

The Executive Budget Recommendation

January 18, 2013

FY 2014 Executive Recommendation

- Book Introduction
- Economy/Revenues
- Budget Principles
- Budget Summary
- The Plan
 - Child Protection
 - Public Safety
 - Education
 - Healthcare
 - Good Government
- Where We End Up
- Risks

New Budget Book Format

A quick overview of the Executive Recommendation for each Agency

Executive Initiatives are detailed with their funding sources

Department of Corrections

The Department serves and protects the people of the state of Arizona by incarcerating inmates in correctional facilities and supervising conditionally released offenders in the community. During incarceration, welfare services and health care services including medical, nursing, dental, mental health, and pharmacy are provided to inmates. In addition, work, education, career training, substance abuse treatment, religious services, and recreation are provided to inmates to promote employability, literacy, sobriety, and accountability to crime victims and to increase the likelihood that released inmates will become law-abiding citizens upon release. In the community, the Department supervises offenders released from prison to serve the remainder of their sentence on community supervision. The Department also provides for the return to custody of those offenders who violate conditions of supervision and who represent a serious threat to the safety of the community.

[Link to the AGENCY'S STRATEGIC PLAN](#)
[Link to the AGENCY'S WEBSITE](#)

	FY 2012 Actual	FY 2013 Approp.	FY 2014 Net Change	FY 2014 Exec. Rec.
General Fund	953,781.5	956,404.2	9,077.7	965,481.9
Other Appropriated Funds	47,735.0	44,907.7	8,000.0	52,907.7
Non-Appropriated Funds	65,550.8	69,600.9	9,624.0	79,224.9
Agency Total	1,067,067.3	1,070,912.8	26,701.7	1,097,614.5

Main Points of Executive Recommendations

	FY 2014
Repair and maintain Department infrastructure	8,000.0
Total	8,000.0

Major Executive Initiatives and Funding Recommendations

Yuma Prison Building Repair

Two buildings in the Yuma Prison Complex's Cheyenne Unit are structurally unsound due to weakened beams damaged by water exposure from rooftop evaporative cooling air handlers. The damaged area contains the kitchen, laundry, dining hall and program areas. Meals must now be prepared off-site and transported in for distribution, driving up food costs and creating operational inefficiencies.

The Executive recommends transferring \$6.0 million from the Prison Construction and Operations Fund, \$1.3 million from the State Charitable, Penal & Reformatory Land Earnings Fund, and \$750,000 from the Corrections Fund to the Building Renewal & Preventative Maintenance Fund. A non-lapsing appropriation from the Building Renewal & Preventative Maintenance Fund is recommended to repair the two buildings and relocate air handlers to the ground.

Funding	FY 2014
DOC Building Renewal & Preventive Maintenance Fund	8,000.0
Issue Total	8,000.0

Agency Operating Detail Department of Corrections 79

In the online version, you will be able to click the links to both the Agency's Strategic Plan and their Website

Main Points are highlighted

The Budget Books can be found at www.azospb.gov

New Budget Book Format

Baseline Recommendations

New Construction Lease-to-Own Debt Service

SFB held two bond issuances in FY 2011; as a result, the debt schedule in FY 2014 reflects an increase of \$4.7 million over FY 2013. Accordingly, the Executive recommends a General Fund increase of \$4.7 million for the previously authorized debt service.

Funding	FY 2014
General Fund	4,735.3
Issue Total	4,735.3

Standard adjustments for rent, risk management, retirement contributions, health and dental insurance premiums, health and dental insurance premium holidays, and the FY 2013 pay raise are not included in the amounts listed in this section. The recommended standard adjustment changes are included as part of the Executive Budget recommendation, but are shown in a separate section near the back of this book, immediately following the section for the Department of Weights and Measures.

← Baseline Issues are detailed with their funding sources

Budget-related performance measures

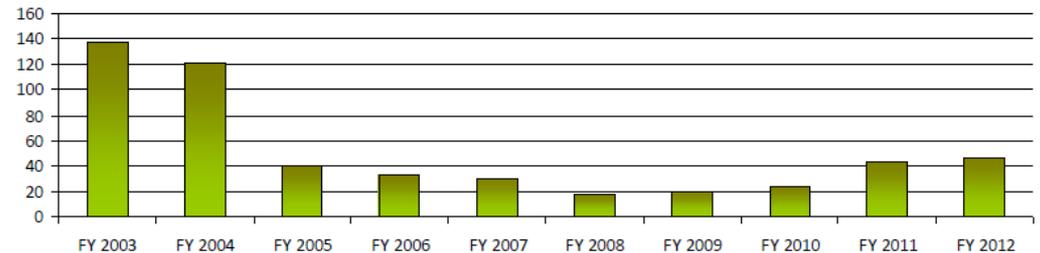
A 10-year caseload graph

Performance Measures

	FY 2011 Actual	FY 2012 Actual	FY 2013 Expected	FY 2014 Expected	FY 2015 Expected
Caseload processing (and number of issues)	43(95)	47(101)	60(140)	65(150)	70(160)
Number of tax appeals resolved	14	27	40	45	50
Number backlogged requiring written decision	4	6	10	12	15
Number of months to process appeal	7	12	9	9	9

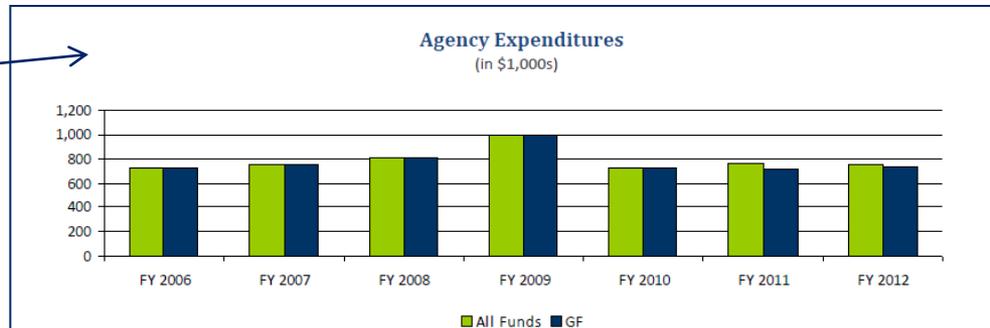
Link to the [AGENCY'S STRATEGIC PLAN](#)

Number of Tax Appeal Cases



New Budget Book Format

A 7-year expenditure History, detailing General Fund and Total Fund Sources



A listing of FY 2012 Actuals, FY 2013 Appropriation, FY 2014 Net Change and Executive Recommendation, and FY 2015 Net Change and Executive Recommendation

BY PROGRAM	FY 2012 Actual	FY 2013 Approp.	FY 2014 Net Change	FY 2014 Exec. Rec.	FY 2015 Net Change	FY 2015 Exec. Rec.
State Board for Charter Schools	734.2	748.1	0.0	748.1	0.0	748.1
Agency Total - Appropriated Funds	734.2	748.1	0.0	748.1	0.0	748.1

BY EXPENDITURE OBJECT	FY 2012 Actual	FY 2013 Approp.	FY 2014 Net Change	FY 2014 Exec. Rec.	FY 2015 Net Change	FY 2015 Exec. Rec.
Personal Services	423.6	456.1	0.0	456.1	0.0	456.1
Employee-related Expenditures	179.2	181.5	0.0	181.5	0.0	181.5
Professional and Outside Services	21.4	23.1	0.0	23.1	0.0	23.1
Travel - In State	4.0	5.8	0.0	5.8	0.0	5.8
Travel - Out of State	1.4	0.0	0.0	0.0	0.0	0.0
Other Operating Expenses	104.3	78.3	0.0	78.3	0.0	78.3
Equipment	0.3	3.3	0.0	3.3	0.0	3.3
Agency Total - Appropriated Funds	734.2	748.1	0.0	748.1	0.0	748.1

