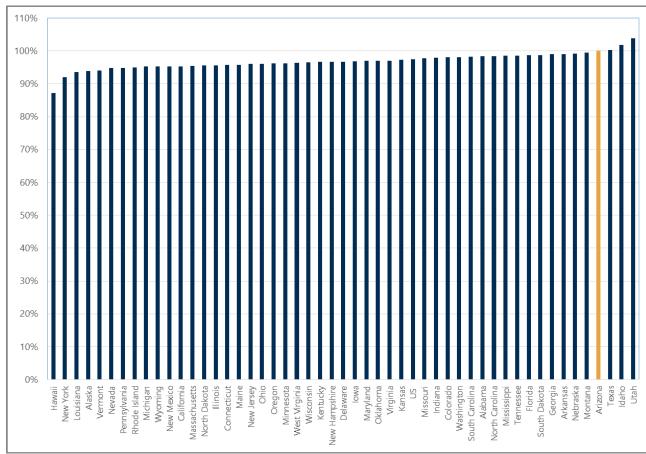
As this forecast was prepared, the nation's economy was on track to finish the year 2021 with GDP growth in the 4%-5% range. Fourth-quarter growth is expected to increase markedly, but temporarily, after the disappointing third-quarter results, thanks to strong holiday demand for consumer and durable goods. However, growth thereafter is expected to slow as the economy rapidly returns to real long-term growth trends in the 2%-2.5% range, confirming that the rapid post-pandemic bounce-back came to an end in the first half of 2021.

As with GDP growth, employment growth appears to have begun slowing in mid-2021, from a post-recession annualized average of approximately 6%-plus to a low of just 1.7% by November, leaving the nation several million workers below the pre-pandemic peak and portending a new trend well below prior levels.

Employment growth across the country has been uneven. States with more restrictive government policies experienced much sharper employment losses during 2020, and many have seen their labor markets remain depressed through 2021 to the present. By restricting business, encouraging workers to stay out of the labor force, or both, states such as Hawaii, New York, Michigan, and California found themselves clustered on the bottom rungs of the job-growth ladder.

Meanwhile, less restrictive states have bounced back more quickly (see "Arizona" below.)

Figure 2
Employment Levels by State
November 2021 vs. February 2020



The pace of expansion in the overall U.S. economy over the next 18 months will be dictated – as with the pace of growth over the prior 18 - by state and federal policymakers. If many states and the federal government continue to push policies restricting economic activity, encouraging adults to stay out of the labor market, and boosting public spending and public debt, growth is likely to remain slow and inflation high.

At the time of this writing, nearly 63% of the nation's adult population had been fully vaccinated against COVID-19, over a period when the vaccine was freely and widely available and a personal choice. Those policies worked and continue to work; conversely, the policies of closing businesses, paying workers to stay at home, and mandating behaviors do not.

ARIZONA

Over the past seven years, Arizona has been a top national performer by all major economic metrics: in-migration and population growth, new job creation, gross state product, and personal income growth. Over the past two years, this trend not only was sustained – it improved.

In a marked departure from its steep-drop, slow-growth performance during and following the 2008 Great Recession, Arizona has been among the nation's economic leaders during the pandemic, its associated recession, and the subsequent recovery. During 2020, Arizona tied with Montana for the fastest personal income growth in the country (8.4%), and, since 2010, per capita incomes here have increased by nearly 50%, versus 46% nationally.

In two years, Arizona has regained all of the jobs it lost during the pandemic and seen growth in its labor force, meaning that tens of thousands of new job-seekers have arrived from states that deprived their residents of opportunities. During the 2020 recession, Arizona shed fewer jobs than all but eight other states, and, during the subsequent recovery and through 2021, Arizona recovered more quickly than all but two other states.

The biggest risk to the state's economic outlook stems from the nation's ongoing struggle with rapid retail and producer price inflation. As this forecast was prepared, the average price of gasoline in Arizona exceeded \$4.00 per gallon (the second highest increase in the nation); the costs of food, shelter, and other basic needs were soaring; and inflation was impacting Arizona's asset markets as well.

The real estate sector has seen dramatic valuation increases over the past year. While apparently fueled by too much money chasing too few properties, and to the benefit of existing homeowners, rising real estate values increase the risk of pushing home ownership beyond the reach of many Arizonans. Though real estate values are just one factor in the larger problem of rapid increases in prices, the Executive acknowledges the uncertainty that high real estate costs pose for the state's growth prospects going forward and is actively implementing policies to mitigate the issue.

Overall, the FY 2023 Executive Budget recognizes Arizona's strong economic and fiscal health, and the resulting revenue projections acknowledge the state's remarkably strong performance since the start of the pandemic.

National Outlook

Among forecasters of U.S. real GDP, there is widespread agreement that growth will ultimately slow toward a 2% long-run level, with the only point of disagreement being the expected pace of the slowdown. A newly added wildcard in the face of the inflation crisis pertains to the Federal Reserve's fiscal and monetary policy actions.

The latest numbers from the Top 50 (Blue Chip) business forecasters suggest that 2021 will end with GDP growth over 2020 in the range of 5%-5.5%. For 2022, predictions include:

- much slower GDP growth versus 2021;
- an inflation rate of 3.2% or higher;
- unemployment rates falling to 4.1%; and
- a 10-year treasury yield of 1.9%.

Given current inflationary conditions, achieving even a 3.2% rate of inflation will require cooperation among the U.S. Treasury, the Federal Reserve Board, and the broader economy. Should this forecast miss, the implications for the broader economic outlook could be dire.

The ability of the U.S. economy to hit the targets listed above depends on several factors, including:

- easing of supply-chain disruptions;
- persistence of inflation;
- the pace of employment and labor force recovery; and
- policy impacts from federal spending, tax increases, monetization of the debt, and regulatory overreach.

SUPPLY-CHAIN DISRUPTION

The challenges to the consumer supply-chain stem from the decades-long reliance on “just in time” inventory management and global economic interactions that were relatively free of significant frictions. The system, while efficient and low-cost, was fragile and not designed with resilience in mind, and the pandemic devastated it.

First, manufacturing facilities and transportation systems shuttered due to fear from the virus and prospects for a prolonged downturn. Closures started internationally, tightening the flow of consumer goods into the U.S.

Meanwhile, as the pandemic and its associated public health interventions arrived domestically, consumer demand for retail goods surged as tastes quickly shifted away from shuttered and unavailable professional services. Inventories were rapidly depleted, and attempts by producers to ramp up production were dogged by cascading shortages in intermediate goods and other challenges.

The problems have persisted globally as manufacturers and shippers have struggled to keep pace, with price increases among the results. According to *The Economist*, the price of shipping a standard large container from Shanghai to New York increased, in just 18 months, from about \$2,500 to nearly \$15,000.

Rising prices are an attempt by the market to signal insufficient supply and either increase production or reduce demand. Market frictions – e.g., a lack of container ships, a shortage of truck drivers, and basic regulatory barriers at U.S. ports and rail-heads (such as rules limiting the height of stacked containers) – are preventing supply-side solutions. Until those issues can be resolved and/or consumers reduce their purchases of imported goods, supply-chain challenges are likely to persist.

INFLATION

One of the great shocks of the pandemic era was the apparent end of the “Great Moderation,” the three-decade period of reduced economic volatility and stable inflation that often averaged below the Federal Reserve’s long-run 2% target. Even the Great Recession paled – at least in terms of sheer volatility – next to the COVID-recession and recovery.

Despite the unprecedented disruptions to national and global economies through 2020, consumer prices remained stable throughout the worst phase of the pandemic and its most aggressive policy interventions. In February 2021, the Consumer Price Index (CPI) was increasing at less than 1.7% year-over-year, even though signs of trouble had begun to manifest elsewhere in the economy. Producer prices had by then increased by 7.1% over the prior year, and asset prices (such as housing, equity prices, alternative currencies, etc.) were also departing already lofty recent trends to post double-digit gains.

At the time of this writing, consumer prices were increasing at a 10% annualized rate, with no sign of immediate easing. This

new reality is not “transitory,” despite claims to the contrary by some of the nation’s leaders.

Figure 3

Consumer Price Index: Annualized Percentage Change



One of the unfortunate casualties of the Great Moderation was economist Milton Friedman’s elementary wisdom: “Inflation is always and everywhere a monetary phenomenon.” Between 2010 and 2020, the supply of money in the economy roughly doubled, with no apparent inflationary consequence. During the Great Recession, the federal government borrowed and spent nearly 20% of GDP, and inflation slowed.

As a result, some policymakers became openly convinced that there were no inflationary consequences to the federal government taking on enormous debt that it never intended to repay, effectively monetizing the debt. A decade ago, *New York Times* columnist Paul Krugman declared, “Since we did indeed triple the monetary base with nothing much happening to inflation, the right lesson to draw is that their model is all wrong.”

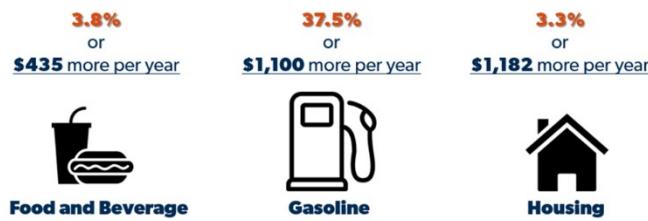
Fueled by low interest rates, a cooperative and accommodating Federal Reserve, and the crisis of the pandemic, the Treasury increased the public debt by over \$5 trillion, or nearly 30% of GDP, in just one year. For its part, the Federal Reserve Board more than doubled its holdings of public debt, accumulating more than \$3 trillion or two-thirds of the increase, paid for by new cash reserves and currency. In less than 12 months, the money and near-money “M2” (cash and some cash-equivalents) supply had increased by more than a third.

While the velocity of money slowed dramatically over the same period, the U.S. economy could not absorb the change, and the damage to the federal government’s credibility was done. Inflation surged, starting in assets before spreading to commodities, producer prices generally, and finally into consumer prices.

The consequences for Arizona households are already clear. Homes in the Phoenix area are more expensive and less affordable than ever. On average, Arizona households are as much as \$5,000 poorer this year than last, due to having to spend more money to buy the same basic goods and services: \$1,120 more

for gasoline, \$1,182 more for housing, and \$435 more for food and other staples.

Figure 4
Average Monthly Inflation by Category, 2021



Inflation must be brought under control before more damage is done or the broader economy is derailed.

Fortunately, as of December 2021, interest rates were still low, meaning that consumers have been sheltered against some of the worst effects of the inflation crisis, as the costs of borrowing had been constrained. Home buyers have been able to finance the higher housing prices through larger, but still affordable, mortgages. And low interest rates make it easier for the federal government to credibly signal a commitment to getting its spending and debt under control.

But Washington must stop printing and borrowing money while reassuring markets that it has a plan to credibly pay off what it has already borrowed. The Federal Reserve Board must ease its accommodating stance, especially in monetizing new Treasury bonds (by accelerating its “taper”).

EMPLOYMENT

For the labor market, the effects of the pandemic and its associated recession were without modern precedent. As of February 2020, the economy was healthy, and at 3.5% the unemployment rate was at its lowest levels since the Great Recession. However, in a 60-day period beginning in February, the economy shed 20 million jobs – nearly 15% of its workforce.

Since then, the economy has recovered over 96% of the lost jobs, but it remains three million workers short of its pre-pandemic peak. Adjusting for population growth since, the shortfall is even more stark, and the pace of new job growth had slowed to just a 1.7% annualized rate by November 2021 (insufficient to keep pace with adult population growth).

Based on current trends, the labor market – like the overall economy – looks poised to remain on a new trajectory persistently below the prior trend. Further, the labor force participation rate fell by over three points – from 63.4% to 60.2% – during the pandemic, but it has since recovered to just 61.8%, meaning that many of the millions of missing workers have left the labor market and not returned.

This labor shortage in turn drives the remaining crises:

- the supply-chain suffers from a shortage of qualified trucked drivers;

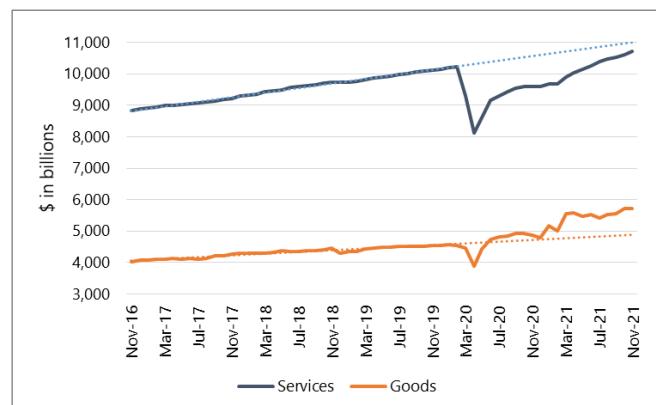
- companies increasing wages in an attempt to attract more willing workers leads to higher prices and general inflation;
- a lack of sufficient workers prevents companies from ramping up supply to meet demand ... and so on.

Nationally, if problems in the labor market are to resolve and job growth is to accelerate, federal policies that encourage adults to stay at home and not work must change. Without changes, slower employment growth below 2% annually is likely to persist.

CONSUMER SPENDING

At the end of 2019, over 69% of all consumer spending was on services – a pre-pandemic peak in a trend that goes back decades. By 2021, that share reached a low of 64%. Over the course of 2020, more than \$1 trillion in consumption had shifted from services – a sector of the economy that was largely shuttered for much of the year – toward goods, especially imported consumer goods. Even as of this writing at the end of 2021, consumption of goods remains approximately \$1 trillion above the prior trend.

Figure 5
Personal Consumption Expenditures (Nominal)



Understanding this remarkable fact provides tremendous insight into the supply-chain crisis, which has been clearly fueled, at least in part, by changing consumer behaviors driven by public policy during the pandemic.

However, contrary to what some observers have suggested, this does not fully explain the inflation crisis. While a shifting of demand toward goods and away from services could reasonably be expected to stoke price increases for goods, those increases should be offset by commensurate declines in the price of services, as demand there dwindled. However, changes in relative prices are not (by definition) inflation. Instead, the nation is currently facing a general increase in all prices.

Additionally, overall consumer spending at the end of 2021 has far surpassed the trend prior to the pandemic, despite the slower recovery of employment and aggregate output (GDP) and

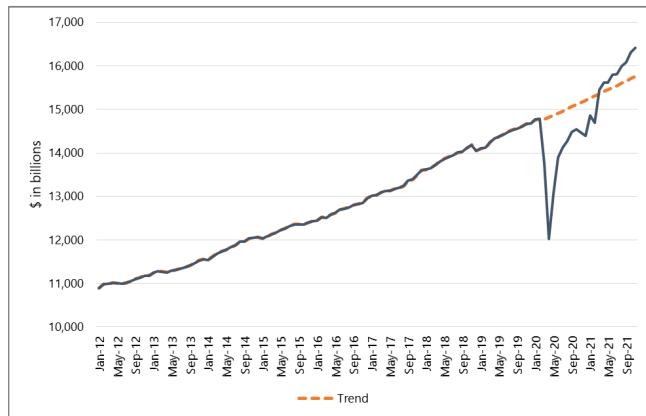
even as real consumption is basically unchanged from prior trends.

Put simply, it is not merely that consumer spending has shifted between different categories of consumption, but that overall spending is higher than what it likely would have been absent a COVID recession and the current inflationary environment (*see chart below*). And consumers are not benefiting from higher spending with more stuff.

This is a remarkable point, given that, as of November 2021, employment in the U.S. is still not quite at the level it was in February 2020, and the overall savings rate has just now fallen to pre-pandemic levels. This suggests that federal policies – namely a 22.4% increase in the national debt facilitated by a nearly 41% increase in the U.S. money supply and trillions in stimulus payments – have significantly boosted consumer spending and are therefore exacerbating the nation's current supply-chain and inflationary woes.

Figure 6

U.S. Nominal Consumption Spending



A return of consumer spending to more historical proportions would ameliorate some of the supply-chain pressures, facilitating a more rapid return to "normal." Unfortunately, as of the end of calendar 2021, the available spending data does not suggest that this return is imminent. To the extent it is persistent, retooling the economy to produce more goods and fewer services cannot happen rapidly. Regardless, this alone cannot solve the separate inflation crisis.

This suggests that, nationally, consumption spending is likely to remain elevated over the budget period, even with the removal of one-time stimulus support and other headwinds, such as rising prices and labor shortages. However, elevated consumer demand without other changes also suggests current inflationary pressures are more than simply "transitory."

INTEREST RATES

Interest rates were at historic lows in the pre-pandemic years, and, since the spring of 2020, even the 10-year Treasury yield has been below 2%. Low interest rates have in turn been a boon to

all parties throughout the pandemic, supporting consumer spending even in the face of rising prices and supporting deficit spending by the Treasury as it took advantage of low rates to finance the debt.

Unfortunately, rising inflation presents a tremendous policy challenge, as the Federal Reserve – which is able to dictate the path of interest rates through its open market policies – must choose between its competing mandates:

- maximizing economic output and full employment by protecting the government and consumers' ability to spend, and
- keeping inflation stable and below 2%.

To that end, the Federal Reserve has signaled a willingness to increase its target interest rates during 2022 and reduce its purchases of government bonds. The challenge for policymakers will be to act quickly and decisively enough to bring inflation under control without being so aggressive as to strangle either consumer pocketbooks or the federal balance sheet.

MARKET VOLATILITY

With 2021 returns at about 40% above levels before the vaccine announcements of November 2020, the stock market has generally continued the healthy pace set in the second half of 2020. Many participating investors have seen their portfolios double in value off the lows of spring 2020. This performance has added to household wealth, helped to improve pension solvency, and bolstered private 401(k) positions.

A bubbling equity market is not without worries, though, especially in the current context of persistent and artificially low interest rates coupled with rising consumer goods inflation. Many investors have no recollection of a prolonged downturn in equity prices, and concerns regarding asset price inflation suggest, at the very least, tempered expectations for the future of capital gains.

Going forward, the pace of equity appreciation will be influenced by many things, including the Federal Reserve's movement on asset purchases and the setting of the federal funds rate. A continued recovery out of the COVID-induced lulls of the last 18 months will likely add continued stamina to the current bull market, but the aforementioned concerns over inflation in the consumer goods markets suggests the Federal Reserve may be under pressure in the near future to increase interest rates.

History has demonstrated clearly that equities do not fare well during interest rate tightening cycles, and any accompanying slowing in the pace of the economic recovery could exacerbate the situation.

Arizona Outlook

Following a tumultuous showing during the 2008 Great Recession and the ensuing slow-growth period, Arizona has been one of the nation's growth leaders over the past seven years.

It is no surprise that many economists predict that Arizona will be among the nation's leaders in the recovery from the pandemic: The state provides a pro-business tax and regulatory environment, a productive and growing workforce, and attractive amenities – including the basic freedom to go about one's daily life as they see fit – that attract in-migration in large numbers.

The response to the pandemic was measured and balanced, prioritizing public health while acknowledging the importance to Arizonans of work, recreation and social interaction. On average, a smaller percentage of businesses were shuttered across the state than was experienced elsewhere, and the vaccine is widely and freely available to all who choose to receive it.

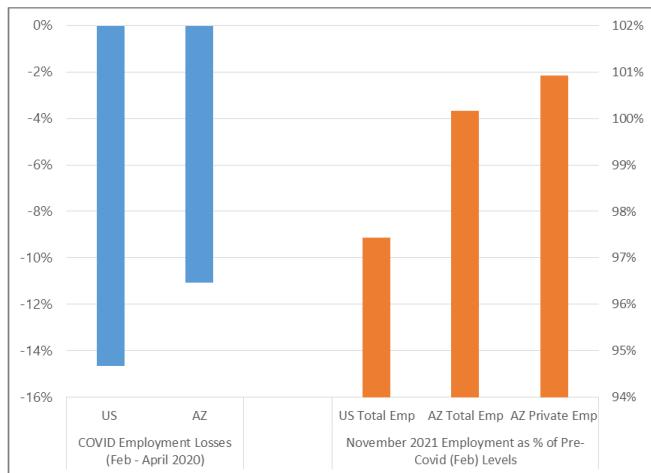
EMPLOYMENT

Before the pandemic took hold in 2020, Arizona's employment growth was averaging about 3% annually, well above the national norm. Through the recession to the present, Arizona both shed fewer jobs and recovered faster than the country as a whole.

This trend was in stark contrast to the state's performance during the Great Recession and reflects a combination of both general economic resiliency, achieved through the maturation and diversification of the labor market since 2008, and deliberate policy choices made during the pandemic.

Figure 7

Employment Changes: February 2020 to the Present



At the time of this writing, Arizona's employment had increased by about 5%, year-over-year. The Executive expects that the end of 2021 will show employment gains in the 5%-7% range, compared to 2020, and that total employment will have exceeded its pre-recession peak.

While the state remains below its pre-pandemic trend, based on current trends – which are expected to persist despite the national labor market slowdown, thanks to the state's favorable growth characteristics – the Executive expects employment to return to its prior trend by late 2022 or early 2023.

Arizona's economy offers considerable potential, and the economic development community remains active in responding to relocation inquiries. The pro-business environment that Arizona offers – enhanced last year by the enactment of comprehensive pro-growth tax reform (including the lowest flat income tax in the country) and measures protecting small business taxpayers from a 77% tax increase – will continue to attract businesses looking to relocate while encouraging existing businesses to expand.

MANUFACTURING

Historically, business migration to Arizona has been dominated by companies – retailers, service providers, and residential builders – looking to leverage (and sell to) the state's burgeoning population.

More recently, Arizona's manufacturing sector has witnessed stunning growth, beginning before the COVID recession and continuing since. After being effectively flat for decades, total manufacturing employment in the U.S. and Arizona surged in 2017, following federal enactment of the Tax Cuts & Jobs Act and the State's conformity thereto.

Over the two years prior to the 2020 pandemic, manufacturing job growth in Arizona averaged about 4% – a rate without modern precedent. While growth in this sector inevitably slowed beginning last year, manufacturing in Arizona has held up much better than in the nation as a whole, especially relative to states that have pursued alternative policies with respect to taxes, regulations, and public health.

The state has done well in competing for companies looking to relocate. Taxes and incentives are an important piece of the puzzle, but low operating costs, an efficient transportation system, and a productive available workforce are all relevant Arizona attributes. Notably, the state has emerged as a hub for the nation's burgeoning domestic semiconductor manufacturing capability, with major firms locating new plants and operations here.

The Executive expects continued national interest in this and other domestic manufacturing opportunities to continue benefiting Arizona over the forecast period.

CONSTRUCTION

In 2019, the state's 12,000 new construction jobs ranked among the top five states in construction job growth. Even as broader employment in Arizona and nationally saw negative growth during 2020, the construction industry in Arizona held its own – a testament both to the resilience of the state's overall economy and to the Executive's early decision to designate the sector as an essential service not subject to any mandatory closure orders.

The construction sector will be buoyed by surging demand for residential housing, continued industrial expansion, and a robust market for home improvement projects. For context,

according to *AzBusiness* magazine, the state's homeownership rate surged by nearly 8% in 2020 – the fastest such growth rate in the country and the largest annual increase ever recorded.

Unfortunately, as the "Arizona Employment" chart illustrates, growth in construction employment is not keeping pace with demand for housing, and the number of total construction workers is essentially unchanged since 2019. The sector will likely see wage increases and continued efforts by builders to identify sufficient numbers of willing and able workers. To support these efforts, the Executive expands and continues its support for career and technical education in this budget.

Figure 8-A
Arizona Employment: 2010 to 2021

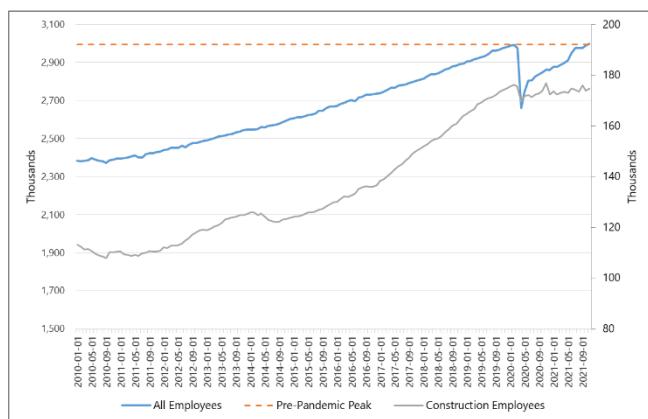
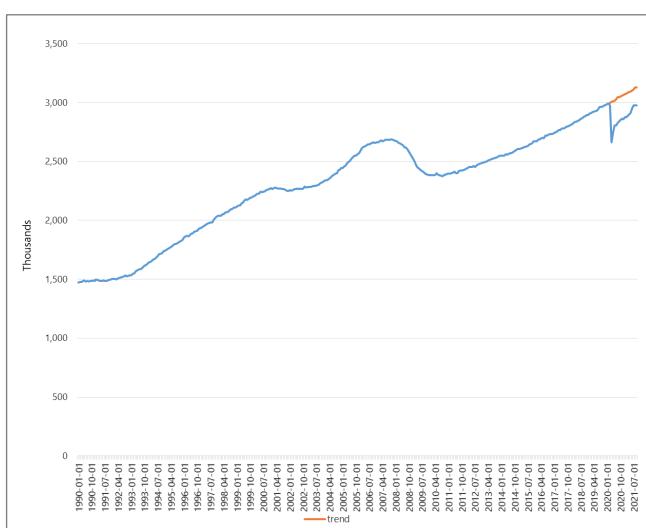


Figure 8-B
Total Arizona Non-Farm Employment: 1990 to 2021



PERSONAL INCOME

Throughout much of the state's history, personal income growth has been a reliable barometer of overall economic growth, and Arizona has regularly been among the nation's leaders in this metric.

However, 2020 and 2021 were unusual years. Large federal transfer payments in the second quarter of 2020 and the first quarter of 2021 led to personal income surges, despite relatively high unemployment rates. As the state's economy continues to recover, it is likely that personal income growth in 2022 will be sluggish against the 2021 stimulus-impacted figures. Thus, personal income will probably not be a reliable measure of economic performance until 2023 and beyond.

Instead, the Executive looks to other bellwethers that were less directly impacted by one-time cash transfers, revealing a state economy that has held up well, coupled with a steady stream of withholding payments throughout the recession and a healthy appetite for consumption as indicated by sales tax revenues.

As measures of personal income normalize over the next several years, continued fundamental growth – not financed by unsustainable one-time transfers from the U.S. Treasury – will be necessary in order to protect Arizona households against the damage caused by high inflation.

IN-MIGRATION

Arizona has historically been a magnet for both domestic and international immigrants. More recent data from moving company records suggests that the state was number two overall in net domestic in-migration in 2020 and has been among the top five for much of the past decade. Metropolitan Phoenix ranked number one in 2020 and has held that position for four of the past five years.

For much of the state's history, its attraction has stemmed from plentiful job opportunities, affordable housing, warm weather, beautiful scenery, and the opportunity to enjoy a lifestyle that living in the Southwest has to offer. Thanks to the persistence of these attributes in Arizona and their erosion in some other states, Arizona is well positioned to continue to attract new residents and new business startups and relocations.

UPSIDE POTENTIAL

In recent years, economic growth has been strong in the West in general and in Arizona in particular, and that strength is likely to continue in 2022 and beyond.

Access to the vaccine and therapeutics will serve only to fuel this growth, as the worst impacts of the pandemic continue to ease in Arizona and nationally. The continued phase-in of comprehensive income and sales tax reform, and business property tax reductions, will protect Arizona's competitive position. Overall, Arizona's position is strong, and the Executive's concerns are largely national. Movement to the upside could come in several forms.

First, resolution of supply-chain issues could restore consumer confidence and improve economic growth prospects by enabling willing consumers to be matched with able suppliers, on time and on budget.

Also, resolution of the nation's inflation crisis is critical to protecting the fragile post-COVID national recovery. Inflation is at 40-year highs and, at the time of this writing, shows no immediate signs of abating. Cooperation between the Federal Reserve and the Treasury is crucial to solving this crisis by getting the nation's monetary house in order over the next 12 months. Should that not occur, this problem risks spiraling.

Finally, the federal deficit must be brought under control. Runaway spending over the past 18 months is fueling myriad downstream issues:

- Too much competition for scarce manufactured goods is perpetuating the supply-chain crisis.
- Monetization of the debt by the Federal Reserve is fueling inflation.
- The crowding-out effect means Federal appropriators (an historically poor judge of wise investment) and not private investors and business owners are determining where the nation invests.

The nation can establish an enduring rebound after federal policymakers come to grips with key issues, including:

- allowing one-time spending to lapse and remain truly one-time;
- avoiding the use of tax increases and gimmicks to finance existing or new unsustainable commitments; and
- finally acknowledging deficits and debts as temporary solutions needing long-term solutions.

The Revenue Outlook

Moving into 2022, the State is building upon an already impressive track record with respect to revenue growth. According to the FY 2022 Appropriations Report, since 2018, total General Fund revenues have grown by an average of 9.7% per year, compared to just 0.6% for the preceding four-year period.

Many policies have contributed to this impressive growth, including the expansion of Arizona's tax nexus laws (per the U.S. Supreme Court's *South Dakota v. Wayfair* decision) requiring remote sellers and marketplace facilitators to collect and remit Transaction Privilege Tax (TPT). Conformity to the Tax Cuts and Jobs Act also expanded the income tax base in addition to lowering rates at the federal level, which further acted to boost State revenues. Coupled with the continued commitment to making Arizona the most business-friendly state in the nation, these policies have led to strong economic growth, which has resulted in the State's impressive revenue performance.

This momentum even carried through the pandemic-induced recession of 2020. Contrary to prior recessions, the State's General Fund revenue flows proved resilient in the face of unprecedented economic declines, leaving the State, at the end of FY 2021, in one of the strongest cash and structural positions in its history.

