

The Great Seal of the State of Arizona is a large, light-colored circular emblem in the background. It features a central shield with a sunburst, a plow, a sheaf of wheat, and a cotton plant. The shield is flanked by two figures: a Native American on the left and a miner on the right. Above the shield is a banner with the word 'ARIZONA'. The outer ring of the seal contains the text 'GREAT SEAL OF THE STATE OF ARIZONA' and the year '1912' at the bottom, flanked by two stars.

# **The Executive Budget Recommendation**

**FY 2012 through FY 2014**



# FY 2013 Executive Recommendation

- Economy/Revenues
- Budget Principles
- Budget Summary
- The Plan
  - Good Government
  - Public Safety
  - Education
  - Health & Welfare
  - Medicaid
  - Other
- Where We End Up
- Risks



# The Economy/Revenues

Projecting slow steady improvement over the next two years.

Personal Income:	3.5% to 4.5% average growth
Employment:	1.8% to 3.0% average growth
S&P Growth:	1.0% to 4.0% average growth



# The Economy/Revenues

## Base Revenue Forecast

- Develop optimistic, baseline, and pessimistic.
- Assume below baseline for both FY 2011 and FY 2012.

FY 2012 – 4.3% above FY 2011 actual

FY 2013 – 5.9% above FY 2012 projected

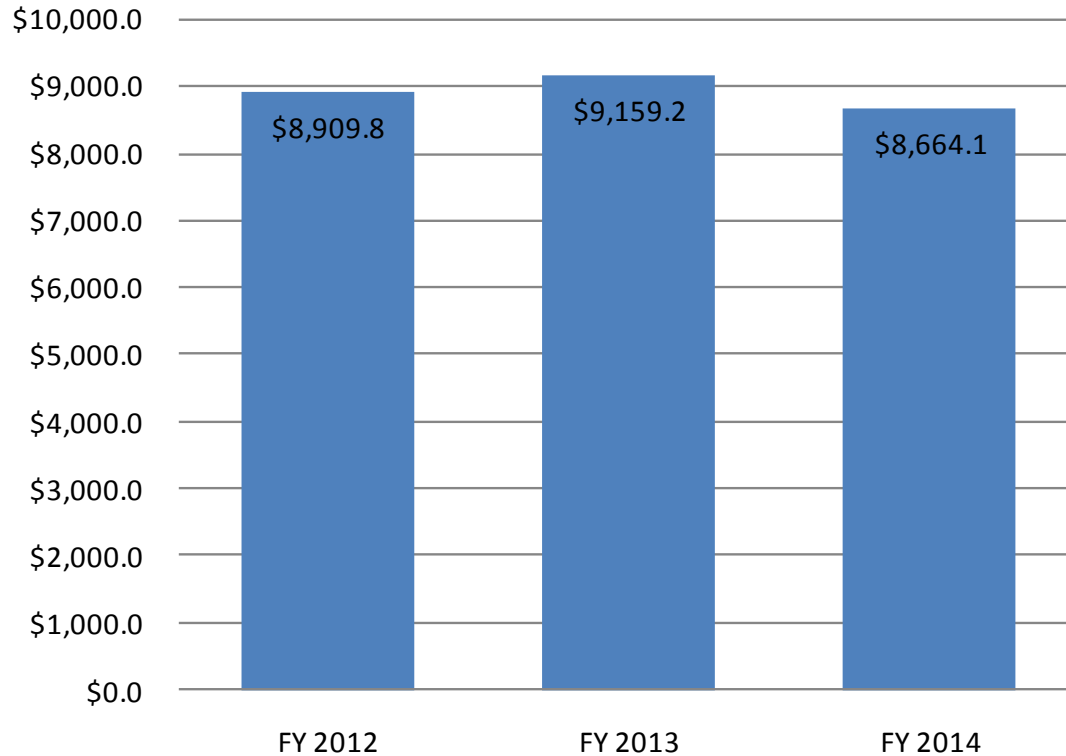
FY 2014 – 6.1% above the FY 2013 projected

All numbers exclude the impact from revenue sharing and the temporary sales tax.



# Total Revenues

## Total State Revenues



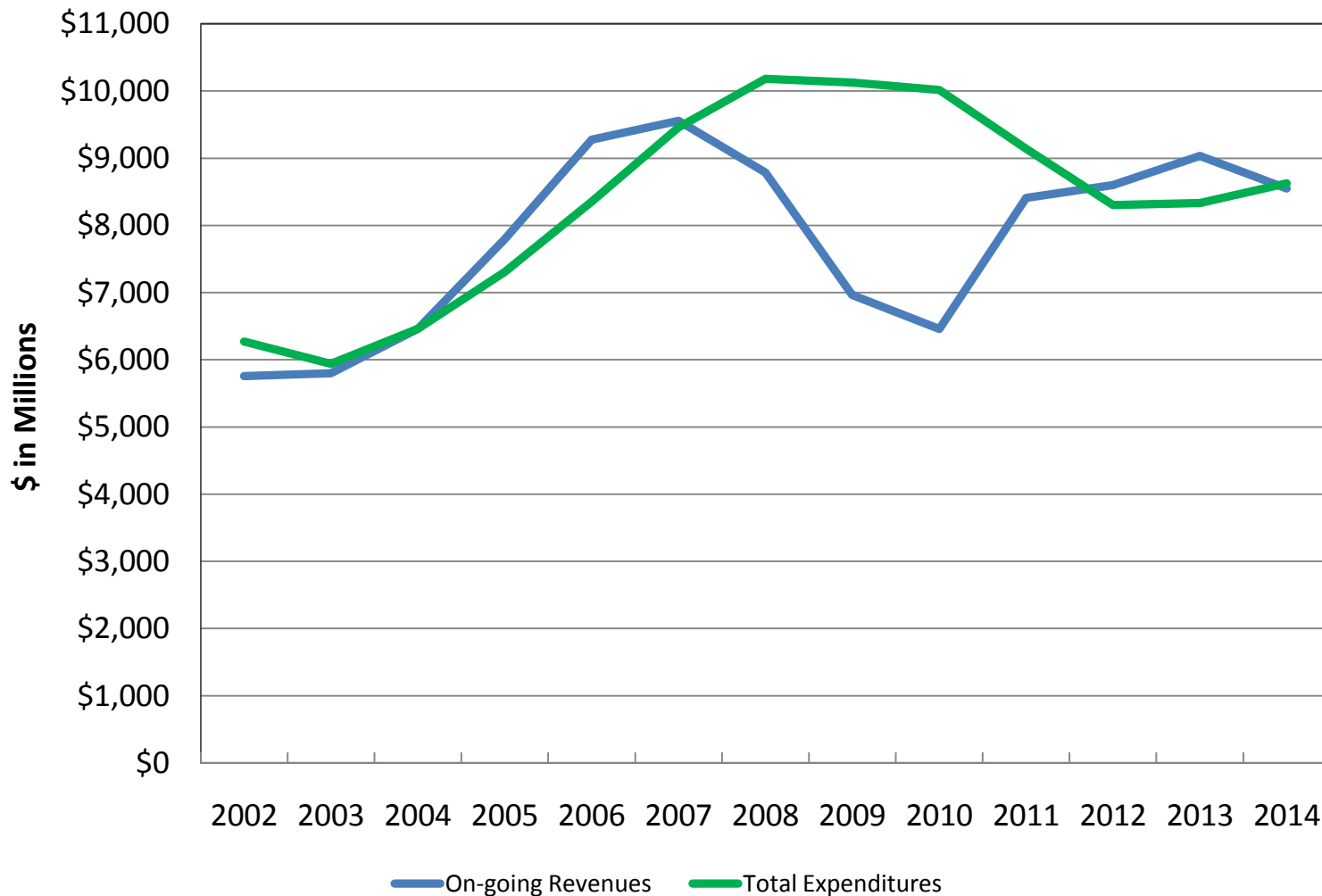
### Note:

- Revenues are between FY 2006 & FY 2007 levels
- Total revenue amounts include impacts from expiration of Proposition 100 and phase in of existing tax reforms



# Baseline Budget Picture

## General Fund Ongoing Expenditures and Revenues





# The Budget: Principles

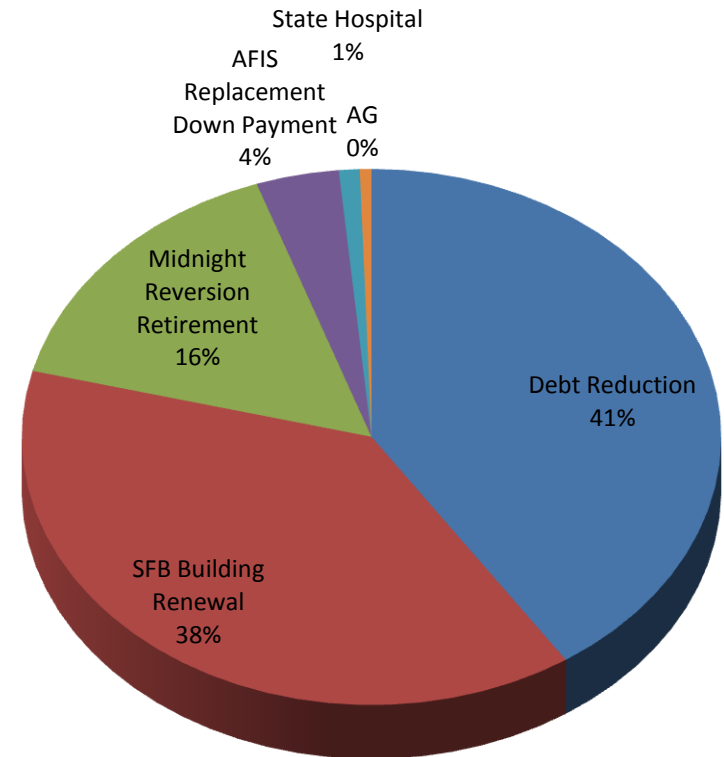
- Short-term decisions must be evaluated in light of their impact on the State's long-term fiscal health.
- Funding for a program will not be restored simply because funding has been provided in the past.
- Spending decisions must respect the wishes of citizens who, in voting for Proposition 100, recognized the importance of funding for education, health care and public safety.
- Temporary resources will be used to improve the State's long-term position.