BY APPROPRIATED FUND	FY 2012 Actual	FY 2013 Approp.	FY 2014 Net Change	FY 2014 Exec. Rec.	FY 2015 Net Change	FY 2015 Exec. Rec.
General Fund	734.2	748.1	0.0	748.1	0.0	748.1
Agency Total - Appropriated Funds	734.2	748.1	0.0	748.1	0.0	748.1

CLICK ON FUND NAME FOR THE FUND'S SOURCES AND USES REPORT
 Link to the [MONTHLY CASH-FLOW REPORTS](#)

In the online version, you can click a fund name and be linked to that fund's Sources and Uses Report

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The Economy/Revenues

Projecting slow steady improvement over the next four years

Personal Income: 3.0% to 5.0% average growth

Employment: 2.0% to 3.0% average growth

Base Revenues

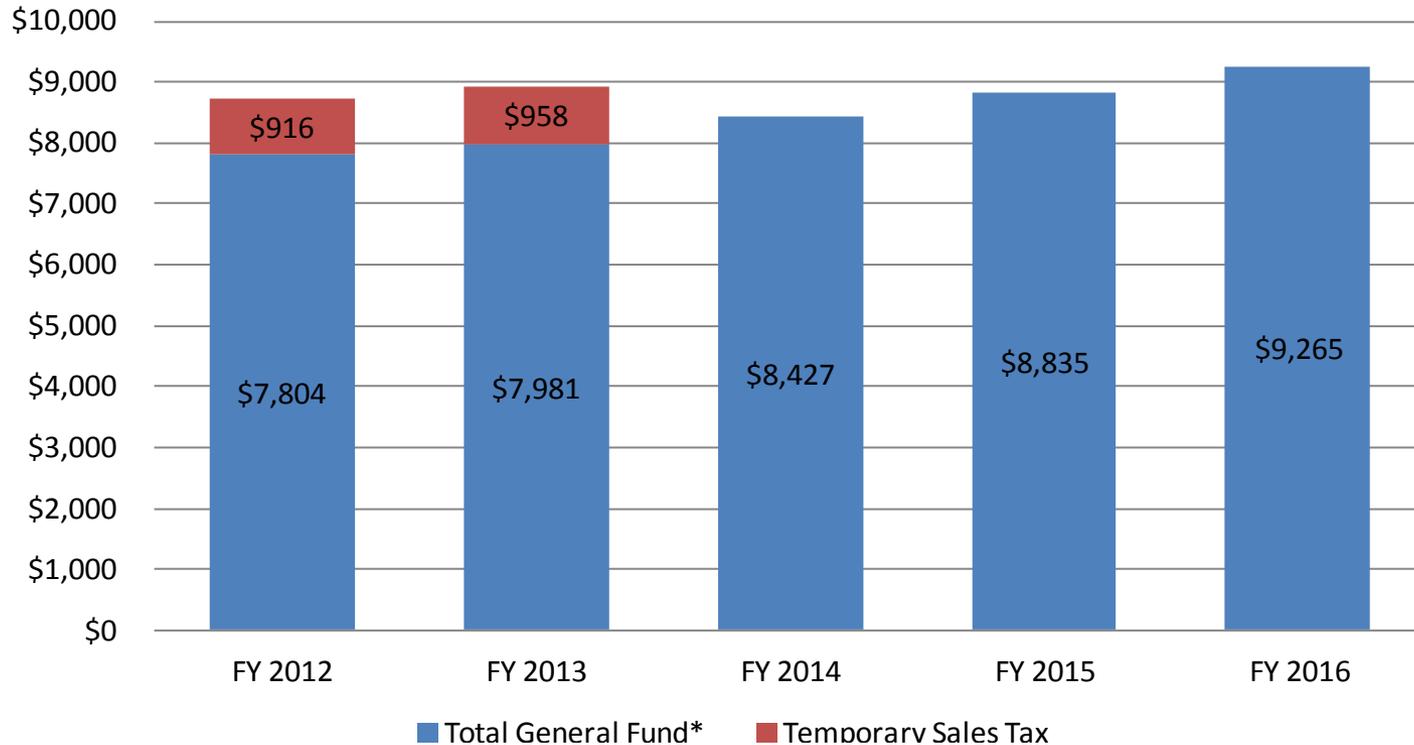
Base Revenue Forecast:

- Develop optimistic, baseline, and pessimistic
- Assumes below baseline for FY 2014 - FY 2016
 - FY 2013 – 4.3% above FY 2012 actual
 - FY 2014 – 5.7% above FY 2013 projected
 - FY 2015 – 6.3% above FY 2014 projected
 - FY 2016 – 6.2% above FY 2015 projected

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

Total Base Revenues

Total Base Revenues

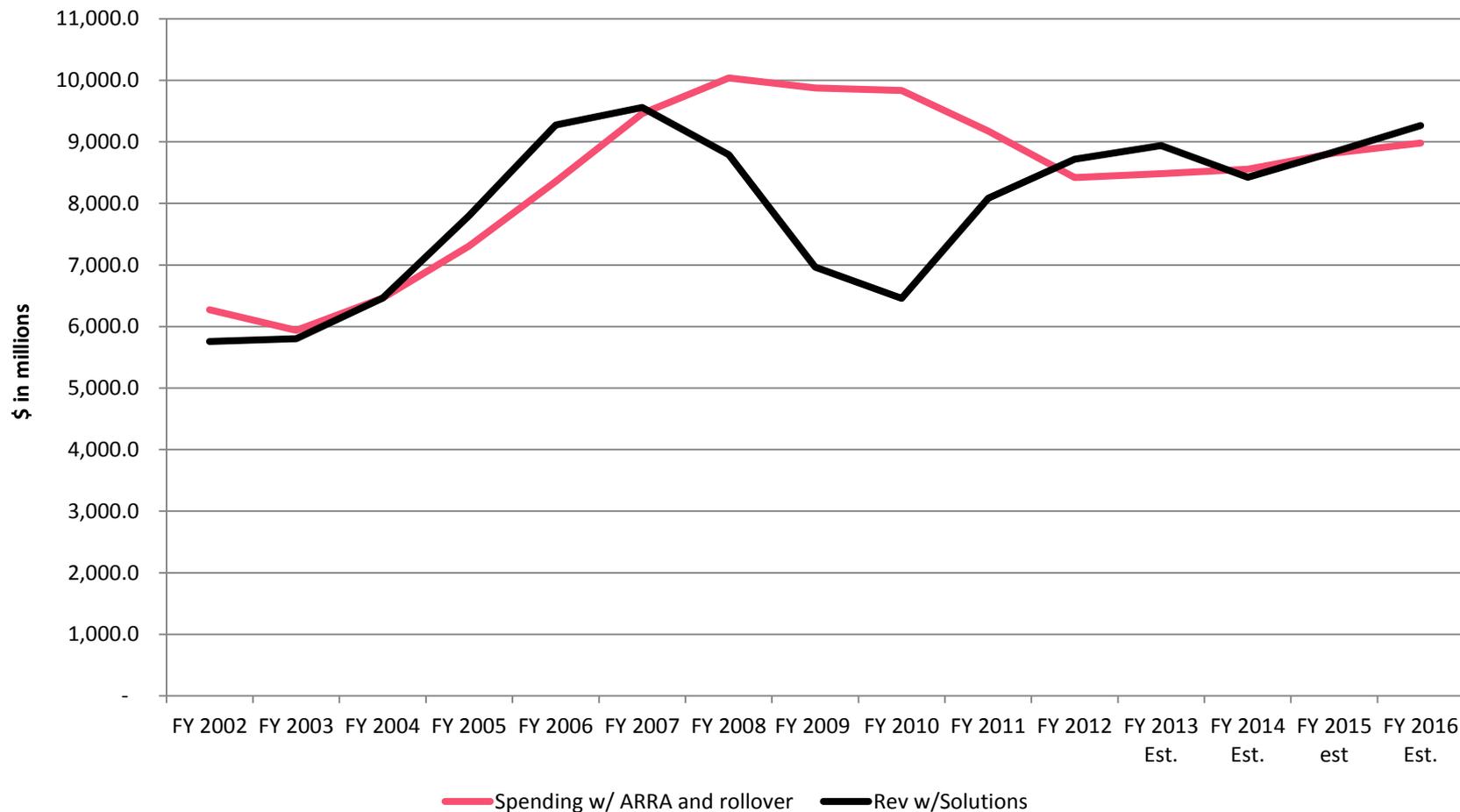


*Note:

Total revenue amounts include impact from expiration of Proposition 100 in phase in of existing tax reforms

Baseline Budget Picture

Arizona General Fund Ongoing Expenditures and Revenues
FY 2002-FY 2016

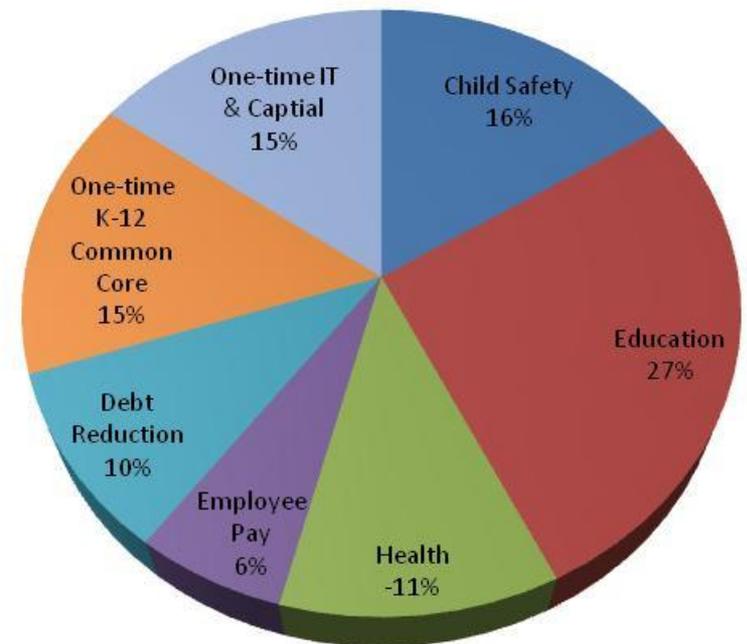


Budget Principles

- Budget decisions must be evaluated based on long-term fiscal outcomes
- Budget decisions will reflect the State's core mission of public safety, education and care for the indigent
- Budget decisions will be weighed based on their economic impacts and measured against the established Hard and Fast tax policy rules
- The budget should continue the modernization agenda to make government more efficient, transparent, and responsive to the taxpayer

Budget Summary – New Spending

Education	\$109.9
Child Safety	65.7
Health	(46.3)
Employee Pay	25.1
Debt Reduction	40.0
One-time K-12	61.5
One-time IT & Capital	61.9
Total	\$317.8



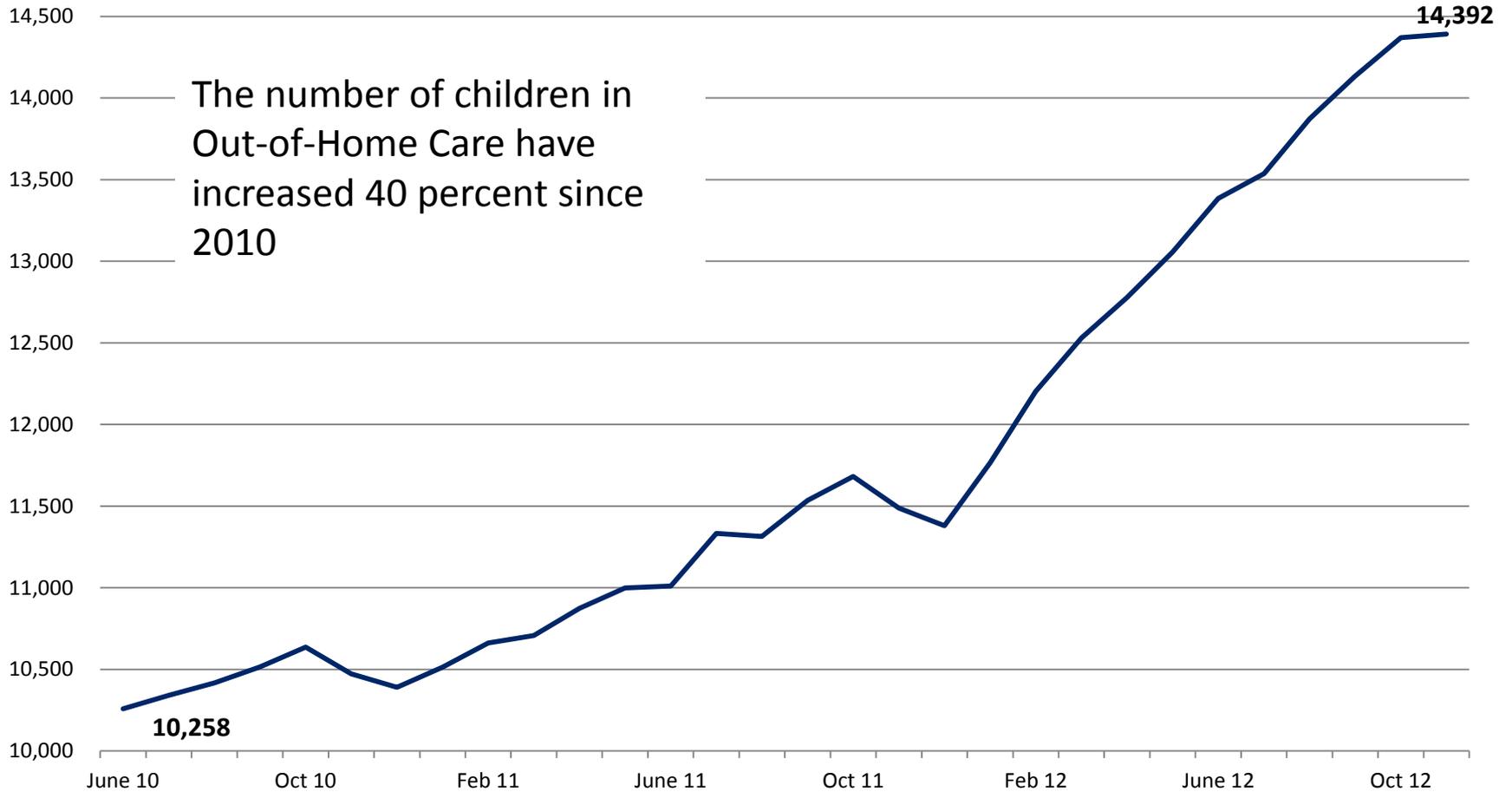
The Budget Plan

- **Child Protection**
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CPS Reports



Children in Out-of-Home Care



CPS Workers

- FY 2013
 - 50 new CPS Workers
 - \$4.4 million
- FY 2014
 - 150 additional new CPS Workers
 - \$18.7 million

Comprehensive Child Protection

Caseload increases impact the entire child safety net system:

- FY 2013: \$10.4 million
 - Children Support Services (Parent Aid, Substance Abuse Treatment, etc.)
- FY 2014: \$48.6 million
 - Emergency and Residential Placement: \$29.7 million
 - CPS Childcare: \$9.6 million
 - Foster Care Placement: \$4.8 million
 - Legal Support for CPS: \$1.6 million and 22 FTE
 - Adoption Caseload: \$2.9 million

The Budget Plan

- Child Protection
- **Public Safety**
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Public Safety