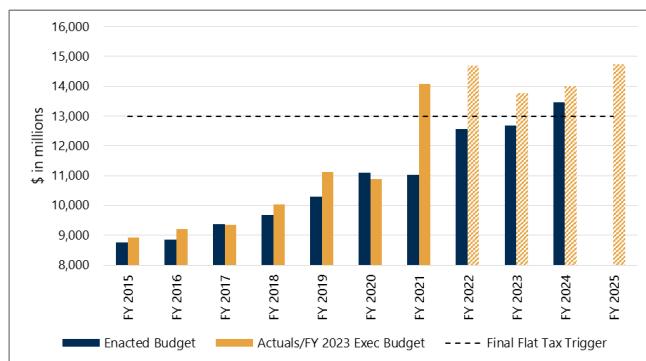
In part because of this strong revenue performance, the Executive determined it to be imperative to provide relief to Arizona taxpayers in the form of historic income tax cuts and the implementation of a flat income tax by 2024.

To guard against the risks of lower taxable activity amid falling tax rates, the FY 2022 budget implemented a series of triggers that require State revenues to meet minimum thresholds in order to phase in the next portion of the flat-tax implementation. Initial estimates suggested that General Fund revenues would reach the final trigger amount of \$13 billion in FY 2024. However, the previously unforeseen revenue performance that the State is demonstrating at this time has put General Fund revenues on track to exceed the final trigger by the end of FY 2022.

Given this performance, it is no surprise that General Fund revenue collections are on track to exceed the numbers cited in the FY 2022 Appropriations Report. According to the Joint Legislative Budget Committee's November monthly update, October 2021 General Fund revenues totaled \$1.71 billion, a 19.3% increase from October 2020. Cumulatively, total General Fund revenues through October are up 6% year-over-year. This growth is especially impressive considering that FY 2021 revenues were the beneficiary of an estimated \$600 million shift in revenues from FY 2020, due to the Individual Income Tax filing extension, which delayed the filing deadline from April 15, 2020, to July 15, 2020. Accounting for this estimated shift in revenues yields a total year-to-date revenue growth of 22% through October.

Figure 9

Executive Forecast of Ongoing Revenue



The largest and most stable component of General Fund revenues – TPT – has continued on pace with impressive 15.8% growth experienced in FY 2021. Indeed, each month of FY 2022 thus far has resulted in year-over-year TPT growth rates over 13%.

Several factors have contributed to this strong performance, namely the shifting of consumption from largely untaxed services to taxable retail goods, along with the aforementioned expansion of the tax base as a result of the *Wayfair* decision. By itself, the expansion of the TPT tax base has accounted for 2.7 percentage points of growth in 2020 and 3.5 percentage points in 2021, with

the latter representing nearly a quarter of the strong 15.8% growth experienced in 2021.

Both Individual and Corporate Income Tax revenues have also posted strong year-to-date growth in FY 2022. Despite the employment disruptions caused by COVID-19, Individual Income Tax revenues have grown by 21.5% over the previous year, after factoring in the effects of the filing extension. A booming real estate market and strong stock market performance have also contributed to a 34.7% growth in Corporate Income Tax revenues through October.

Given the strong year-to-date revenue performance and the strong position of the Arizona economy, the Executive Budget is well positioned to meet or exceed its baseline forecast of approximately \$14 billion.

Table 2

Historical and Projected Revenue Growth

	8-Year Avg	FY 2021 ¹	FY 2022 ²
TPT	6.5%	15.8%	7.5%
IIT	7.4%	15.6%	9.6%
CIT	7.1%	65.5%	4.9%

¹ Adjusted for the deferral of approximately \$600 million in individual income tax payments into FY 2021 from FY 2020.

² IIT revenues include effects of Proposition 208 repeal.

Looking Ahead and Tax Reform

Thanks to strong action by the Legislature, the State staved off the threat of an 8% top tax rate while successfully reducing five tax brackets and a top rate of nearly 5% to just one bracket at a flat 2.5% rate. While as a consequence the State's revenue picture has seemingly never been brighter, the concerning trends at the national level warrant some caution.

Specifically, persistently elevated inflation carries with it the potential to negatively impact the Arizona economy, as consumers find themselves unable to afford the same amount of goods as before. Additionally, continued disruptions caused by overly zealous lockdowns and economic restrictions around the globe may further exacerbate supply-chain issues, slow employment recovery, and dampen overall economic growth.

In light of these concerns, the Executive Budget seeks to build upon the tax reform success of prior years, capitalizing on the opportunity to translate recent revenue successes into meaningful new tax cuts that encourage work and insulate taxpayers against some of the damage due to inflation. This objective must be achieved while protecting the existing tax structure that has made Arizona a destination for the nation's households and businesses.

PROP. 208 CONSTITUTIONALITY

The 3.5% income tax surcharge imposed by passage of Proposition 208 in 2020 was not only poor policy; it was poorly drafted. It was therefore not surprising that the Arizona Supreme Court issued a strong ruling in *Fann v. State* criticizing the proposition's construction and instructing the District Court to act when it determines that surcharge revenues would put districts above their Constitutional expenditure limits:

"We hold that Prop. 208 revenues are not grants within the meaning of the Grant Exception and thus are local revenues. Because A.R.S. § 15-1285 incorrectly characterizes the allocated monies in order to exempt Prop. 208 from the Education Expenditure Clause, it is facially unconstitutional. As a consequence, A.R.S. § 15-1281(D) is also unconstitutional to the extent allocated revenues exceed the expenditure limit set by the Education Expenditure Clause."

The Court sets a clear and obvious standard in the opinion:

"... if any material amount of the Prop. 208 revenue is sequestered in a designated state fund because it cannot be spent due to the expenditure limit, then Prop. 208, in its entirety, is unconstitutional."

The Executive currently estimates that the Aggregate Expenditure Limit (AEL) for FY 2023 will be approximately \$6.4 billion¹ and that, after accounting for Proposition 208 and other new funding sources, total expenditures would exceed \$7.8 billion², clearly well in excess of the Constitutional limit. As a consequence, the Executive projects that, if collected, the entire amount of surcharge revenues would remain sequestered in its State fund and go unspent. In fact, all parties - both the plaintiffs and the defendants - have agreed that the AEL will be exceeded next year, even before a single dollar from Proposition 208 is expended.

The Executive FY 2023 budget therefore assumes the Court will ultimately invalidate the surcharge, which will return substantial amounts of revenue to the General Fund over the next three years.

EARNED INCOME TAX CREDIT

In the Tax Reform Act of 1986, then-President Reagan signed into law the modern Earned Income Tax Credit (EITC) - an anti-poverty measure that was intended to incentivize and reward work, rather than punish it.

This and other conservative reforms ushered in an era of unprecedented economic stability, growth, and opportunity. Welfare reform in 1996 replaced Aid to Families with Dependent Children - an entitlement that required households remain poor to qualify and actively discouraged returning to work - with Temporary Assistance for Needy Families. The 2017 Tax Cuts & Jobs Act modified and expanded the Child Tax Credit to mirror

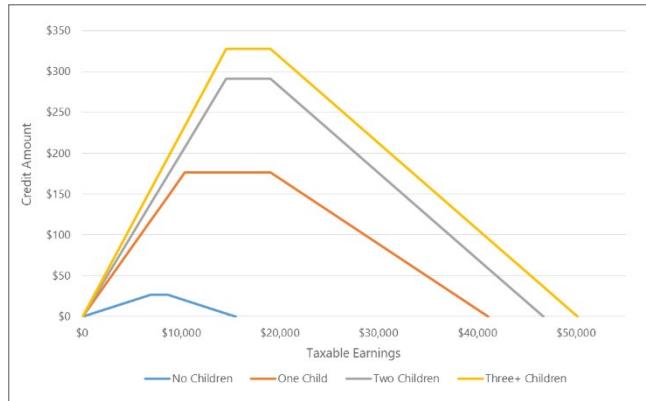
¹ \$6,444,100,000

² \$7,881,800,000

the structure of the EITC, rewarding and requiring earned income to maximize its value.

Figure 10

Arizona Earned Income Tax Credit (EITC) Amount By Taxable Earnings



Unfortunately, these lessons were lost over the past year, and numerous new federal entitlements were created that actively discouraged returning to work. By making the Child Tax Credit fully refundable and imposing more strict income limits, the American Rescue Plan Act of 2021 temporarily replaced a pro-opportunity program with a welfare program that discouraged earning outside income. Other changes, particularly to the Unemployment Insurance program, further diminished the value of work.

Acknowledging the need to return to tax policies that recognize the dignity of work and reward households with earned

income, the Executive Budget allocates \$75 million to the creation of a State EITC matching 5% of a taxpayer's refundable federal benefit.

MANUFACTURING TAX INCENTIVE PACKAGE

Over the past eight years, Arizona has enjoyed robust economic growth that, when combined with fiscal discipline, has resulted in the longest series of General Fund structural surpluses in State history.

Arizona's economic success is driven in large part by the state's strong competitive landscape, particularly in tax and regulatory burden, and many of those improvements have occurred under prior Legislatures and Executive administrations.

In 2011, Gov. Jan Brewer partnered with the Legislature to enact Laws 2011, Second Special Session, Chapter 1: the Arizona Competitiveness Package. That sweeping bill made numerous changes to the State's property, income, and sales tax structure as applied to businesses, and time has shown that those changes helped contribute to the movement and creation of new businesses, jobs, and investments in Arizona over the past decade.

This year, the Executive looks forward to again partnering with the Legislature to explore further reforms that will build on past successes and close remaining holes in the State's tax structure with respect to Arizona's burgeoning high-tech manufacturing industry.

In particular, in the tax treatment of capital property, remaining complexities and inefficiencies work to discourage the kinds of investments in Arizona that fuel high-paying jobs.

To address that counterproductive situation, the Executive allocates \$58 million in FY 2023 for a manufacturing tax incentive package.

Education

The FY 2023 Executive Budget sustains the State's robust commitment to public education at unprecedented levels while addressing pandemic-related challenges and strengthening the foundation for Arizona's economic future.

"In Arizona, we're committed to expanding school choice, ensuring students have all the tools they need to succeed, and supporting our hardworking educators. We will continue to make targeted investments that put students — especially our kids in K-12 — on the path to success."

Gov. Doug Ducey

Governor Ducey's final Executive Budget sustains the State's robust commitment to public education at unprecedented levels, resolves Great Recession-era funding issues, mitigates the impacts of pandemic-related learning loss, focuses federal funding on getting Arizona students back on track, and emphasizes school choice, accountability for underperforming schools, and school building renewal and new construction, and civics education.

K-12 Education

COVID-19 inflicted devastating impacts on Arizona's K-12 students and families. While schools have largely moved on from some of the more dubious pandemic-related policies, such as remote-only instruction and unnecessary mandates, the majority of Arizona students continue to pay the price, with consequences ranging from unfinished learning to missed developmental milestones and other life-changing effects of the COVID response.

The Executive Budget supports Governor Ducey's high priority of helping children catch up as quickly as possible.

Enrollment in public schools during the 2020-2021 school year was well below the expected return to the classroom, due to a multitude of factors that included students pursuing other educational options. However, the Executive expects school enrollment statewide to return to its pre-pandemic population by the 2023-2024 school year, producing annual growth in FY 2024.

Consistent with the American tradition of meeting adversity with innovation, a widespread desire to counter the pandemic's negative impacts has inspired positive new approaches by Arizona's academic leaders, sparking such solutions as personalized learning, increased school choice, and other advances that should be woven into the fabric of how Arizona schools educate and students learn.

To help address the impact on students, the federal government has provided to Arizona \$3.6 billion in direct aid to schools,

with over \$400 million for use statewide by the Arizona Department of Education. Direct aid funding, while restricted to providing support in addressing impacts of the COVID-19 pandemic, is largely left to the discretion of schools.

In addition, the Executive has utilized other federal relief dollars to address immediate needs in Arizona's classrooms, from both the Governor's Emergency Education Relief (GEER) fund and other relief sources, toward strategic investments that provide direct and indirect support to Arizona's public school system:

- \$163 million for Education Plus-Up Program
- \$10 million for Educational Recovery Benefit Grants
- \$8.8 million for Project Momentum Schools
- \$8.6 million for Targeted Literacy Initiatives
- \$3.5 million to Black Mothers Forum Microschools
- \$3 million for A for Arizona's Expansion and Innovation Fund
- \$500,000 for Teach For America

CONTINUING THE COMMITMENT TO EDUCATION FUNDING, AT RECORD LEVELS

Following the per-pupil spending declines imposed by the Great Recession, Arizona has increased the amount of per-pupil funding every year, without exception.

At \$14,656 per pupil for the current school year in FY 2022, Arizona will surpass the pre-Recession high-water mark of \$9,574 from all sources. Setting aside all federal and local funding and considering State funding only, in FY 2022 the State be providing \$6,617 per pupil, once again, exceeding the high-water mark of FY 2008 State-only per pupil funding level of \$5,278, when adjusted for inflation.

The FY 2023 Executive Budget continues to build upon these record-breaking funding levels, by targeting investments and incentivizing success across all public schools. After counting all of the investments included in the Executive Budget, the per-pupil funding level for FY 2023 is estimated to be \$14,842, considering all sources of funding. Looking only at State funding, per-pupil funding is estimated to be \$6,846.

Increasing Education Funding Beyond Inflation and Growth. The Executive Budget builds on the recent record of success by continuing the commitment, every year, to increase K-12 spending above inflation and population growth. Over the seven most recent budgets, the State has cumulatively spent nearly \$8.3

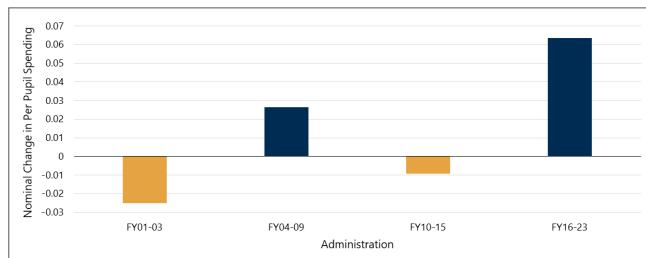
billion on public education. With the investments proposed in the FY 2023 budget, that figure grows to \$10.9 billion. As before, these sustainable and ongoing investments have been made with no State tax increases.

For perspective, the Joint Legislative Budget Committee reports that, in FY 2015, the State spent just \$4,196 (State-only) and \$9,124 (all funding sources) per pupil. Funding provided in the Executive Budget represents a 57.8% increase in State-only investment over the last seven fiscal years.

In FY 2023, the Executive will have increased funding for Arizona's classrooms since FY 2015 by 6.3%, the greatest percentage increase of any governor since the beginning of the 21st century. (For reference, the second highest for a similar time span is from FY 2004-FY 2009 at 0.1%).

Figure 11

State-Only Per-Pupil Funding: Average Annual Change



Addressing Inflationary Pressures. As Arizonans and the nation face inflationary pressures across all sectors, the State faces increased costs in performing its statutory functions.

The State is required to adjust annually key portions of the K-12 funding formula to address these pressures. However, in recognizing that classrooms will still face higher costs, the Executive continues its commitment to provide funding above the statutory requirements for inflation and growth.

Inflation and Enrollment Growth. The Executive Budget includes \$93.6 million in the base as permanent funding, for a 1.64% increase in student enrollment and a statutorily adjusted 2% inflation adjustment, after performing re-basing to match current enrollment trends. This increase is sourced from:

- higher property tax revenues generated from new construction;
- increased distributions from the Permanent School Fund; and
- a \$136.9 million General Fund baseline increase, prior to re-basing, for enrollment growth, inflation, and related adjustments.

RESOLVING RECESSION-ERA ISSUES

During the Great Recession, Arizona was one of the hardest-hit states. Because of unprecedented declines in revenues, the State was forced to make difficult budgetary decisions, including

steep cuts to multiple funding formulas, especially those that supported education.

Since taking office, Governor Ducey has sought to fully reverse recession-era cuts to school funding.

Additional Assistance. Additional Assistance is per-pupil-based funding for soft capital, such as textbooks, and ultimately utilized at the school's discretion. Suspensions of the Additional Assistance funding formula represented the largest and longest-standing cut to K-12 education, with \$2.54 billion in funding diverted from K-12 education since 2009.

The Executive proposed to fully fund this formula in the FY 2019 Executive Budget through a phased-in approach over five years. The FY 2022 budget included a full restoration of this funding formula, ahead of schedule. These per-pupil dollars will be permanent and flexible and will impact all schools.

School leaders maintain the flexibility to use these dollars where they are needed most. Reversing these cuts has freed up operational dollars, currently used for capital, that can now be used for their intended purpose: increasing teacher salaries.

ADDRESSING IMPACTS OF THE PANDEMIC

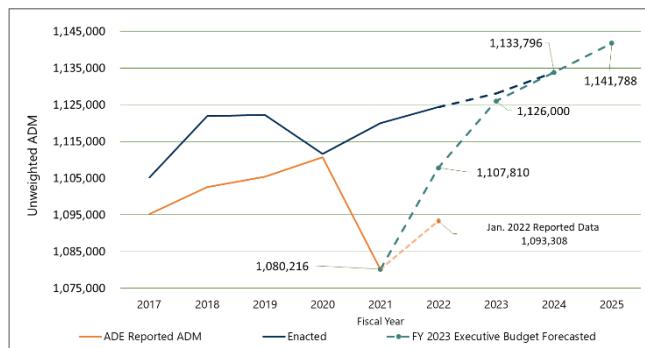
When COVID-19 responses sparked significant enrollment drops in Arizona public schools, initial assumptions held that the declines would be brief and temporary. As a consequence, the FY 2021 and FY 2022 enacted budgets did not reflect what ultimately proved to be enduring enrollment declines.

Due to delays in students' full return to Arizona schools and to transitions to private and homeschool instruction, a large disparity exists between enrollment reported by the Arizona Department of Education and the enrollment level that current appropriations can support. This enrollment disparity is estimated to be approximately 16,000 students (unweighted Average Daily Membership - ADM), resulting in approximately \$156.9 million in excess appropriations for current-year-driven formula-determined funding.

The Executive Budget responds to these factors by proposing a rebase in annual funding for anticipated enrollment changes, with enrollment levels expected to resume pre-pandemic trends beginning in FY 2024.

Figure 12

Return to Pre-Pandemic Trend ADM Forecast



The Executive Budget projects an overall increase of 1.64% in Average Daily Membership (ADM) in FY 2023, starting from an estimated FY 2022 population of 1,107,810 unweighted ADM. This growth consists of increases of 1.3% for district schools and 3% for charter schools. Enrollment-growth costs are based on the average cost per pupil in FY 2022 for both districts and charters, adjusted for inflation.

In an effort to rebase student population forecasts and, effectively, Basic State Aid appropriation levels, the Executive estimate for population growth in FY 2023 estimates begins with 1,107,810 unweighted ADM at the end of FY 2022. The ongoing savings for this anticipated growth is the result of the net of \$(156.9) million in savings and anticipated increased annual costs of \$136.9 million.

FEDERAL INVESTMENT: GETTING ARIZONA'S KIDS BACK ON TRACK

To help mitigate the pandemic's impact on public education, the Executive Budget focuses federal monies to lessen academic loss caused by distance learning and reduced instructional time.

AZ Back on Track Summer Camp. The camp will consist of intensive multi-week math, reading, and American civics instruction programs, offered throughout the summer, that will launch partnerships between high-achieving schools and community organizations statewide. The boot camp will seek to reach hundreds of thousands of students, free of charge, who did not meet standards in their mathematics or ELA test. The program will compensate Arizona teachers to teach during the summer.

CLOSING THE ACHIEVEMENT GAP

To help close the school achievement gap and elevate the effectiveness of underperforming schools, the Executive Budget provides funding for two major initiatives: *Operation Excellence* and *Results-Based Funding Modernization*.

Operation Excellence. This \$58 million initiative will bring a renewed focus to closing the achievement gap through an evidence-based approach to chronically failing and underperforming schools. All D-rated and F-rated schools will be designated as "operation excellence schools" and will be given multiple pathways and resources to improve.

The first available pathway is *school-led improvement*. Modeled on the highly successful Project Momentum, schools will receive \$150 per pupil every year for three years to help implement specific, high-yield, research-based interventions to dramatically improve student achievement.

There will be real-time data tracking and State oversight, mentorship from Arizona school leaders who have successfully completed a school turnaround, and tangible consequences for schools that continue to miss the mark.

In addition to Operation Excellence schools being eligible for this pathway, C-rated schools with 60% or more of students qualifying for free or reduced-price lunch (FRL) will be eligible and encouraged to participate.

The second pathway is *partner-led improvement*. Under this model, the Arizona Achievement District will facilitate partnerships for the Operation Excellence Schools with existing high-quality school operators, both district and charter.

Operation Excellence also includes immediate actions that would begin while the improvement pathways described above are in progress. The plan will require Operation Excellence schools to allow high-quality operators to access vacant school facilities and provide more high-quality seats. Additionally, increased resources will be made available through federal funds for students to be able to access the high-quality public school of their choice through transportation grants.

Participating schools will create "School Improvement Committees" composed of parents, community members, teachers, and district and school leaders. Committees will meet regularly to coordinate efforts and ensure that their school is on track.

After the third year of the program, schools that do not make adequate progress and still receive a D or F rating will be subject to action by the State Board of Education. The Board will review and take into account the school's unique situation and select the best course of action. Options will include directing the Achievement District to work with the District to select a partnership school model, or, if deemed appropriate, the Board will take steps to install new temporary leadership at the school.

Funding of \$58 million is provided to fulfill the school-led improvement pathway of this program, with a commitment to fund the partnership-led improvement costs through federal recovery funds. It is estimated that, based on past assigned school letter grades, with this funding, approximately 827 schools, with approximately 387,000 students, will be able to qualify or opt-in for the funding.

Results-Based Funding Modernization. First implemented in FY 2018, Results-Based Funding (RBF) encourages Arizona's top public schools to increase access for all students statewide. After two years of suspending the statutory formula for this program, the Executive maintains its initial promise to expand access to success for all students through RBF modernization.

With schools working diligently to ensure student success that stagnated during the COVID-19 pandemic, RBF is a powerful tool that should be implemented and enhanced to sustain the current work of getting Arizona's students back on track.

As part of RBF modernization, the Executive proposes an increased investment of \$60.8 million, bringing the program to \$129.4 million. RBF modernization includes (a) returning to the use of letter grades and (b) placement of this funding in Arizona's funding formula via Group-B Weights, to ensure that the funding amounts continue to reward and spur success despite inflationary pressures.

The resumption of letter grades will reward all A-rated schools, with two funding levels based on a school's FRL population, to continue to recognize the barriers to success faced by schools with a high FRL student population. The funding levels

for schools in the program begin at the original results-based funding amount implemented in FY 2018, inflated to current levels:

- A-Letter Grade schools with an FRL population of 60% or more in FY 2023 are anticipated to receive \$429 per pupil with a proposed 0.096 weight.
- A-Letter Grade schools with an FRL population of less than 60% in FY 2023 are anticipated to receive \$241 per pupil with a proposed 0.054 weight

Further, the Executive proposes that schools with an FRL population of 60% or higher and that achieve a "B" letter grade also receive funding as a part of RBF.

B-Letter Grade schools with a FRL population of 60% or more in FY 2023 are anticipated to receive \$241 per pupil with a proposed 0.054 weight

Continuing to Ensure Real World Preparedness. Following two years of successful program growth, the Arizona Industry Credentials Incentive Program has proven to be impactful to both Arizona's students and its economy. With 4,382 students from the Class of 2020 qualifying to draw down funding and 5,057 credentials earned, this program has set up students – and ultimately the state – for success immediately upon their graduation.

In response to both an increased demand for multiple credentials from students and a recognition of industry standards, the Executive Budget continues the program while increasing available funding and providing further incentive for students to qualify for multiple credentials in high-demand fields. Under the \$6 million proposal, any remaining funding in the program's fund after the initial incentive of \$1,000/student will be evenly distributed among all students who have acquired two or more credentials in industries of critical need, as identified by the Office of Economic Opportunity.

Civics Excellence. In 2015, as part of its continued leadership in civics education, Arizona became the first state to require students to make passing the citizenship test a prerequisite for high school graduation. With eight other states following Arizona's lead and more on the way, the Grand Canyon State can again set the pace for how states prepare students for the important civic responsibilities that come with living in America.

The Executive Budget proposes establishing the Civics Excellence Incentive Bonus with an initial investment of \$5 million, which is aimed at rewarding schools with high-achieving results on Arizona's required civics exam. This program will provide the following payments:

- \$450 per high school student who (a) attends a school with an FRL population of 50% or greater and (b) achieves a score of 95% or above on their first attempt at the civics exam; and
- \$300 per high school student who (a) attends a school with an FRL population of less than 50% and (b) achieves a

score of 95% or greater on their first attempt at the civics exam.

At least half of funding received by a school as a part of this program must be distributed to the classroom teacher who instructed the qualifying students on the subject. Other permitted uses of the remaining funding will be allocated by the school principal on behalf of students who receive a qualifying score and may be used for teacher professional development or student instructional support, reimbursement of fees, or instructional materials.

If the statewide sum of per-student bonuses awarded exceeds the amount of available monies appropriated for incentive bonuses, the bonus monies will be reduced proportionally to cover all eligible awards.

PROVIDING A SCHOOL CHOICE-BASED FUTURE

Student Transportation. To reduce barriers to school choice and promote innovation toward safe and reliable student transportation, in FY 2022 the State invested \$10 million, matched with \$10 million in federal funds allocated by the Executive, for K-12 Transportation Modernization Grants.

With this initial round of funding, \$18 million in awards were allocated to seed 24 proposals across Arizona, including the state's most remote and hard-to-reach communities. This investment is sustained at \$20 million in FY 2023, funded entirely by the General Fund.

The Executive contemplates that a robust analysis of the program and its impact and cost effectiveness will be submitted to the Governor and Legislature for future consideration of additional transportation investments that support school choice.

Open Enrollment. Spurred by the impacts of the COVID-19 pandemic, there has been a demonstrated increase in Arizona students and families benefiting from the State's open-enrollment policies.

Included in the Executive Budget is \$150,000 that will allow the State Board of Education to fulfill its statutory requirements to promote and educate families on the existence of open-enrollment options and how to pursue the best education for their children. Additionally, this funding will help the Board ensure that the most important education advocates – Arizona students and their families – have the support and information they need to make the best educational decisions.

ESA Appeals. Since January 2021, the State Board of Education has been the receiving entity for all appeals of decisions made by the Department of Education regarding Empowerment Scholarship Accounts (ESAs). The Executive Budget's investment of \$74,200 expands the Board's capacity for conducting hearings of appeals, which will help avoid delays and shorten the appeal wait time.

ENHANCING ACCOUNTABILITY AND GROWTH

Statewide Assessment. The Executive Budget includes an ongoing \$4 million increase, equal to the anticipated FY 2023 shortfall between contracts with vendors selected by the Department of Education and currently provided funding, to ensure that assessment requirements outlined in State and federal law continue to be met. The Executive proposes that these annual costs be reviewed annually by the Joint Legislative Budget Committee.

Literacy Tracking. During the 2021 Legislative Session, numerous policy measures were implemented to improve and enhance early literacy across the state, including the measures passed in Laws 2021, Chapter 434 that establish a pathway for expanding educator capacity in the science of reading and strengthening new teacher preparation programs.

Additionally, the Legislature approved appropriations in the FY 2022 budget to launch literacy coaches in high-need schools, adopt a State kindergarten entry evaluation tool, and support the implementation of dyslexia training and an educator reading instruction exam.

The Executive Budget includes an increase of \$150,000 in ongoing funding for Read On Arizona, a public-private partnership that assists with the rollout of early literacy initiatives. With the funding provided, the Department will improve its ability to maximize resources and properly roll out FY 2021 early-literacy initiatives.

Investigations. Since 2015, the number of complaints filed with the State Board of Education by the Investigation Unit has grown by over 70% and is expected to increase further, due in part to the Board's new authority on the conduct of non-certified school staff. The Executive Budget provides funding to achieve more manageable caseloads and ensure that all misconduct is met with appropriate accountability.

Charter Schools. Over 20% of Arizona students attend charter schools, and enrollment continues to grow.

Strong financial management is key to ensuring that charter schools are meeting high expectations for academic and operational quality.

To ensure the success of past investments in charter school oversight, the Executive Budget includes salary increases to help recruit, train, and retain highly qualified staff for the State Board for Charter Schools.

BUILDING RENEWAL AND NEW SCHOOL CONSTRUCTION

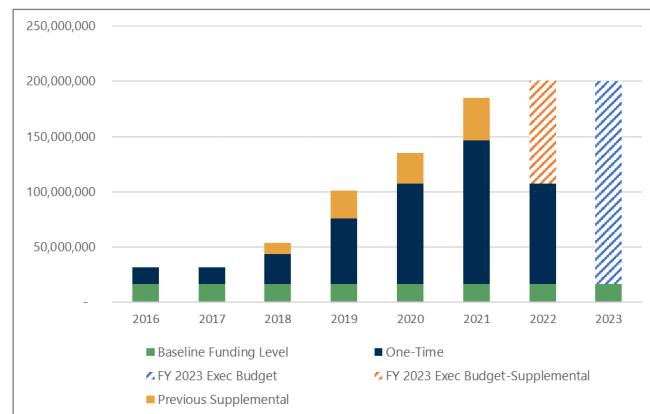
The FY 2022 K-12 Education Budget Reconciliation Bill moved the School Facilities Board to the Department of Administration. The newly renamed School Facilities Oversight Board (SFOB) has recommitted to modernizing and reforming the State's school capital funding system to ensure uniformity and efficiency.

Building Renewal Grants. The Executive Budget includes a one-time increase of \$183.3 million for Building Renewal Grant (BRG) funding. When combined with the ongoing budget of

\$16.7 million, the additional funding will increase BRG capacity to \$200 million – the highest funding level for the program since inception.

Figure 13

School Facilities Building Renewal Funding



Additionally, the Executive Budget includes a \$93.1 million supplemental appropriation (FY 2022) for the BRG program. This funding is necessary, given the number of school district requests already received and approved by the SFOB. To date, \$91.4 million, or 85% of the \$107.5 million FY 2022 appropriation, has been awarded to districts for building renewal projects.

The Executive Budget's investment in school buildings represents a 109.7% BRG increase over the past eight years.

New School Construction. New school capital funding is required if projections indicate that a school or additional space will be needed within two years.

The FY 2022 K-12 Education BRB included a major adjustment to permanently increase the cost-per-square-foot amounts by 60%, to ensure the square-footage formula more accurately represents construction costs. This enhanced rate is incorporated into the FY 2023 new school construction funding.