# The Budget: Summary

## FY 2012

Debt Reduction	\$ 106.0
SFB Building Renewal	\$ 100.0
Midnight Reversion	\$ 41.0
IT Phase I	\$ 10.0
State Hospital	\$ 2.5
AG Tobacco	\$ 1.4
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Total	\$260.9



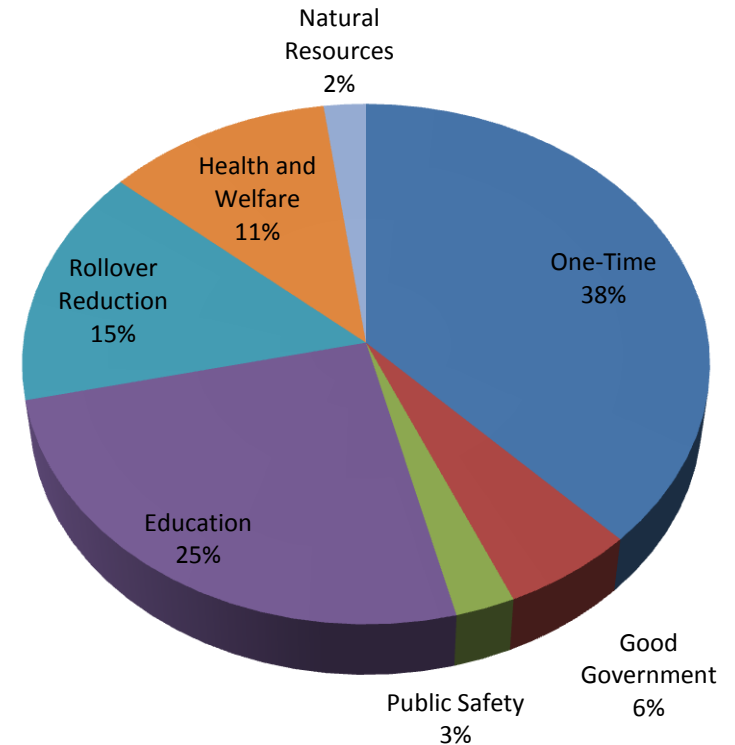




# The Budget: Summary

## FY 2013

One-Time	\$ 253.3
Good Government	\$ 38.9
Rollover Reduction	\$ 100.0
Public Safety	\$ 17.5
Education	\$ 170.6
Health and Welfare	\$ 77.2
Natural Resources	\$ 14.4
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Total	\$671.9





# Total Spending

	FY 2012	FY 2013	FY 2014
On-going Spending	\$8,185,547.6	\$8,710,238.6	\$8,917,418.2
One-time Spending	\$335,439.0	\$253,063.1	\$5,115.5
Total Spending	\$8,520,986.6	\$8,963,301.7	\$8,922,533.7
Percentage Change	2.6%	5.2%	-0.5%

- Spending levels for FY 2012- FY 2014 are between FY 2006 and FY 2007 expenditure levels
- FY 2014 expenditures assume the implementation of federal healthcare reform



# The Plan

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- **Good Government**
- Public Safety
- Education
- Health and Welfare
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- Other



# Personnel Reform



The State's current personnel system is inefficient and makes it difficult to discipline employees or reward top performers. Also a large percentage of the State's workforce is nearing retirement.

Recommendation:

- Consolidate the nine Personnel Systems
- Transition to at-will workforce
- Improve workforce management
- Restructure grievance and appeal system
- Update human resource practices



# Employee Pay Increase



In conjunction with personnel reform, the Executive recommends a 5% pay increase for eligible employees:

- Uncovered non-university employees
- Employees uncovered by personnel reform
- Employees who voluntarily elect to become uncovered under personnel reform
- Employees required to remain covered by personnel reform (e.g. full authority peace officers)



# Employee Pay Increase

<b>General Fund Cost</b>	<b>\$53.7 million</b>
HITF Rate Reduction and Fund Transfer	(\$48.6 million)
Vehicle License Tax Transfer Reduction	\$8.9 million
Other Fund Transfer Reductions	\$14.2 million
<b>Net General Fund Cost</b>	<b>\$28.2 million</b>



# AFIS Replacement



AFIS is obsolete and must be replaced to avoid potential failure.

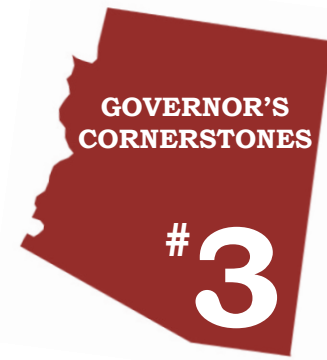
- The entire state is dependent on AFIS.
- If AFIS stops, vendor and employee payments stop.

Replacing AFIS is also critical to modernizing state government.

- If AFIS is replaced, the serious risk of failure is eliminated and the entire state can benefit from increased efficiency and transparency.



# IT Modernization



In addition to AFIS replacement, the State has a number of additional IT infrastructure needs including:

- Modernizing the State Data Center
- Enhancing Security and Privacy
- Expanding e-Government

Recommendation:

Create a new Information Technology Modernization Fund:

- FY 2012: \$10 million GF for AFIS
- FY 2013: \$95 million GF for AFIS and IT





# IT Modernization

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## Recommendation:

### Update and Provide Maintenance on BRITS

- BRITS (Business Re-engineering/Integrated Tax System) processes tax returns for the State
- Original cost was \$152 million
- Executive recommends \$7.1 million for a tune-up
  - Replace vulnerable hardware
  - Increase system capacity
  - Reduce delays in implementing changes
  - Extend life of system by at least 5 years



# IT Modernization

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The State has or will be launching additional IT projects including:

1. DES – Joining a multi-state consortium to replace the State's Unemployment Insurance system
2. DOC – Developing plans to replace the prisoner management system



# Debt Retirement

The Executive recommends buying back the Capitol Complex.

Accomplished through a defeasance.

- The State cannot directly retire the debt until 2019.
- Instead, the State places sufficient funds in an escrow account to fund the interest and principal payments until the call date.
- Once the funds are in the account, the lien on the Capitol is released.



# Debt Retirement

Early retirement of debt will save money.

Principal associated with the Capitol Complex:	\$ 80,900,000
Funds to cover interest costs:	<u>\$ 25,000,000</u>
Total Cost of Defeasance:	\$ 105,900,000
Original Debt Service Cost:	\$153,510,000
Savings over the original debt schedule:	\$ 47,610,000



# Rollover Retirement/Soft Capital

- Soft capital funding for schools is currently 10% of the formula.
- The State is currently deferring (rolling over) \$952 million of K-12 payment.

The Executive Recommendation addresses both of these problems.



# Rollover Retirement/Soft Capital

- The Executive recommends reducing the FY 2013 rollover by \$100 million.
- The Executive proposes a \$200 million payment to the school districts outside of the current formula to use for either soft capital or to cover the \$100 million rollover reduction.
- For FY 2014 and beyond, the Executive proposes providing \$100 million per year outside of the formula in conjunction with a \$100 million reduction in the rollover. Districts will continue to use the funds for either rollover reduction backfill or soft capital.



# Rollover Retirement/Soft Capital

Example:

District A

FY 13 Budget Capacity	\$1,000
FY 13 Revenue	\$ 700
FY 14 Rollover Revenue	<u>\$ 270</u>
Shortfall	\$ 30
FY 13 Soft Capital/Rollover	\$ 60

District A can use ending balance or a portion of the soft capital/rollover funds to cover the shortfall. Remaining soft capital rollover funds can be used for soft capital.



# Midnight Reversion

The Executive Budget recommends the retirement of the midnight reversion.

Implemented in FY 2009, this accounting measure provided a one-time benefit of \$54 million. The estimated cost to retire the mechanism is \$41 million.