- ACTIC Operating Costs
 - FY 2014: \$750,000
 - FY 2015: \$1.5 million
- Crime Lab Backlogs
 - FY 2014 and FY 2015: \$850,000
- Public Safety Equipment
 - Divert State Aid to Indigent Defense revenue and fund balance
 - Divert revenue above appropriation from the Drug and Gang Prevention Resource Fund
- DPS Retirement Contribution
 - FY 2014: \$6.3 million
 - FY 2015: \$12.5 million

Other Public Safety Issues

- Governor's Emergency Fund
 - Increase to \$4 million
- DOC Yuma Prison Cheyenne Roof
 - \$8 million Other Funds
- DOA Security System Replacement
 - \$5 million General Fund

The Budget Plan

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Common Core Implementation

- In 2010, Arizona adopted the Common Core State Standards
- All grades will implement the new standards in SY 2014
- The Executive Recommendation includes \$40 million in one-time funding to districts and charters for:
 - Teacher stipends for professional development
 - Instructional materials that align with the new standards
 - Technology and equipment that support Common Core and PARCC

Common Core Implementation

- \$1.5 million to the Governor's Office of Education Innovation to fund three master teachers at each of the five Regional Centers. Master teachers will coordinate professional development efforts at the local level

PARCC Exams

- As part of Common Core, 23 states including Arizona formed the Partnership for Assessment of Readiness for College and Career (PARCC), to develop a common set of K-12 assessments in English and math
- The PARCC assessment will be administered online to students in grades 3-11 in SY 2015 and will require significant statewide technology upgrades including equipment and software

PARCC Exams

- The Executive recommends a \$20 million grant administered by the School Facilities Board (SFB) to complete a technology needs assessment and bring schools up to the required specifications
- Funding will be based on the number of devices needed with a target student-to-PARCC ready device ratio of 5:1

Common Core Summary

Item	Amount	Agency
Flexible funding for local needs: teacher training, curriculum, equipment	\$40 million	School Districts and Charters
15 Master Teachers at Regional Centers	\$1.5 million	Governor's Office of Education Innovation
Technology Upgrades/Assessment	\$20 million	School Facilities Board

Performance Funding

Districts and Charters can earn funding through two mechanisms:

1. Achievement Funding

Earn graduated achievement payments for scoring above 100 points (a grade of C or higher) on the 200 point A-F Accountability scale. The higher the score the more funds are available with a maximum payment of \$500 per pupil

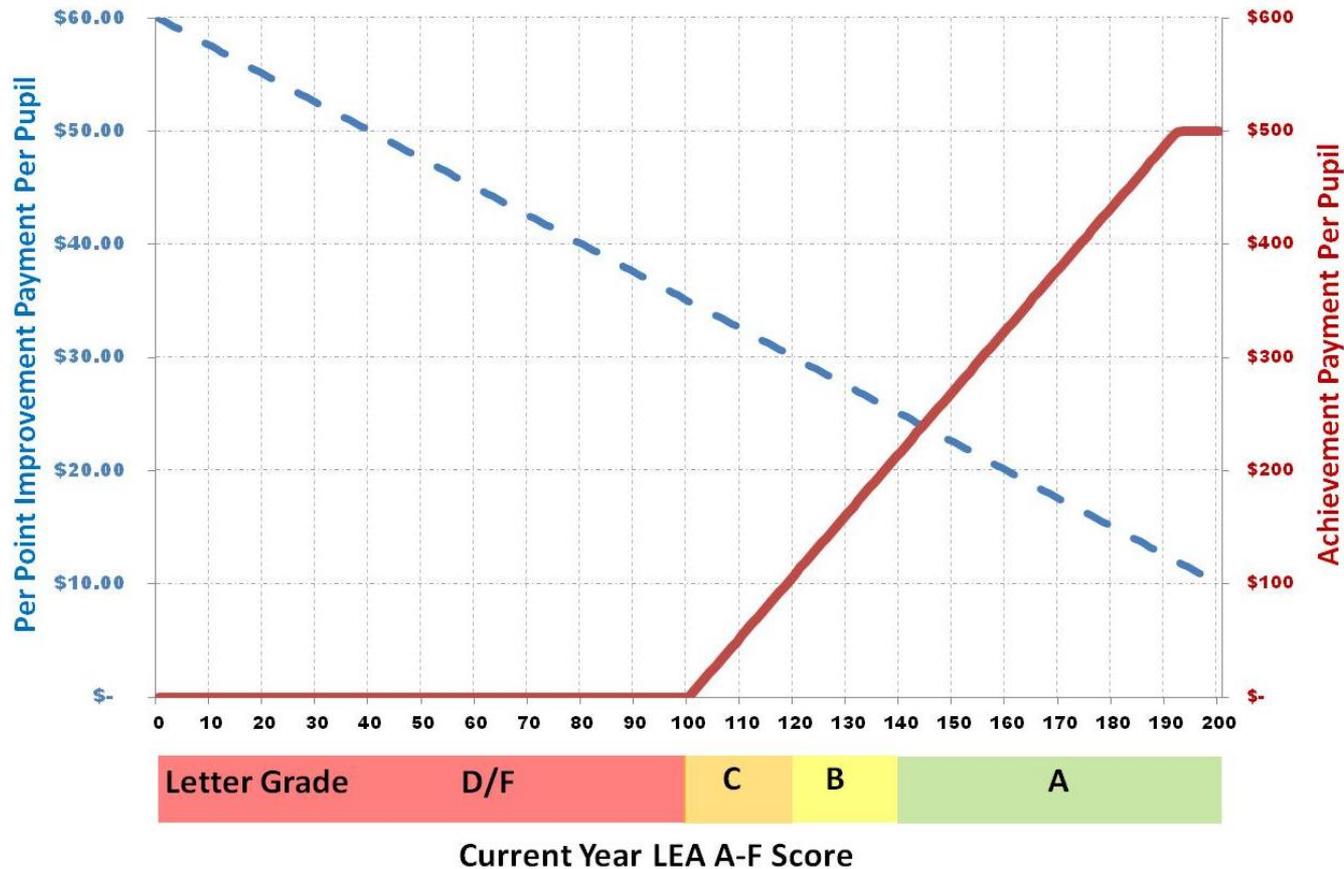
2. Improvement Funding

Districts and charters earn improvement payments by scoring above their current five-year high score. Improvement payments will be higher for lower-performing LEAs with a maximum payment of \$500 per pupil

Districts and charters will have flexibility to determine how to spend monies earned through performance funding

Performance Funding

K-12 Performance Funding



The maximum per-pupil payment is \$500 for improvement, and \$500 for achievement.

Performance Funding

EXAMPLES

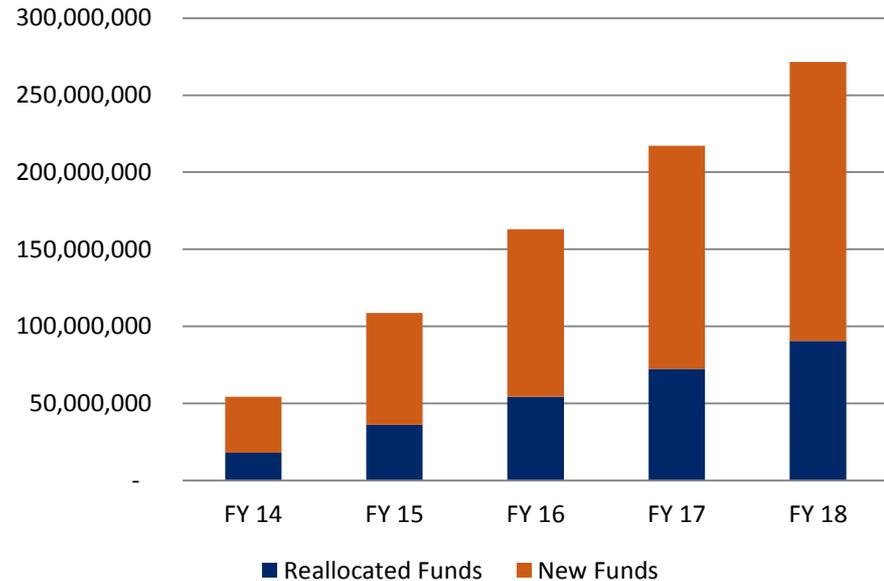
If district X scores 138 points earning a “B” grade, with no improvement from the prior year, their *Achievement Payment* will be \$206 per pupil and their *Improvement Payment* will be \$0