With projections that three new schools will reach capacity in FY 2023, the Executive Budget includes funding of \$89.5 million in new school construction for three new and four in-progress schools. The Executive Budget also includes funding that reflects the Joint Legislative Budget Committee-adopted 6.63% inflation adjustment. The identification of school districts listed in the table below as exceeding capacity in FY 2024 is based on conceptual approvals as of December 2021.

Table 3

New School Construction: FY 2023 Approvals

School District	Fiscal Year at Capacity	FY 2023 Funding Using Inflation of 6.63%
Nadaburg Unified	2024	\$ 11,798,716
Marana Unified	2024	8,804,972
Pima Unified	2024	4,438,152
Total		\$ 25,041,840

Table 4
New Schools Under Construction

School District	Fiscal Year at Capacity	FY 2023 Funding
Liberty Unified	2023	\$ 10,120,100
Queen Creek Unified	2023	19,880,000
Sahuarita Unified	2023	9,145,300
Vail Unified	2023	16,500,000
Yuma Unified	2023	8,804,600
Total		\$ 64,450,000

Higher Education

Arizona's public universities provide ideal catalysts for continuing Arizona's status as an economically capable, resilient, and successful state. The Executive has made key investments in higher education programs designed to provide students with the skills needed to meet the labor demands of Arizona's rapidly growing economy.

Additionally, the FY 2023 Executive Budget invests in Arizona's community colleges and programs that reduce the costs of higher education for Arizonans who are financially challenged. These programs work toward ensuring that all Arizonans can earn a degree, regardless of their geographic location or financial standing.

COMMUNITY COLLEGES

Restoration of STEM and Workforce Funding. To weather the storm of the 2007-2009 Great Recession, the State was forced to make financial decisions that included suspension of Science, Technology, Engineering, and Math (STEM) and Workforce formula funding for Maricopa, Pima, and Pinal community colleges.

Recognizing the key role that community colleges play in developing Arizona's future workforce and the economic importance of STEM education, the Executive Budget permanently reinstates formula funding for those three counties in FY 2023.

Table 5
Restored STEM and Workforce Funding

Maricopa.....	\$ 8,584,900
Pima.....	454,600
Pinal.....	1,776,600

The funding distributed to community colleges can be utilized for the development of programming, instruction, student support, and other initiatives directed at the incorporation of STEM and Workforce development.

Rural Community College Aid. The Executive Budget includes funding for aid to the 10 rural community college

districts. The supplemental aid allows for those community colleges to cover the costs of maintenance, operations, and initiatives.

Funding is to be allocated among the rural districts based on each district's share of actual FY 2021 enrollment.

Arizona Workforce Accelerators. Manufacturing industry and employment growth is crucial to Arizona's economy.

The Executive allocates \$30 million from the Coronavirus State and Local Fiscal Recovery Fund within the American Rescue Plan Act to allow the Arizona Commerce Authority to establish six advanced manufacturing training centers located at community colleges statewide.

The network of job training centers will help prepare Arizonans for high-paying manufacturing employment and will feature direct partnerships with manufacturers to streamline the student-to-skilled-labor pipeline.

UNIVERSITIES

New Economy Initiative. The FY 2022 enacted budget included significant investments to build the Universities' capacity for more students to pursue degrees that are strongly connected to evolving workforce needs within Arizona's economy.

The FY 2023 Executive Budget makes permanent this year's funding levels for "New Economy" initiatives.

The three-pronged goal of the New Economy initiative is to:

- boost post-secondary attainment,
- reduce the time required to obtain a degree, and
- increase the number of graduates in critical high-demand industries (e.g., engineering, medicine, technology, and natural resources).

Ultimately, the investment in Arizona's students today will result in a stronger, healthier, and more competitive economy.

Despite Universities' enrollment fluctuations, the number of students participating in majors connected to New Economy Initiatives has continued to increase. This has occurred, in part, due to continued State investment in these high-priority workforce development programs.

The Universities have begun to reach enrollment capacity for New Economy focus areas. The Executive's investment in New Economy Initiatives will allow for the programs to grow and will create a workforce prepared for Arizona's future.

Consistent with the emphasis on New Economy initiatives:

- Arizona State University is expanding the Ira Fulton School of Engineering.
- Northern Arizona University is adding health and wellness career pathways.
- The University of Arizona is building up its programs in space and defense, health services, and mining.

Arizona Promise. The Arizona Promise program is designed to make higher education accessible for Arizona students from all financial backgrounds. The 2021 Higher Education BRB (SB 1825) created the program with a \$7.5 million initial investment.

As a result of the Arizona Promise Program, it is expected that, for the 2021-2022 school year, approximately 1,900 Arizona students will have attended an Arizona university at no cost.

The Executive Budget includes a \$12.5 million investment in the program, which will allow approximately 3,300 additional students to attend a university with tuition and fees covered.

Current eligibility stipulates that a student must:

- be an Arizona resident,
- have graduated high school with a 2.5 or higher GPA,
- be accepted to an eligible Arizona postsecondary institution,
- complete and submit a Free Application for Federal Student Aid (FAFSA) application, and
- qualify for the maximum Pell Grant.

The scholarship funding is awarded for all four years of undergraduate schooling and covers the remaining gap between a student's received assistance and the remaining cost of attendance.

The Arizona Promise Program provides a college degree opportunity for students who cannot afford the associated costs. Ultimately this paves the way to make a college education accessible for all Arizonans.

The Arizona Teacher's Academy. A key education investment of the Executive, the Arizona Teacher's Academy has seen enrollment growth of over 1,200% since 2018. The program is expected to continue to grow, attracting college students throughout the state and across the nation to commit to teaching in Arizona.

To facilitate this growth, \$15 million has been appropriated as a base amount to sustain the program. This structure will allow for the Teacher's Academy to continue to grow and supply Arizona with talented teachers.

Diversity of Thought and Instruction. The Executive Budget includes additional funding to accommodate enrollment growth and new degree programs of freedom schools at the three Universities.

Freedom schools seek to combine philosophy, history, economics, and political science to teach students how to examine ideas and solve contemporary problems. The schools conduct research, produce community events, and administer undergraduate and graduate degrees.

Public Safety

The FY 2023 Executive Budget addresses the border crisis, epitomized in record illegal crossing and apprehensions due to federal inaction, and continues to advance significant investments in the essential needs in law enforcement and Arizona's prison system.

"We intend to keep Arizona a place where we honor and value our law enforcement professionals and all first responders – a place where public safety matters. We will continue to support those who do so much to protect our communities."

Gov. Doug Ducey

In fulfilling the State's core function to protect the public, the Executive Budget makes strategic law enforcement investments to enhance recruitment and retention, modernize Arizona's vehicle and helicopter fleet, and enforce border security.

The Executive Budget also continues efforts to reduce the rate of inmate recidivism and addresses critical building renewal needs and operational enhancements at Arizona prisons.

Law Enforcement

STAFF RECRUITMENT AND RETENTION

The Executive Budget includes substantial funding increases to support Department of Public Safety (DPS) efforts to recruit, train, and retain qualified staff. The additional funding will address two competitive disadvantages for DPS in comparison to other Arizona law-enforcement agencies:

- below-market pay levels, and
- academy cadet housing costs.

(For more information on the Executive's Enterprise Compensation Strategy for public safety positions, please see the "Government That Works" section of the Budget Message.)

CADET HOUSING COSTS

Most Arizona law enforcement agencies send their cadets to local academies and, thus, do not incur housing costs. However, DPS is a statewide agency, and approximately 30% of its cadets live outside the Phoenix area. During training at the Phoenix Regional Police Academy (PRPA), those cadets must maintain a separate residence, in addition to their permanent residence, for up to seven months. Short-term housing options are scarce and expensive.

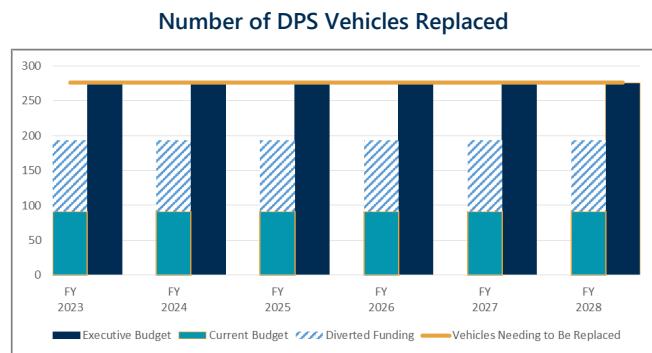
The Executive Budget includes \$476,000 to enable cadets to train at the PRPA without incurring additional and burdensome housing costs.

VEHICLE REPLACEMENT

The Highway Patrol is underfunded for vehicle replacement, and most other DPS programs have no vehicle replacement budget at all. In recent years, DPS has addressed those issues via two strategies that undermine public safety: diverting funding from payroll, and replacing vehicles less often.

The \$5.5 million DPS budget for vehicle replacement is not sufficient to meet the recommended replacement benchmark of 150,000 miles (six years for Highway Patrol vehicles and eight years for other vehicles). The Executive Budget provides \$11.7 million to establish and fund a vehicle lifecycle replacement structure at DPS and lessen the Department's reliance on vacancy savings and reductions in critical services to meet its vehicle needs.

Figure 14



ENHANCED BORDER SECURITY

The Executive Budget makes key investments to help bolster security along the Arizona-Mexico border.

Border Strike Task Force. The Border Strike Task Force (BSTF) was established in 2015, early in Governor Ducey's first term, and uses collaboration among law enforcement agencies and technology to secure the Arizona-Mexico border and combat transnational organized crime.

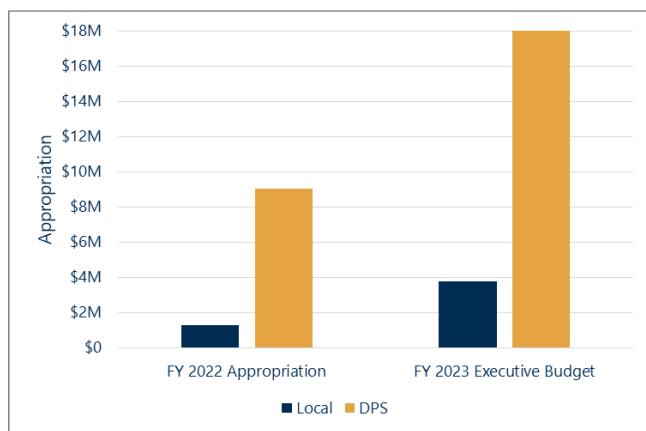
In FY 2020, the Task Force seized 1,300 pounds of marijuana, 13 pounds of heroin, 2,469 pounds of meth, 117 pounds of cocaine, 81 pounds of Fentanyl, 145 firearms, 45,126 rounds of ammunition, \$504,095 in currency, and 93 vehicles. The Task Force also recovered 25 stolen vehicles and made 515 custodial arrests.

To leverage those impressive results, the Executive Budget provides \$11.6 million to double the size of the Task Force and triple the State's investment in local grants. The new funding will support the efforts of DPS Troopers and partner agencies to investigate long-term, transnational criminal organizations and unlawful activity surrounding human trafficking and smuggling, drug trafficking, firearms trafficking, vehicle theft, and other border-related transnational crimes and transnational criminal organizations operating in Arizona.

In addition to the funding, the FY 2023 Executive Budget includes an additional 21.5 FTE positions to help expand the border mission.

Figure 15

Border Strike Force Funding



Helicopter Replacement. The industry standard for replacement helicopters is 10 years or 10,000 flight hours, whichever occurs first. DPS maintains a fleet of five helicopters, three of which exceed the industry-standard replacement age.

Recognizing that DPS helicopters are invaluable assets in aerial monitoring of the southern border and aiding in humanitarian rescues, the Executive Budget includes \$8.2 million to support a well-conceived, adequately funded helicopter lifecycle replacement schedule.

Table 6

DPS Helicopter Fleet: Years in Service by Fiscal Year

	2021	2022	2023	2024	2025	2026	2027	2028	2029
1999 Bell 407	21	0	1	2	3	4	5	6	7
2004 Bell 407	16	17	0	1	2	3	4	5	6
2004 Bell 407	16	17	18	19	0	1	2	3	4
2006 Bell 407	14	15	16	17	18	19	0	1	2
2016 Bell 429	4	5	6	7	8	9	10	11	0

Commercial Vehicle Enforcement Task Force. The Executive Budget includes \$978,400 to fund the consolidation, under a single management structure, of two State agencies:

- DPS Commercial Vehicle Enforcement (CVE) Task Force and

- Department of Transportation (ADOT) Enforcement and Compliance Division (ECD) - Port of Entry Unit, Border Liaison Unit, and K-9 Unit.

Aligning agency responsibilities under a single management structure will result in enhanced officer safety, more efficient use of personnel, and increased operational consistency. In addition, increased cooperation and coordination between DPS and ADOT will more effectively serve the public and enhance border enforcement. In 2021, the two agencies entered into an inter-agency service agreement to facilitate the consolidation.

The consolidation includes an additional 3.0 FTE management positions at DPS to oversee the CVE and the ECD units.

PUBLIC SAFETY TECHNOLOGY

The Executive Budget continues the support of critical technological investments in public safety functions.

Public Services Portal. The DPS Public Services Portal (PSP) gives the public direct access, via a single online source, to frequently accessed information services. The Executive Budget provides \$3 million to extend the PSP, Phase 2, to the Applicant Processing Team, 30-Day Impounds, Criminal History Records Unit, and Student Transportation.

Extending the PSP will provide time savings and improved services for customers, as it eliminates the need for manual application entry and paper applications and reduces processing backlogs and clerical errors.

The extended PSP will also provide for additional functions, such as the FBI's Rap Back program. Under that program, DPS will provide instant notification if any enrolled individual engages in a criminal activity for which fingerprints are taken and submitted to the FBI's Next Generation Identification system. Notification will speed the process to remove violators from entrusted roles.

Body-Worn Cameras. The enacted FY 2022 General Fund budget included \$6.9 million in ongoing funding for a body-worn camera (BWC) program.

DPS has completed the BWC testing and evaluation phase; in the deployment phase, replacement equipment will be needed to provide adequate upload speeds of BWC footage. The Executive Budget includes \$1.8 million for replacement equipment, without which the system will degrade and lose usefulness.

Table 7

Body Camera Replacement

	Qty. Needed	Unit Cost	Total Cost
Replacement Mobile Router*	275	\$2,600	\$ 715,000
Replacement Router Antenna*	275	398	109,500
Replacement Hi-Power Modem*	125	1,800	225,000
Mobile Router Cellular Cost	1,175	660	775,500
Total			\$ 1,825,000

*Initial purchase price will be covered by first-year appropriation.

The expense items' purposes are as follows:

- **Replacement Mobile Router:** Enables uploads of daily videos to cloud storage from a mobile location. DPS Troopers often do not visit an office location on a given day. Cost includes annual replacements assuming a four-year useful life.
- **Replacement Router Antenna:** Antenna necessary for the mobile router to connect to the cloud. Cost includes an annual replacement cost.
- **Replacement Hi-Power Modem:** Outside of urban areas, a modem will be needed to connect to the cloud. This device is estimated to be needed in approximately half of all outfitted vehicles. The modem is used to boost cell phone signals in remote parts of the state where cell phone coverage is not strong. Cost includes annual replacement cost.
- **Mobile Router Cellular Cost:** Service cost necessary to connect the router to the cloud.

The mobile routers, router antennas, and hi-power modems are expected to last five years. The annual need reflects approximately one fifth of the total of each device necessary for the program.

Corrections, Rehabilitation, and Reentry

The Executive Budget's \$264.4 million investment in the State's correctional system is consistent with the continued emphasis on recidivism reduction, staff and inmate safety, addressing infrastructure needs, and ensuring that the Department of Corrections, Rehabilitation & Reentry (ADCR) has the reliable and effective equipment needed to carry out its mission.

RECIDIVISM REDUCTION

Within the Executive Budget is a \$9.8 million funding commitment aimed at further reducing the rate of inmate recidivism, with a two-pronged approach designed to expand substance abuse treatment and prepare inmates for post-release employment.

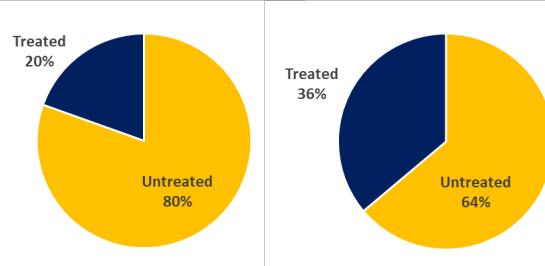
Substance Abuse Treatment Expansion. The Executive Budget includes \$6.1 million to continue the use of contracted substance abuse treatment, create a second Therapeutic Community treatment unit, and hire a substance abuse treatment coordinator.

Contracted Substance Abuse Treatment. Due to the shortage of substance abuse counselors, ADCRR has elected to increase its treatment capacity by partnering with entities that specialize in substance abuse treatment. Ongoing funding provides stability which is anticipated to increase partnership interest.

The \$5 million funding initiative contained in the Executive Budget will increase treatment capacity by 85%, to a total capacity of 36.1%, and allow an additional 2,527 inmates to receive

impactful treatment prior to release and lead to more successful reentry and lower recidivism rates.

Figure 16
ADCR Treatment Capacity: Current and Projected



Therapeutic Community. In FY 2021, ADCRR was awarded a federal grant to establish its first Therapeutic Community at the Tucson complex. This model serves as a national best practice for the provision of substance abuse treatment in correctional settings.

The Therapeutic Community is a live-in, intensive treatment program through which inmates receive substance abuse treatment and other purposeful classes to help them develop prosocial skills and break their addictions. The participants are housed separately, which establishes a culture of accountability and encouragement.

The Executive Budget's \$1 million in new funding will allow ADCRR to establish a second Therapeutic Community at the Lewis complex, which will allow more of the inmates who have been assessed with a high need for treatment, and a high risk to recidivate, to participate in this unique and effective program.

Inmate Employment. Employment is a key factor in promoting successful reentry and reducing recidivism. The Executive Budget includes one-time funding of \$3.7 million for Arizona Correctional Industries to establish an automotive upfitting and repair-and-maintenance center at the Red Rock complex.

The facility will include a training classroom, training bays, and sufficient work space to provide a complete array of preventive maintenance and upfitting services. It will provide up to 50 additional work and educational opportunities for inmates to become Automotive Service Excellence (ASE) certified and learn marketable trade skills that will enhance post-release employment opportunities.

ADCR plans to service its own vehicles in addition to partnering with other State, local, and private entities.

OPERATIONAL ENHANCEMENTS

Nearly 60% of the Executive Budget's additional funding for Arizona's corrections system – approximately \$150.6 million – is designed to improve the quality and effectiveness of ADCRR operations.

The centerpiece of the operational enhancements is the Department's Enterprise Compensation Strategy, for which the

Executive Budget includes a funding increase of \$129.6 million. Salary increases for key agency positions will address the Department's ongoing challenges in recruiting and retaining highly qualified staff.

(For more information on the Executive's Enterprise Compensation Strategy for public safety positions, please see the "Government That Works" section of the Budget Message.)

The Executive Budget also provides \$21 million for ADCRR to purchase security equipment, purchase 50 vehicles for Community Corrections staff, replace 10% of its oldest vehicles and equipment, and continue the Florence deactivation project.

Security Equipment. Because it poses a safety risk to both staff and inmates, contraband is a concern in any correctional setting.

The Executive Budget includes \$9.5 million to purchase 58 body scanners to improve contraband detection and security enforcement. The scanners will be strategically placed to intercept contraband from inmates leaving visitation and returning from offsite appointments and work details.

Fleet Expansion. ADCRR has 256 Community Corrections staff who are responsible for the support and direct supervision of over 5,000 offenders. Approximately 119 of these staff are assigned to field offices across the state. Currently, they share vehicles, which poses operational challenges.

The Executive Budget includes \$1.6 million to purchase 50 additional vehicles, which will ensure that each field officer has their own vehicle in carrying out their duties and meeting with offenders in the community.

Fleet Replacement. Reliable transportation is essential for operations, as ADCRR is responsible for safely transporting inmates across the state on a daily basis.

With the purchase of the 50 Community Corrections vehicles, the Department's fleet will increase to 1,743 vehicles and 174 pieces of equipment. The average mileage of the fleet is 115,800, and 239 vehicles exceed 200,000 miles.

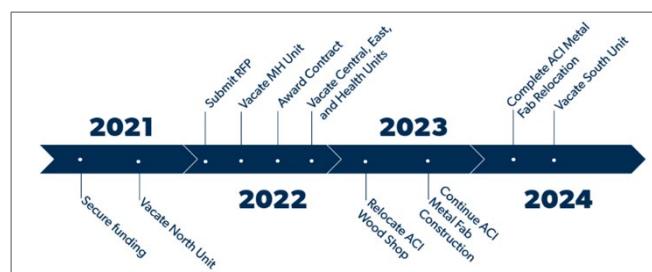
ADCR does not have a fleet-replacement appropriation to support vehicle replacement at the recommended intervals. The Executive Budget provides \$7.5 million in ongoing funding to allow the Department to replace 10% of its oldest vehicles annually to mitigate security threats and improve agency operations.

Florence Deactivation. Deactivating ADCRR's Florence prison complex began in FY 2022 and is expected to be completed by January of FY 2024. By the beginning of FY 2023, the majority of the inmates at the Florence complex will have been relocated.

As inmates are gradually transferred to private beds, the cost is estimated to increase. An additional \$2.4 million included in the Executive Budget will ensure that ADCRR has sufficient funding available to contract for the required beds.

Figure 17

Timeline: Deactivation of the Florence Prison



INFRASTRUCTURE

To further address the safety and security of staff and inmates, the Executive Budget makes \$92.9 million in strategic investments to fully fund the ADCRR's building renewal formula, complete fire and life safety projects, and replace cooling systems.

Building Renewal. The Department is responsible for maintaining its building system, which consists of 1,518 structures with a total area of 8.8 million square feet. The estimated replacement value of the building system is \$2.3 billion.

To preserve the longevity of the Department's infrastructure, investments must be made to address required repairs and maintain the properties. The Executive Budget's \$32.6 million in funding will mark the second consecutive year that ADCRR's building renewal formula has been fully funded and will allow the Department to address high-need capital projects and mitigate deferred-maintenance issues.

HVAC Replacement. Eleven of the 12 State-owned prison complexes utilize evaporative cooling systems in some capacity. Arizona's extreme heat and monsoons impede the systems' cooling effectiveness, and moisture from the evaporative coolers causes deterioration and damages the facilities' technological infrastructure.

The Executive Budget's \$42.3 million in funding begins a four-year plan to ensure that all State-owned complexes have traditional functioning air-conditioning systems to better preserve the Department's infrastructure.

Fire and Life Safety. Pursuant to the Department of Administration's 2023 Capital Improvement Plan, the Executive Budget includes \$18 million for critical fire and life safety improvements at ADCRR facilities.

This funding will allow the Department to repair fire alarm systems at the Lewis complex and replace doors and locks at the Eyman, Tucson, and Perryville complexes. These projects were not included in the scope of the existing Lewis and Yuma Fire and Life Safety project. Replacement of doors, locks, and fire alarm and suppression systems is imperative for the safety and security of staff and inmates.

Other Agencies Related to Public Safety

Courts. The Executive Budget includes \$1.2 million for a 2.5% increase in adult and juvenile probation officer salaries and employee-related expenses (ERE), to reflect a fiscal policy change, adopted as part of the FY 2022 enacted budget, that the State would pre-fund a 2.5% increase in anticipation of counties raising their salaries in similar fashion.

Per A.R.S. §12-252, counties have the authority to set the salaries of probation officers. Because the State funds a portion of the salaries and ERE for adult probation and juvenile probation officers, the Executive Budget increases appropriations for Probation special line items to meet projected county salary levels.

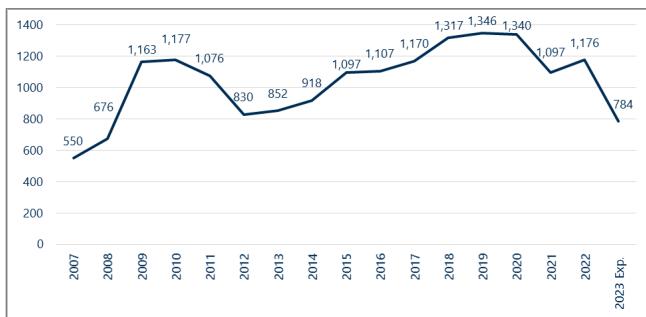
Department of Liquor Licenses and Control. The chief investigative priorities of the Department's investigations unit are underage drinking, over-service, violent acts, and wrong-way driving.

The Executive Budget includes \$1.7 million to expand the investigations unit, allowing for the hiring of six investigators and one sergeant. The expansion will reduce the investigator-to-license ratio by 33%, from approximately 1:1,176 to 1:784.

The adjusted caseload will improve customer service by reducing the wait time for license approval, reducing the timeframe for complaint follow ups, and increasing the number of inspections for temporary liquor licensed events.

Figure 18

Liquor Investigator to License Ratios

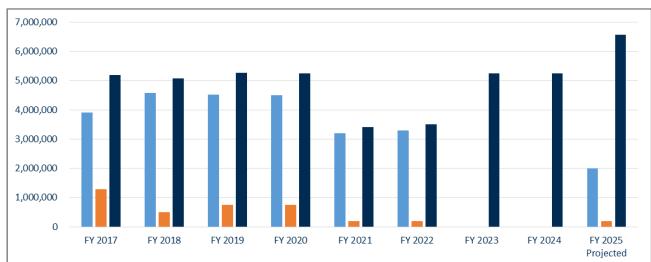


Arizona Criminal Justice Commission. Due to revenue shortfalls and subsequent expenditure decreases, the 75% federal funding match has seen a decline, and the reduction in State and federal funds has diminished the Victim Compensation and Victim Assistance programs.

The Executive Budget includes a FY 2022 supplemental and an ongoing increase in funding of \$1.8 million to increase support for Arizona's crime victims. This investment will draw down an additional \$1.3 million in federal funding, starting in FY 2025.

Figure 19

Victim Compensation & Assistance Program Size



The additional funding will provide program stability, permit the Commission to fund the affected programs at their previous highest levels, and ensure that the Commission will be able to award grants to agencies who provide services to victims and to counties that provide reimbursement to crime victims.

Department of Emergency and Military Affairs. The Executive Budget includes a one-time deposit of \$50 million into the Border Security Fund.

The following expenditures have been allocated to date from the Border Security Fund:

- \$25 million: Southern Arizona Law Enforcement Mission
- \$3.7 million: Cochise County
- \$2.5 million: Yuma County
- \$1.1 million: Cochise County Sheriff's Office (Camera System)
- \$675,000: Pinal County Sheriff's Office (Human Trafficking)
- \$675,000: Cochise County Sheriff's Office (Human Trafficking)
- \$675,000: DPS, with the possibility of an additional \$675,000 for the Yuma County Sheriff's Office (Human Trafficking)

Also included in the Fund is \$20 million for distribution to cities, towns, or counties for costs associated with prosecuting and imprisoning individuals charged with border-related crimes. That funding has not yet been allocated.

The \$50 million deposit will provide, within the county sheriffs' offices, for costs of overtime, bed management at jail facilities, and transportation. The deposit will also help with recruitment and retention efforts of highly qualified prosecutors in rural border counties to ensure that all crimes are prosecuted.

Pension Liability

As part of the Governor's commitment to reduce outstanding liabilities and prevent the accrual of new debt, the Executive Budget deposits \$611.3 million into the Public Safety Personnel Retirement System (PSPRS) and implements pension reforms to address the following areas: accountability, actuarial assumptions, stress testing, and transparency.

The Executive Budget includes a FY 2022 one-time deposit of \$15 million from the Game and Fish Fund and a FY 2022 one-time deposit of \$596.3 million from the General Fund into the Arizona Public Safety Personnel Retirement System to pay off the FY 2021

Tier 1 and 2 unfunded pension liability. Deposits of this size would result in approximately \$740 million in savings over 20 years.

Health and Welfare

State Government's fundamental purposes include providing critical services and support for the health and wellness of all Arizonans.

"The health and welfare of all Arizonans is a top priority. We are committed to protecting vulnerable children and adults and ensuring they have the resources they need, and we're doing that with our Fiscal Year 2023 budget."

Gov. Doug Ducey

In protecting and meeting the needs of vulnerable and low-income Arizonans, the State continues to transform the way business is done in State government, with an emphasis on technology advancements and achieving excellence in service provision.

The FY 2023 Executive Budget addresses important needs related to technology upgrades, expanding veterans home capacity, reducing inmate recidivism, and, on multiple fronts, responding to the safety and protection needs of children and vulnerable adults.

Health Services

The Executive Budget advances the State's goal of providing comprehensive, quality healthcare to Arizonans in need.

Medicaid Caseload Growth. Due to the Maintenance of Effort (MOE) requirements included in the federal Families First Coronavirus Response Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to maintain coverage for all members during the current public health emergency, regardless of any loss of regular eligibility status.

As a consequence, during FY 2021 and FY 2022, member growth in this population has been significantly higher than

normal. The State cost associated with the elevated enrollment levels has been offset by a temporary 6.2% increase in the regular Federal Medical Assistance Percentage.

AHCCCS FMAP Savings. To accommodate Medicaid caseload and capitation changes, the Executive Budget provides a \$319.2 million increase in ongoing funding. This funding reflects the following assumptions:

- A total Medicaid population decrease of (9.18)% in FY 2023.
- The federal Public Health Emergency declaration is currently set to expire on January 31. This would end the MOE requirement, which leads to the decrease in the Medicaid population in FY 2023 in the preceding chart. As AHCCCS expects the eligibility redetermination process to take about nine months, the Medicaid population should return to normal levels by the third quarter of FY 2023.
- Growth in per-member per-month (PMPM) costs of 3.7% in FY 2022 and 4.6% in FY 2023 (the PMPM growth in FY 2023 incorporates the newborn screening fee increase required by Laws 2021, Chapter 409).
- The Federal Medical Assistance Percentages (FMAP) of 76.21% in the first three quarters of State FY 2022, 70.01% in the fourth quarter of the State FY 2022, and 69.56% in federal FY 2023.