# The Plan

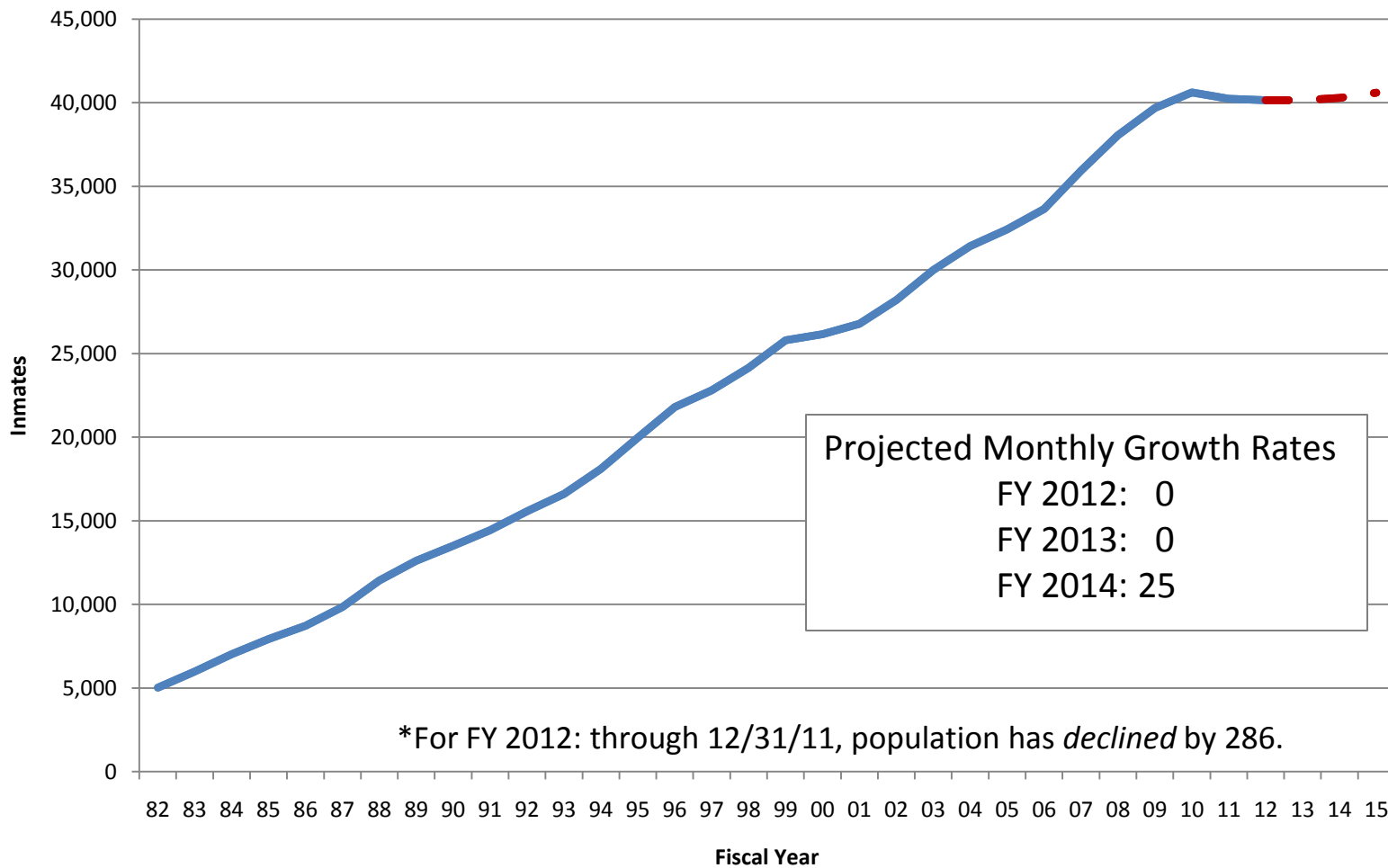
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- Good Government
- **Public Safety**
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# Prison Population Growth FY 1982-FY 2016

## Prison Population Growth: FY 1982 - FY 2015





# Male Population, Vacancy and Growth

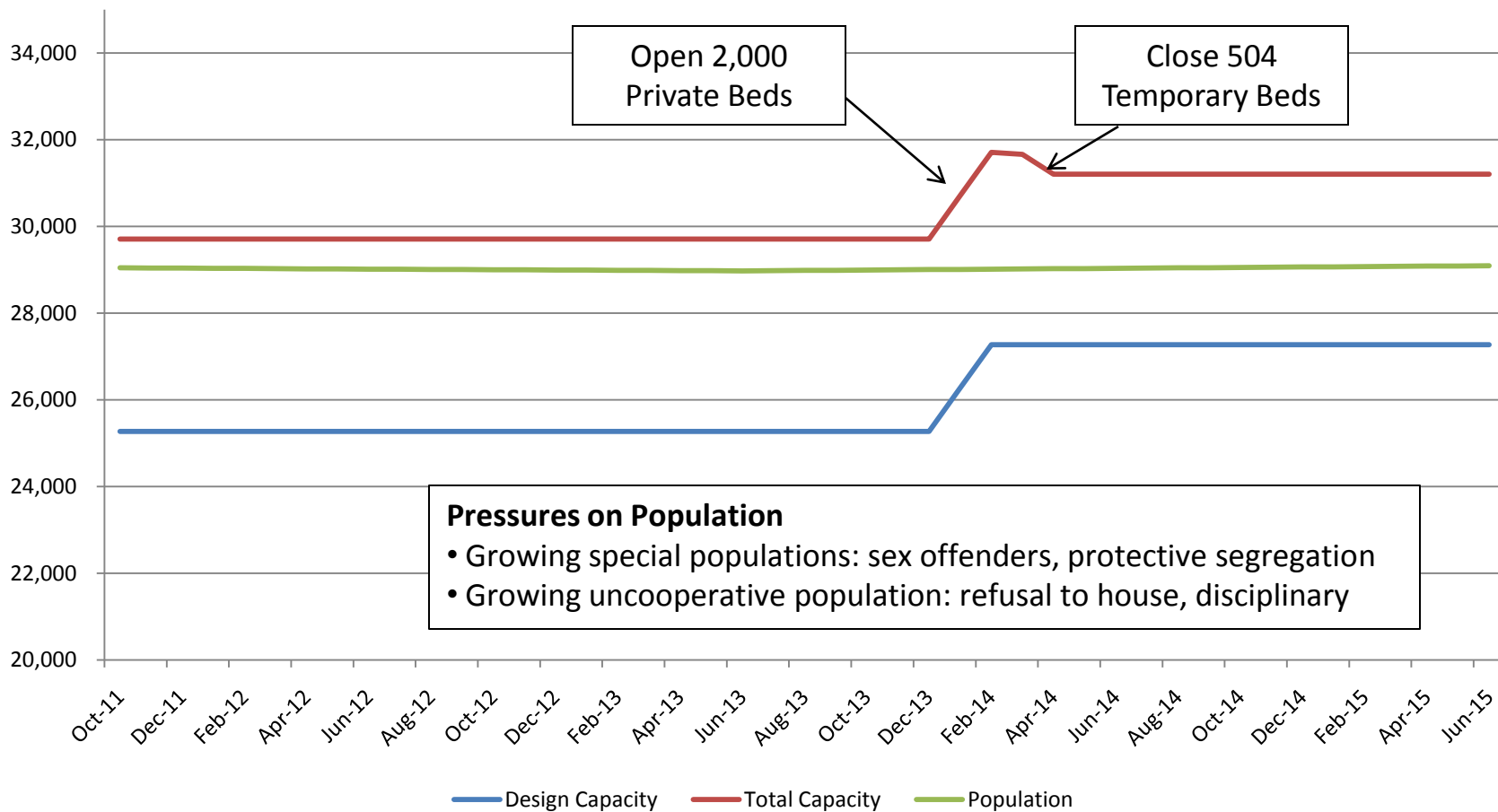
Total Prison System Bed Vacancy Rate: **5.6%**

	Minimum (L-2)	Medium (L-3)	Close (L-4)	Maximum (L-5)	Total
Male Population	13,561	15,480	4,173	3,280	36,494
Male Bed Vacancy Rate	4.0%	0.8%	14.2%	6.3%	4.0%
Projected Growth Rate	1.0/Mo.	-4.5/Mo.	-8.5/Mo.	12.0/Mo.	25.0/Mo.