If district Y’s current high score is 80 points and they score 90 points, they receive no *Achievement Payment*. The *Improvement Payment* is calculated by taking the growth in points (10 points) and multiplying it by the dollars associated with the new high score (\$37.50) for a total improvement payment of \$375 per pupil

Performance Funding

- The Executive recommends that performance funding should be 5 percent of the total K-12 formula
- The Proposal phases in the recommendation over five years
- 1/3 of the performance dollars are reallocated from existing funds, 2/3 will be new monies

Funding Sources for Performance Funding



	FY 14	FY 15	FY 16	FY 17	FY 18
Reallocated Funds	18,101,200	36,202,400	54,303,600	72,404,900	90,506,100
New Funds	36,202,400	72,404,900	108,607,300	144,809,800	181,012,200
Total Performance Allocation	54,303,600	108,607,300	162,910,900	217,214,700	271,518,300
Percent of Formula Funding	1%	2%	3%	4%	5%

Career and Technical Education

GOVERNOR'S
CORNERSTONES

2

- \$2 million General Fund to ADE to establish an IT Academy
- ADE to contract with Microsoft to provide certification and licensing programs to Arizona students and teachers statewide

School Safety

- The Public School Safety Program is a state grant that provides funding to school districts for School Resource Officers (SROs)
- The Public School Safety Program receives \$7.8 million in Prop. 301 monies each year. In FY 2012, 40 percent of grant applicants received funding
- The Executive recommends \$3.6 million to add a 1-to-1 state-matching program for eligible grant applicants that are not covered by the Prop. 301 distribution
- This is sufficient funding to cover all current requests

Data System

- Provide \$7.0 million in FY 2014 for completion of the Student Longitudinal Data System (SLDS)
- Provide ongoing funding in FY 2015 and FY 2016 to complete SAIS replacement
- Move the appropriation to ASET and require JLBC oversight

K-12 Formula Reform

- Eliminate the Soft Capital and CORL funding formulas
- Replace with a new capital formula called Additional Assistance governed by the existing CORL statutes
- These dollars will have the same flexibility as CORL dollars

School Facilities Board

- New School Construction
 - Current law requires:
 - 3-year projection window for grade 7-12 schools
 - 2-year projection window for grade K-6 schools
 - Funding for Accommodation Schools
- Recommendation
 - Eliminate the projection window and require schools to fall below capacity to begin new school construction
 - Reclassify “accommodation schools” as “charter schools”

School Facilities Board

- Debt Limits
 - Constitutional Limit for unified school districts: 30 percent of NAV
 - Statutory Limit for unified school districts: 10 percent of NAV
 - The Executive recommends raising the statutory limit to 20 percent of NAV
- COP Debt
 - Outstanding SFB COP Debt: \$1,140,605,000
 - Current rates are at historic lows- under 3 percent for 30-Year AAA Municipal Debt
 - Statute does not allow SFB to refinance debt
 - The Executive recommends repealing statute and allow SFB to refinance debt

School Facilities Board

- Building Renewal
 - Repeal Building Renewal formula and expand the current grants program to \$25 million
 - Transition to the School Maintenance Accountability Program (School MAP)
 - Develop a statewide inventory system
 - Require all contracts to be developed or approved by the SFB
 - Convert building renewal program to an end-of-life based system
 - Require districts to develop a five-year master plan
 - Require districts to participate in SFB preventative maintenance program to be eligible

School Facilities Board

GOVERNOR'S
CORNERSTONES

2

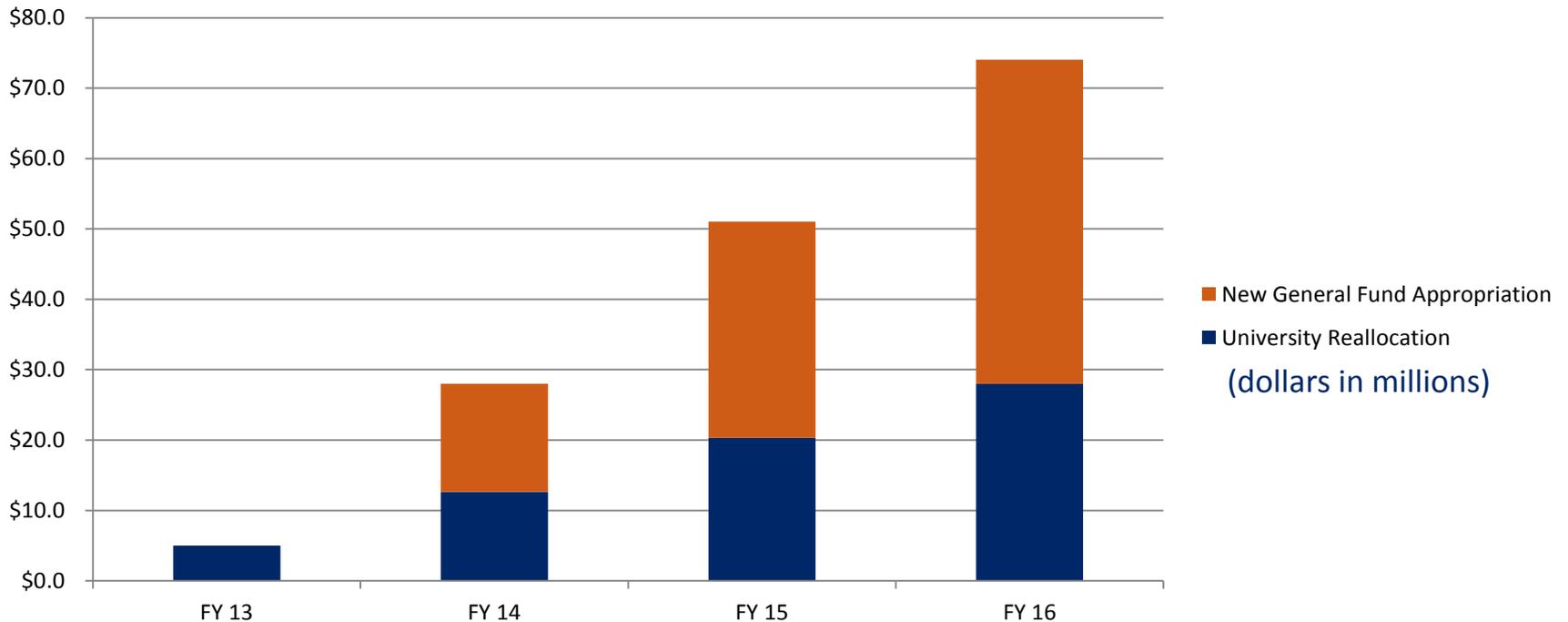
SFB Building Renewal Program

Online Preventative Maintenance System	\$933,500
Administrative Costs	\$717,500
School MAP Program Cost:	\$1,651,000
Building Renewal Grants	\$23,349,000
Total Building Renewal Program:	\$25,000,000

Universities

Issue	ASU	NAU	UA	Total
Performance Funding	\$8.7	\$3.5	\$3.1	\$15.3
Parity	\$12.0	\$3.3		\$15.3
Soft Capital	\$10.8	\$3.4	\$5.7	\$20.0
UA Medical Education at Phoenix Campus			\$8.0	\$8.0
Total (in millions)	\$31.5	\$10.2	\$16.9	\$58.6