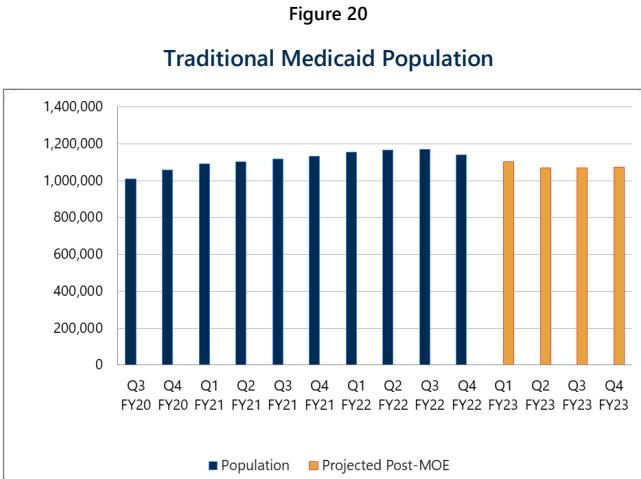
Department of Economic Security FMAP Savings. The enhanced federal match rate is expected to end March 31, 2022, unless the U.S. Department of Health and Human Services announces another public health emergency extension, which would likely lead to substantial General Fund savings.

Caseload growth is already considered to have returned to the regular trend line, and it is expected to continue at a stable rate in FY 2023

Home and Community-Based Services. Due to a provision of the American Rescue Plan Act of 2021, there is a temporary 10% increase to the FMAP rate for certain Medicaid expenditures for home and community-based services (HCBS). The State has until March 31, 2024, to spend the additional federal dollars.

The Executive Budget provides increases in Federal Expenditure Authority for AHCCCS and DES to spend the additional funds.

- AHCCCS: \$516.7 million increase in Federal Expenditure Authority in FY 2023, as well as a supplemental request in FY 2022 for an additional \$396.3 million.



- DES: \$396.3 million increase in Federal Expenditure Authority in FY 2023, as well as a supplemental request in FY 2022 for an additional \$246.5 million.

The increase in appropriation will help implement or expand the following items:

- **Parent Initiatives.** Allow parents of minor children enrolled in the Arizona Long Term Care System (ALTCS) to serve as paid caregivers and create a "parent university" to teach skills to support children in the home and to meet their specific needs.
- **HCBS Improvement Grants.** Provide grants to providers, health systems, and contracted vendors for programmatic improvements to HCBS and grants for approved infrastructure investments.
- **Improve Metrics.** To improve data collection on performance, the following initiatives are planned: implement a member satisfaction survey, provider rate surveys, and case worker workforce surveys, and develop health equity metrics for people with intellectual or developmental disabilities.
- **Workforce Development Initiatives.** Several workforce development initiatives are planned, including a caregiver career pathway platform; career training and education for direct care workers; extra provider payments for increased wages and benefits; incentive payments to providers to develop comprehensive workforce development plans to recruit and retain direct care workers; and a direct care worker credentialing process.
- **Information Technology System Upgrades.** Several improvements to IT systems are planned, including a new healthcare workforce online database; standardizing electronic medical record systems among HCBS providers; upgrading ALTCS case manager hardware and software; procuring an electronic health record and case management system for the Division of Developmental Disabilities (DDD) and its HCBS providers; updating the AHCCCS providers web portal; upgrading the Client Assessment and Tracking System (case management system for multiple AHCCCS populations); developing online public dashboard for HCBS provider quality; upgrading the AHCCCS Quality Improvement system; and creating a central employment repository system to streamline employee background clearance management.
- **Expansion of Services.** Some services will be expanded, including developing assertive community treatment teams to provide wraparound support for DDD members with complex behavioral health diagnoses; expanding home delivered meals to DDD members; extending HCBS services to aging members with a serious mental illness;

and making permanent the provision of personal care services in short-term acute care settings.

- **Other initiatives.** Other initiatives are planned as following: in-depth review of specialty providers and their capacity to serve member with complex conditions; developing tools to determine when members are experiencing social isolation and solutions to combat it; incentives for providers to create new telehealth delivery models; and updating the tools used to screen members to determine whether they are at risk of institutionalization.

American Indian Health Programs: SMI Integration. American Indian AHCCCS members who have been diagnosed with a serious mental illness (SMI) receive behavioral health services from regional behavioral health authorities (RBHAs) and physical health services from the AHCCCS American Indian Health Program (AIHP) or AHCCCS Complete Care (ACC).

To resolve the fragmentation of service delivery, in October 2022 AHCCCS will transition the behavioral health function from RBHAs to AIHP.

The Executive Budget includes an increase in ongoing funding for 7.0 FTE positions to support the transition of behavioral health services for American Indian SMI members. The services will transition from contracted RBHAs to the AHCCCS Division of Fee-for-Service Management.

DEPARTMENT OF HEALTH SERVICES

The Executive is committed to promoting, protecting, and improving the health and wellness of individuals and communities in Arizona.

Arizona State Hospital. The Arizona State Hospital (ASH) operates a 260-bed facility in Phoenix and provides long-term inpatient psychiatric care to Arizonans who have a serious mental illness and are undergoing court-ordered treatment. This year's Executive Budget provides significant staffing and capital resources to further enhance operations of ASH and improve staff and resident safety.

ASH Operating Shortfall. The Executive Budget includes \$6.6 million to address an ASH funding shortfall, which will be used to increase permanent staffing levels and ensure consistent and appropriate staff-to-patient acuity levels to better serve patients. The appropriation also addresses increases in contracted pharmaceutical, dietary, legal representation, and maintenance costs.

In addition, the Executive Budget includes funding for ongoing costs associated with ASH campus IT projects supported with federal COVID funds that are expected to be completed in FY 2022. The ongoing costs include:

- operating licenses for a new medication barcode scanning system;
- an ongoing replacement schedule for IT hardware; and
- costs associated with Wi-Fi expansion.

ASH Surveillance System. The State Hospital utilizes two surveillance systems on campus. The video surveillance equipment for both systems is outdated and is in need of replacement.

The Executive Budget includes funding to complete replacement of the video surveillance systems and related equipment and to pay for ongoing audio and visual storage costs associated with the upgrade. The upgrade will incorporate all facilities on campus under one integrated surveillance system and update all video surveillance equipment, fiber optics, cabling, and network infrastructure.

Nursing Facility Projects. The Executive Budget increases funding for special projects, training, and equipment purchases that have been approved by the Centers for Medicare and Medicaid (CMS) and are used to enhance care and services provided at nursing care facilities statewide.

Projects planned for FY 2023 include:

- senior caregiver and dementia awareness training for staff at skilled nursing facilities;
- staff training for best practices in physician services; and
- the purchase of visitation safety equipment – including plexiglass barriers and outdoor shelters for in-person visitation – at skilled nursing facilities.

Alzheimer's Disease Research. The Department of Health Services (DHS) provides grant funding to the Arizona Alzheimer's Consortium (AAC), which provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer's disease.

Investments continue to yield results in early detection of Alzheimer's Disease, understanding its causes and risk factors, and advancing prevention and treatment options. Since 2016, the State of Arizona has invested \$20.0 million for this Alzheimer's disease research:

Table 8

Alzheimer's Disease Research Funding, FY 2016 - FY 2023

	General Fund	Health Research Account	Prescription Drug Rebate Fund	Total
FY 2016	\$ 125,000	\$ 1,000,000	\$ 0	\$ 1,125,000
FY 2017	125,000	2,000,000	0	2,125,000
FY 2018	125,000	2,000,000	0	2,125,000
FY 2019	125,000	3,000,000	0	3,125,000
FY 2020	125,000	2,000,000	1,000,000	3,125,000
FY 2021	125,000	1,000,000	0	1,125,000
FY 2022	1,125,000	0	2,500,000	3,625,000
FY 2023	0	0	3,625,000	3,625,000
Total				\$ 20,000,000

Assistance to Children, Families, and At-Risk Adults

DEPARTMENT OF CHILD SAFETY (DCS)

The Executive continues its strong commitment to protecting Arizona children.

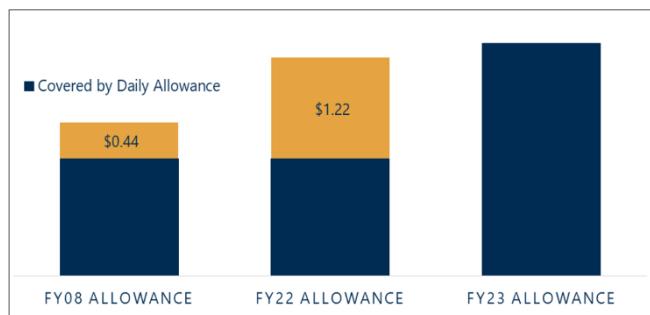
ENHANCING FOSTER AND KINSHIP CARE

Daily Allowance. The Executive Budget increases the average daily stipend for children in out-of-home placements from \$1.41 to \$2.82 per day, for an ongoing cost of \$4.8 million to the General Fund and \$1.8 million in expenditure authority, for a total of \$6.6 million.

The daily allowance is meant to provide financial relief directly to the child. While the parents receive financial support in the form of a stipend to cover costs, the child can use the daily allowance to cover other day-to-day expenses. The daily stipend has not been increased since 2008 and is insufficient to support the daily needs of children in State custody.

Figure 21

School Lunch Price vs. Daily Allowance



Kinship Care Stipend. The Executive Budget increases the daily stipend for unlicensed kinship care from \$2.47 to \$10, or \$230 per month, for a total FY 2023 commitment of \$19.8 million. This will encourage the increased use of kinship care and help reduce, within 24 months, the congregate care population to the court-mandated 10.5% of all out-of-home placements, pursuant to the *B.K. Tinsley v. Faust* settlement.

Licensing Kinship Families. In order to develop a plan to license more kinship families, DCS is working to understand the trends and drivers that impact kinship care programming.

DCS encourages licensing, as it enables kinship families to draw down a 1:1 federal match, enabling caregivers to double their financial support without additional costs to the State.

The Department's main objectives are to listen to stakeholders, review child welfare and policy practices, and analyze how kinship care engagement and assessment are aligned with goals and outcomes.

Visitation Aid Expansion. To expand insured supervised parenting time, the Executive Budget includes 176.0 additional FTE positions. The additions do not require additional funding,

thanks to offsetting costs achieved by reducing the number of paid contractors. The additional 160 case aides and 16 case leads will allow DCS to reduce the visitation waitlist by 1,000 families.

Healthy Families AZ. This voluntary home-visiting program supports families at high risk of abuse or neglect. Families who participate learn parenting skills in personal sessions tailored to fit individual families' needs.

The program has shown positive outcomes in reducing risk factors associated with abuse and neglect, and families who participate in this program are 50% less likely to have DCS remove their children from the home than families who do not participate. Additionally, families who participate are set up on a better lifelong trajectory, with better outcomes years after participating in the program.

Currently, just 25% of all eligible families, or 4,000 families, participate in the program. Capacity is limited by funding restrictions.

The Executive Budget includes \$10 million to allow for program expansion in FY 2023, increasing its capacity to an additional 1,500 families by the end of the year. This would allow for contracted agencies to hire additional home visitors for more families to be served at once.

The initial focus would be to expand existing sites with future expansion by contracting with agencies to expand into more rural areas. Additionally, \$2.5 million of the full \$10 million would be used to offset expiring federal grants that are nonrenewable. The goal is to double the size of the program; to reach this goal, an additional \$2.5 million would be needed in each of FY 2024 and FY 2025 for a total investment of \$15 million.

Adoption Caseload. A welcome result of reducing the out-of-home population is an increase in the adoption rate for children in the State's care. When reunification is not a possible outcome, adoption provides kids with permanent homes where they will be the safest and cared for the most. Adoption Services funding covers adoption home recruitment costs, adoption legal expenses, and maintenance and special-needs subsidies for adopted children.

For the State, foster adoption is a long-term financial commitment, as DCS pays an adoption subsidy to the adoptive parents until the child reaches age 18 or graduates from high school, whichever occurs later.

The Executive Budget provides \$11.1 million to fully fund the adoption subsidy for 34,473 children, making good on the Executive's commitment to increase the number of children in loving, forever families. The Executive Budget also includes a supplemental \$3.3 million increase for FY 2022.

CASA Volunteer Retention. The Court Appointed Special Advocate (CASA) program relies on volunteers to serve as case workers and advocates for children who are involved with the juvenile justice system.

The Executive Budget includes funding to address the high turnover rate among volunteers. The funding will support 14.0

FTE Volunteer Coordinator positions, which would reduce the volunteer to coordinator ratio from 40:1 to 30:1. Reducing volunteer coordinator workload will allow them to provide more support to each volunteer.

The funding will also support 1.0 FTE Volunteer Retention Specialist position, which will lead trauma-mitigation efforts and training for volunteers as well as recruiting new or previous volunteers.

These staff will help reduce volunteer burnout, enhancing the quality of case management and advocate services for children represented by CASA volunteers.

This investment brings total investments in the CASA program since FY 2015 to \$2.1 million.

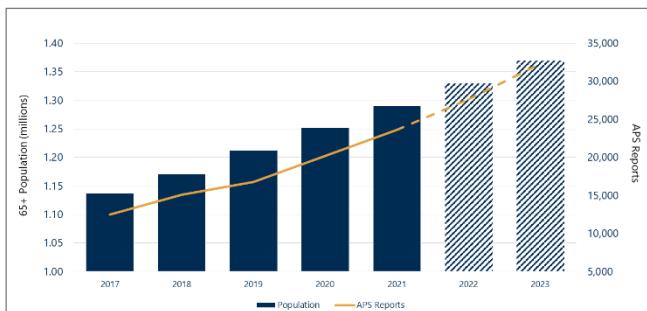
DEPARTMENT OF ECONOMIC SECURITY (DES)

DES and other State agencies provide temporary assistance to persons in need, protect Arizona's most vulnerable adults and children, and help low-income working families and persons with disabilities achieve independence. The Executive Budget supports that mission.

Adult Protective Services Reporting Growth. Adult Protective Services (APS) has a mandate to investigate all reports of abuse and neglect of Arizona adults.

Figure 22

Population Growth and APS Reports



Year-over-year reporting growth has consistently been at about 15% and is projected to remain the same in FY 2023. With the current funded level of investigators, that rate of growth would result in an average investigator caseload of 90 – which is almost four times higher than the standard of 25 recommended by the National Adult Protective Services Association (NAPSA).

The Executive provided APS investigators a premium pay stipend in FY 2022, aiming to stabilize turnover and fill vacancies. The program was also able to utilize other available federal funds in FY 2022 to increase the number of investigators, which aimed to reduce the caseload per investigator. Permanently increasing funding for this program will strengthen investigators who identify needy adults in Arizona.

The Executive Budget includes a General Fund increase of \$8.2 million and 67.0 new FTE positions for APS to reduce case-

load numbers to a more sustainable level. Adding 51 investigators by the end of FY 2023, will allow the Department of Economic Security Services (DES) to efficiently reach the recommended caseload average.

Arizona Early Intervention Program (AzEIP) Provider Rate Increase. The AZEIP program is Arizona's statewide system of services and supports for families of infants and toddlers, birth to three years of age, with disabilities or delays.

In FY 2022, federal funds were used to temporarily increase provider rates to support the work of identifying needs in children early in their life. In FY 2023, federal funds will continue to be used to support higher rates, with the purpose of making these increases permanent with \$4.4 million of State General Fund dollars starting in FY 2024.

These services are similar to services provided to members of the developmentally disabled community, but the rates do not always increase at the same rate. Providing a permanent increase should bring the rates for services to the same level for similar populations, making funding consistent for providers.

IT System Upgrades. The Executive Budget also includes advance appropriations of \$18.6 million in FY 2024 and \$24.5 million in FY 2025, for a total of \$43.1 million, for the replacement of the Unemployment Insurance Benefits System.

The advance appropriation works in tandem with \$30 million in allowable federal pandemic dollars, identified and set aside by DES. System replacement, which is expected to take three years, will ensure a more safe and efficient unemployment payment process that will benefit Arizonans who lose their jobs.

Upgrading the 30-year old system will make more IT professionals eligible for related work, since the current system is programmed in an old programming language that is no longer commonly known. The massive demands on the system during the COVID-19 pandemic also showed that a new system will ensure Arizonans will reliably receive support when they qualify.

Table 9

DES Workforce Modernization Funding

Families First Coronavirus Response Act of 2020 (FFCRA) - Emergency Unemployment Insurance Stabilization and Access Act (EUISAA)	\$ 30,386,800
State General Fund	\$ 43,113,200
Total	\$ 73,500,000

The Executive Budget also includes \$4 million to strengthen and upgrade other IT systems at DES. The improvements include enhancing monitoring systems, establishing data security measures, refreshing and replacing network and firewall equipment, and bolstering existing network security staff.

Reducing Recidivism: Second Chance Centers. The State's Reentry Program, which benefits justice-involved Arizonans and seeks to reduce inmate recidivism, is implemented through two distinct avenues:

- Second Chance Centers (SCC), which provide employment assistance services pre-release, and
- Community Based Reentry Centers (CBRC), which provide similar services post-release.

Services offered include case management, job search, and interview skills training.

The Executive Budget provides \$1.05 million to continue the Reentry Program. The additional funding will be used to expand operations by assisting in Therapeutic Community and Prison in Reach programs. Therapeutic Community is an in-prison residential treatment program for justice-involved Arizonans battling addiction (see more in the Public Safety section of the Budget Message), while Prison in Reach provides education opportunities on successfully navigating parole.

Additionally, \$302,270 will be transferred to the Arizona Department of Transportation (ADOT) to continue the Commercial Driver License (CDL) Inmate Training Program at the Lewis Second Chance Center, giving inmates at the Lewis and Perryville prisons an opportunity to acquire a CDL. The acquisition of a CDL for an inmate provides them a well-compensated and stable employment opportunity in a high-demand field, post incarceration, which reduces their risk of recidivism.

Friends of the Farm. The Friends of the Farm program provides locally sourced fresh produce, dairy, eggs, and meat throughout the state. The program creates new markets for small Arizona farmers and growers, and it benefits families in need.

To support Friends of the Farm, the Executive Budget includes \$500,000 that will be allocated by the Arizona Food Bank Network to regional food banks.

DEPARTMENT OF VETERANS' SERVICES

New Veterans' Homes. The Department of Veterans' Services operates two homes, in Tucson and Phoenix, and two homes are under construction in Flagstaff and Yuma.

Construction of the Flagstaff and Yuma homes began in June 2019 and is scheduled for completion by spring 2022.

The Executive Budget includes funding for the new homes' operating costs, which will help them complete the U.S. Department of Veterans Affairs' six-month process to certification.

Natural Resources

Thoughtful and effective stewardship of Arizona's precious natural resources requires deliberate planning and strategic investments.

"We must protect Arizona's most precious natural resources and pave the way for a sustainable future. One area where our work clearly isn't done is on water, and our Fiscal Year 2023 Executive Budget makes historic investment to secure Arizona's water future."

Gov. Doug Ducey

The FY 2023 Executive Budget provides aggressive funding to meet Arizona's needs and opportunities in the important areas of water quality, drought management, fire suppression, and stewardship of State parks.

Water

DROUGHT CONTINGENCY

Utilizing federal relief funds, the State is making key investments in Arizona's Universities to strengthen Arizona's water resources. Through tens of millions of dollars in investments, Arizona will produce new technologies, strategies, and methodologies to support the mitigation of drought. Furthermore, the Universities will work directly with Arizona farmers to implement drought-mitigation programs and ensure that Arizona's water resources are properly utilized.

Water Resilience Strategy. The Executive Budget includes a \$334 million General Fund deposit, the first of three equal installments totaling \$1 billion over the next three fiscal years.

The aggregate deposits will equip the State with resources to pursue bold, large-scale solutions designed to increase Arizona's water resilience through water-supply augmentation and water-use efficiency projects.

Water Banking. To ensure that the State can meet all of its water firming obligations, the Executive Budget ends an annual appropriation from the Water Banking Fund to the Department of Water Resources (DWR).

That change will provide an additional \$1.2 million per year to the Arizona Water Bank to purchase water credits. The DWR appropriation will be replaced by General Fund dollars.

Assured and Adequate Water Supply. The Executive Budget includes funding to support three new positions in the Assured and Adequate Water Supply Program, which ensures that new residential and commercial developments have a sustainable 100-year water supply. The positions will help meet increased program demand.

WATER QUALITY

The Executive Budget includes \$6.4 million in General Fund resources for the Water Quality Fee Fund. The funding will support surface-water protection, groundwater monitoring (including assuming primacy of the Underground Injection Control, or UIC, program), and drinking-water quality programs. The Executive Budget also provides ongoing funding from the Solid Waste Fee Fund to support additional groundwater monitoring activities.

Funding will also be used to fill critical staff positions and engage contractors to reinstate and improve groundwater monitoring and surface-water protection programs. Those programs will address findings from a recent performance audit by the Auditor General, with funding used to:

- revise or adopt Ambient Water Quality Standards for eight contaminants;
- reinstate the ambient groundwater monitoring and agricultural pesticide monitoring programs;
- reduce the number of impaired surface waters through the timely development and review of Total Maximum Daily Load implementation plans; and
- proactively enhance drinking water quality programs.

In conjunction with these efforts, the Department of Environmental Quality will consult with an economist who will assist in reviewing the fee schedule, to ensure that ongoing support is available for all programs. This investment will ensure the development of sustainable, long-term protection of Arizona's water resources.

OTHER WATER INITIATIVES

Floodplain Management. The Executive Budget includes funding to add a position for DWR floodplain management activities. The position will support DWR efforts to evaluate and perform equipment maintenance on the State's flood-alert system and allow the Department to assist rural communities in planning for post-wildfire floodplain management.

Game and Fish Drought Mitigation. To enhance the preservation and protection of State wildlife, the Executive Budget includes an increase in one-time funding to mitigate drought conditions that have affected wildlife conservation and sportfish production.

The funding will be used to redevelop critical water catchments, replace critical regional water hauling equipment, and purchase sportfish.

Fire Management and Healthy Forests

FIRE SUPPRESSION

Devastating property losses and damage to State and private lands, combined with the growing cost of fire suppression throughout the western states, have made increased fire-suppression funding and heightened investment in hazardous vegetation removal a major priority.

A Legislative special session in 2021 addressed the wildfire emergency response, with \$75 million appropriated for various costs, including fire suppression and pre-positioning of fire-suppression equipment and staff. In addition, \$24.5 million was dedicated to the first phase of the Arizona Healthy Forest Initiative, which included costs associated with adding 69.0 of the 122.0 newly appropriated FTE positions, vehicle purchases, vehicle operating costs, and contracted hazardous vegetation removal.

The Executive Budget continues to invest in the Arizona Healthy Forest Initiative by including \$36.2 million for the Initiative's second phase. In further support of the Initiative, the Executive Budget also includes funding for the Department of Forestry and Fire Management to engage in Good Neighbor Authority agreements with the federal government.

Over the last several years, the western U.S. has experienced drier, warmer weather. Those conditions, combined with population growth and forests that have not been adequately maintained primarily by the federal government, have resulted in increased State spending on wildfires.

In response, the Executive Budget also increases funding, from \$4 million to \$20 million, for the Department of Forestry and Fire Management to prepare for and respond to wildfires. This investment will allow the State to more quickly reimburse local firefighting partners for their assistance in responding to fires on state and private land.

BIOMASS RECOVERY

The Executive Budget includes an increase in one-time funding for the Department of Environmental Quality to transfer \$1 million from the Recycling Fund to the Department of Forestry and Fire Management.

The funds will be used for grants to businesses to recover and process biomass waste. Diversion of biomass waste from forests will benefit the natural environment and help reduce the spread of wildfires. This funding will further support the Arizona Healthy Forest Initiative's efforts to remove hazardous vegetation from State and private lands in Arizona.

State Parks

From the onset of COVID-19, outdoor recreation became a welcome refuge for individuals and families. To ensure that the State's parks remain a valuable public asset for future generations to experience and enjoy, the Executive Budget includes a one-time transfer of \$38.2 million in transaction privilege tax (TPT) revenue to the State Parks Revenue Fund in FY 2022.

The \$38.2 million transfer is part of a \$176.7 million, 44-project investment in the State parks system. Of the 44 projects, 15 are contemplated in the Executive Budget.

The remaining \$138.5 million consists of \$20.5 million from existing monies in the State Parks Revenue Fund and \$118 million from the Coronavirus State and Local Fiscal Recovery Fund, which is part of the federal American Rescue Plan Act.

This investment will serve as a catalyst in modernizing and advancing the parks system for the benefit of visitors in the near term and ensuring that those State assets are available for enjoyment by future generations.

Projects include, but are not limited to, upgrading campsites, renovating historic structures, strengthening water conservation, improving physical and digital access to the parks system, and addressing all of the wastewater issues throughout the entire parks system.

To ensure project completion and to ease the burden on Arizona State Parks & Trails, the Executive has taken a multi-prong approach by allocating specific projects to the Arizona Department of Administration and Arizona Department of Transportation.

Government That Works

Data protection, technology improvements, and prudent stewardship of capital assets are at the heart of the Executive's enduring commitment to continuous improvement. The Executive Budget positions State Government to best serve taxpayers wherever they seek state services, whether in the physical office or through a virtual platform.

"We're keeping good on our promise that State government will operate at the speed of business to serve all Arizonans. Our economy is booming, we have cut the red tape and our government is the smallest it has been in years. We will continue to invest in infrastructure, technology and public safety to truly be a government that serves the people."

Gov. Doug Ducey

The FY 2023 Executive Budget invests to ensure that no matter where citizens access State services – online or in-person – they receive high-quality, efficient customer service, and that they can be confident that their data will be protected against cyber criminals.

The FY 2023 Executive Budget leverages the solid progress that since 2015 has made State Government work better for current and future Arizonans, through:

- sound planning for cybersecurity and IT advances,
- a positive environment for economic growth,
- ongoing investments in State infrastructure, and
- a variety of targeted funding initiatives that will benefit Arizonans statewide.

Cybersecurity

With society becoming increasingly interconnected through technology, cybersecurity is paramount. Protecting the State's cyber infrastructure and responding to known threats will be enhanced by two funding issues related to cybersecurity preparedness:

- *Statewide Information Security and Privacy Operations and Controls SLI Transfer.* Cybersecurity is homeland security. The special line item transfer from the Arizona Department of Administration to the Arizona Department of Homeland Security (ADHS) emphasizes the State's cybersecurity mission and will provide better protection against increasing cybersecurity attacks that threaten Arizona's infrastructure, data and citizens.
- *Homeland Security Cybersecurity Initiatives.* A \$4.2 million investment to expand the State's cybersecurity office will enhance security of the State's IT assets and data. These

funds will support funding for software and an increase of 4.0 FTE positions. The FTE positions will support deployment of the software and tools needed to maximize cyber security.

Statewide Cyber Readiness Grant Program. As part of this \$10 million grant program, the Department of Administration (ADOA) will partner with ADHS to provide six cybersecurity tools to local governments and school districts. The tools will provide training to employees, protect against data being compromised, include additional login security, protect websites from being compromised, monitor devices, and provide penetration testing.

By utilizing State contracts, the funding will arm local governments with the tools they need and improve election security in all 15 counties. Funding includes the addition of 1.0 FTE position at ADHS to oversee technical requirements and 1.0 FTE position at ADOA to manage the grant.

Enterprise Cybersecurity Insurance. Developing a statewide cybersecurity risk management program will help the State respond to, and address losses stemming from, a possible data breach.

To establish the program, the Executive Budget transfers \$24.6 million from the Risk Management Fund for a one-time deposit into a newly created Cybersecurity Risk Management Fund.

Internal Technology Advancements

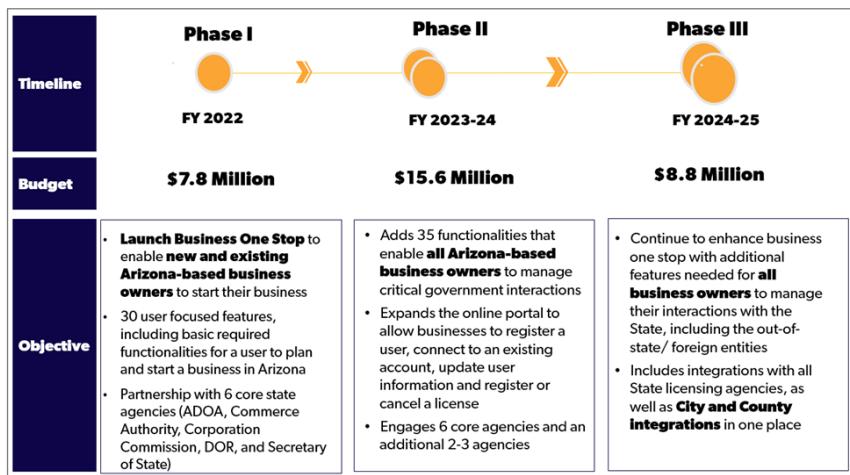
BUSINESS ONE STOP

Currently, Arizona businesses are required to go through multiple agencies, platforms, and timetables to start their operations. Business One Stop will allow for easy navigation and make it possible for businesses to complete and submit necessary forms and receive updates and notifications, all in one location.

This web portal is a single online location that will serve as a convenient and valuable resource to help companies and individuals seamlessly plan, start, and grow Arizona businesses and relocate businesses from other states.

The Executive Budget provides \$15.7 million to fund Phase II of the portal's development, which will add 35 functionalities from six agencies and allow businesses to register a user, connect an account to an existing business, update user information, and register or cancel a license, apply for a tax license, register a trade

Figure 23
Business One Stop



name or trademark, reserve an LLC name, and produce a certificate of good standing.

Phase I of Business One Stop was launched in FY 2022 for a total cost of \$7.75 million.

AGENCY SYSTEM UPGRADES

AFIS Upgrade Phase II. The Arizona Financial Information System (AFIS) is the official accounting system for the State.

ADOA began Phase I of the AFIS renewal and upgrade project in FY 2022 for a total of \$2 million. The Executive Budget provides an additional \$1.5 million for Phase II of the project.