Vacancy Rates include 5,212 temporary beds

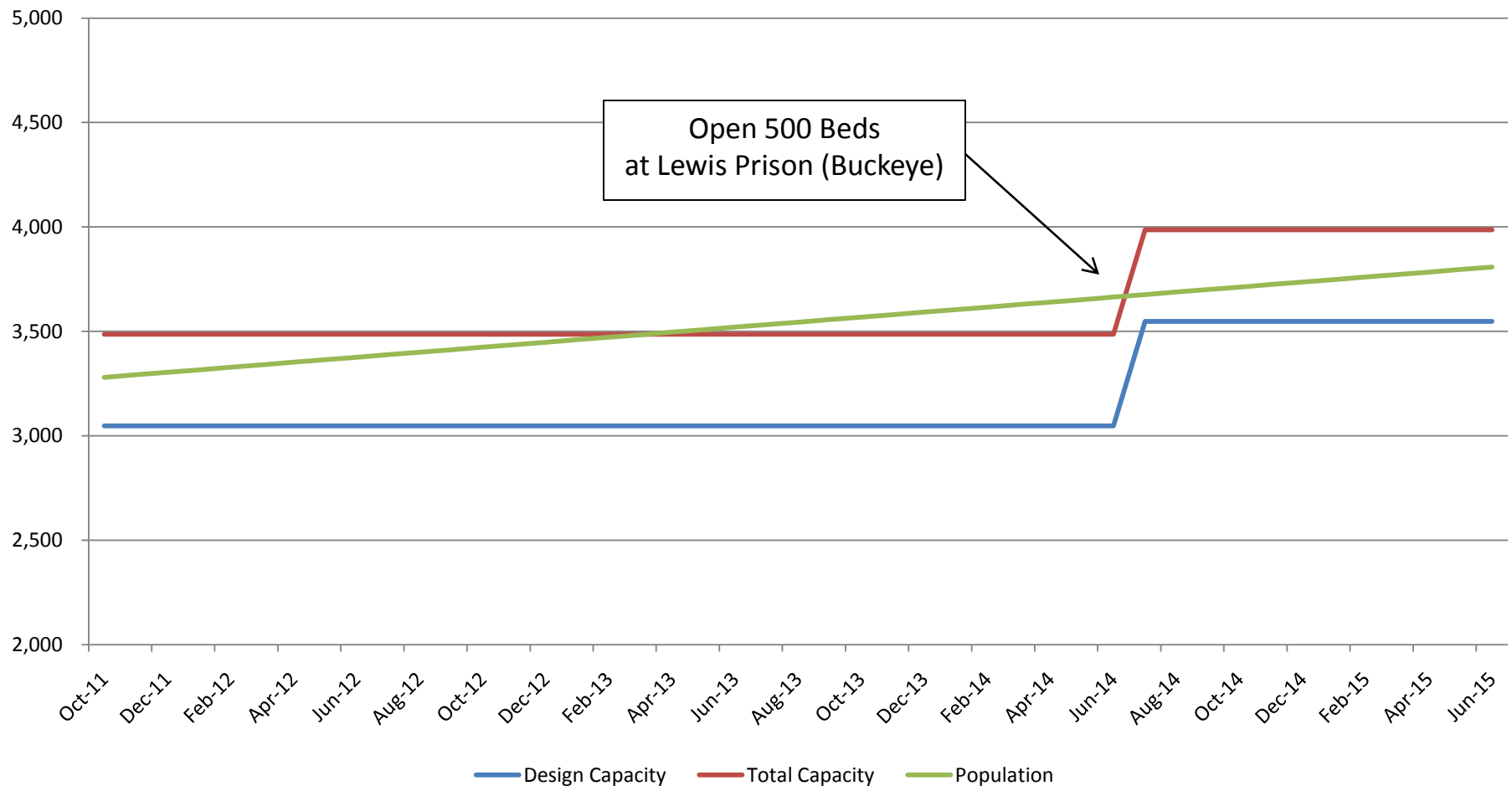


# Male Minimum & Medium Custody Bed Plan





# Male Maximum Custody Bed Plan





# Department of Corrections

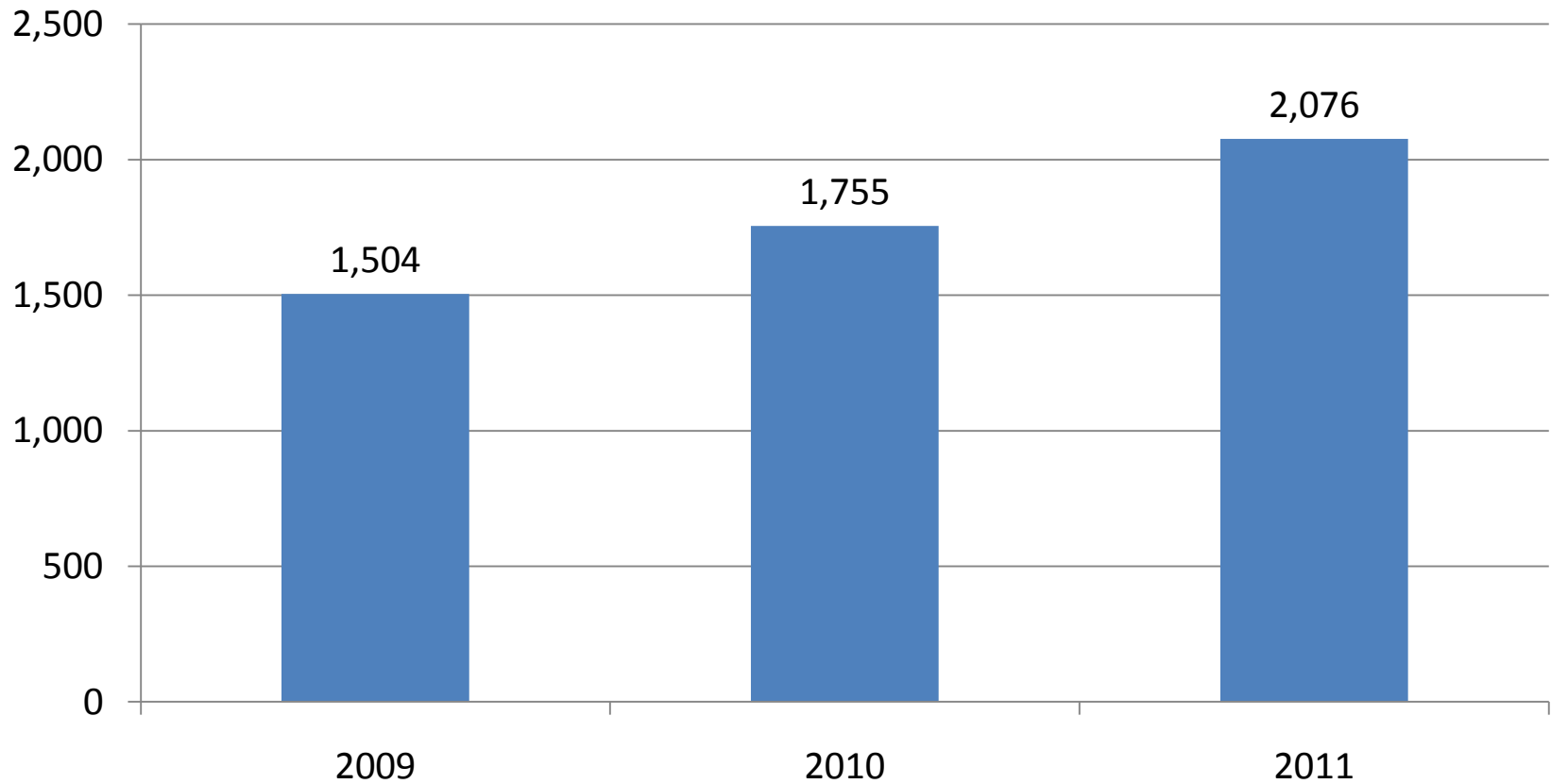
## Executive Recommendation for new DOC beds

	FY 2013	FY 2014	FY 2015
2,000 Private Medium Beds	\$0	\$17,969,900	\$43,873,000
500 Max Custody Beds	\$50,000,000	\$0	\$12,700,000
<b>Total</b>	<b>\$50,000,000</b>	<b>\$17,969,900</b>	<b>\$56,573,000</b>



# Assaults

## Total Inmate Assaults and Fights: 2009-2011





# Department of Corrections

The Executive recommends 306 FTE Positions (\$18.5 million)

- Security Posts Inside Prisons - 193 FTE
- Security for Medical Transportation - 113 FTE

Funding for the new positions will be over two years.

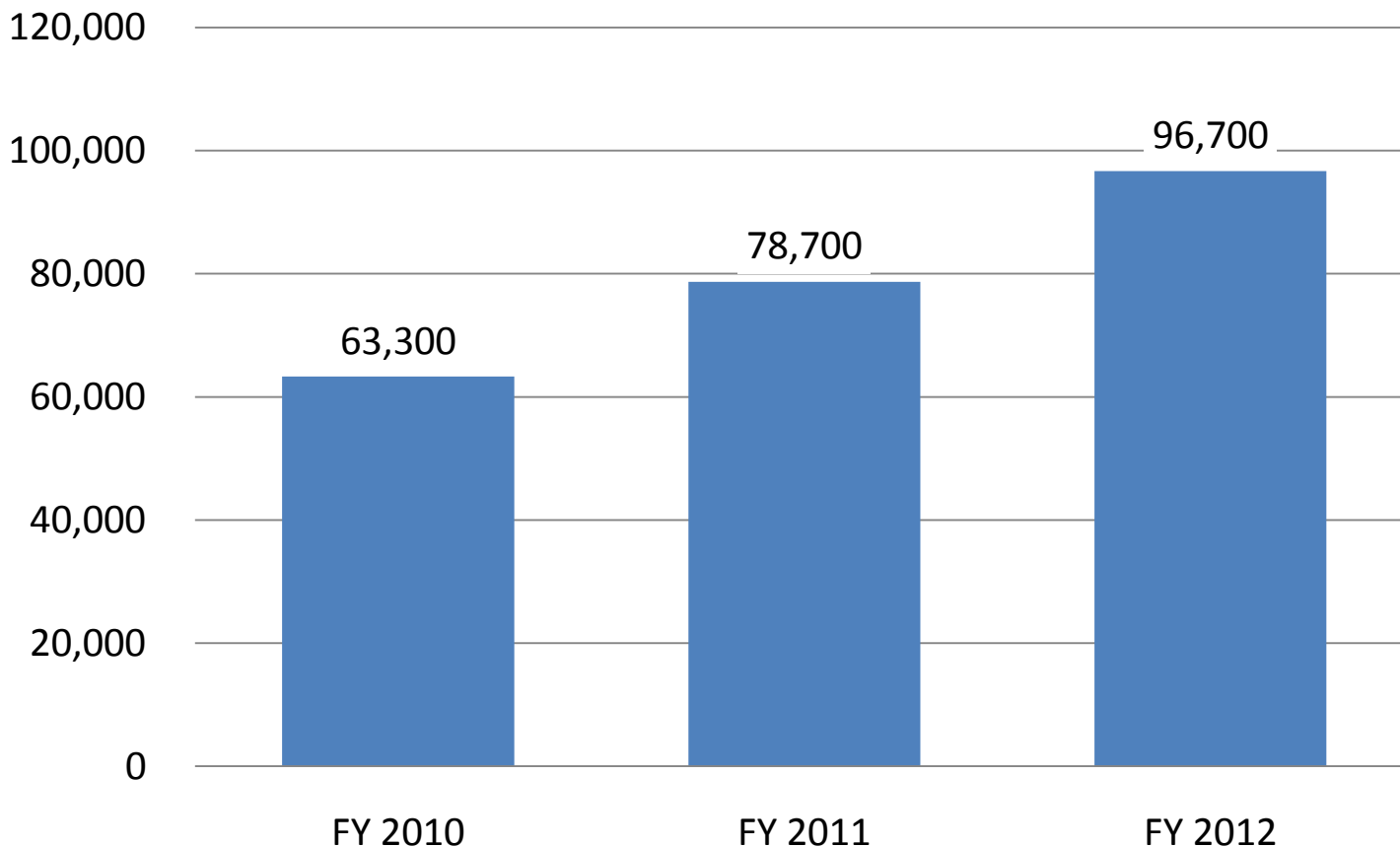
<b>FY 2013</b>	<b>\$9.3 million</b>
<b>FY 2014</b>	<b>\$18.5 million</b>





# Department of Public Safety

**Average Mileage of the Highway Patrol Fleet**



The Department's vehicle replacement budget was eliminated in FY 2010.