University Performance Funding



- The Executive recommends performance funding ultimately equal 10% of total General Fund support
- The Proposal phases the recommendation in over the next three years
- \$2 in General Fund to every \$1 in university appropriation match
- Distributed using Performance Allocation Model based on degrees, research expenditures and credit-hours

Community Colleges

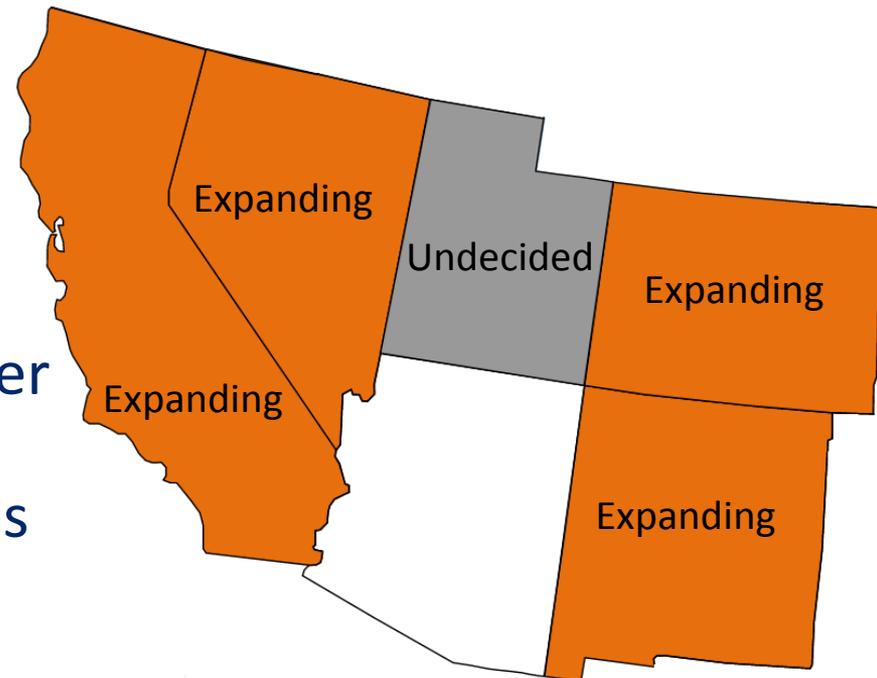
- The Executive Budget recommends \$3.3 million to fund the Community College Capital formula at 50%, excluding Maricopa and Pima Community College Districts
- Funds will be used for capital investment projects such as:
 - Medical simulation equipment
 - Computers and lab equipment
 - Virtual welding simulators
 - GIS equipment
 - Flight simulators

The Budget Plan

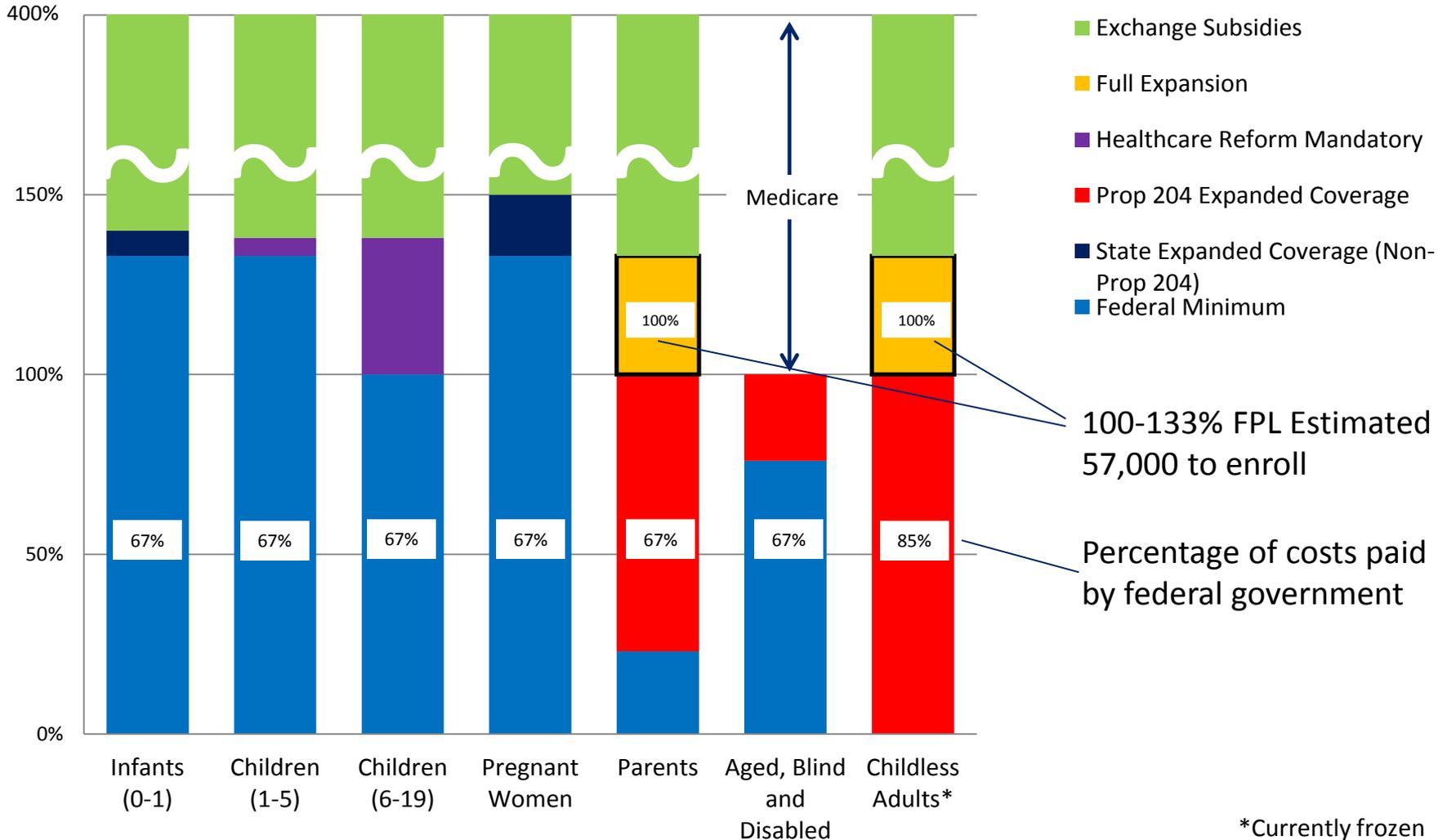
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Expanding will Maintain Arizona's Economic Competitiveness