Payroll System Modernization. The Human Resource Information System (HRIS) contains State Government's human resources, payroll, benefits, and time and attendance systems. The current platform was procured in 2003 and will reach its end of life in 2027, leaving it unsupported and vulnerable to security, compliance, and functionality challenges.

Replacing the system will help ensure that the over 36,000 State employees receive their pay and benefits. The upgrade contemplates improvements to salary and job function analysis to inform decision makers and ensure that State Government remains nimble and competitive. The project will be completed in FY 2026 at an estimated cost of \$58 million to \$68 million.

To support HRIS modernization and fund the first phase of the three-phase project, the Executive Budget includes a one-time transfer of \$22.4 million from the Personnel Division Fund to the Automation Projects Fund.

Tax System Modernization. The Department of Revenue's Business Reengineering/Integrated Tax System (BRITS) was implemented in 2002 and lacks much of the functionality required for efficient operations.

Replacing BRITS will resolve functionality issues and enhance the Department's customer-facing modules, consistent with the

Executive's commitment to furthering Arizona's position as a business- and tax-friendly state.

To develop and implement the BRITS replacement, the Executive Budget includes an increase for one-time deposits from the General Fund and the Integrated Tax System Project Fund to the Automation Projects Fund.

Revenue IT Staffing. Tax law changes at the State and federal levels require frequent and complex changes to the State's tax system. The recent pace of such changes has placed considerable stress on the capacity of the Department of Revenue's information technology (IT) staff.

The Executive Budget addresses that situation by expanding the Department's IT capabilities to ensure timely and efficient implementation of current and future tax legislation. Funding will support salaries for 12 additional staff members and provide necessary equipment and software.

Agriculture IT Projects. The Arizona Department of Agriculture's IT infrastructure lacks much of the functionality required to serve rural Arizona and accommodate the agriculture industry's unique needs.

The Executive Budget includes a continuation of the \$2 million, one-time cloud migration funding as enacted in the FY 2022 budget. The funding will be used to modernize and migrate applications onto an agency-wide cloud platform that will benefit the public and Department staff.

Water Resources IT Projects. The Executive Budget includes funding to modernize the Department of Water Resources' IT infrastructure. Customer-facing applications and systems that provide hydrology data will be combined into one cloud-based application that will provide a much more efficient customer experience and ensure that water data is easily accessible for stakeholders and decision-makers.

Licensing Initiatives. The Executive Budget includes \$680,000 in one-time funding and \$417,000 in ongoing funding to facilitate an enterprise timeline to migrate 23 participating State boards and commissions to a new eLicensing solution known as Thentia.

In partnership with the Governor's Office, ADOA-ASET conducted a review of the product, which is a software solution specifically designed for professional and occupational licensing. Following this extensive review, it was determined that the Thentia platform aligned with Arizona's IT strategy and will meet the functional needs of low- and medium-complexity State agencies. By the end of FY 2023, 23 State boards and commissions are scheduled to have fully operable eLicensing infrastructure through Thentia.

PMMIS Replacement: System Integration Provider. The Arizona Health Care Cost Containment System (AHCCCS) has begun upgrading its Prepaid Medicaid Management Information System (PMMIS) to a new platform that follows modernization modularity rules and cybersecurity requirements established by the Centers for Medicare and Medicaid Services (CMS).

The FY 2022 budget included \$780,000 in total funds for a vendor to develop a roadmap for the upgrade. In FY 2023, a system integration (SI) provider will be needed to ensure that all modules are integrated and tested end-to-end to ensure successful, timely, and cost-effective completion.

The Executive Budget includes a \$9.5 million increase in one-time funding for the SI provider to integrate modules and provide technical oversight for the PMMIS project.

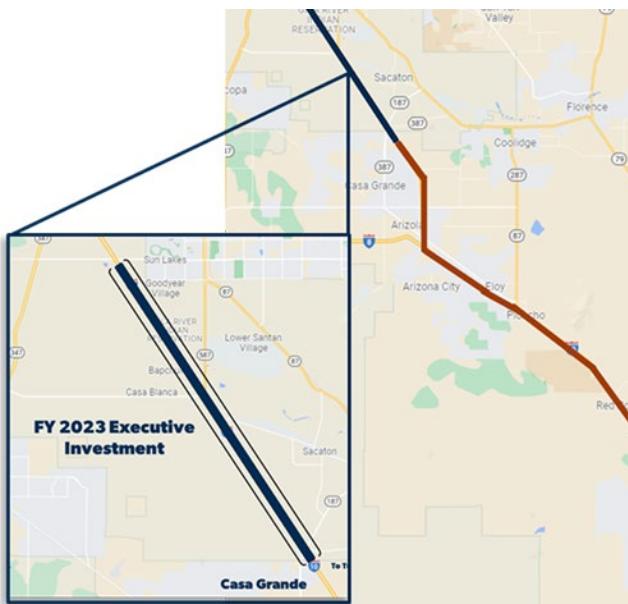
Arizona Open for Business

Interstate 10 Expansion. In the current fiscal year, transportation funding has been robust; with the combination of FY 2022 State Budget appropriations, and federal Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) funding directed by the Governor, the Arizona Department of Transportation (ADOT) is performing pavement preservation and rehabilitation on nearly 1,000 lane-miles statewide.

In addition, the Governor allocated CRRSA monies to close the funding gap in replacing the Gila River Bridge on Interstate 10 between Phoenix and Tucson, which accelerates the widening of I-10, from two lanes to three in both directions, between Phoenix and Casa Grande.

Figure 24

Widening of Interstate 10: Phoenix-Casa Grande



The FY 2022 budget appropriated \$50 million for the northbound portion of that expansion project. Due to the late passage

of the Investment in Infrastructure Jobs Act by the federal government and slow-moving securing of right-of-way, the Executive Budget extends by one year the lapsing date of that funding.

In addition to the \$50 million provided in FY 2022 and the \$90 million for the Gila River Bridge, the Executive Budget includes a massive \$400 million investment that will further position the State to receive federal monies to fully fund the aforementioned I-10 expansion between Phoenix and Casa Grande.

The total \$540 million of State dedicated funds allocated to the project will cover 20 miles of the 25-mile segment and the Gila River Bridge replacement. Upon securing of right-of-way and environmental clearance, the expansion project is anticipated to be completed in three to four years.

This historic investment in the vital transportation and commerce corridor that connects Phoenix and Tucson will ease congestion, improve public safety, and enhance economic development opportunities in central Arizona and the Gila River Indian Community.

If ADOT secures additional federal monies that offset the State-funded portion, the Executive intends for the offset portion to be utilized toward other transportation projects that are critical to the State's continued economic growth. High-priority examples include expanding the I-17 flex lane and expansion project to Cordes Junction. That expansion would relieve much of the traffic congestion on I-17, which would reduce commute time, improve public safety, and enhance economic development opportunities within this area.

State Match Advantage for Rural Transportation (SMART)

Fund. Passage of the federal Investment in Infrastructure Jobs Act has produced numerous competitive transportation grant programs from the federal government. The Executive Budget includes a one-time transfer of \$50 million in transaction privilege tax (TPT) revenue to the newly created SMART Fund in FY 2022.

The transfer will result in grants to communities and ADOT for costs associated with applying for and securing federal transportation grants for transportation projects outside of Maricopa and Pima counties.

ADOT will administer the fund and grant program, with the State Transportation Board approving the final awards.

Monies within the SMART Fund are available only to political subdivisions outside of Maricopa and Pima counties, as follows:

- 40% to counties, with half going to counties with populations of more than 100,000 and half to smaller counties;
- 40% to municipalities, with half going to municipalities with populations of more than 10,000 persons and half to smaller municipalities; and
- 20% to ADOT for projects outside of Maricopa and Pima counties.

ADOT may utilize 1% of its portion for administrative costs to manage the grant program.

Grants can be utilized for one of the following:

- shovel-ready costs for a project that meets federal requirements;
- application fees to apply for the competitive grant; and
- the matching portion to draw down the competitive federal funding.

To ensure equity, ADOT is authorized to further prescribe the process to receive funding and how it will be distributed, including setting the maximum grant awards for each category. A locality's ability to provide matching funds will be a positive factor in evaluating their application.

Stewardship of Capital Assets

BUILDING SYSTEM MANAGEMENT

Proper management of the State's building system is crucial in ensuring responsible stewardship of State assets.

The Executive Budget includes funding to provide the Arizona Department of Transportation (ADOT), Department of Economic Security (DES), and Department of Public Safety (DPS) with an upgraded, integrated workplace management solution: a centralized platform capable of performing all of the operational, financial, and environmental performance aspects of managing a large-scale building system.

The upgraded version will provide additional user capabilities, additional automated interfaces with existing State systems, and is a cloud base solution, which will be updated automatically.

A Smaller, Better State Government Building System. The ADOA building system includes an inventory of 4,557 structures having an aggregate area of 23.9 million gross square feet and an estimated replacement value of \$5.2 billion. Effective stewardship of those valuable assets is a priority reflected in the Executive Budget.

Through the reduction of leased space, the State saved \$7 million in rental costs in the last year alone. The Executive Budget advances and accelerates the reduction and improvement of the State's physical footprint.

System-Wide Building Renewal. The Executive Budget includes \$53.6 million in one-time funding (including \$37.6 million from the General Fund) for building renewal across the ADOA building system, including fire and life safety projects and targeted infrastructure repair, replacement, and renovation. This funding represents 100% of the Department's building renewal formula, marking the first time since 1988 that the formula has been fully funded.

The Executive Budget also includes \$38.4 million to fully fund the building renewal formula for certain agencies, including:

- \$32.6 million at the Department of Corrections, Rehabilitation & Reentry (ADCRR), including \$27 million from the General Fund (ADCRR facilities represent the largest

component within the ADOA building system, with 1,518 structures having a total area of 8.8 million square feet);

- \$2.7 million at State Parks & Trails for building renewal and maintenance;
- \$1.5 million at the Game and Fish Department for building renewal and additional maintenance and repair of dams and hatcheries;
- \$1 million at the Arizona Exposition and State Fair for necessary repairs and renovations of fairground facilities;
- \$176,357 at the State Lottery Commission for building renewal and maintenance; and
- \$396,466 at the Pioneers' Home for targeted repairs and replacement of infrastructure and equipment.

Advancing Arizona's Connected Workforce Initiatives. Since the beginning of his first term, Governor Ducey has sought to ensure efficient use of the State's resources by promoting a reduction of its physical footprint through demolition initiatives and the implementation of the Arizona Connected Workforce's State Compression Plan. Since FY 2015, the State has demolished, or made plans to demolish, eight buildings totaling over 600,000 square feet. These demolitions account for over \$50 million in deferred maintenance savings.

To continue the Governor's initiative of reducing State Government's footprint and supporting shared office spaces for employees, the Executive Budget includes two issues related to building demolition and renovation:

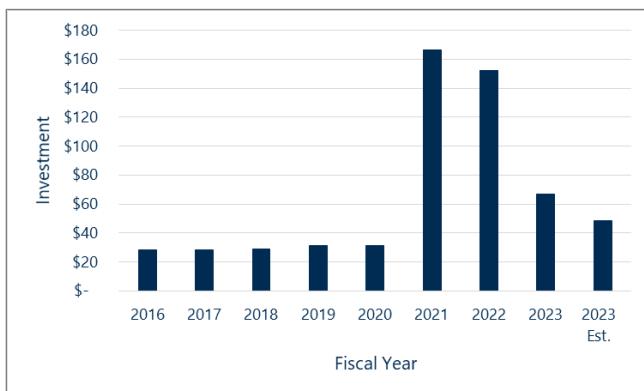
- *Building Demolitions.* The Executive Budget includes \$1.2 million for ADOA to demolish buildings at 1818 West Adams, 1850 West Jackson, and 1720 West Madison streets in Phoenix. The aging and deteriorating buildings pose a public health concern and a safety risk to surrounding buildings and businesses.
- *West Adams Renovation Project.* The Executive Budget includes \$44.3 million for ADOA to renovate a portion of the Capitol Mall along West Adams Street. This initiative includes three projects: renovation of 1616 West Adams, renovation and restoration of 1688 West Adams, and demolition of 1624 West Adams (with subsequent courtyard construction).

DEPARTMENT OF CORRECTIONS, REHABILITATION AND REENTRY

Fire and Life Safety. The Executive Budget includes \$18 million for ADCRR to complete critical fire and life safety projects at the Lewis, Eyman, Tucson, and Perryville complexes. The Department has identified fire alarm and suppression systems and doors and locks that require replacement. Completion of the replacement projects will enhance prison complex safety and security.

Figure 25

Corrections Fire and Life Safety Projects



HVAC Replacement. To ensure that all State-owned complexes managed by ADCRR have functioning air conditioning systems, the Executive Budget includes \$42.3 million in FY 2023 and advance appropriates \$31.4 million in FY 2024, \$29.8 million in FY 2025, and \$23.7 million in FY 2026.

Transitioning from evaporative cooling systems to air conditioning systems will enhance the safety of staff and inmates, increase the longevity of infrastructure, and reduce repair and maintenance costs.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS (DEMA)

Fire Suppression. The Executive Budget includes \$1.2 million for DEMA to upgrade fire-suppression systems at six readiness centers that do not comply with fire code. The Department will leverage the State funding to draw down \$1.2 million in matching federal funding.

DEPARTMENT OF PUBLIC SAFETY (DPS)

New South Mountain District Office. The Executive Budget includes \$6.3 million to build a 9,000-square-foot district office for coverage of the new portion of the Loop 202 South Mountain Freeway. The new office will promote better working conditions for Troopers, safer storage of equipment, and improved emergency response times.

Remote Housing Replacement. DPS provides law-enforcement coverage of urban and rural highways throughout the state and maintains 58 housing units in remote areas, far from population centers, to which it is impractical for DPS Troopers to commute for each shift. Many of the units are well beyond their expected useful life and have rapidly deteriorating building systems.

The Executive Budget includes \$7.9 million for replacement of the remaining 19 units statewide that have exceeded their useful lives. Additionally, \$2 million of this funding will be used to develop five housing units at San Simon to continue enhancing the DPS Trooper presence in southern Arizona.

Additionally, the Executive advance appropriates \$1.9 million in FY 2025 for the replacement of six units that require replacement in FY 2025 and FY 2026.

DEPARTMENT OF TRANSPORTATION (ADOT)

Fleet Operations Modernization. The FY 2022 budget provided a substantial modernization of the management of the State Fleet, which includes approximately 1,000 vehicles used by 37 agencies. The process included:

- transferring ownership of the State fleet to ADOT from ADOA; and
- establishing two new ADOT funds, the State Fleet Operations Fund and the State Fleet Vehicle Replacement Fund.

The Executive Budget continues fleet operations modernization for the State Fleet by:

- onboarding a group of 296 vehicles that belonged to agencies within the State Fleet but were not being managed by the Fleet Manager;
- centralizing the purchase of new vehicles to ensure that the State is fully leveraging procurement and prevent issues experienced prior to the modernization efforts; and
- ensuring that the affected agencies are funded to properly maintain and replace these assets.

In addition, the Executive Budget modernizes the fleet operations for three agencies that are exempt from the State Fleet and manage their own fleets. The modernizations restructure the fleet operations at the affected agencies to align with the State Fleet. Benefits to the State from this modernization include proper maintenance, proper funding for replacement, and streamlined operations.

Building Renewal. In addition to managing the State's highways, ADOT maintains an independent building system that includes 1,490 structures comprising 3.6 million square feet and having an estimated replacement value of \$1 billion.

The Executive Budget includes \$18.6 million for ADOT to replace or repair infrastructure and major building systems as needed.

Renovate 206 Annex Building. During the abatement of asbestos in 2019, it was discovered that the floor slab within the 206 Annex building contains extensive cracking and is structurally compromised.

The Executive Budget includes \$7 million to complete the renovation of the three-story office annex building. The renovation will extend the building's life to 50 years and save an estimated \$17.5 million in private lease costs.

Other Funding Initiatives

ENTERPRISE COMPENSATION STRATEGY

The Executive Budget includes \$247.5 million as part of an enterprise-wide compensation package that is designed to

recruit and retain the State's best personnel. Key investments include:

- \$129.6 million for targeted salary adjustments of 20% at the Department of Corrections, Rehabilitation & Reentry, with over 85% of the increase dedicated to security personnel. Similarly, the Executive Budget funds \$6.2 million for pay raises at the Department of Juvenile Corrections, with most of the funding allocated for security personnel.
- \$30.8 million for a 15% increase at the Department of Public Safety (DPS), increasing starting Trooper pay from \$56,855 to \$65,383 and placing starting Trooper pay at the top of Arizona law enforcement agencies. The pay package also includes 15% increases for targeted lab, information technology, and communications division workers.
- \$19.4 million for the Department of Child Safety and \$16.4 million for the Department of Economic Security to fund an average increase of 10% for select positions within the agencies experiencing high rates of turnover and difficulty with recruitment.

The following table contains a detailed listing of adjustment and cost by agency

Table 10

Enterprise Compensation Strategy Adjustments, by Agency

Agency	Weighted Average % Salary Increase	Total Cost
Dept. of Corrections, Rehab. & Reentry (ADCRR)	20.00%	\$129,569,427
Dept. of Public Safety	15.00%	\$30,780,772
Dept. of Child Safety	9.60%	\$19,382,542
Dept. of Economic Security	10.74%	\$16,361,692
ADCRR, The GEO Group	16.23%	\$8,687,335
Dept. of Transportation	9.63%	\$6,437,195
Dept. of Juvenile Corrections	20.00%	\$6,164,421
Dept. of Health Services	11.31%	\$5,417,700
Judiciary - Staff	9.71%	\$4,404,900
ADCRR, CoreCivic Inc.	18.63%	\$3,801,113
AHCCCS	11.30%	\$3,508,515
Judiciary - Judges	20.03%	\$2,956,500
Auditor General	4%-10%	\$2,252,800
Dept. of Veterans' Services	10.00%	\$1,910,522
Dept. of Agriculture	24.74%	\$1,846,355
Pioneers' Home	21.00%	\$866,822
ADCRR, MTC	18.80%	\$849,499
Dept. of Liquor Licenses & Control	14.02%	\$649,470
Corporation Commission	9.96%	\$637,719
State Board for Charter Schools	9.80%	\$462,024
State Land Dept.	8.49%	\$185,000

Dept. of Financial Institutions (DFI)	5.00%	\$164,863
DFI - Sworn	15.00%	\$109,170
Board of Executive Clemency	20.00%	\$88,628

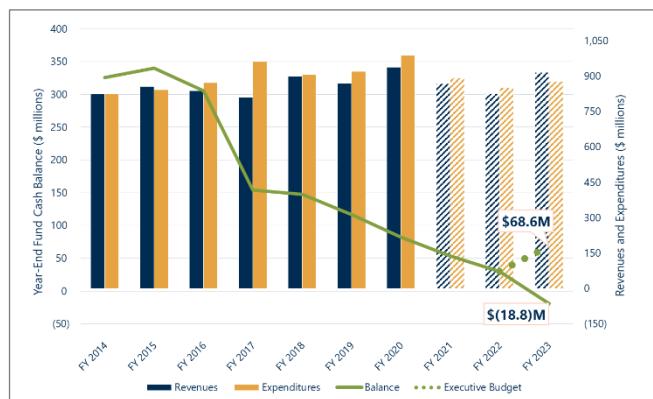
STATE EMPLOYEE HEALTH INSURANCE

The Health Insurance Trust Fund (HITF) supports the State's self-insured medical, pharmacy, and dental insurance for State employees.

The Executive Budget includes an ongoing increase in HITF premiums paid by State agencies on behalf of their employees. The increased premiums are expected to generate an additional \$87.7 million in total HITF revenue, with \$52.4 million originating from the General Fund. The Executive Budget also includes \$20.3 million to backfill tuition costs associated with FY 2023 employer health insurance premium increases at the Universities.

Figure 26

Health Insurance Trust Fund Cash Balance



The State has seen significant increases in pharmaceutical costs in recent years, with average price paid per member per month rising from \$99 in 2019 to \$120 in 2020. Following comprehensive review, the Department of Administration awarded a new pharmaceutical benefits contract in 2020, which has successfully reduced costs and is expected to save \$60 million during the first year of the contract.

To ensure sustainable pharmaceutical costs and assist with navigating the complexities of pharmaceutical benefit services, the Executive Budget includes \$203,100 for the Department's Benefit Services Division to hire a pharmacy specialist.

MEDICAID FRAUD CONTROL

The Executive Budget includes funding to expand the Medicaid Fraud Control Unit (MFCU), for which the federal government has already agreed to provide matching funds. Expanding the MFCU will address caseload increases and help ensure that fraud does not contribute to increased Medicaid costs.

VICTIMS SERVICES

The Arizona Constitution requires that crime victims be given specific services. The Executive Budget includes funding for more

positions in the Attorney General's Victims Services program, to reduce caseloads per case worker to sustainable levels.

This funding will help address high turnover due to high caseloads and enhance the quality of services provided to crime victims.

ELECTIONS

The Secretary of State has statutorily mandated responsibilities associated with primary and general elections in Arizona. Among other duties, the Secretary is required to:

- reimburse counties for the costs of producing and mailing sample ballots to every household containing a registered voter;
- reimburse counties for the costs of certifying petition and referendum signatures;
- for any initiative or referendum, print and mail a publicity pamphlet to every household containing a registered voter; and
- review and process initiative and referendum signatures.

The Executive Budget includes \$5.7 million, matching the Secretary of State's funding request to fulfill statutory responsibilities associated with the primary and general elections in 2022.

Fiscal Response to the COVID-19 Pandemic

To help state governments deal with critical financial and service delivery pressures associated with COVID-19, the federal government has responded with an unprecedented level of resources, which included nine measures that provided relief funding directly to states and their residents.

In chronological order, the funding resources allocated were:

- Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020
- President Trump's national emergency declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act which provided the Federal Emergency Management Agency (FEMA) Public Assistance grants
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Paycheck Protection Program and Health Care Enhancement Act
- President Trump's authorization to use the FEMA's Disaster Relief Fund (DRF) to establish the Lost Wages Supplemental Payment Assistance program
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), 2021
- American Rescue Plan Act (ARPA) of 2021
- Infrastructure Investment and Jobs Act (IIJA), 2021

From those programs (not including the recently signed IIJA), Arizona received federal funds totaling \$78.9 billion. Of that amount, 59% went directly to Arizona residents and businesses.

Some of the key programs by each category include the following:

- *Eligibility Programs:* Economic Impact Payments (Individual/Families); Unemployment Benefits; Paycheck Protection Program
- *Direct State and Local Assistance:* CARES Act Coronavirus Relief Fund (CRF); ARPA State and Local Fiscal Recovery Fund
- *Education:* Elementary and Secondary School Emergency Relief (ESSER) Fund
- *Health Care Support:* Provider Relief Funds; COVID-19 Testing and Vaccination
- *Small Business Support:* Economic Injury Disaster Loans
- *Children and Family Support:* Child Care Stabilization; Head Start Programs
- *Public Safety:* Crisis Response
- *Community Support:* Emergency Connectivity

Coronavirus Relief Fund

The CARES Act established the \$150 billion Coronavirus Relief Fund (CRF), through which the U.S. Department of the Treasury made direct payments to states and eligible units of local government with populations that exceeded 500,000.

The CARES Act required that CRF payments be used only to cover expenses that were:

- necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government; and
- incurred during the period that began on March 1, 2020, and ended on December 30, 2020 (extended to December 31, 2021, pursuant to the Coronavirus Response and Relief Supplemental Appropriations Act, 2021).

The amounts paid to states and eligible units of local government were based on population, with a state payment reduced by the aggregate amount of payments disbursed to eligible local governments within that state.

Arizona received a total CRF allocation of \$2.86 billion. However, five political subdivisions – Maricopa and Pima counties and the cities of Phoenix, Tucson, and Mesa – qualified for a combined amount of approximately \$1 billion in direct CRF payments, leaving the State with \$1.86 billion.

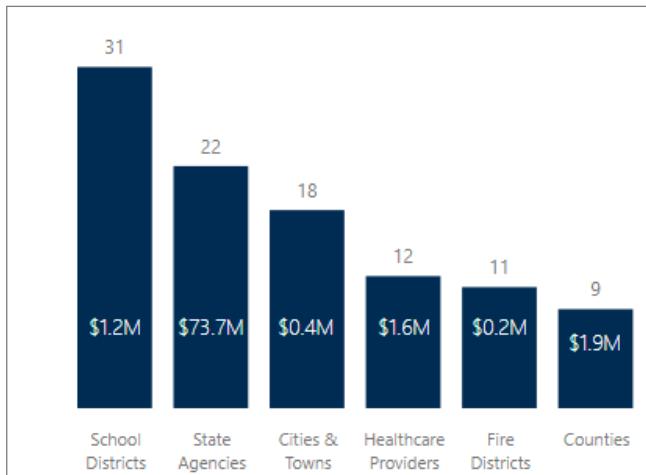
The Governor's Office established the following grant programs, funded by the remaining \$1.86 billion in direct financial assistance pursuant to the CRF:

- AZ Cares Fund: \$440.75 million for immediate relief to Arizona cities, towns, and counties that did not receive a direct CRF allocation. These dollars supported local public health and public safety payroll costs and provided flexibility to local entities to reallocate their own budget resources to other needs.
- Enrollment Stabilization Grant Program: \$366 million to help Arizona schools mitigate the pandemic's impact on the 2020-2021 school year.
- Arizona Express Pay Program: \$79 million to expedite relief funding via the FEMA Public Assistance program. This funding provided assistance to local and county governments, private non-profit hospitals, school districts, and State agencies for the purchase of personal protective equipment (PPE), hospital staffing, and critical medical supplies, such as ventilators, disinfecting and sanitation supplies, and COVID-19 testing.

- AZ Vote Safe Program: \$5.51 million for Arizona counties to support safe election operations and promote voter participation during the coronavirus.
- AZ Stay Connected Program: \$790,000 for technology and other resources required by skilled nursing facilities to help Arizona families stay connected with loved ones confined to those facilities.

Figure 27

Number of Express Pay Applications and Overall Value



In coordination with the Arizona Department of Health Services, \$211.95 million was expended for PPE, coronavirus tests and testing supplies, and statewide hospital staffing needs.

Finally, State agencies were provided \$436.4 million for public health and public safety personnel along with employee-related expenses (EREs), and the three State universities received \$115 million to assist with distance learning, public health, coronavirus testing, and personnel expenses.

All Coronavirus Relief funding has been expended.

Education Relief

As part of the federal CARES Act, Arizona was awarded \$100.1 million: \$69.2 million from the Governor's Emergency Education Relief (GEER) I Fund and \$30.9 million from the GEER II Fund.

Those funds are flexible dollars that governors can use to make key investments to mitigate the impacts of COVID-19 for schools and students most in need.

Arizona's GEER plan accelerates academic achievement for students across the state, through the support of learning and remediation, summer learning programs, and expansion of tutoring opportunities. The GEER Fund was allocated as follows:

GEER I

- School Facilities Board: \$919,000 to expand broadband in rural communities to bridge schools' digital divide.

- Arizona Department of Education: \$20 million to make available to high-need Arizona schools math and reading specialists, teams of paraprofessionals or other types of structure for learning and remediation, to help kids in need of extra support, as well as their Foundations of Reading program.
- Arizona Board of Regents: \$6 million to ensure sufficient student capacity for the Arizona Teachers Academy.
- A for Arizona: \$4.5 million for Expansion and Innovation Fund grant programs, which helped educators and school leaders expand their ongoing efforts and bolster effective innovation.
- Arizona State Schools for the Deaf and the Blind (ASDB): \$1 million for vehicles to ensure that staff have safe and reliable transportation as they travel statewide to provide critical education and services to students served by ASDB.
- Center for the Future of Arizona: \$2.7 million for the virtual delivery of its executive leadership training program for school principals and leaders.
- Teach for America: \$1 million to provide tutoring for students most in need, in schools statewide that were most impacted by the pandemic.
- ASU Preparatory Academy: \$500,000 for Arizona State University's Virtual Teacher Institute.
- Graduation Alliance: \$2.4 million for the Student Attendance Recovery Project, designed to provide outreach, engagement, and support for students in districts that were disrupted by the COVID-19 crisis.
- National Center for Youth Law: \$125,000 to produce a statewide foster youth education outcomes report to present to stakeholders through conferences and webinars.
- Jobs for Arizona Graduates: \$700,000 to help support youth in student credit recovery, building connections with their peers and school community, and support the transition of recent graduates into employment or post-secondary education.
- Boys and Girls Clubs: \$5 million for multiple summer programs to mitigate the detrimental effect of summer months on children's learning.
- University of Arizona: \$500,000 for the water adjudication clinic.
- Arizona Department of Administration: \$12 million to obtain software to help digitize school files and improve attendance and transportation costs across schools through transportation modernization.
- Arizona State University: \$2 million to deliver financial support, training, and skills to aid in students' success.

- Black Mothers Forum: \$3.5 million for the creation of Microschools, to provide a safe and supportive learning environment for students.
- Junior Achievement Arizona: \$1.7 million to provide workforce readiness and financial literacy programming to students K-12.
- ASU School of Civic and Economic Thought and Leadership: \$1 million to provide resources to schools that introduce ideas that inspire and educate students on what it means to be American and the responsibilities they share as Americans.

GEER II

- Teach for America: \$500,000 for the expansion of the Alternative Teacher Development Program, designed to prepare teachers for education in a post-pandemic environment.
- Arizona Department of Education: \$14.1 million for programming created to mitigate the learning gap that occurred during the COVID-19 public health emergency.
- A for Arizona: \$3 million for the Expansion and Innovation fund, which encourages community-driven solutions that will aid Arizona's students now and long-term.
- Jobs for Arizona Graduates: \$400,000 to partner with school districts to foster year-round programming centered on students' social and emotional needs.
- Junior Achievement Arizona: \$1 million to address learning loss through the provision of workforce-readiness training and literacy programming.
- Black Mothers Forum: \$500,000 to expand the current parent training program through the creation of virtual training modules.
- First Tee Phoenix: \$375,000 to provide virtual tools, curriculum, resources, and support needed to reach students in Title I after-school programs.
- Boys and Girls Clubs: \$1 million to address the social and emotional impact of the COVID-19 public health emergency on Arizona's children and teens.
- Big Brother Big Sisters: \$750,000 to address learning loss and the various social and emotional effects of the COVID-19 public health emergency.