# Department of Public Safety

## Highway Patrol Vehicles

- Historical standard for replacement of Highway Patrol Vehicles- 100,000 miles
- The Executive recommends shifting the standard of vehicle replacement from individual vehicle mileage to average odometer reading of the fleet.
- Recommendation recognizes the different uses and life of vehicles in the fleet.

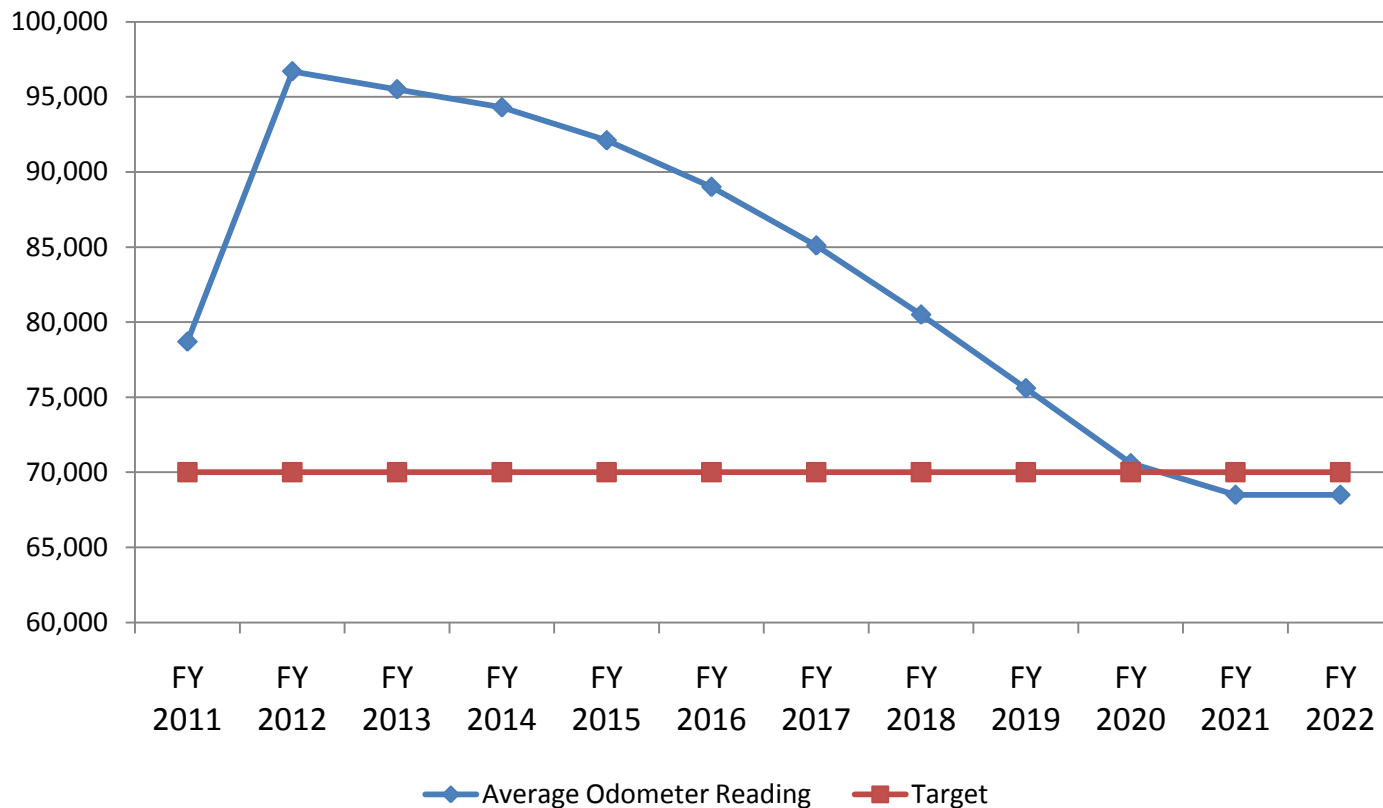
The Executive Recommends \$6.3 million for vehicles (\$3.5 Public Safety Fund, \$2.8 General Fund)



# Highway Patrol Vehicle Replacement

The average odometer reading will fall below 70,000 in FY 2021.

**Average Odometer Reading-Recommendation**





# Department of Public Safety

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The Executive Recommendation also addresses:

- High increases in ERE costs at DPS
- Backlog in DNA casework at the Crime Lab



# Department of Juvenile Corrections

- Catalina Mountain School Closure: \$3.8 million GF savings
- CMS was the costliest facility to operate and provided limited services
- Gives all youth access to the same treatment and educational services



# The Plan

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- Good Government
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# K-12 Education

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## Move on When Reading

- Requires “that a pupil not be promoted from the third grade if the pupil obtains a score on the reading portion of the AIMS test that demonstrates the pupil’s reading ‘falls far below’ the third grade level” beginning school year 2013-2014.
- Requires LEAs and schools to implement a comprehensive K-3 assessment system, a research based reading curriculum, explicit instruction and intensive intervention to students reading below grade level.
- 4,100 (5%) 3<sup>rd</sup> grade students scored “falls far below” on the reading portion of AIMS in 2011.



# K-12 Education



The Executive recommends \$50 million in support of intervention and remediation programs to begin in **Kindergarten.**

To provide the funding, the Executive recommends adjusting the K-8 Group A weight to provide the \$50 million in state funding for Move On When Reading.

The Executive also recommends a review of the current exemptions from Move On When Reading.





# K-12 Education



## School Safety

- \$686,000
  - Educator Database
    - A mechanism to search educator information such as certification and disciplinary information
    - State Board of Education will lead the development of the database
  - Additional Investigators

## Education Jobs Backfill

- \$35 million in CORL funds

## Adult Education

- \$4.6 million to draw down \$11.8 in federal funds

The Executive also recommends requiring school districts to sponsor schools through the State Board for Charter Schools



# School Facilities Board

## Building Renewal

### Existing Formula

- No ability to link appropriations with outcomes
- Does not take into account different climates and building materials
- Insufficient help for very small districts
- Local prioritization issues

The Executive recommends eliminating the existing formula



# School Facilities Board

## The Executive recommends a new Building Renewal program

- Develop a statewide system inventory
- Funding based on system life cycle
- Require districts to develop a five-year building plan
- Require districts to participate in SFB online preventative maintenance program to be eligible
- Make districts responsible for component failures
- Districts will apply to the SFB for funding based on their five-year building plan and their system inventory



# School Facilities Board

## Three-Year Transitional Building Renewal Grant Program

### Recommendation

- The Executive Recommendation provides \$100 million to the SFB Building Renewal Grant fund to provide funding for the three-year transition period.
- The Executive Recommendation provides \$40 million to school districts for their role in the new building renewal program.



# School Facilities Board

## New Construction

The Executive recommends changing the new construction formula to include available space just outside the school district.

### The SFB will:

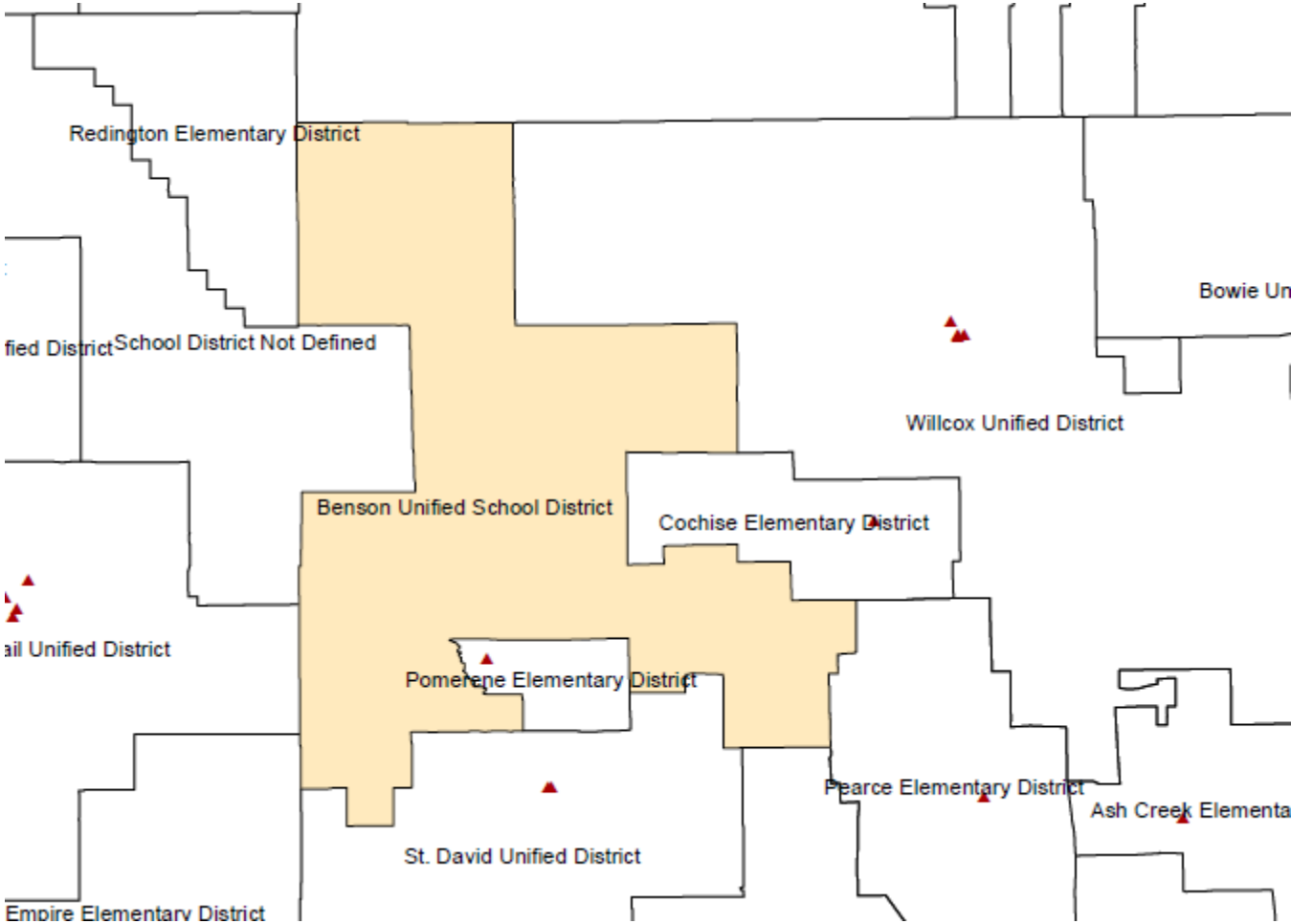
- project enrollment
- determine which districts have insufficient space within their boundaries
- divide each of those districts into four quadrants
- select the highest growth quadrant
- draw a 10-mile radius from the center point of the highest growth quadrant