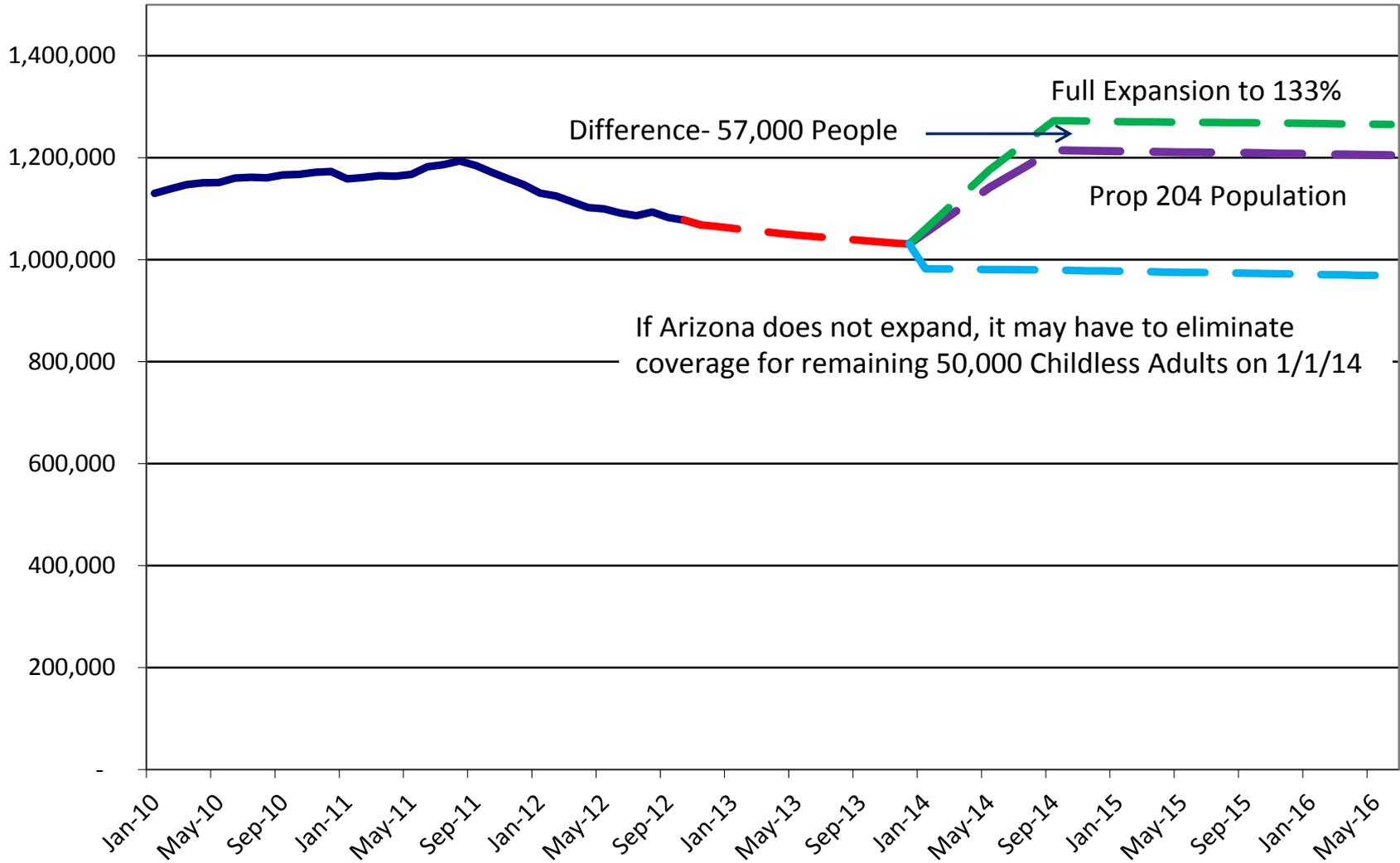
- Almost all of Arizona's neighboring states are expanding
- Not expanding will expose Arizona to uncompensated care costs that will impact the cost and quality of care
- This cost will hurt Arizona in economic competition with other states
- Taxes from non-expanding states will fund Medicaid growth in expanding states creating a wealth shift



Medicaid and ACA Populations



Relatively Minor Tweak to Populations Already Covered by Arizona Voters



Significant New Funding for AZ Economy

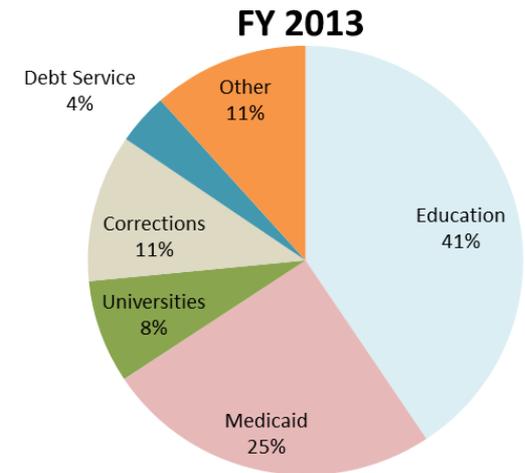
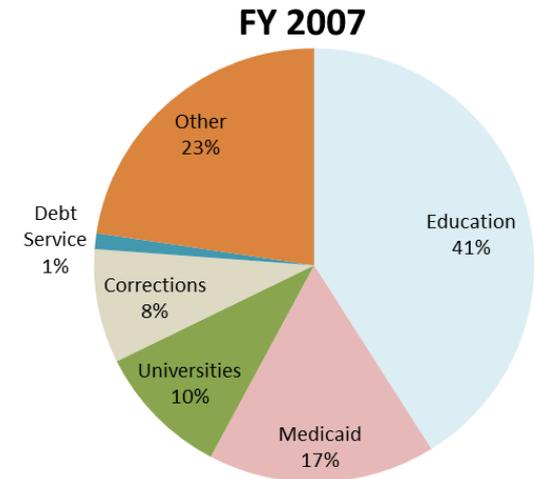
In FY 2015, the first full year of implementation:

- \$1.6 billion in new federal matching funds
 - 10-to-1 return on investment
 - Because of enhanced federal matches: expansion is 100% federally funded and Prop 204 restoration is 85% federally funded
 - Similar economic impact as Luke Air Force Base
- \$154.0 million match paid by provider assessment

Circuit breaker protects the State from a bait and switch

New Provider Assessment Protects the General Fund

- Since 2007 Medicaid costs have grown by 35%
- At full implementation the Prop. 204 expansion's unfunded costs are \$256.0 million
- The proposed assessment will relieve the General Fund of the Prop. 204 burden, freeing funds for other state priorities
- Assessment is consistent with 2004's Prop. 101, requiring self-funding for all initiatives
- Replaces City of Phoenix assessment
- Cities will no longer be allowed to levy assessment



Funding Impacts

	FY 2014	FY 2015	FY 2016
State Match Increase	\$27 million	\$154 million	\$105 million
Provider Assessment	(\$82 million)	(\$256 million)	(\$224 million)
Increase in Existing Premium Tax	<u>(\$7 million)</u>	<u>(\$34 million)</u>	<u>(\$36 million)</u>
Net Impact on GF	(\$62 million)	(\$136 million)	(\$155 million)
Federal Match	\$337 million	\$1.556 billion	\$1.712 billion

Federal Match

Two Scenarios

Assumption	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Continued Frozen Childless Adult Program	337.0	1,556.0	1,712.0	1,785.0	1,821.0
No Childless Adult Program	464.0	1,815.0	1,980.0	2,061.0	2,102.0

Arizona uses Conservative Principles to Manage Medicaid

- Exporting Arizona's conservative health management model can help the national deficit
- Since shortly after creation in 1982, AHCCCS has been considered "the gold standard"
- AHCCCS - a national leader on cost containment
 - Almost entirely managed care – rare for Medicaid
 - Member costs approximately 12 percent lower than national average
 - Error rate of 1.1 percent compared to 6.7 percent national average
- The Executive recommends additional payment reforms:
 - Shift payment from per-hospital day to per-diagnosis
 - Partnerships with plans and providers to improve quality and performance

Other Healthcare

- Electronic Medical Records for Arizona State Hospital (\$4.5 million)
- Alzheimer's Research (\$1.4 million)
- TGen (\$2.5 million)

The Budget Plan

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IT Modernization

- The Arizona Strategic Enterprise Technology (ASET) Division at ADOA is uniquely positioned to develop, execute and manage large-scale, statewide technology projects
- With several large-scale projects across the State in the early stages of implementation, the Executive recommends that:
 - 1) Specific IT projects be consolidated with centralized oversight and project management provided by ASET
 - 2) Funding for several new and continuing technology projects come through the Automation Projects Fund
 - 3) JLBC review take place before any of the Automation Projects Funds are expended

IT Modernization

- The Executive recommends \$35.8 million General Fund and \$19.6 million Other Funds be used to supplement amounts already allocated for new and continuing projects in the Automation Projects Fund