EMERGENCY ASSISTANCE TO NON-PUBLIC SCHOOLS

As part of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), the State was also awarded \$54.4 million from the Emergency Assistance to Non-Public Schools (EANS) program.

The purpose of these funds is to provide resources and assistance to eligible non-public schools to further mitigate any COVID-related disruptions. Per the CRRSAA, the Governor's

Office applies for the funding, but the Arizona Department of Education (ADE) is responsible for the programming and expenditures. Therefore, two parties have worked collaboratively to fulfill the mission of this funding.

ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND

As part of the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan Act, Arizona was allocated over \$4.0 billion for funding via the Elementary and Secondary School Emergency Relief (ESSER) Fund to address the impacts of the COVID-19 pandemic on elementary and secondary education across the State. Ninety percent of this funding has been provided directly to Local Education Agencies for allocation and expenditure at their discretion, aligned with directives outlined in the three federal acts. The remaining 10% has been allocated for administration and discretionary use by the Arizona Department of Education.

Crisis Contingency and Safety Net Fund

In March 2020, Governor Ducey signed a bipartisan State budget agreement that added \$50 million for Arizona's COVID-19 response, the Crisis Contingency and Safety Net Fund. These resources are allocated by the Governor's Office to provide direct relief to communities and to aid small businesses, not-for-profit entities, health care providers, food banks, the homeless population, and Arizonans needing eviction assistance.

At the time of this writing, under \$350,000 in available funding remained.

AZ Coronavirus Relief Fund

As part of the Arizona Together Initiative, Governor Ducey established the AZ Coronavirus Relief Fund to raise money from the private sector in support of nonprofit organizations helping Arizonans in need as a result of the pandemic. The Fund is made possible by the generous financial donations of individuals and businesses. At the time of this writing, \$9.8 million had been raised and fully utilized.

A committee of Arizona business leaders was formed to evaluate requests for support and make decisions on how funds are used. The committee's focus has been on the following immediate needs:

- PPE for frontline medical personnel;
- not-for-profit organizations that support the most vulnerable Arizonans through food banks, homeless shelters, domestic violence facilities, and other services; and
- providing low-income students with technology to help them transition to online learning.

Coronavirus State and Local Fiscal Recovery Fund

ARPA established the \$350 billion Coronavirus State and Local Fiscal Recovery Fund (SLFRF), through which the Treasury Department made direct payments to state, metropolitan, city, and county governments. Additionally, state governments were provided \$19.5 billion to support their non-entitlement units (NEUs) of local government, which are local governments typically serving a population under 50,000.

Those payments had four funding objectives:

- support urgent COVID-19 response efforts to decrease spread of the virus and bring the pandemic under control;
- replace lost revenue for eligible state, local, territorial, and Tribal governments to strengthen support for vital public services and help retain jobs;
- support immediate economic stabilization for households and businesses; and
- address systemic public health and economic challenges that have contributed to the uneven impacts of the pandemic.

These payments are being distributed in two tranches, with the first starting in May 2021 and the second in June 2022.

All recipients must obligate the funding by December 31, 2024, but have until December 31, 2026, to be fully expended.

The amounts paid directly to states were based on equal allocations of \$25.5 billion (each state received \$500 million) and the remaining amount allocated per the average estimated number of seasonally adjusted unemployed individuals between October 2020 and December 2020 for each state over the same data for all 50 states.

The Governor's Office was allocated \$4.18 billion, and its first tranche payment of \$2.1 billion was received in June 2021. Additionally, it was provided approximately \$226 million to distribute to NEUs in two equal tranches.

Seven allowable Expenditure Categories (ECs) are provided by the Treasury Department:

1. *Public Health*: Continued COVID-19 mitigation efforts.
2. *Negative Economic Impacts*: Address the economic harms caused by the public health emergency on individuals, families, small businesses, industries, and the public sector.
3. *Services to Disproportionately Impacted Communities*: Address the economic harms caused by the public health emergency on individuals, families, small businesses, industries, and the public sector.
4. *Premium Pay*: Additional support for frontline, essential workers.
5. *Infrastructure*: Water, sewer, and broadband investments.

6. *Revenue Replacement*: Address the possible reduction in revenue experienced by governments due to the pandemic.

7. *Administrative*: Includes the NEU transfers.

Based on those ECs, the Governor's Office has obligated and/or expended the \$4.18 billion in the following manner:

- *Negative Economic Impacts EC*: \$10 million Back-to-Work Small Business Hiring and Retention Program
- *Services to Disproportionately Impacted Communities EC*: \$162.6 million Education Plus-Up Grant Program and the \$10 million COVID-19 Education Recovery Benefit (ERB)
- *Administrative EC*: funding to the Arizona Department of Revenue for allowable federal tax conformity activities along with the earlier mentioned NEU transfers.

The total amount obligated at the time of this writing includes funding for projects and programs through State Fiscal Year 2024 (June 30, 2024).

Coronavirus Capital Projects Fund

ARPA established the \$10 billion Coronavirus Capital Projects Fund. With this Fund, the Treasury makes direct payments to eligible governments (states, territories, and Tribes) for projects that directly enable work, education, and health monitoring in response to COVID-19.

Each state received a \$100 million allocation. An additional \$4.6 billion was based on the following allocation methodology:

- 50% (\$2.3 billion) allocated among the states, based on each state's population percentage of the population of all states;
- 25% (\$1.15 billion) allocated among the states, based on each state's rural population percentage of the rural population of all states; and
- 25% (\$1.15 billion) allocated among the states, based on the proportion that the number of individuals with a household income below 150% of the poverty line applicable to a family of the size involved in each state bears to the number of such individuals in all states.

Based on the above, the Governor's Office was allocated \$190.2 million. At the time of this writing, it has submitted its application for only the administrative allocation of \$9.5 million. After the application has been reviewed and approved by the Treasury Department, the Governor's Office will submit its Grant and Program Plans for the remaining \$180.7 million.

Leveraging the past work and current resources of the Arizona Commerce Authority, the Governor's Office intends to utilize the entirety of its Coronavirus Capital Projects Fund for broadband infrastructure grant programs statewide.

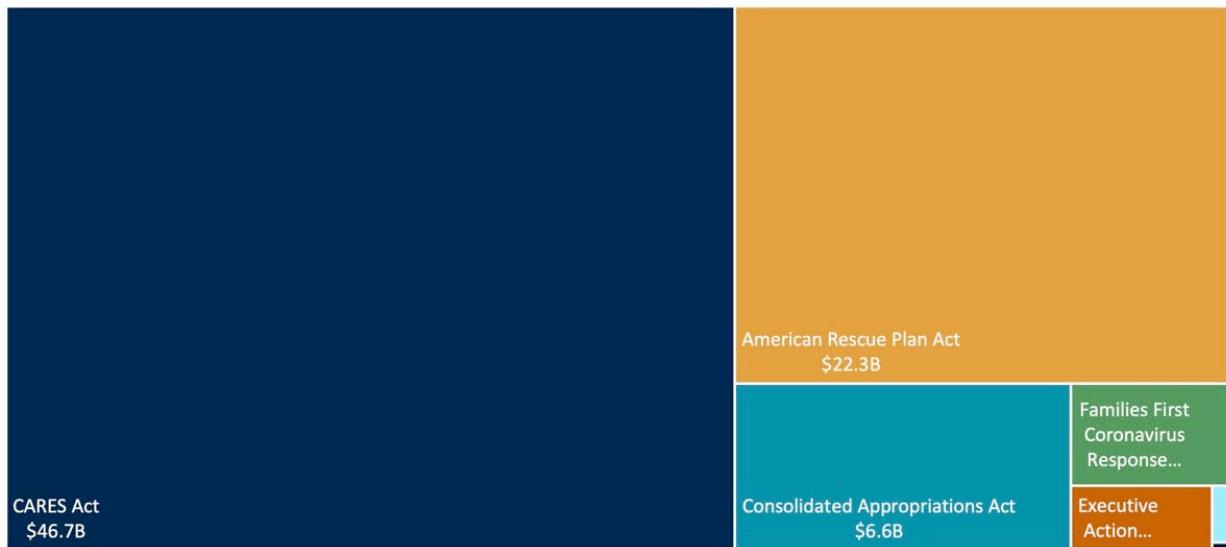
Infrastructure Investment and Jobs Act (IIJA)

The Act became law in November 2021, but at the time of this writing no IIJA funding had been provided to the states. It is estimated that Arizona could receive approximately \$6 billion to be used for cybersecurity, energy-efficiency projects, and Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) programs.

Additionally, the State will be eligible for numerous competitive grant programs and will need to vet for the appropriate agency and project to pursue each of them.

Figures 28-A and 28-B

\$79 Billion to Arizonans



Paycheck Protection and Health Care Enhancement Act \$167M

Coronavirus Preparedness and Response Act \$20M



Public Safety \$354M

Community Support \$127M

Aging and Adult Services \$69M

Figure 29

CARES Act Funding

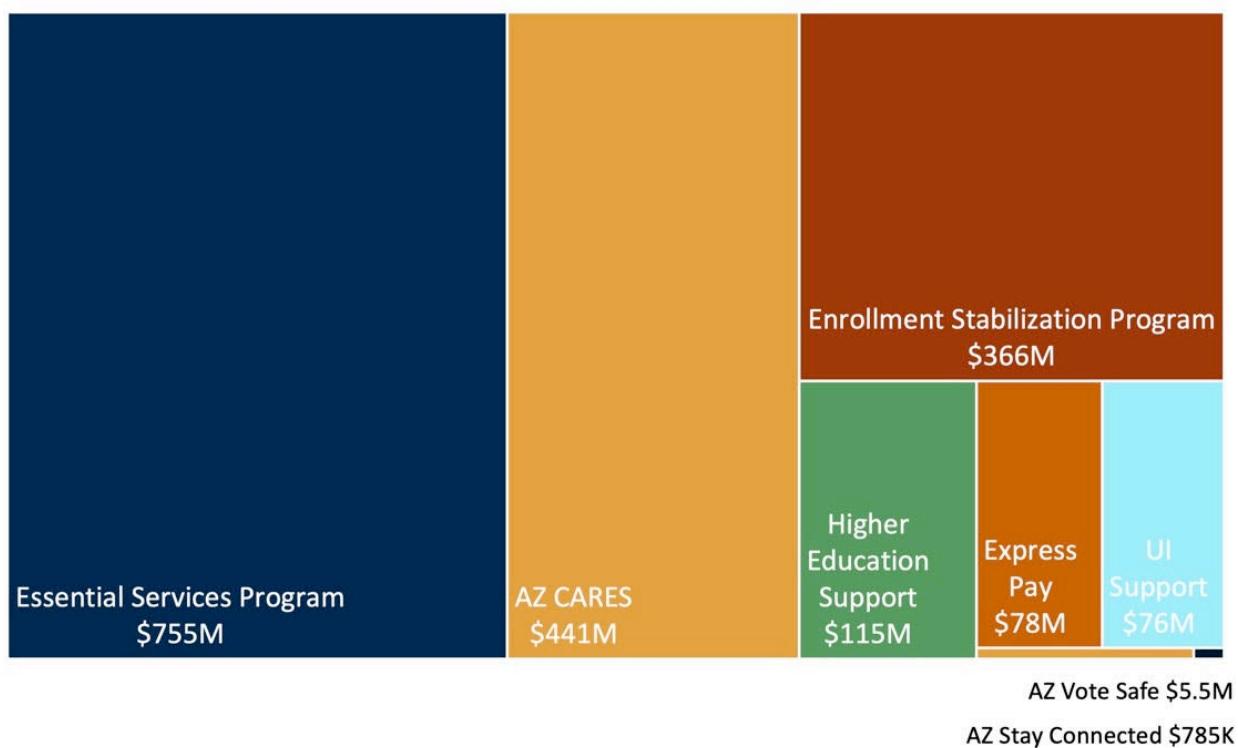


Figure 30

Crisis Contingency and Safety Net Funding



Figure 31

AZ Coronavirus Relief Fund

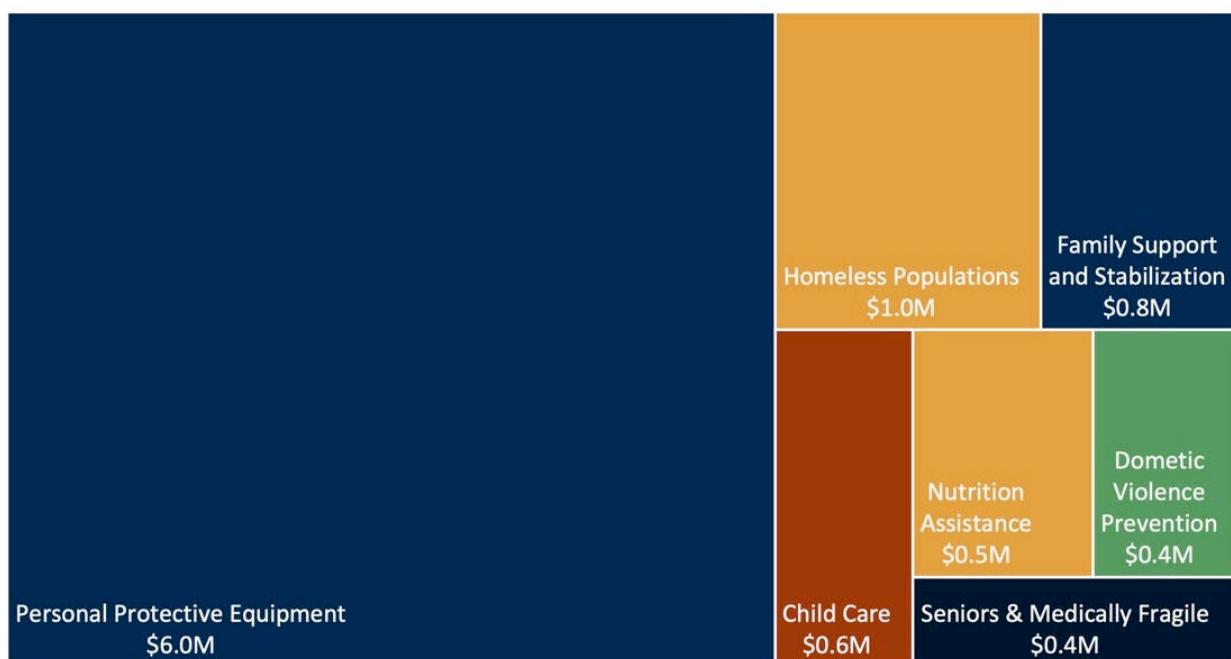
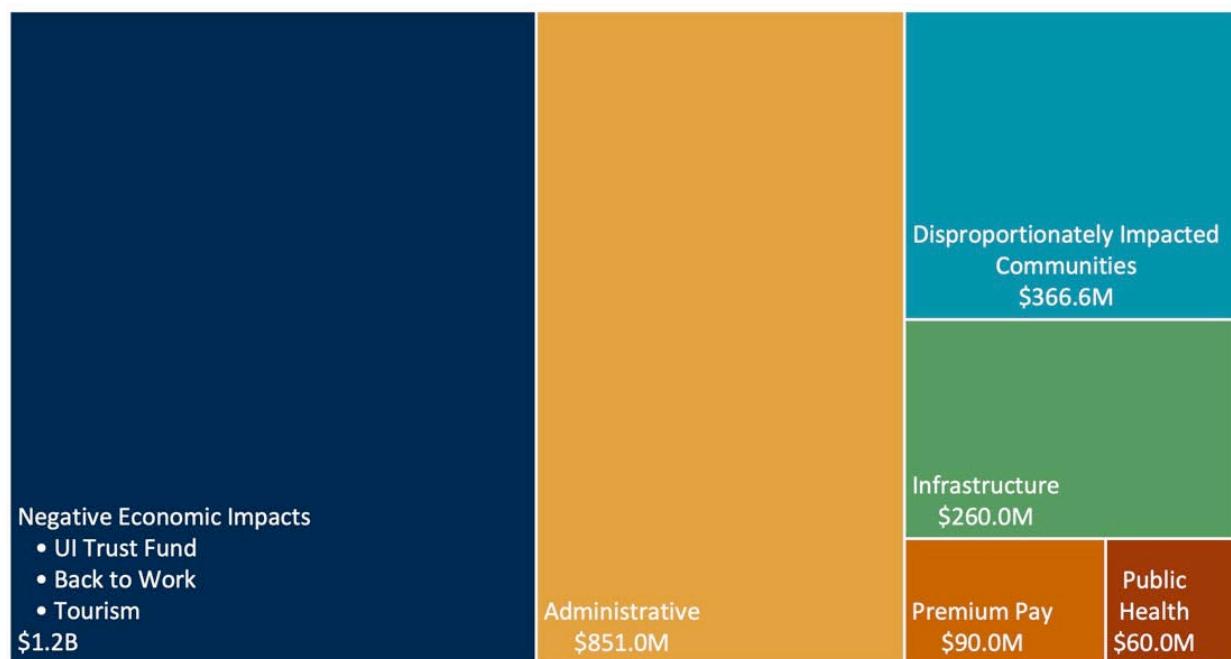


Figure 32

American Rescue Plan Act by Expenditure Category



Executive Budget In-A-Flash

GENERAL FUND CASH FLOW						
	Prelim Actual FY 2021	Executive Budget FY 2022	Executive Budget FY 2023	Executive Budget FY 2024	Executive Budget FY 2025	
Beginning Balance	\$ 372,457,000	\$ 894,635,973	\$ 1,982,491,304	\$ 1,017,381,128	\$ 899,379,570	
Adj. Base Revenues	\$ 14,075,753,373	\$ 13,994,682,231	\$ 13,530,242,324	\$ 13,810,409,842	\$ 14,588,991,170	
Revenue Changes	-	688,300,000	229,827,400	193,677,400	-	
One-time Revenues	\$ 40,905,700	(468,237,100)	(50,509,900)	0	159,136,400	
Total Sources of Funds	\$ 14,489,116,073	\$ 15,109,381,104	\$ 15,692,051,128	\$ 15,021,468,370	\$ 15,647,507,140	
Enacted Spending	\$ 13,594,480,100	\$ 12,826,733,700	\$ 12,826,733,700	\$ 14,249,670,000	\$ 14,122,088,800	
Baseline Changes	-	(297,927,000)	45,478,000	(541,160,900)	(40,409,200)	
Net New Initiatives	-	598,083,100	1,377,458,300	413,579,700	422,972,300	
Total Uses of Funds	\$ 13,594,480,100	17.7%	\$ 13,126,889,800	\$ 14,249,670,000	\$ 14,122,088,800	YOY % growth
BSF Deposit	-	0	-3.4%	425,000,000	0	0
Ending Balance	\$ 894,635,973	\$ 1,982,491,304	\$ 1,017,381,128	\$ 899,379,570	\$ 1,142,855,240	2.7%

GENERAL FUND STRUCTURAL BALANCE						
	Prelim Actual FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	
Ongoing Revenues	\$ 14,075,753,373	\$ 14,682,982,231	4.3%	\$ 13,777,367,724	-6.2%	\$ 14,004,087,242
Ongoing Spending	11,358,715,500	12,249,812,800	7.8%	13,225,002,600	8.0%	13,617,397,700
Structural Balance	\$ 2,717,037,873	\$ 2,433,169,431	\$ 552,365,124	\$ 386,689,542	\$ 698,546,170	YOY % growth

HISTORICAL REVENUES TO SPENDING

Year	Total GF Revenues (\$ Billions)	Total GF Spending (\$ Billions)
FY 2010	~7.5	~10.0
FY 2013	~9.0	~8.5
FY 2016	~9.5	~9.5
FY 2019	~11.0	~11.0
FY 2022	~14.0	~13.5
FY 2025	~14.5	~14.0

GENERAL FUND STRUCTURAL BALANCE

Year	Structural Balance (\$ Millions)
FY 2010	(3,401)
FY 2013	(3,023)
FY 2016	(411)
FY 19	(23)
FY 22	2,717
FY 25	2,433

COMPARISON OF REVENUES TO SPENDING

Year	Ongoing Revenues	One-time Revenues	Cash Balance	Ongoing Spending	One-time Spending
FY 2021	~14,000	~1,000	~1,000	~1,000	~1,000
FY 2022	~14,500	~1,500	~1,500	~1,500	~1,500
FY 2023	~14,000	~1,000	~1,000	~1,000	~1,000
FY 2024	~14,000	~1,000	~1,000	~1,000	~1,000
FY 2025	~14,000	~1,000	~1,000	~1,000	~1,000

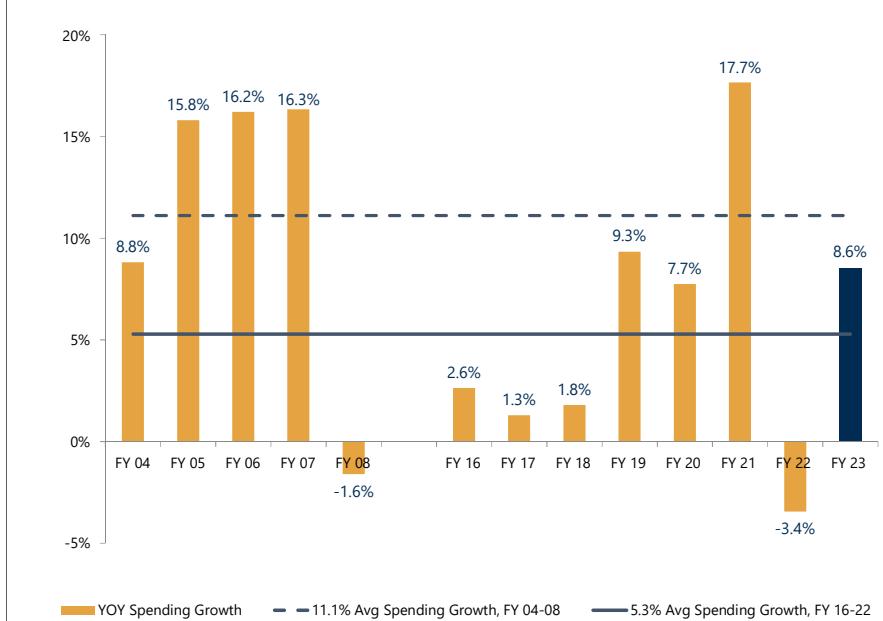
Since inheriting a \$1.0 billion deficit in 2016, Gov. Ducey has turned the State budget around - creating the longest run of structural surpluses ever, peaking at over \$2.7 billion last year.

We look forward to our final budget protecting this legacy with more saving, lower taxes, and continued billion dollar surpluses.

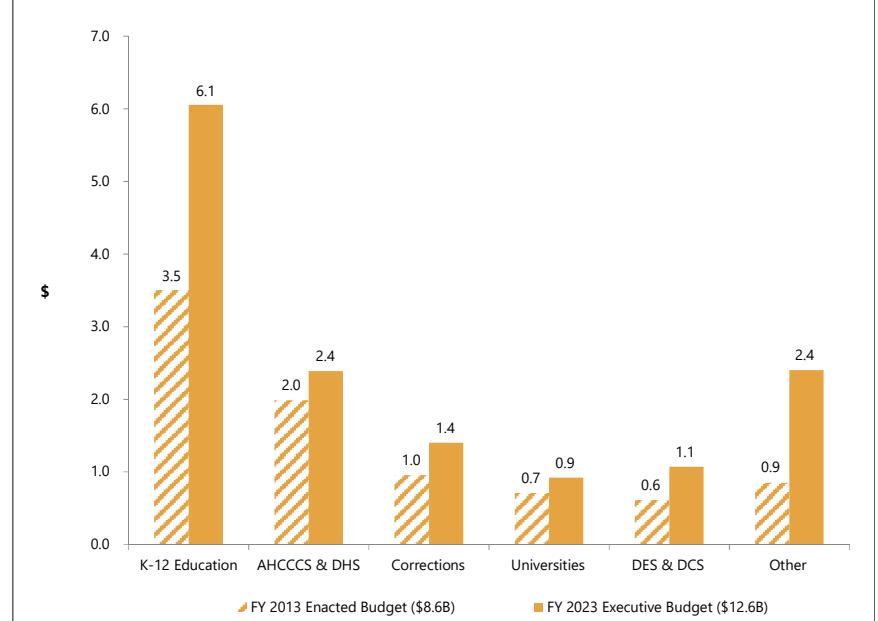
GENERAL FUND SPENDING					New FY 2022 Spending: \$ 300,156,100
	Prelim Actual	Executive Budget	Baseline Adjustments ²	FY 2023	New FY 2023 Spending: \$ 1,422,936,300
	FY 2021	FY 2022	FY 2023	FY 2023	New Initiatives ³ Executive Budget
Education	5,599,592	5,603,647	7,331	134,052	6,051,930
AHCCCS	1,951,981	1,915,630	322,453	6,425	2,244,508
Corrections	1,205,396	1,284,302	(38,787)	153,557	1,399,072
Economic Security	812,054	850,053	131,950	13,512	995,514
Child Safety	387,893	405,729	(25,138)	73,748	454,339
ASU - Tempe	324,717	385,262	(21,820)	32,258	395,699
Public Safety	91,138	291,650	(4,350)	81,643	368,943
School Facilities Board	235,236	290,810	(290,810)	0	0
Administration	8,210	111,372	291,060	20,000	329,315
U of A	207,722	250,739	(14,375)	28,229	264,594
Other ¹	2,770,540	1,737,696	(312,036)	834,034	1,745,755
Total	\$ 13,594,480.10	\$ 13,126,890	\$ 45,478	\$ 1,377,458	\$ 14,249,670
					8.6%

¹ Other spending includes one-time spending offsets or other savings that do not reduce Budgeted levels.