All available space within the radius will count toward meeting the minimum space guidelines for the district.

Since the State's share of new construction costs will decrease, the Executive recommends increasing local district bonding capacity, returning half of the bonding capacity that was cut as part of Students' FIRST.

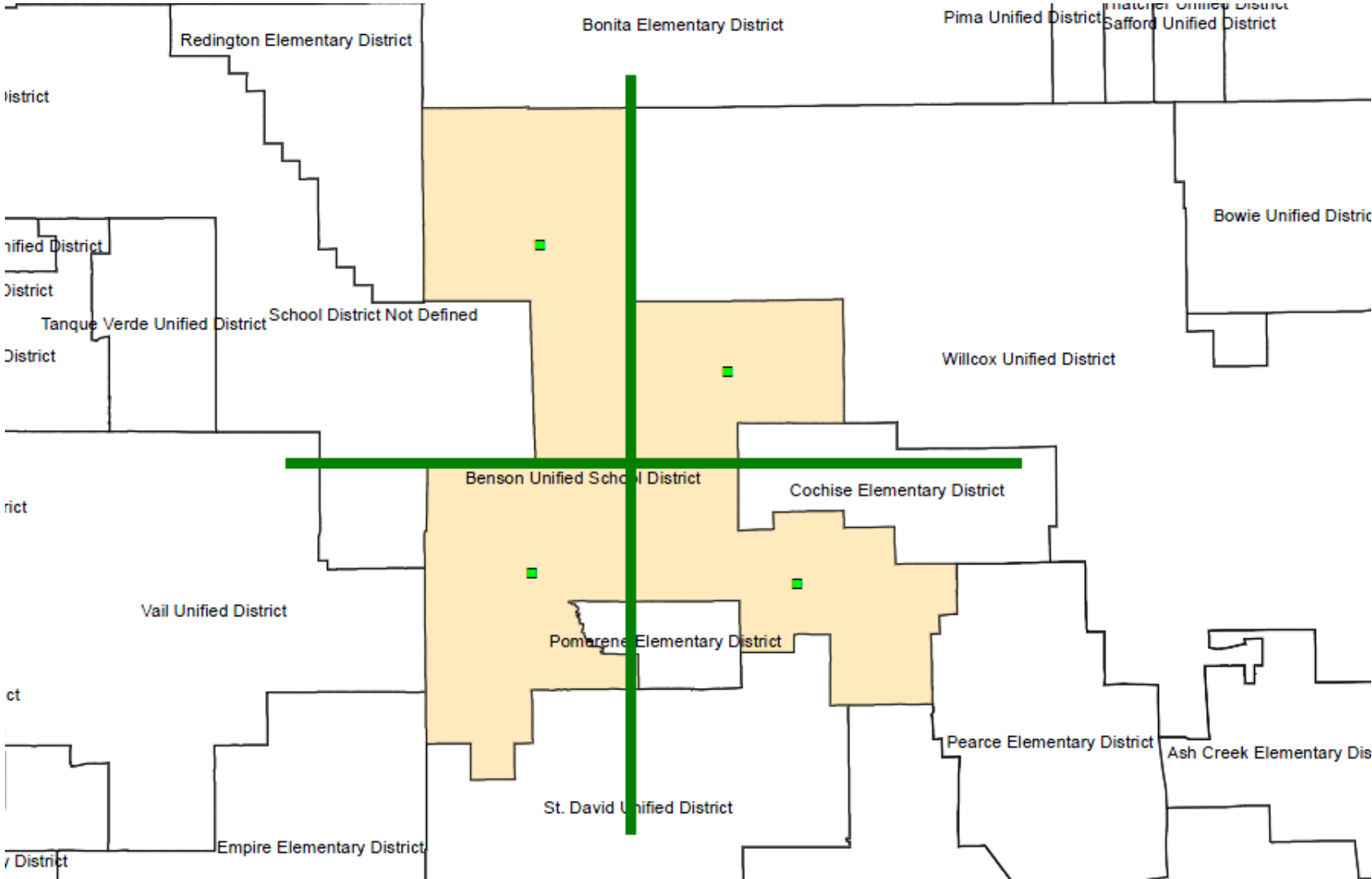


# School Facilities Board



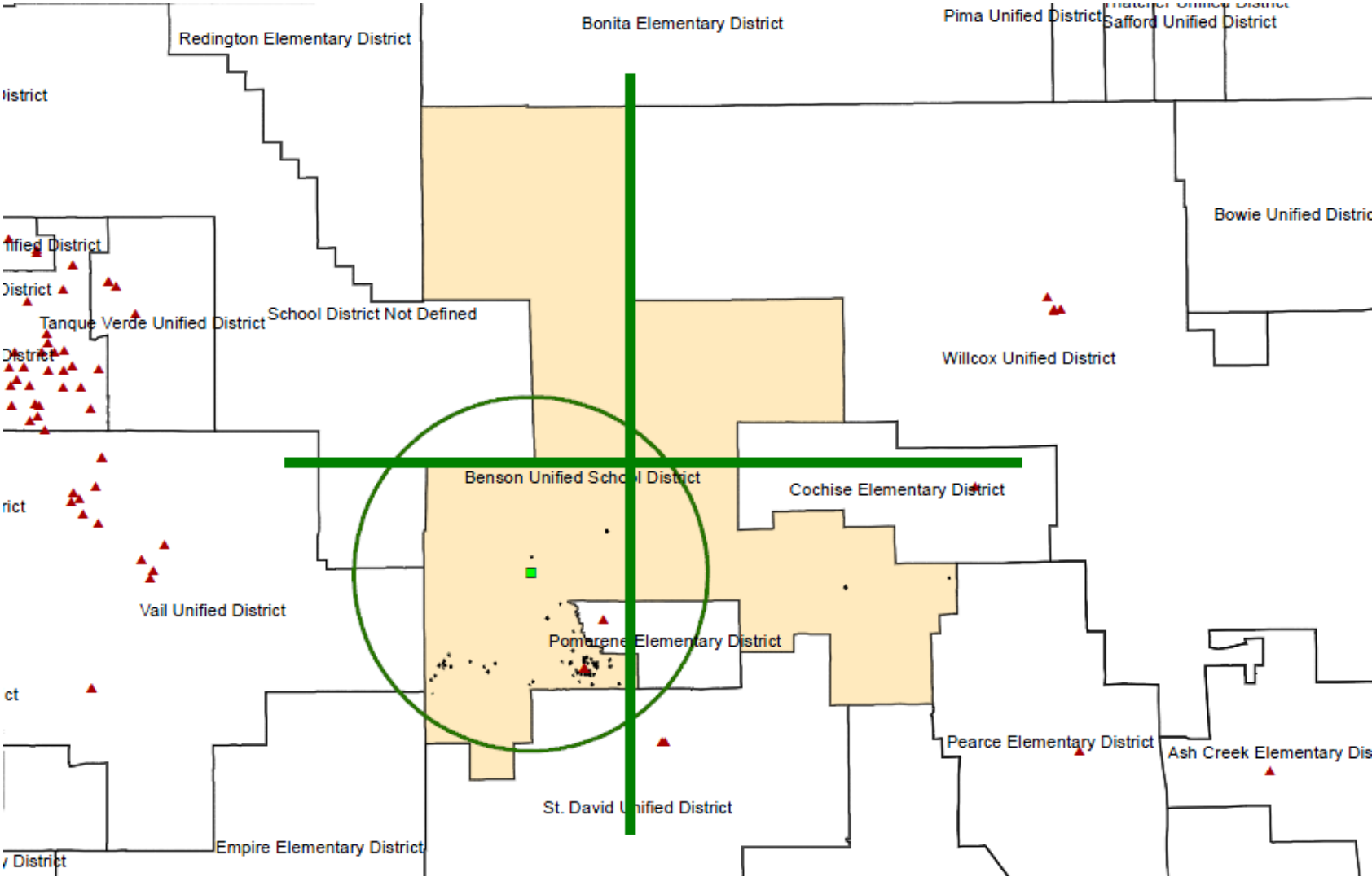


# School Facilities Board





# School Facilities Board







# School Facilities Board

School District	Scheduled to Open	Awarded Funding	Awarded Funding Using 10-Mile Radius	Available Bonding Capacity (5% ESD & HS/10% USD)	Proposed Bonding Capacity (10% ESD & HS/20% USD)
Thatcher USD	FY 2012	\$ 1,330,152		\$4,309,444	\$ 8,618,887
Vail USD	FY 2013	\$ 6,530,981		(\$ 900,522)	\$ 46,203,956
Benson USD	FY 2014	\$ 1,229,940		\$ 1,099,041	\$ 9,773,082
Liberty ESD	FY 2014	\$ 10,234,963		\$ 537,335	\$ 10,404,671
Laveen ESD	FY 2015	\$ 12,793,704		(\$ 4,860,439)	\$ 5,929,122
Litchfield ESD	FY 2015	\$ 9,441,360		(\$ 6,030,819)	\$26,188,362
Pima USD	FY 2015	\$ 1,937,115	\$ 1,937,115	n/a	n/a
Queen Creek USD	FY 2015	\$8,609,580		(\$11,652,683)	\$ 12,269,634
Sahuarita USD	FY 2015	\$7,676,222	\$7,676,222	n/a	n/a
<b>Total:</b>		<b>\$59,784,017</b>	<b>\$9,613,337</b>		