Current Projects	FY 2014 Projects
AFIS Replacement	ASET Projects
AHCCCS IT Network Security	ADEQ e-Licensing
DOR BRITS Refresh	ADE Education Learning & Accountability System
	DOC AIMS Replacement
	DOR Data Security

- The Executive Recommendation also includes a \$20.0 million placeholder for AFIS Replacement. The exact amount will be determined when the procurement closes

Personnel Retention Pay

- To continue supporting personnel reform and to address the 17.1 percent gap between State salaries and the job market, the Executive recommends continuing the FY 2013 Retention Payment
- General Fund: \$18.7 million

Merit Increases

- The Executive recommends implementing performance-based merit increases to top performing employees
- This new system will serve to:
 - Reward top performers and identify low performers
 - Align State practices with the private sector
 - Improve workplace performance
- General Fund: \$6.4 million
 - Assumes January 1, 2014 implementation

% of Agency Employees	Corresponding Merit Increase
Top 30%	4%
Middle 55%	2%
Bottom 15%	0%

Elimination of Delayed Benefits

- In FY 2012, a 90-day waiting period was instituted for new employees to receive health, dental, and other non-retirement benefits
- With high turnover rates and increased competitiveness in the employee market, the Executive believes that the negative impacts on new employee recruitment outweigh the minor financial savings
- The Executive recommends that these benefits be restored to take effect immediately upon new employee hire
- The cost of restoring these benefits is estimated to be \$7.3 million General Fund, but will be absorbed by agencies and will require no additional State funding

Environmental Management

Issue	Fund Source	Description	FY 2014
Restoration of Recycling Program	Recycling Fund	Restores Recycling Program at ADEQ	\$1.0 million
Restoration of WQARF Funding	Corporate Income Tax (General Fund)	Restore statutory Water Quality Assurance Revolving Fund Transfer over 3-year period. Allows ADEQ to clean-up additional hazardous sites	\$2.7 million

State Parks

- \$2 million annually to Parks for capital improvement projects
- Funding directed from Lottery's General Fund 2 distribution
- Will not affect any other Lottery beneficiaries

State Land

- Arizona Supreme Court ruled re-direction of sales proceeds for Department operations as unconstitutional
- \$10.7 million impact to General Fund

Agency Restructure

- Department of Real Estate
 - 90/10 Structure
- Department of Financial Institutions
 - Self-Funding

Dept. of Revenue Legal Support

- Tax legal issues are complicated, including class actions involving millions of dollars
- DOR's current legal representation is insufficient
- The Executive recommends \$1.6 million for DOR to hire a legal and support staff to represent DOR in tax areas

Debt Reduction

State currently has:

\$1.2 billion in rollover obligations

\$1.4 billion in structured debt

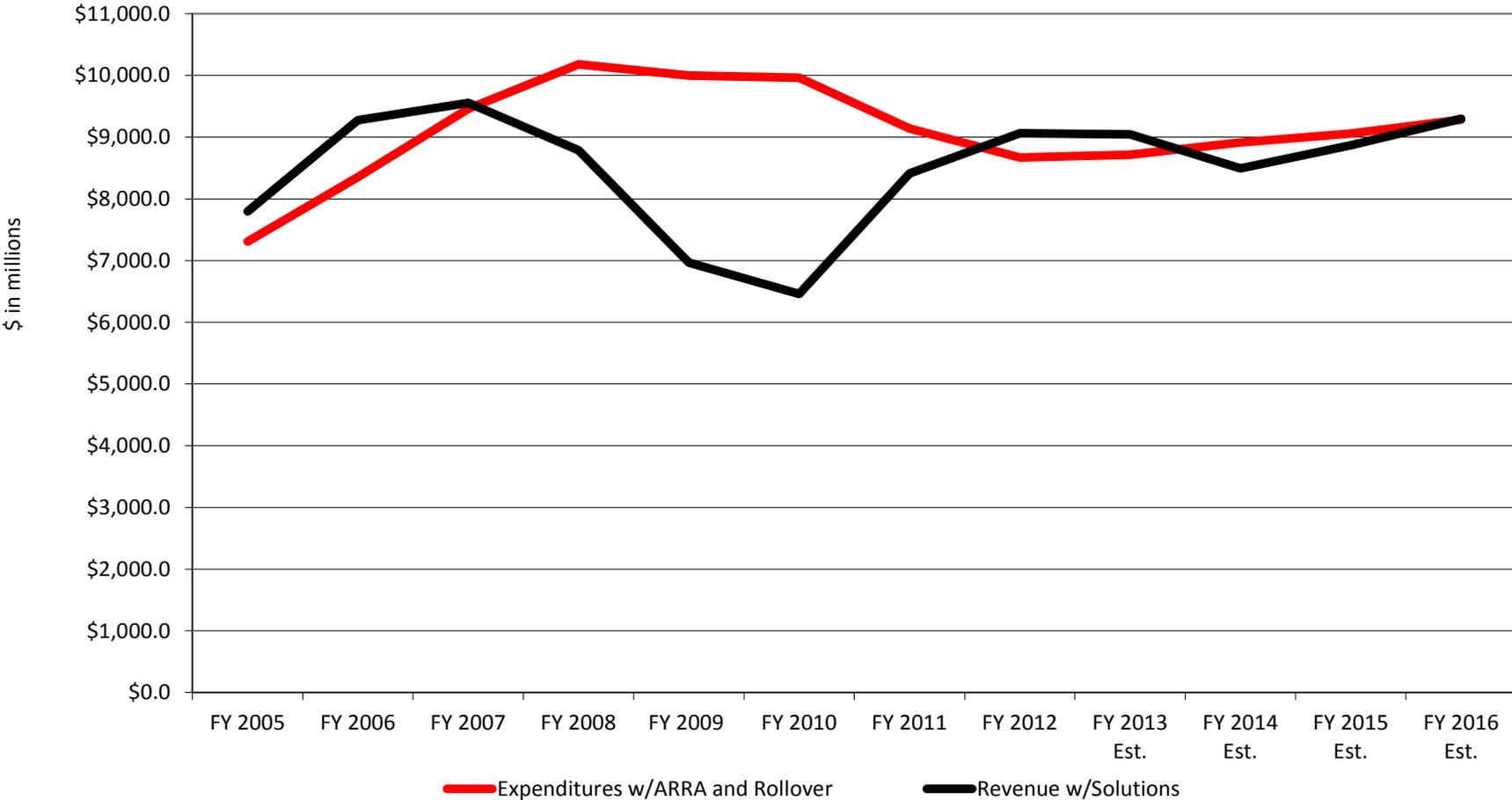
Executive recommends \$40 million per year for debt retirement

Local Government

- Reinstatement County Assistance Fund
 - Distribute \$5.5 million of Lottery proceeds to the 10 counties (\$550,000 each) with populations under 200,000 residents
 - This decreases Lottery distributions to General Fund 3 by \$5.5 million

Where We End Up

**Arizona General Fund Ongoing Revenue and Expenditures
FY 2005-FY 2016**



Where We End Up

	FY 2013	FY 2014	FY 2015	FY 2016
Beg. Balance	\$396,962.2	\$725,442.8	\$313,122.9	\$122,295.8
Revenues	\$9,045,171.0	\$8,495,119.3	\$8,867,983.4	\$9,300,107.9
Expenditures	\$8,516,690.5	\$8,907,439.2	\$9,058,810.5	\$9,283,467.1
Ending Balance	\$725,442.8	\$313,122.9	\$122,295.8	\$138,936.5
Structural Balance*	(\$515,340.7)	(\$444,819.9)	(\$196,827.1)	\$10,640.8
Rainy Day Fund Balance	\$450,000.0	\$450,000.0	\$450,000.0	\$450,000.0

*excludes Prop. 100 revenues

Risks

The Executive Budget Recommendation leaves both a Rainy Day fund and a cash balance at the end of FY 2016. These funds will be available to address potential budget risks including:

- Federal action
- Lawsuits
- Economic disruptions