GENERAL FUND SPENDING GROWTH RATES, FY 2004 to FY 2008 vs. FY 2016 to FY 23



GENERAL FUND SPENDING DISTRIBUTION, FY 2013 to FY 2023 (billions)



² The Baseline Adjustments for School Facilities Board in FY 2023 removes all funding and transfers it to the Department of Administration

³ School Facilities Board spending in FY 2023 and beyond is reflected in the Department of Administration budget

GENERAL FUND SPENDING BREAKDOWN

KEY HIGHLIGHTS

- Increases the Rainy Day Fund to its statutory cap of 10% of General Fund revenue
- Eliminates all remaining unfunded liabilities in the State's share of PSPRS, and makes reforms to protect this fully funded status
- Makes the largest ever General Fund contributions to State Capital

K-12 AND HIGHER EDUCATION

DEPARTMENT OF EDUCATION

\$7.3M FY 2023 Baseline

\$143.7M	Inflation Adjustment
\$2.4M	Empowerment Scholarship Account - Basic State Aid Increases
(\$2.8M)	Additional State Aid Prior Year Base Adjustment
(\$7.7M)	1% Cap Cost Revisions – Desegregation Funding
(\$8.1M)	Property Taxes From New Construction
(\$19M)	Increased Permanent Fund Distributions
(\$20M)	Enrollment Growth
(\$81.3M)	Remove One-Time FY 2022 Appropriations

\$134.1M FY 2023 Initiatives

\$60.8M	Results-Based Funding Modernization
\$58M	Operation Excellence
\$6M	Arizona Industry Credentials Incentive Program Continuation
\$5M	Civics Excellence Incentive Bonus Program
\$4M	Statewide Assessments
\$0.2M	Literacy Initiative Tracking
\$0.1M	Certification Unit

SCHOOL FACILITIES BOARD (NOW WITHIN ADOA)

\$10.4M FY 2023 Baseline

\$183.3M	School Facilities Building Renewal Grants
\$25.1M	New School Facilities-Approvals
\$64.5M	New School Facilities-In Progress
\$262.5M)	Remove One-Time FY 2022 Appropriations

UNIVERSITIES

(\$45.1M) FY 2023 Baseline

\$0.6M	2017 University Capital Infrastructure Financing
\$0.5M	Agricultural Workforce Program
\$0.3M	2003 Research Infrastructure Refinancing
(\$46.4M)	Remove One-Time FY 2022 Appropriations

\$85.5M FY 2023 Initiatives

\$46M	New Economy Initiatives
\$20.3M	Health Insurance Trust Fund Tuition Backfill
\$12.5M	Arizona Promise Program
\$5M	Freedom School Funding
\$1.7M	Transfer of Postsecondary Education Board to the Board of R

COMMUNITY COLLEGES

(\$29.7M) FY 2023 Baseline

\$2.4M	Equalization Aid Adjustments
(\$0.5M)	STEM and Workforce Aid Adjustments
(\$2.6M)	Operating State Aid Adjustments
(\$29M)	Remove One-Time FY 2022 Appropriations

\$17.8M FY 2023 Initiatives

\$10.8M	STEM Funding Restoration
\$7M	Rural Community College Aid

HEALTH AND WELFARE

ECONOMIC SECURITY

\$132M FY 2023 Baseline

\$133.2M	Department of Developmental Disabilities: Caseload and Capitation
\$8.2M	Adult Protective Services Reporting Growth
(\$9.5M)	Remove One-Time FY 2022 Appropriations

\$13.5M FY 2023 Initiatives

\$7.4M	Enterprise Compensation Strategy
\$3.9M	Improving Information Technology Infrastructure and Security
\$1.4M	Reducing Recidivism: Second Chance Centers
\$0.5M	Friends of the Farm
\$0.4M	Building System Management Upgrade

AHCCCS

\$322.5M FY 2023 Baseline

\$251.7M	Traditional Formula Adjustments
\$55.7M	Arizona Long Term Care System Formula Adjustments
\$10M	Proposition 204 Formula Adjustments
\$10M	Department of Child Safety Comprehensive Health Plan Formula Ac
\$3M	Graduate Medical Education
\$1.7M	KidsCare Formula Adjustments
\$0.2M	Technical Adjustments
(\$9.8M)	Affordable Care Act Newly Eligible Adults Formula Adjustments

\$6.4M FY 2023 Initiatives

\$4.5M	Department of Economic Security Eligibility Determination
\$1.1M	Enterprise Compensation Strategy
\$0.5M	PMMIS Replacement - System Integration Provider
\$0.3M	Compliance With Patient Access Final Rule
\$0.2M	American Indian Health Program - Serious Mental Illness Integratio
(\$0.1M)	Suicide Prevention Coordinator Position to DHS

DEPARTMENT OF CHILD SAFETY

(\$25.1M) FY 2023 Baseline

(\$25.1M)	Remove One-Time FY 2022 Appropriations
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\$73.7M FY 2023 Initiatives

\$25.1M	Congregate Care: Backfill and Higher Provider Rates
\$19.8M	Foster Care and Kinship Support
\$14M	Enterprise Compensation Strategy
\$10M	Healthy Families Arizona Expansion
\$4.8M	Daily Stipend Increase

PUBLIC SAFETY

DEPARTMENT OF PUBLIC SAFETY

(\$4.4M) FY 2023 Baseline

(\$4.4M)	Remove One-Time FY 2022 Appropriations
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\$81.6M FY 2023 Initiatives

\$30.8M	Enterprise Compensation Strategy
\$11.7M	DPS Fleet Modernization – NEW
\$11.6M	Border Strike Task Force Expansion
\$10.5M	Inflation and Equipment Funding
\$8.2M	Helicopter Replacement
\$3M	Public Services Portal - Phase 2
\$1.8M	Communications Costs for Body Worn Camera Project
\$1.8M	Grapplers for Department Vehicles
\$1M	Commercial Vehicle Enforcement Task Force
\$0.5M	Cadet Housing Costs
\$0.4M	Building System Management Upgrade – NEW
\$0.4M	DNA Testing Enhancements

CORRECTIONS

(\$38.8M) FY 2023 Baseline

\$2.4M	Florence Deactivation Continuation
(\$41.2M)	Remove One-Time FY 2022 Appropriations

\$153.6M FY 2023 Initiatives

\$127.3M	Enterprise Compensation Strategy
\$13.3M	Private Prison Contract Increase
\$7.5M	ADCCR Fleet Modernization
\$5.4M	Recidivism Reduction: Substance Abuse

OTHER CHANGES

(\$283.6M) FY 2023 Net Baseline

\$32.1M	Statewide Adjustments - HITF
\$8M	Statewide Adjustments - HRIS
(\$323.7M)	All Other, Net Baseline

\$811.2M FY 2023 Net Initiatives

\$334M	Arizona Water Resilience Strategy
\$42.3M	Department of Corrections, Rehabilitation & Reentry - HVAC Replacem
\$32.5M	Arizona Healthy Forest Initiative
\$25.7M	Accelerated Nursing Program
\$20M	Transportation Modernization Grants
\$15.6M	Administration - Business One Stop Phase II
\$50M	Border Security Fund Deposit
\$10.4M	Readiness Center Maintenance Backlog
\$10M	Free In-State Tuition for GI Spouses - NEW
\$10M	Homeland Security Statewide Cyber Readiness Grant Program
\$7.5M	Major Events Fund Deposit
\$6.7M	Arizona State Hospital Operating Initiative
\$246.5M	All Other Initiatives

OVERALL SPENDING

\$45.5M FY 2021 Net Baseline

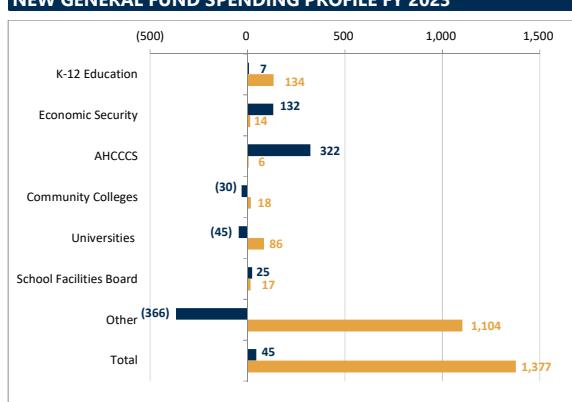
\$752.8M	Baseline Increases
(\$707.3M)	Baseline Decreases

\$1377.5M FY 2023 Net Initiatives

\$1377.5M	Initiative Increases
(\$0M)	Initiative Decreases

\$1422.9M Total New Spending

NEW GENERAL FUND SPENDING PROFILE FY 2023



General Fund Sources and Uses

\$ in thousands	FY 21 Prelim Actual	FY 22 Enacted Base	FY 22 Net Changes	FY 22 Executive Budget	FY 23 Net Changes	FY 23 Executive Budget	FY 24 Net Changes	FY 24 Executive Budget	FY 25 Net Changes	FY 25 Executive Budget
SOURCES OF FUNDS										
Beginning Balance	372,457	894,636		894,636		1,982,491		1,017,381		899,380
Ongoing Revenues										
Base Revenues	14,904,246	13,323,678		14,751,075		14,637,201		15,016,399		15,741,994
Urban Revenue Sharing	(828,493)	(756,391)		(756,393)		(1,706,959)		(1,205,989)		(1,153,003)
Adjusted Base Revenues	14,075,753	12,567,287		13,994,682		13,530,242		13,810,410		14,588,991
Transfers & Newly Enacted Changes	40,906	20,000		22,063		179,318		193,677		159,136
Earned Income Tax Credit	0	0		0		(74,000)		(74,000)		(74,000)
Manufacturing Tax Incentive Package	0	0		0		(58,259)		(8,649)		(9,040)
Prop 208 Repeal	0	0		836,000		487,800		428,450		369,100
SB 1783 FY Impact	0	0		(147,700)		(173,400)		(150,200)		(125,000)
Liquor License Fund Revenue Reduction (Ongoing)	0	0		0		(1,924)		(1,924)		(1,924)
Liquor License Fund Revenue Reduction (One-Time)	0	0		0		(600)		0		0
Liquor License Fund Statute Balance Cap Increase	0	0		0		(300)		0		0
PDRF Transfer	16,700	0		0		0		0		0
Lottery Keno Implementation	0	0		0		0		0		0
Wells Fargo Settlement	0	0		0		0		0		0
Water Infrastructure Repayment	0	20,000		20,000		0		0		0
Revenue Transfer to the State Highway Fund	0	0		(400,000)		0		0		0
Revenue Transfer to the Rural Transportation (SMA)	0	0		(50,000)		0		0		0
Revenue Transfer to State Parks Revenue Fund	0	0		(38,237)		0		0		0
Highway Safety Fund Transfer	24,206	0		0		0		0		0
New Fund Transfers	0	0		0		0		0		0
Prior Fund Transfers	0	0		0		0		0		0
Subtotal Revenues	14,116,659	12,587,287		14,214,745		13,709,560		14,004,087		14,748,128
TOTAL SOURCES OF FUNDS	14,489,116	13,481,923		15,109,381		15,692,051		15,021,468		15,647,507
USES OF FUNDS										
Operating Budget Appropriations	11,703,789	12,828,172	382,550	13,210,722	1,065,578	14,276,300	(100,817)	14,175,483	385,335	14,560,818
Other Expenses/(Revenues)	1,890,691	(1,438)	(82,394)	(83,832)	57,203	(26,630)	(26,765)	(53,394)	(2,772)	(56,166)
Phoenix Convention Center Payment	23,998	24,499	0	24,499	501	24,999	(501)	24,499	0	24,499
Rio Nuevo District	9,526	16,000		16,000	0	16,000	0	16,000	0	16,000
Asset Sale/Lease-Back Debt Service	53,702	0	0	0	0	0	0	0	0	0
Prior Year One-time Supplements	197,223	0	0	0	0	0	0	0	0	0
Homeland Security Statewide Cyber Readiness Gran	0	0	0	0	10,000	10,000	0	10,000	0	10,000
Arts Commission One-Time Funding	0	0	0	0	2,000	2,000	(2,000)	0	0	0
Arizona Criminal Justice Commission (ICA) New Fun	0	1,000	1,750	2,750	(1,000)	1,750	0	1,750	0	1,750
Arizona State Parks Board One-Time Funding	0	9,000	0	9,000	(5,000)	4,000	(4,000)	0	0	0
Unallocated FY 2022 Rent & AFIS Adjustments	0	11	0	11	0	11	0	11	0	11
Unallocated FY 2021 Health Insurance Adjustment	1,719	0	0	0	0	0	0	0	0	0
27th Pay Period Universities	0	20,052	0	20,052	(20,052)	0	0	0	0	0
Other Unallocated Adjustments	0	0	0	0	0	0	0	0	0	0
Transwestern Settlement	17,043	0	0	0	0	0	0	0	0	0
Unemployment Trust Fund Deposit	62,000	0	0	0	0	0	0	0	0	0
Debt Payoff	977,100	0	0	0	0	0	0	0	0	0
Pension Payoff	1,000,000	0	0	0	0	0	0	0	0	0
New Medicaid Federal Match Reversion	(431,941)	0	(84,144)	(84,144)	84,144	0	0	0	0	0
New ADE Enrollment Reversion	(436,115)	0	0	0	0	0	0	0	0	0
Drought Mitigation	200,000	0	0	0	0	0	0	0	0	0
Transportation - Additional Projects	231,002	0	0	0	0	0	0	0	0	0
Transportation - Pavement Preservation Funding	90,000	0	0	0	0	0	0	0	0	0
Statewide Adjustments - HITF	0	0	0	0	32,135	32,135	0	32,135	0	32,135
Statewide Adjustments - Retirement	0	0	0	0	(81,398)	(81,398)	(20,425)	(101,823)	(2,543)	(104,366)
Statewide Adjustments - AFIS	0	0	0	0	331	331	69	400	(330)	70
Statewide Adjustments - Rent	0	0	0	0	(1,679)	(1,679)	0	(1,679)	0	(1,679)
Statewide Adjustments - Fleet	0	0	0	0	628	628	0	628	0	628
Statewide Adjustments - HRIS	0	0	0	0	7,981	7,981	92	8,073	101	8,174
Statewide Adjustments - IT Pro Rata	0	0	0	0	1,613	1,613	0	1,613	0	1,613
Administrative Adjustments	55,000	120,000	0	120,000	38,000	158,000	0	158,000	0	158,000
Revertments	(159,566)	(192,000)	0	(192,000)	(11,000)	(203,000)	0	(203,000)	0	(203,000)
TOTAL USES OF FUNDS	13,594,480	12,826,734	300,156	13,126,890	1,122,780	14,249,670	(127,581)	14,122,089	382,563	14,504,652
Transfer to Rainy Day Fund	0	0	0	0	425,000	425,000	(425,000)	0	0	0
ENDING BALANCE	894,636	655,189		1,982,491		1,017,381		899,380		1,142,855
Ongoing Revenues	14,075,753	12,567,287		14,682,982		13,777,368		14,004,087		14,748,128
Ongoing Expenditures	11,358,716	12,249,813		12,249,813		13,225,003		13,617,398		14,049,581
STRUCTURAL BALANCE	2,717,038	317,474		2,433,169		552,365		386,690		698,546

Note: FY 2022 to FY 2025 Net Changes columns include baseline and initiative issues.

General Fund Revenue Summary

	Actual FY 2021	Estimate FY 2022	Estimate FY 2023	Estimate FY 2024	Estimate FY 2025
TAXES					
Individual Income	6,532,702.9	5,811,000.0	5,590,000.0	5,766,000.0	6,119,000.0
Corporate Income	847,020.8	888,940.0	815,569.5	848,594.6	882,034.1
Sales and Use	6,244,583.5	6,710,000.0	6,918,590.0	7,160,740.7	7,454,331.0
Property Taxes	22,380.0	25,610.0	20,180.0	21,270.0	20,990.0
Luxury Taxes	67,519.7	60,770.0	65,110.0	65,100.0	67,130.0
Insurance Premium Taxes	616,251.4	646,400.0	629,100.0	542,700.0	558,981.0
Estate Taxes	-	-	-	-	-
Other Taxes	15,290.3	15,580.0	16,000.0	16,400.0	16,820.0
TOTAL TAXES	14,345,748.7	14,158,300.0	14,054,549.5	14,420,805.2	15,119,286.1
OTHER REVENUES					
Licenses, Fees & Permits/Misc.	213,362.5	171,990.0	182,710.0	184,880.0	190,440.0
Interest Earnings	888.9	10,000.0	10,000.0	10,000.0	10,000.0
Lottery	104,740.4	183,731.5	140,999.4	139,117.2	144,824.4
Gaming Revenue Transfers	-	23,824.7	30,116.0	41,918.6	44,355.5
Transfers & Reimbursements	131,146.9	120,500.0	131,110.0	143,410.0	150,850.0
Disproportionate Share	84,858.6	82,729.0	87,716.0	76,268.0	82,237.7
TOTAL OTHER REVENUES	534,997.3	592,775.2	582,651.4	595,593.8	622,707.5
TOTAL REVENUES	14,880,746.0	14,751,075.2	14,637,200.9	15,016,399.0	15,741,993.7
ADJUSTMENTS					
Urban Revenue Sharing	(828,492.9)	(756,393.0)	(1,106,958.6)	(1,205,989.2)	(1,153,002.5)
Public Safety Transfers	23,357.7	-	-	-	-
Highway Safety Fund Transfer	24,205.7	-	-	-	-
Temporary Transaction Privilege Tax	142.5	-	-	-	-
Transfer to State Highway Fund	-	(400,000.0)	-	-	-
Transfer to Rural Transportation (SMART) Fund	-	(50,000.0)	-	-	-
Transfer to State Parks Revenue Fund		(38,237.1)	-	-	-
Scheduled Fund Transfers	16,700.0	20,000.0	-	-	-
Proposition 208 Repeal	-	688,300.0	314,400.0	278,250.0	244,100.0
Recommended Revenue Changes	-	-	(135,082.5)	(84,572.6)	(84,963.6)
GRAND TOTAL REVENUES	14,116,659.1	14,214,745.1	13,709,559.8	14,004,087.2	14,748,127.6

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

Other Funds Revenue Summary

	(in thousands)		
	Actual FY 2021	Estimate FY 2022	Estimate FY 2023
TAXES			
Motor Vehicle Fuel Tax	769,020.1	834,544.8	853,859.6
Property Taxes	12,714.7	12,714.7	12,714.7
Sales and Use	725,090.9	472,782.3	501,646.1
Luxury Taxes	315,865.1	311,377.0	309,009.8
Insurance Premium Taxes	41,540.1	41,808.6	42,796.0
Motor Carrier Tax	21,757.7	25,728.5	26,977.6
Vehicle License Tax	472,362.9	512,231.9	543,280.8
Other Taxes	<u>2,164,887.1</u>	<u>1,363,387.2</u>	<u>1,424,337.8</u>
 TOTAL TAXES	 4,523,238.7	 3,574,575.0	 3,714,622.4
 OTHER REVENUES			
Licenses, Fees & Permits/Misc.	7,462,371.2	8,016,552.2	8,214,513.2
Interest Earnings	428,564.6	368,731.5	374,466.9
Lottery	2,422,779.3	2,070,973.9	2,070,973.9
Charges for Services	4,905,376.8	5,229,608.0	5,454,515.2
Miscellaneous Revenues	<u>1,996,837.3</u>	<u>1,987,174.0</u>	<u>2,000,824.7</u>
 TOTAL OTHER REVENUES	 17,215,929.2	 17,673,039.6	 18,115,293.9
 TOTAL REVENUES	 <u>21,739,167.9</u>	 <u>21,247,614.6</u>	 <u>21,829,916.3</u>
 OTHER FINANCING SOURCES			
Transfers & Reimbursements	32,411,132.4	37,321,757.1	33,589,803.9
 GRAND TOTAL REVENUES	 <u>54,150,300.3</u>	 <u>58,569,371.7</u>	 <u>55,419,720.2</u>

*Other Appropriated Funds Revenues include all revenues for funds which may only be partially subject to statutory or legislative appropriation. The expenditures shown in the "Other Funds Budget Summary" are for the appropriated portion of these funds only and may represent only a small portion of the funds' total expenditures. There are several funds where a General Fund appropriation is deposited into an "Other Appropriated Fund" and these deposits are reflected in the figures above; as such General and Other Fund Revenues may not sum to total State revenue.

FY 2023 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Board of Accountancy	0.0	2,051.8	0.0	2,051.8
Acupuncture Board of Examiners	0.0	182.3	0.0	182.3
Department of Administration	329,315.2	221,098.6	1,390,947.7	1,941,361.5
Office of Administrative Hearings	891.8	0.0	796.1	1,687.9
African-American Affairs	377.4	0.0	0.0	377.4
Department of Agriculture	14,265.7	1,734.6	28,003.6	44,003.9
Arizona Health Care Cost Containment System	2,244,508.0	(108,990.6)	19,181,626.1	21,317,143.5
Statewide and Large Automation Projects	26,867.3	31,500.2	0.0	58,367.5
Commission on the Arts	2,000.0	0.0	2,491.5	4,491.5
Board of Athletic Training	0.0	143.7	0.0	143.7
Attorney General - Department of Law	25,438.2	58,463.0	65,197.2	149,098.4
Barbering and Cosmetology Board	0.0	2,622.3	0.0	2,622.3
Board of Behavioral Health Examiners	0.0	1,999.1	0.0	1,999.1
Board for Charter Schools	2,920.9	0.0	115.0	3,035.9
Department of Child Safety	454,338.9	954,962.5	4,889.3	1,414,190.7
Board of Chiropractic Examiners	0.0	444.8	0.0	444.8
Citizens' Clean Elections Commission	0.0	0.0	4,878.8	4,878.8
Commerce Authority	24,925.0	0.0	107,095.5	132,020.5
Community Colleges	97,065.0	0.0	0.0	97,065.0
Constable Ethics Standards & Training Board	0.0	0.0	503.7	503.7
Registrar of Contractors	0.0	12,590.3	4,666.8	17,257.1
Corporation Commission	623.1	28,057.1	2,219.5	30,899.7
Department of Corrections, Rehabilitation and Reentry	1,399,071.9	65,070.7	70,080.8	1,534,223.4
Criminal Justice Commission	1,750.0	7,174.6	21,245.7	30,170.3
Schools for the Deaf and the Blind	24,361.9	32,031.4	5,397.0	61,790.3
Commission for the Deaf and the Hard of Hearing	0.0	4,631.9	0.0	4,631.9
Board of Dental Examiners	0.0	1,850.0	0.0	1,850.0
Early Childhood Development and Health Board	0.0	0.0	171,945.2	171,945.2
Department of Economic Security	995,514.2	424,858.2	6,580,843.2	8,001,215.6
State Board of Education	3,308.2	0.0	0.0	3,308.2
Department of Education	6,051,930.4	341,181.5	3,908,732.7	10,301,844.6
Department of Emergency and Military Affairs	77,491.3	1,987.4	199,041.3	278,520.0
Department of Environmental Quality	21,400.0	82,223.6	94,168.1	197,791.7
Office of Economic Opportunity	470.3	0.0	152,488.5	152,958.8
Governor's Office for Equal Opportunity	0.0	191.3	0.0	191.3
Board of Equalization	738.9	0.0	0.0	738.9
Board of Executive Clemency	1,274.3	0.0	23.3	1,297.6
Exposition & State Fair	0.0	13,702.5	0.0	13,702.5
Board of Fingerprinting	0.0	0.0	840.0	840.0
Department of Forestry and Fire Management	103,519.2	0.0	79,142.6	182,661.8
Board of Funeral Directors & Embalmers	0.0	477.1	0.0	477.1
Game and Fish Department	0.0	48,282.1	93,441.2	141,723.3
Department of Gaming	14,029.5	17,073.1	1,520.4	32,623.0
Office of the Governor	8,813.6	0.0	1,247,947.1	1,256,760.7
Governor's Office of Strategic Planning and Budgeting	2,688.7	0.0	0.0	2,688.7
Department of Health Services	141,582.8	60,556.9	459,797.1	661,936.8
Governor's Office of Highway Safety	0.0	0.0	16,363.0	16,363.0

FY 2023 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Arizona Historical Society	2,906.0	0.0	1,120.2	4,026.2
Prescott Historical Society of Arizona	900.6	0.0	628.9	1,529.5
Department of Homeland Security	10,000.0	11,757.2	29,280.0	51,037.2
Board of Homeopathic Medical Examiners	0.0	48.4	0.0	48.4
Department of Housing	0.0	320.9	269,648.8	269,969.7
Industrial Commission of Arizona	80.0	20,122.0	33,008.1	53,210.1
Department of Insurance and Financial Institutions	7,663.4	11,742.5	4,427.0	23,832.9
Court of Appeals	18,081.1	0.0	0.0	18,081.1
Superior Court	110,421.1	11,975.6	2,989.6	125,386.3
Supreme Court	26,179.5	32,286.8	33,482.7	91,949.0
Department of Juvenile Corrections	36,861.0	14,921.9	1,066.8	52,849.7
Land Department	13,596.4	13,288.7	1,342.9	28,228.0
Auditor General	23,261.3	0.0	1,310.3	24,571.6
House of Representatives	16,429.3	0.0	0.0	16,429.3
Joint Legislative Budget Committee	2,841.9	0.0	0.0	2,841.9
Legislative Council	9,090.4	0.0	0.0	9,090.4
Senate	12,969.1	0.0	0.0	12,969.1
Department of Liquor Licenses and Control	0.0	6,685.8	1,328.5	8,014.3
Local Government	17,650.7	0.0	0.0	17,650.7
Lottery Commission	0.0	165,573.0	1,746,626.1	1,912,199.1
Massage Therapy	0.0	534.0	0.0	534.0
Medical Board	0.0	7,609.6	0.0	7,609.6
Mine Inspector	1,604.7	112.9	482.4	2,200.0
Naturopathic Physicians Board of Medical Examiners	0.0	197.1	0.0	197.1
Navigable Stream Adjudication Commission	129.3	200.0	0.0	329.3
Board of Nursing	0.0	5,296.1	409.0	5,705.1
Nursing Care Ins. Admin. Examiners	0.0	571.2	0.0	571.2
Board of Occupational Therapy Examiners	0.0	245.3	0.0	245.3
Board of Dispensing Opticians	0.0	178.9	0.0	178.9
Board of Optometry	0.0	275.5	0.0	275.5
Board of Osteopathic Examiners	0.0	1,275.9	0.0	1,275.9
Arizona State Parks	4,000.0	17,945.1	30,761.6	52,706.7
Personnel Board	0.0	326.4	0.0	326.4
Board of Pharmacy	0.0	3,206.3	1,919.8	5,126.1
Board of Physical Therapy Examiners	0.0	592.1	0.0	592.1
Pioneers' Home	0.0	8,005.1	0.0	8,005.1
Board of Podiatry Examiners	0.0	172.7	0.0	172.7
Power Authority	0.0	0.0	19,636.0	19,636.0
Board for Private Postsecondary Education	0.0	416.0	272.0	688.0
Board of Psychologist Examiners	0.0	596.0	0.0	596.0
Department of Public Safety	368,943.1	77,114.5	115,175.3	561,232.9
Public Safety Personnel Retirement System	6,000.0	0.0	25,213.0	31,213.0
Department of Real Estate	2,922.1	0.0	206.2	3,128.3
Residential Utility Consumer Office	0.0	1,452.2	0.0	1,452.2
Board of Respiratory Care Examiners	0.0	370.0	0.0	370.0
Arizona State Retirement System	0.0	25,599.4	143,624.5	169,223.9
Department of Revenue	56,589.1	27,161.2	3,083.8	86,834.1

FY 2023 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Department of State - Secretary of State	18,603.9	1,770.3	4,426.0	24,800.2
Board of Tax Appeals	283.3	0.0	0.0	283.3
Board of Technical Registration	0.0	2,480.3	7.0	2,487.3
Office of Tourism	8,231.5	0.0	23,432.9	31,664.4
Department of Transportation	3,600.0	501,916.0	888,966.3	1,394,482.3
Treasurer	3,169.0	8,267.5	891.8	12,328.3
Governor's Office on Tribal Relations	63.5	0.0	8.5	72.0
Board of Regents	44,096.9	1,537.1	260,351.2	305,985.2
Arizona State University	395,699.4	597,718.8	3,079,432.5	4,072,850.7
Northern Arizona University	137,406.8	134,983.3	472,466.0	744,856.1
University of Arizona - Main Campus	264,593.6	304,589.0	1,563,511.7	2,132,694.3
University of Arizona - Health Sciences Center	76,897.7	56,363.3	574,684.8	707,945.8
Department of Veterans' Services	18,904.6	59,402.1	4,735.8	83,042.5
Veterinary Medical Examining Board	0.0	714.6	0.0	714.6
Department of Water Resources	352,702.3	1,963.5	20,996.6	375,662.4
	14,144,854.3	4,448,034.1	43,257,402.6	61,850,291.0

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 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
Department of Administration	6,967.2	18,255.0	204,372.0	329,315.2	311,060.2
Office of Administrative Hearings	920.8	891.8	891.8	891.8	0.0
African-American Affairs	136.6	128.8	128.8	377.4	248.6
Department of Agriculture	10,424.9	16,915.7	16,915.7	14,265.7	(2,650.0)
Arizona Health Care Cost Containment System	1,769,425.7	1,915,630.2	1,915,630.2	2,244,508.0	328,877.8
Commission on the Arts	0.0	0.0	0.0	2,000.0	2,000.0
Attorney General - Department of Law	24,600.3	25,239.8	25,239.8	25,438.2	198.4
Board for Charter Schools	1,731.4	2,103.0	2,103.0	2,920.9	817.9
Department of Child Safety	372,440.6	405,728.8	405,728.8	454,338.9	48,610.1
Commerce Authority	16,425.0	78,925.0	78,925.0	24,925.0	(54,000.0)
Community Colleges	66,645.4	108,904.7	108,904.7	97,065.0	(11,839.7)
Corporation Commission	647.1	623.1	623.1	623.1	0.0
Department of Corrections, Rehabilitation and Reentry	1,162,400.0	1,284,302.3	1,284,302.3	1,399,071.9	114,769.6
Criminal Justice Commission	0.0	1,000.0	2,750.0	1,750.0	750.0
Schools for the Deaf and the Blind	23,432.0	23,255.7	23,255.7	24,361.9	1,106.2
Department of Economic Security	683,946.5	850,052.5	850,052.5	995,514.2	145,461.7
State Board of Education	1,265.4	2,340.0	2,340.0	3,308.2	968.2
Department of Education	5,090,182.7	5,910,547.3	5,603,647.3	6,051,930.4	141,383.1
Department of Emergency and Military Affairs	9,073.6	13,367.1	13,367.1	77,491.3	64,124.2
Department of Environmental Quality	0.0	15,000.0	15,000.0	21,400.0	6,400.0
Office of Economic Opportunity	40,479.0	12,470.3	12,470.3	470.3	(12,000.0)
Board of Equalization	656.4	663.9	663.9	738.9	75.0
Board of Executive Clemency	1,072.3	1,153.3	1,153.3	1,274.3	121.0
Department of Forestry and Fire Management	15,219.0	53,769.4	53,769.4	103,519.2	49,749.8
Department of Gaming	2,509.5	15,759.5	15,759.5	14,029.5	(1,730.0)
Office of the Governor	5,414.1	9,813.6	9,813.6	8,813.6	(1,000.0)
Governor's Office of Strategic Planning and Budgeting	2,237.1	2,688.7	2,688.7	2,688.7	0.0
Department of Health Services	93,197.7	103,419.2	103,419.2	141,582.8	38,163.6
Arizona Historical Society	3,195.6	2,906.0	2,906.0	2,906.0	0.0
Prescott Historical Society of Arizona	863.2	900.6	900.6	900.6	0.0
Department of Homeland Security	0.0	0.0	0.0	10,000.0	10,000.0
Independent Redistricting Commission	500.0	7,900.0	7,900.0	0.0	(7,900.0)
Industrial Commission of Arizona	0.0	95.0	95.0	80.0	(15.0)
Department of Insurance and Financial Institutions	7,798.1	7,663.4	7,663.4	7,663.4	0.0
Court of Appeals	17,109.8	16,790.8	16,790.8	18,081.1	1,290.3
Superior Court	97,976.7	106,655.0	106,655.0	110,421.1	3,766.1
Supreme Court	21,317.7	22,234.7	22,234.7	26,179.5	3,944.8
Department of Juvenile Corrections	30,602.3	30,696.6	30,696.6	36,861.0	6,164.4
Land Department	12,120.1	13,315.1	13,315.1	13,596.4	281.3
Auditor General	20,227.1	21,223.5	21,223.5	23,261.3	2,037.8
House of Representatives	15,930.4	21,429.3	21,429.3	16,429.3	(5,000.0)
Joint Legislative Budget Committee	2,744.9	2,841.9	2,841.9	2,841.9	0.0
Legislative Council	7,509.7	10,090.4	10,090.4	9,090.4	(1,000.0)
Senate	11,538.5	17,969.1	17,969.1	12,969.1	(5,000.0)

General Fund Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
Local Government	10,650.7	20,650.7	20,650.7	17,650.7	(3,000.0)
Mine Inspector	1,155.5	1,558.2	1,558.2	1,604.7	46.5
Navigable Stream Adjudication Commission	125.8	129.3	129.3	129.3	0.0
Arizona State Parks	0.0	9,000.0	9,000.0	4,000.0	(5,000.0)
Commission for Postsecondary Education	1,663.7	1,680.9	1,680.9	0.0	(1,680.9)
Department of Public Safety	88,012.4	291,650.4	291,650.4	368,943.1	77,292.7
Public Safety Personnel Retirement System	1,006,000.0	6,000.0	602,333.1	6,000.0	0.0
Department of Real Estate	2,345.7	2,922.1	2,922.1	2,922.1	0.0
Department of Revenue	29,253.2	53,542.4	53,542.4	56,589.1	3,046.7
School Facilities Board	189,199.1	290,809.5	290,809.5	0.0	(290,809.5)
Department of State - Secretary of State	16,638.3	12,907.7	12,907.7	18,603.9	5,696.2
Board of Tax Appeals	291.7	283.3	283.3	283.3	0.0
Office of Tourism	8,335.1	8,481.5	8,481.5	8,231.5	(250.0)
Department of Transportation	1,460.5	3,300.0	3,300.0	3,600.0	300.0
Treasurer	1,144.7	15,010.2	15,010.2	3,169.0	(11,841.2)
Governor's Office on Tribal Relations	66.1	63.5	63.5	63.5	0.0
Board of Regents	21,965.2	29,916.0	29,916.0	44,096.9	14,180.9
Arizona State University	320,633.6	385,261.9	385,261.9	395,699.4	10,437.5
Northern Arizona University	121,347.8	135,452.4	135,452.4	137,406.8	1,954.4
University of Arizona - Main Campus	209,737.3	250,739.1	250,739.1	264,593.6	13,854.5
University of Arizona - Health Sciences Center	76,897.7	76,897.7	76,897.7	76,897.7	0.0
Department of Veterans' Services	6,009.1	8,625.5	8,625.5	18,904.6	10,279.1
Department of Water Resources	174,467.8	18,424.4	18,424.4	352,702.3	334,277.9
General Fund Operating Total	11,938,285.4	12,778,966.8	13,256,266.9	14,117,987.0	1,339,020.2