# Community Colleges



## Arizona SMART Scholarships

- \$10 million to the Commission for Postsecondary Education for scholarships for Community College students
- Maximum award amount: Cost of tuition up to \$2,000 per year
- Program will produce at least 5,000 scholarships per year
- Students can receive scholarship for up to two years
- Qualifying Criteria
  - Students must be enrolled in one of the top 20 programs at the Community College the Local Workforce Investment Board has determined best meets local workforce needs
  - Students must show they have at least two years full-time work experience
  - Students must qualify for needs-based assistance
  - For veterans, needs-based assistance requirements are waived



# Universities



## Performance Funding

The Executive Recommends capitalizing on the efforts to move Universities toward performance funding by:

- Working with the Legislature and the Universities to refine the proposed formula
- Redistributing \$15 million of the existing funding base according to this formula
- Providing a new \$15 million to be distributed according to the formula



# Course Redesign



To prepare Arizona's workforce for the future, the Governor has asked the University system to double the number of Arizona students receiving degrees by 2020.

The Executive Recommendation includes \$15.3 million to increase retention rates and degree output without sacrificing degree quality.

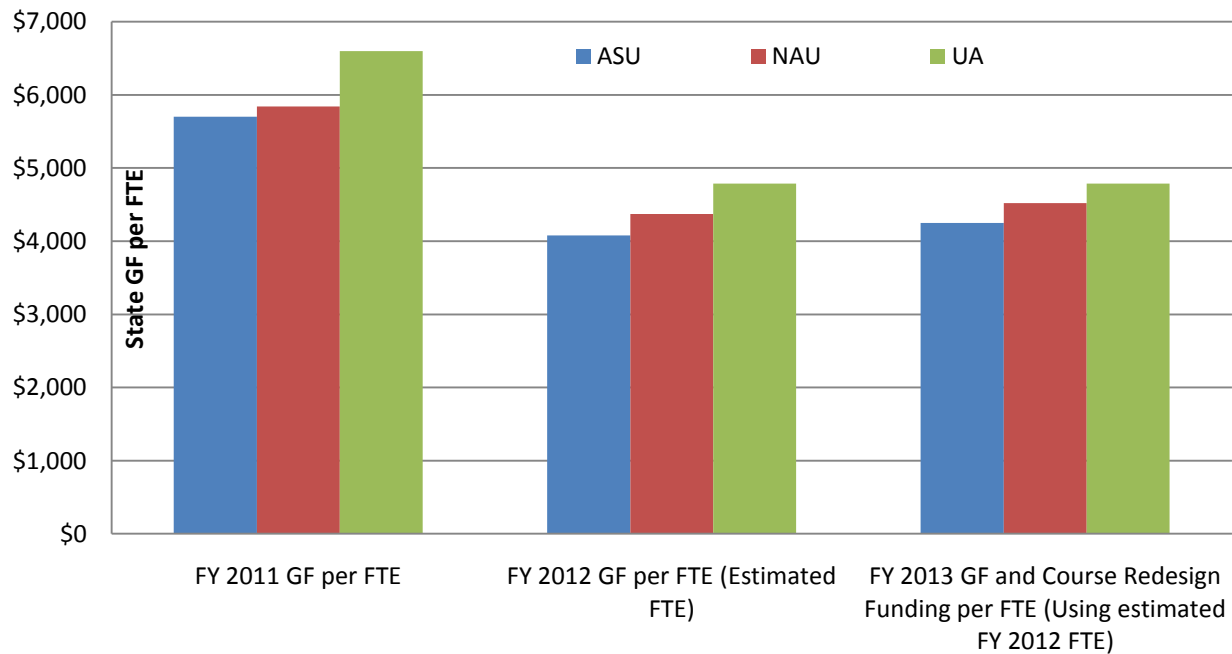


# Universities- Parity

## Average Disparity from the U of A

FY 2011	FY 2012	FY 2013
\$827	\$566	\$405

## Per Student State Funding Comparisons





# The Plan

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- Good Government
- Public Safety
- Education
- **Health and Welfare**
- Medicaid
- Other



# Economic Security

## Federal Funding Cliff

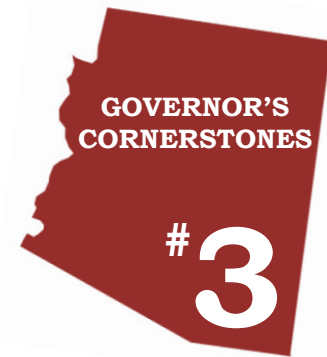
The Executive recommends \$25 million to replace expiring federal funds in the TANF program. Not replacing these funds would require significant cuts in TANF programs.

## Adoption Services

The Executive recommends \$17 million for federal funding cliffs and caseload growth in adoption services.



# Child Protective Services



The Executive and the DES Director identified three internal operational areas that require additional funding to enhance child safety and promote quality management within the division.

- Accountability/Quality Management/Transparency – Add four new quality control managers. The new quality control managers will coordinate to a) implement quality management initiatives throughout the division; b) oversee and improve accountability; and, c) increase transparency to the public.
- Investigator Retention –create a new step in the CPS investigator class. This step will be used to promote excelling investigators to positions that are still in the field, but will also provide mentoring and training services.
- Criminal Investigations –28 new investigator specialist positions. These positions will provide a law enforcement presence inside of CPS to assist in high priority cases that involve allegations of criminal conduct. These positions will report directly to the DES Director.





# DHS – *Arnold v. Sarn*



In 2010, due to the historic budget crisis, the *Arnold v. Sarn* court orders were suspended for two years. That suspension expires on June 30, 2012.

For the last several months, the Executive has been negotiating with the plaintiffs to agree on new orders.

That process is still underway.



# DHS – *Arnold v. Sarn*

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In the meantime, the Executive Recommendation provides an additional \$39 million to implement the following services for the SMI population.

- medication and medication services
- crisis services
- supported employment
- case management
- family and peer support
- supported housing
- living skills training
- health promotion
- personal assistance
- respite care



# The Plan

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- Good Government
- Public Safety
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- Other



# Medicaid Reform Plan

## Reform Plan Status

In FY 2012, the Executive implemented the Medicaid Reform Plan.

- Froze childless adults enrollment
- Eliminated spend down program
- Implemented benefit limits
- Provider rate reductions

The Executive is still working with the Federal Government to implement components of the reform plan. However, the Executive is not recommending supplemental Medicaid funding for FY 2012.



# Provider Rates

As part of Medicaid Reform, the State has adopted a series of rate cuts for Medicaid providers

Provider Groups	Prior to 4/1/2011	4/1/2011	10/1/2011
Hospitals	rate freeze	5% rate cut	5% rate cut
Physicians	5% rate cut	5% rate cut	5% rate cut
Ambulance (Emergency Transport)	5% rate cut	5% rate cut	5% rate cut
Behavioral Health Services	5% rate cut	5% rate cut	5% rate cut
Nursing Facilities	rate freeze	rate freeze	5% rate cut
Home Based Services	5% rate cut (+2.5% rate cut due to rebase)	2.5% rate cut	5% rate cut
Dental	5% rate cut	5% rate cut	5% rate cut
Ambulatory Surgery Centers	5% rate cut	rate freeze	5% rate cut
Community Alternative Residential Settings	5% rate cut	2.5% rate cut	5% rate cut

The Executive recommends no further rate cuts



# Provider Rates

The Executive recommends a 3 percent rate (\$27 million GF) increase for:

- Physicians
- Behavioral Health Service Providers
- Nursing Facilities
- Home Service Providers
- Ambulatory Surgery Centers

Before implementing the increase, AHCCCS must complete a study to ensure the increases are consistent with federal law.