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 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Board of Accountancy</u>					
Accountancy Board Fund	1,643.5	2,051.8	2,051.8	2,051.8	0.0
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners Fund	167.0	176.8	176.8	182.3	5.5
<u>Department of Administration</u>					
Capital Outlay Stabilization Fund	16,065.3	18,395.1	18,395.1	18,395.1	0.0
Personnel Division Fund	12,191.1	12,764.9	12,764.9	12,764.9	0.0
Information Technology Fund	8,131.1	8,467.9	8,467.9	2,101.2	(6,366.7)
Air Quality Fund	142.3	928.2	928.2	928.2	0.0
Statewide Monument and Memorial Repair Fund	0.0	21.5	21.5	0.0	(21.5)
State Web Portal Fund	6,063.2	6,612.2	6,612.2	6,612.2	0.0
Special Employee Health Fund	4,964.4	5,330.1	5,330.1	5,533.2	203.1
Capitol Mall Consolidation Fund	0.0	375.9	375.9	0.0	(375.9)
Motor Pool Revolving Fund	5,371.1	0.0	0.0	0.0	0.0
Admin - Special Services Fund	504.0	1,170.7	1,170.7	1,170.7	0.0
State Surplus Materials Revolving Fund	2,338.6	2,979.8	2,979.8	2,979.8	0.0
Federal Surplus Materials Revolving Fund	0.0	466.9	466.9	466.9	0.0
Risk Management Fund	74,987.2	96,714.5	97,825.1	99,243.8	2,529.3
Arizona Financial Information System Collections Fund	8,450.3	11,423.8	11,423.8	12,923.8	1,500.0
Automation Operations Fund	27,220.8	31,127.7	31,127.7	31,127.7	0.0
Telecommunications Fund	1,688.2	1,651.7	1,651.7	1,651.7	0.0
Cybersecurity Risk Management Fund	0.0	0.0	0.0	24,624.4	24,624.4
Corrections Fund	592.7	575.0	575.0	575.0	0.0
Agency Total	168,710.2	199,005.9	200,116.5	221,098.6	22,092.7
<u>Department of Agriculture</u>					
Nuclear Emergency Management Fund	253.6	280.5	280.5	280.5	0.0
Air Quality Fund	1,496.1	1,454.1	1,454.1	1,454.1	0.0
Agency Total	1,749.7	1,734.6	1,734.6	1,734.6	0.0
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Products Tax Fund	16,216.3	17,921.6	17,921.6	17,921.6	0.0
Tobacco Tax and Health Care Fund MNA	65,627.2	69,002.1	69,002.1	69,002.1	0.0
AHCCCS Fund	0.0	0.0	0.0	(542,994.1)	(542,994.1)
Long Term Care System Fund	0.0	0.0	0.0	54,287.9	54,287.9
Substance Abuse Services Fund	2,250.2	2,250.2	2,250.2	2,250.2	0.0
Children's Health Insurance Program Fund	104,525.5	117,660.9	117,660.9	121,106.9	3,446.0
Budget Neutrality Compliance Fund	4,037.4	4,076.2	4,076.2	4,076.2	0.0
Prescription Drug Rebate Fund	1,078,359.9	175,236.6	175,236.6	165,158.6	(10,078.0)
Seriously Mentally Ill Housing Trust Fund	0.0	200.0	200.0	200.0	0.0
Agency Total	1,271,016.5	386,347.6	386,347.6	(108,990.6)	(495,338.2)
<u>Board of Athletic Training</u>					
Athletic Training Fund	120.1	127.0	127.0	143.7	16.7

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Attorney General - Department of Law</u>					
Interagency Service Agreements Fund	15,378.7	16,474.9	16,474.9	16,474.9	0.0
Collection Enforcement Revolving Fund - Operating	6,857.7	6,925.7	6,925.7	6,925.7	0.0
Internet Crimes Against Children Enforcement Fund	1,140.5	900.0	900.0	900.0	0.0
Risk Management Fund	9,394.4	10,117.3	10,117.3	12,221.5	2,104.2
Attorney General Legal Services Cost Allocation Fund	1,623.6	2,110.3	2,110.3	2,110.3	0.0
Consumer Protection - Consumer Fraud Revolving Fund	9,251.8	18,943.6	18,943.6	15,913.1	(3,030.5)
Antitrust Enforcement Revolving Fund	144.5	1,148.7	1,148.7	148.7	(1,000.0)
Victims Rights Fund	2,466.9	3,768.8	3,768.8	3,768.8	0.0
Agency Total	46,258.1	60,389.3	60,389.3	58,463.0	(1,926.3)
<u>Board of Barbers</u>					
Board of Barbers Fund	384.6	408.9	408.9	0.0	(408.9)
<u>Barbering and Cosmetology Board</u>					
Barbering and Cosmetology Board Fund	0.0	0.0	0.0	2,622.3	2,622.3
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiner Fund	1,718.7	1,776.1	1,776.1	1,999.1	223.0
<u>Department of Child Safety</u>					
Temporary Assistance for Needy Families (TANF) Fund	159,091.1	157,468.1	157,468.1	157,468.1	0.0
Child Care and Development Fund	35,400.0	130,916.0	130,916.0	130,916.0	0.0
DCS Expenditure Authority Fund	482,624.9	399,478.6	422,983.6	432,646.3	33,167.7
Comprehensive Health Plan Expenditure Authority Fund	0.0	231,323.0	231,323.0	231,323.0	0.0
Child Abuse Prevention Fund	0.0	1,459.3	1,459.3	1,459.3	0.0
Children and Family Services Training Program Fund	0.0	207.9	207.9	207.9	0.0
Child Welfare Licensing Fee Fund	0.0	941.9	941.9	941.9	0.0
Risk Management Revolving Fund	1,168.0	0.0	0.0	0.0	0.0
Agency Total	678,284.0	921,794.8	945,299.8	954,962.5	33,167.7
<u>Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board Fund	425.5	437.0	437.0	444.8	7.8
<u>Commerce Authority</u>					
State Web Portal Fund	(250.0)	0.0	0.0	0.0	0.0
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	10,671.6	12,590.3	12,590.3	12,590.3	0.0
<u>Corporation Commission</u>					
Utility Regulation Revolving	13,770.2	14,619.1	14,619.1	15,349.6	730.5
Securities Regulatory & Enforcement	5,074.6	5,135.3	5,135.3	5,135.3	0.0
Public Access Fund	6,323.2	6,799.4	6,799.4	6,799.4	0.0
Securities Investment Management Fund	735.2	721.6	721.6	721.6	0.0
Arizona Arts Trust Fund	36.8	51.2	51.2	51.2	0.0
Agency Total	25,940.0	27,326.6	27,326.6	28,057.1	730.5

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Corrections, Rehabilitation and Reentry</u>					
Corrections Fund	30,238.8	30,312.4	30,312.4	32,967.7	2,655.3
State Education Fund for Correctional Education Fund	0.0	743.3	743.3	743.3	0.0
DOC - Alcohol Abuse Treatment Fund	17.8	555.7	555.7	555.7	0.0
Transition Program Fund	477.1	2,400.2	2,400.2	2,400.2	0.0
Prison Construction and Operations Fund	4,000.0	12,500.0	12,500.0	12,500.0	0.0
Inmate Store Proceeds Fund	616.1	1,373.0	1,373.0	7,933.0	6,560.0
Penitentiary Land Earnings Fund	2,653.2	2,790.7	2,790.7	2,790.7	0.0
State Charitable, Penal & Reformatory Land Earnings Fund	2,661.4	2,663.7	2,663.7	3,180.1	516.4
DOC Special Services Fund	0.0	0.0	0.0	2,000.0	2,000.0
Agency Total	40,664.5	53,339.0	53,339.0	65,070.7	11,731.7
<u>Board of Cosmetology</u>					
Board of Cosmetology Fund	1,715.9	1,856.7	1,856.7	0.0	(1,856.7)
<u>Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	488.4	658.8	658.8	658.8	0.0
Victim Compensation and Assistance Fund	2,620.8	4,224.6	4,224.6	4,224.6	0.0
Resource Center Fund	624.1	617.5	617.5	617.5	0.0
Fingerprint Clearance Card Fund	553.3	0.0	0.0	0.0	0.0
State Aid to County Attorneys Fund	685.9	973.7	973.7	973.7	0.0
State Aid to Indigent Defense Fund	0.0	700.0	700.0	700.0	0.0
Agency Total	4,972.5	7,174.6	7,174.6	7,174.6	0.0
<u>Schools for the Deaf and the Blind</u>					
Schools for the Deaf and the Blind Fund	12,467.7	13,955.2	13,955.2	13,922.8	(32.4)
Cooperative Services Fund	0.0	18,108.6	18,108.6	18,108.6	0.0
Agency Total	12,467.7	32,063.8	32,063.8	32,031.4	(32.4)
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecommunication for the Deaf Fund	3,548.4	4,631.9	4,631.9	4,631.9	0.0
<u>Board of Dental Examiners</u>					
Dental Board Fund	1,194.4	1,815.8	1,815.8	1,850.0	34.2

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Economic Security</u>					
Statewide Cost Allocation Plan Fund	0.0	1,000.0	1,000.0	1,000.0	0.0
Temporary Assistance for Needy Families (TANF) Fund	65,839.8	65,405.8	65,405.8	50,859.3	(14,546.5)
Child Care and Development Fund	304,470.1	1,285,880.0	1,285,880.0	199,267.2	(1,086,612.8)
Workforce Investment Grant Fund	75,110.2	56,069.1	56,069.1	56,069.1	0.0
Special Administration Fund	4,140.3	4,512.6	4,512.6	4,512.6	0.0
Child Support Enforcement Administration Fund	14,346.9	17,204.7	17,204.7	17,204.7	0.0
Domestic Violence Services Fund	2,766.5	4,000.2	4,000.2	4,000.2	0.0
Sexual Violence Service Fund	0.0	8,000.0	8,000.0	0.0	(8,000.0)
Public Assistance Collections Fund	0.0	423.7	423.7	423.7	0.0
Department Long-Term Care System Fund	28,989.8	32,459.6	32,459.6	62,322.2	29,862.6
Spinal and Head Injuries Trust Fund	1,975.9	2,336.0	2,336.0	2,336.0	0.0
Health Care Investment Fund Expenditure Authority	20,147.3	26,863.2	26,863.2	26,863.2	0.0
Federal Pandemic Emergency Assistance Fund	0.0	14,546.5	14,546.5	0.0	(14,546.5)
Agency Total	517,786.8	1,518,701.4	1,518,701.4	424,858.2	(1,093,843.2)
<u>Department of Education</u>					
School Accountability Fund - 6/10th Sales Tax	0.0	7,000.0	7,000.0	7,000.0	0.0
Teacher Certification Fund	1,848.0	2,359.1	2,359.1	2,359.1	0.0
Empowerment Scholarship Account Fund	637.6	350.0	350.0	0.0	(350.0)
Department of Education Professional Development Revolving Fund	0.0	2,701.1	2,701.1	2,701.1	0.0
Tribal College Dual Enrollment Program Fund	157.5	325.0	325.0	325.0	0.0
Permanent State School Fund	300,555.0	309,832.4	309,832.4	328,796.3	18,963.9
Agency Total	303,198.1	322,567.6	322,567.6	341,181.5	18,613.9
<u>Department of Emergency and Military Affairs</u>					
Nuclear Emergency Management Fund	1,522.8	1,930.4	1,930.4	1,987.4	57.0
<u>Department of Environmental Quality</u>					
DEQ Emissions Inspection Fund	25,895.0	30,288.3	30,288.3	30,288.3	0.0
Hazardous Waste Management Fund	1,622.3	1,748.3	1,748.3	1,748.3	0.0
Air Quality Fund	5,411.4	5,382.8	5,382.8	5,382.8	0.0
Underground Storage Tank Revolving	0.0	148.8	148.8	0.0	(148.8)
Recycling Fund	2,798.7	1,565.1	1,565.1	2,365.1	800.0
Permit Administration Fund	4,506.8	7,166.5	7,166.5	7,166.5	0.0
Voluntary Vehicle Repair & Retrofit Program Fund	0.0	560.0	560.0	0.0	(560.0)
Emergency Response Fund	130.1	132.8	132.8	528.3	395.5
Solid Waste Fee Fund	1,202.7	1,853.9	1,853.9	2,012.1	158.2
Water Quality Fee Fund	8,330.3	10,555.3	10,555.3	16,955.3	6,400.0
Safe Drinking Water Program Fund	1,807.0	2,214.3	2,214.3	1,814.3	(400.0)
Indirect Cost Recovery Fund	14,077.6	13,962.6	13,962.6	13,962.6	0.0
Agency Total	65,781.9	75,578.7	75,578.7	82,223.6	6,644.9
<u>Governor's Office for Equal Opportunity</u>					
Personnel Division Fund	133.8	191.3	191.3	191.3	0.0

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Exposition & State Fair</u>					
Arizona Exposition and State Fair Fund	3,342.9	13,297.5	13,297.5	13,702.5	405.0
<u>Board of Funeral Directors & Embalmers</u>					
Funeral Directors & Embalmers Fund	362.3	402.8	402.8	477.1	74.3
<u>Game and Fish Department</u>					
Game and Fish Fund	32,603.0	40,461.5	55,461.5	41,951.9	1,490.4
Watercraft Licensing Fund	4,159.0	4,955.2	4,955.2	4,955.2	0.0
Game, Non-Game, Fish and Endangered Species Fund	211.1	357.6	357.6	357.6	0.0
Capital Improvement Fund	1,001.2	1,001.2	1,001.2	1,001.2	0.0
Wildlife Endowment Fund	39.6	16.2	16.2	16.2	0.0
Agency Total	38,013.9	46,791.7	61,791.7	48,282.1	1,490.4
<u>Department of Gaming</u>					
State Lottery Fund	300.0	300.0	300.0	300.0	0.0
Fantasy Sports Contest Fund	0.0	145.0	145.0	145.0	0.0
Permanent Tribal-State Compact Fund	2,162.6	2,104.9	2,104.9	2,104.9	0.0
Arizona Benefits Fund	8,408.9	12,012.1	12,012.1	12,012.1	0.0
Racing Regulation Fund	1,779.1	2,411.5	2,411.5	2,411.5	0.0
Racing Regulaions Fund - Unarmed Combat Subaccount	74.7	99.6	99.6	99.6	0.0
Agency Total	12,725.3	17,073.1	17,073.1	17,073.1	0.0
<u>Department of Health Services</u>					
Tobacco Tax Hlth Care Fund MNMI Account	594.6	700.0	700.0	700.0	0.0
Health Services Licenses Fund	15,187.4	15,570.6	15,570.6	15,570.6	0.0
Child Care and Development Fund	765.2	1,884.1	1,884.1	884.1	(1,000.0)
Disease Control Research Fund	988.3	1,000.0	1,000.0	1,000.0	0.0
Nuclear Emergency Management Fund	457.3	0.0	0.0	0.0	0.0
Emergency Medical Operating Services Fund	4,513.0	3,831.3	3,831.3	3,837.5	6.2
Newborn Screening Program Fund	6,700.9	13,507.7	13,507.7	12,597.6	(910.1)
Nursing Care Institution Resident Protection Revolving Fund	61.9	138.2	138.2	238.2	100.0
Prescription Drug Rebate Fund	1,000.0	2,500.0	2,500.0	3,625.0	1,125.0
Public Health Emergencies Fund	16,860.9	0.0	0.0	0.0	0.0
Environmental Laboratory Licensure Revolving Fund	624.6	933.3	933.3	933.3	0.0
Child Fatality Review Fund	79.0	196.5	196.5	196.5	0.0
Vital Records Electronic Systems Fund	3,365.2	3,641.6	3,641.6	3,641.6	0.0
The Arizona State Hospital Fund	2,493.4	3,883.6	3,883.6	4,145.7	262.1
DHS State Hospital Land Earnings Fund	601.8	1,650.0	1,650.0	1,650.0	0.0
Health Services Lottery Fund	50.0	200.0	200.0	100.0	(100.0)
Indirect Cost Fund	10,604.7	11,302.1	11,302.1	11,436.8	134.7
Agency Total	64,948.2	60,939.0	60,939.0	60,556.9	(382.1)
<u>Department of Homeland Security</u>					
Information Technology Fund	0.0	0.0	0.0	11,757.2	11,757.2
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners Fund	37.8	46.0	46.0	48.4	2.4

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Housing</u>					
Housing Trust Fund	332.5	320.9	320.9	320.9	0.0
<u>Industrial Commission of Arizona</u>					
Industrial Commission Administration Fund	19,616.3	20,122.0	20,122.0	20,122.0	0.0
<u>Department of Insurance and Financial Institutions</u>					
Financial Services Fund	4,058.8	4,006.7	4,006.7	5,572.5	1,585.8
Automobile Theft Authority Fund	5,252.0	6,010.5	6,010.5	6,119.7	109.2
Banking Department Revolving Fund	50.3	50.3	50.3	50.3	0.0
Agency Total	9,361.1	10,067.5	10,067.5	11,742.5	1,695.0
<u>Superior Court</u>					
Supreme Court CJEF Disbursements Fund	1,618.4	5,456.2	5,456.2	5,456.2	0.0
Judicial Collection Enhancement Fund	2,641.3	6,015.2	6,015.2	6,015.2	0.0
Drug Treatment and Education Fund	500.2	504.2	504.2	504.2	0.0
Agency Total	4,759.9	11,975.6	11,975.6	11,975.6	0.0
<u>Supreme Court</u>					
Supreme Court CJEF Disbursements Fund	3,072.7	4,407.8	4,407.8	4,407.8	0.0
Judicial Collection Enhancement Fund	10,107.4	14,895.8	14,895.8	14,895.8	0.0
Defensive Driving Fund	3,188.6	4,233.5	4,233.5	4,233.5	0.0
Court Appointed Special Advocate Fund	3,594.6	4,068.0	4,068.0	5,310.0	1,242.0
Confidential Intermediary and Fiduciary Fund	354.5	494.3	494.3	494.3	0.0
State Aid to Courts Fund	1,863.4	2,945.4	2,945.4	2,945.4	0.0
Agency Total	22,181.2	31,044.8	31,044.8	32,286.8	1,242.0
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Distribution Fund	538.3	533.2	533.2	533.2	0.0
Juvenile Education Fund	1,425.6	1,893.7	1,893.7	1,893.7	0.0
Local Cost Sharing Fund	8,450.9	8,450.9	8,450.9	8,450.9	0.0
State Charitable, Penal and Reformatory Land Fund	4,023.5	4,044.1	4,044.1	4,044.1	0.0
Agency Total	14,438.3	14,921.9	14,921.9	14,921.9	0.0
<u>Land Department</u>					
Environmental Special Plate Fund	192.2	260.6	260.6	260.6	0.0
Due Diligence Fund	467.1	5,000.0	5,000.0	5,000.0	0.0
Trust Land Management Fund	6,233.1	7,328.1	7,328.1	8,028.1	700.0
Agency Total	6,892.3	12,588.7	12,588.7	13,288.7	700.0
<u>Department of Liquor Licenses and Control</u>					
Liquor Licenses Fund	3,493.2	4,456.3	4,456.3	6,685.8	2,229.5
<u>Local Government</u>					
State Charitable, Penal & Reformatory Land Earnings Fund	500.0	0.0	0.0	0.0	0.0
<u>Lottery Commission</u>					
Lottery Fund	162,491.8	152,075.1	152,075.1	165,573.0	13,497.9
<u>Massage Therapy</u>					
Massage Therapy Board Fund	470.6	473.7	473.7	534.0	60.3
<u>Medical Board</u>					
Arizona Medical Board Fund	6,749.6	7,507.1	7,507.1	7,609.6	102.5

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Mine Inspector</u>					
Aggregate Mining Reclamation Fund	38.5	112.9	112.9	112.9	0.0
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board Fund	180.3	193.2	193.2	197.1	3.9
<u>Navigable Stream Adjudication Commission</u>					
Arizona Water Banking Fund	0.0	200.0	200.0	200.0	0.0
<u>Board of Nursing</u>					
Nursing Board Fund	4,882.7	5,275.1	5,275.1	5,296.1	21.0
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Administrators/ACHMC Fund	462.5	526.1	526.1	571.2	45.1
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	193.8	199.9	199.9	245.3	45.4
<u>Board of Dispensing Opticians</u>					
Dispensing Opticians Board Fund	144.1	162.6	162.6	178.9	16.3
<u>Board of Optometry</u>					
Board of Optometry Fund	179.1	241.9	241.9	275.5	33.6
<u>Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board Fund	1,038.8	1,067.6	1,067.6	1,275.9	208.3
<u>Arizona State Parks</u>					
State Parks Revenue Fund	16,260.4	19,822.8	19,822.8	16,928.4	(2,894.4)
Off-Highway Vehicle Recreation Fund	0.1	16.7	16.7	16.7	0.0
State Parks Store Fund	0.0	1,000.0	1,000.0	1,000.0	0.0
Agency Total	16,260.5	20,839.5	20,839.5	17,945.1	(2,894.4)
<u>Personnel Board</u>					
Personnel Division Fund	141.0	326.4	326.4	326.4	0.0
<u>Board of Pharmacy</u>					
Pharmacy Board Fund	3,160.4	3,083.9	3,083.9	3,206.3	122.4
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	502.4	504.1	504.1	592.1	88.0
<u>Pioneers' Home</u>					
Pioneers' Home State Charitable Earnings Fund	4,658.5	4,969.1	4,969.1	5,931.0	961.9
Pioneers' Home Miners' Hospital Fund	2,137.5	2,074.1	2,074.1	2,074.1	0.0
Agency Total	6,796.0	7,043.2	7,043.2	8,005.1	961.9
<u>Board of Podiatry Examiners</u>					
Podiatry Examiners Board Fund	145.3	168.2	168.2	172.7	4.5
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	1,180.8	1,537.1	1,537.1	0.0	(1,537.1)
<u>Board for Private Postsecondary Education</u>					
Private Postsecondary Education Fund	372.4	413.5	413.5	416.0	2.5
<u>Board of Psychologist Examiners</u>					
Psychologist Examiners Board Fund	501.8	550.8	550.8	596.0	45.2

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Public Safety</u>					
State Highway Fund	318.2	8,167.0	8,167.0	8,167.0	0.0
Arizona Highway Patrol Fund	200,775.4	86,217.9	86,217.9	27,004.3	(59,213.6)
Safety Enforcement and Transportation Infrastructure Fund	1,286.3	0.0	0.0	0.0	0.0
Motor Vehicle Liability Insurance Enforcement Fund	1,302.7	1,254.1	1,254.1	1,254.1	0.0
DPS Forensics Fund	17,284.0	22,528.6	22,528.6	22,528.6	0.0
Public Safety Equipment Fund	1,485.2	2,894.0	2,894.0	2,894.0	0.0
Gang and Immigration Intelligence Team Enforcement Mission Fund	2,992.0	2,396.4	2,396.4	2,396.4	0.0
Fingerprint Clearance Card Fund	1,431.5	1,581.1	1,581.1	1,581.1	0.0
State Aid to Indigent Defense Fund	680.3	0.0	0.0	0.0	0.0
Motorcycle Safety Fund	205.0	198.9	198.9	198.9	0.0
Parity Compensation Fund	4,175.5	4,000.3	4,000.3	4,000.3	0.0
Concealed Weapons Permit Fund	2,642.3	2,807.3	2,807.3	2,807.3	0.0
Peace Officer Training Equipment Fund	1,133.8	0.0	0.0	0.0	0.0
DPS Criminal Justice Enhancement Fund	2,283.4	2,931.5	2,931.5	2,931.5	0.0
Risk Management Revolving Fund	1,408.6	1,351.0	1,351.0	1,351.0	0.0
Agency Total	239,404.2	136,328.1	136,328.1	77,114.5	(59,213.6)
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving Fund	1,236.6	1,352.2	1,352.2	1,452.2	100.0
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners Fund	327.9	324.1	324.1	370.0	45.9
<u>Arizona State Retirement System</u>					
Arizona State Retirement System Appropriated Fund	21,953.0	23,248.4	23,248.4	23,799.4	551.0
LTD Trust Fund	1,279.4	1,800.0	1,800.0	1,800.0	0.0
Agency Total	23,232.4	25,048.4	25,048.4	25,599.4	551.0
<u>Department of Revenue</u>					
Tobacco Tax and Health Care Fund	637.2	684.5	684.5	684.5	0.0
DOR Liability Setoff Fund	717.1	806.9	806.9	806.9	0.0
Department of Revenue Administrative Fund	46,453.3	25,669.8	25,669.8	25,669.8	0.0
Agency Total	47,807.5	27,161.2	27,161.2	27,161.2	0.0
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	0.0	192.5	192.5	483.5	291.0
Records Services Fund	740.7	1,286.8	1,286.8	1,286.8	0.0
Agency Total	740.7	1,479.3	1,479.3	1,770.3	291.0
<u>Board of Technical Registration</u>					
Technical Registration Board Fund	1,834.1	2,352.9	2,352.9	2,480.3	127.4

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Transportation</u>					
State Aviation Fund	1,768.4	2,014.2	2,014.2	2,096.4	82.2
State Highway Fund	369,132.4	414,704.1	414,704.1	437,322.2	22,618.1
Highway Damage Recovery Account Fund	5,392.3	8,000.0	8,000.0	8,000.0	0.0
Transportation Department Equipment Fund	18,583.7	19,285.2	19,285.2	19,673.5	388.3
Safety Enforcement and Transportation Infrastructure Fund	596.7	0.0	0.0	0.0	0.0
Ignition Interlock Device Fund	296.9	351.1	351.1	351.1	0.0
Air Quality Fund	229.6	324.5	324.5	324.5	0.0
Vehicle Inspection and Certificate of Title Enforcement Fund	1,369.8	2,094.6	2,094.6	2,194.6	100.0
Motor Vehicle Liability Insurance Enforcement Fund	1,692.8	1,772.2	1,772.2	3,111.2	1,339.0
Highway User Revenue Fund	650.2	701.6	701.6	727.6	26.0
State Fleet Operations Fund	0.0	13,767.7	13,767.7	17,340.1	3,572.4
State Fleet Vehicle Replacement Fund	0.0	4,500.0	4,500.0	10,480.8	5,980.8
Liquor Licenses Fund	0.0	0.0	0.0	294.0	294.0
Agency Total	399,712.8	467,515.2	467,515.2	501,916.0	34,400.8
<u>Treasurer</u>					
Arizona Highway Patrol Fund	0.0	2,500.0	2,500.0	2,500.0	0.0
Boating Safety Fund	0.0	2,183.8	2,183.8	2,183.8	0.0
Budget Stabilization Fund	37,172.4	0.0	0.0	0.0	0.0
School Safety Interoperability Fund	0.0	1,500.0	1,500.0	0.0	(1,500.0)
State Treasurer's Operating Fund	3,098.3	3,583.7	3,583.7	3,583.7	0.0
Agency Total	40,270.7	9,767.5	9,767.5	8,267.5	(1,500.0)
<u>Board of Regents</u>					
Postsecondary Education Fund	0.0	0.0	0.0	1,537.1	1,537.1
<u>Arizona State University</u>					
ASU Collections Fund Tuition and Fees	603,112.0	597,718.8	597,718.8	597,718.8	0.0
<u>Northern Arizona University</u>					
NAU Collections - Appropriated Fund	138,921.3	134,983.3	134,983.3	134,983.3	0.0
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated Fund	368,297.4	304,589.0	304,589.0	304,589.0	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A Main Campus - Collections - Appropriated Fund	36,773.7	56,363.3	56,363.3	56,363.3	0.0
<u>Department of Veterans' Services</u>					
State Home for Veterans Trust Fund	35,994.7	50,519.0	50,519.0	59,402.1	8,124.3
<u>Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board Fund	525.8	601.8	601.8	714.6	112.8

Other Appropriated Funds Operating Budgets Summary

	(Dollars in Thousands)				
	FY 2021 Expenditures	FY 2022 Appropriation	FY 2022 Executive Budget	FY 2023 Executive Budget	FY 2023 Changes and Adjustments
<u>Department of Water Resources</u>					
Arizona Water Banking Fund	1,208.4	1,219.1	1,219.1	0.0	(1,219.1)
Water Resources Fund	672.1	965.0	965.0	1,641.0	676.0
Assured and Adequate Water Supply Administration Fund	213.1	322.5	322.5	322.5	0.0
Agency Total	2,093.6	2,506.6	2,506.6	1,963.5	(543.1)
Other Appropriated Funds Operating Total	5,507,009.4	5,899,178.3	5,938,793.9	4,416,533.9	(1,483,383.2)

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

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Director	Matthew Gress
Deputy Director	Bill Greeney
Chief Economist and Budget Manager	Glenn Farley
Senior Budget Managers	Ryan Vergara Will Palmisono
Strategy and Performance Data Manager	Denise Stravia
IT and Data Manager	Dean Johnson
Senior Budget Analyst	Kyley Jensen Zach Harris
Budget Analyst III	Stephanie Spera Cameron Dodd
Budget Analyst II and Economist	Zach Milne
Budget Analyst II	Adam Ciampaglio Jonathan Perkins Charlotte Hallett Caroline Dudas Theresa Vencill
Budget Analysts	Trey Nilles Blake Tonn Elizabeth Selby
Grants Management Analyst II	Perrin Williams
Grants Management Analyst	Nicholas Capozzi Alec Eulano Joseph Fitzgerald
IT Systems Analyst	Tao Jin
Analyst and Executive Assistant	Remy Gaudin