# AHCCCS- AG Tobacco Litigation

Beginning this year the AG's Office will be defending the State in arbitration to determine if we have diligently enforced the Tobacco Master Settlement Agreement

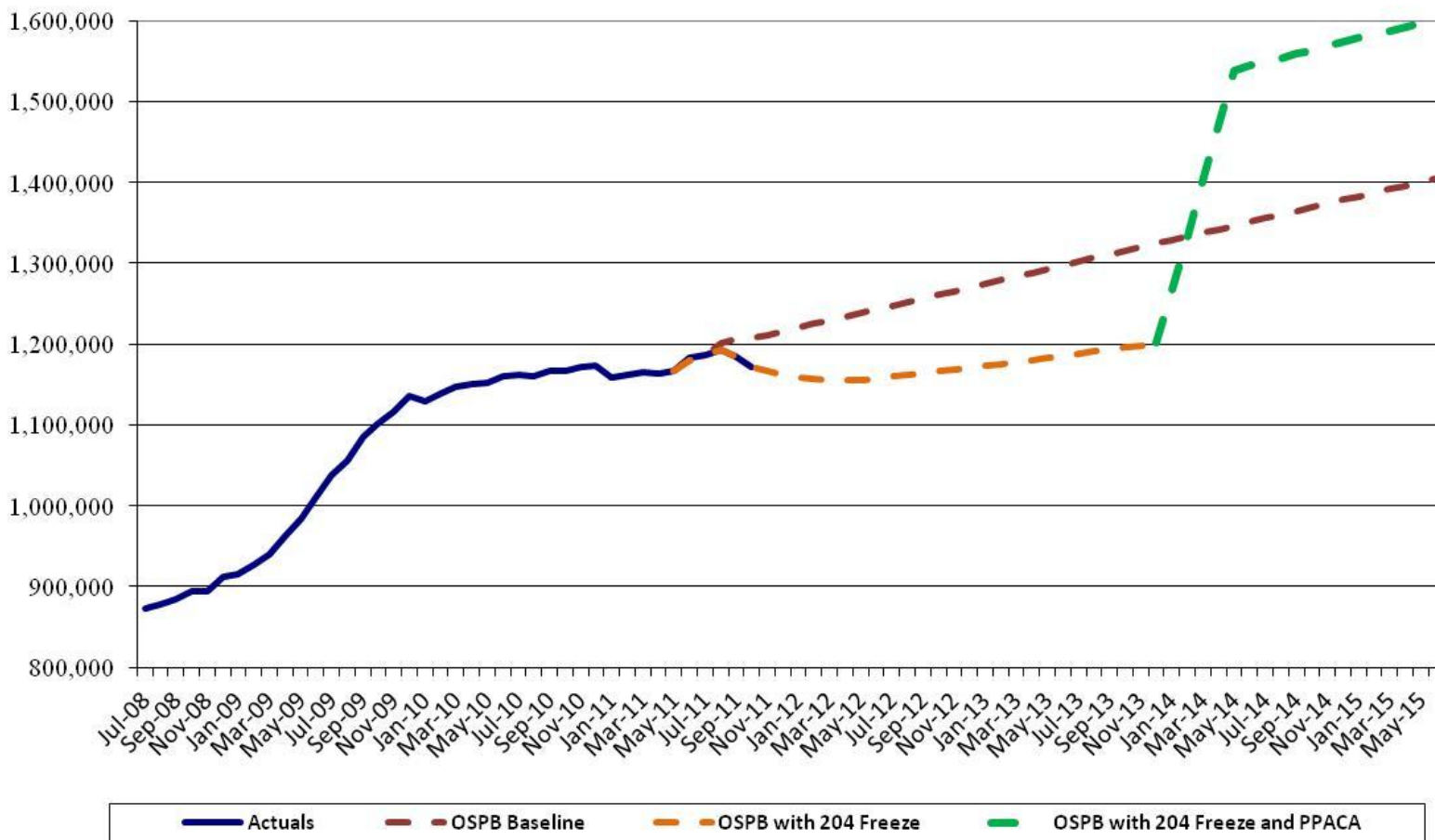
Recommendation:

- FY 2012 Supplemental \$1.4 million GF
- FY 2013 \$1.2 million GF



# Federal Health Care Reform

## AHCCCS TXIX Capitation Member Months Actuals and Forecasts







# Impact of PPACA

## General Fund Impacts of PPACA

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Caseload			
AHCCCS	-	77,516,600	297,792,700
DHS	-	<u>41,490,200</u>	<u>108,235,900</u>
Total Caseload Costs		119,006,800	406,028,600
Primary Care Physicians	6,316,500	13,896,300	14,610,500
AHCCCS/DES IT Modifications	<u>2,500,000</u>	<u>1,500,000</u>	<u>-</u>
Total:	8,816,500	134,403,100	420,639,100

## PPACA Federal Match

Caseload			
AHCCCS	-	587,980,700	1,856,909,400
DHS	-	<u>335,923,000</u>	<u>830,137,600</u>
Total Caseload Match		923,903,700	2,687,047,000
Primary Care Physicians	61,225,200	134,695,400	148,164,900
AHCCCS/DES IT Modifications	<u>12,500,000</u>	<u>8,500,000</u>	<u>-</u>
Total:	73,841,100	1,067,099,100	2,835,211,900



# The Plan

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- Good Government
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# Other Budget Issues

- Natural Resources
  - Forester: \$1 million
  - Apache Water Settlement: \$2 million
  - Land Department to General Fund: \$11.4 million
- Local Government
  - Suspension of County Payment: \$38.6 million
  - Repeal one year or less prisoner shift
- Tourism
  - \$7 million for tourism activities
  - Repeal tourism formula



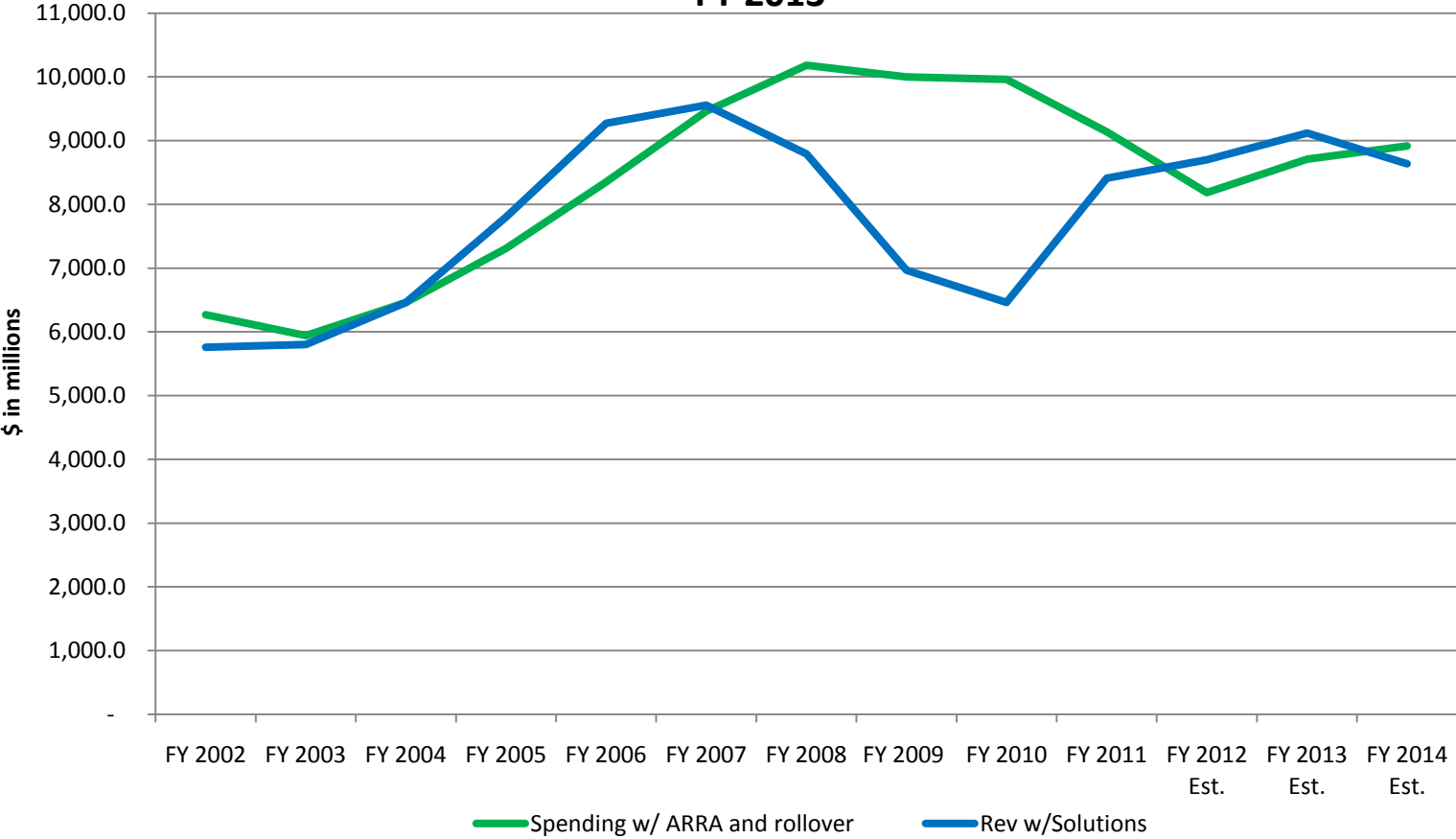
# Where We End Up

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Beginning Balance	\$3,243.0	\$392,017.5	\$587,960.3
Revenue	<u>\$8,909,761.0</u>	<u>\$9,159,244.5</u>	<u>\$8,664,139.3</u>
Total Available	\$8,913,004.0	\$9,551,262.0	\$9,252,099.6
Expenditures	<u>\$8,520,986.5</u>	<u>\$8,963,301.7</u>	<u>\$8,922,533.7</u>
Balance	<u>\$392,017.5</u>	<u>\$587,960.3</u>	<u>\$329,565.9</u>



# Where We End Up

### Arizona General Fund Ongoing Expenditures and Revenues FY 2002- FY 2013





# Risks

The Executive budget recommendation leaves a large balance at the end of FY 2014. These funds are there to address potential budget risks including:

- Economic Disruptions
- Federal Action
- Lawsuits
- Medicaid Expansion