



S U M M A R Y

# **The Executive Budget**

**FISCAL YEAR 2007**

Janet Napolitano  
GOVERNOR





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To the Honorable Members of the  
Forty-Seventh Arizona Legislature:

In the context of budget creation, governing is largely about making good choices. Three years ago, when depressed revenues presented us with a projected billion-dollar deficit, the Executive and Legislative branches had a choice between raising taxes or implementing temporary fiscal measures. Guided by the belief that good times would soon return, we chose the latter, and history has validated our decision.

As I write to you today, our vibrant, fully recovered economy and three years of fiscal sacrifice and discipline at the State level give us a precious opportunity to pay off some of the fiscal bridges, to invest in education, to care for Arizona's children, and to make larger deposits to State government's Budget Stabilization Fund.

The Executive Budget Recommendation for Fiscal Year 2007 reflects a balanced approach. It emphasizes strategic tax relief and economic incentives that offer enduring benefits to taxpayers and to the state at large. It also modernizes State assets and strengthens vital programs that, during the last three years, bore the brunt of our fiscal austerity. In short, we should make the coming fiscal year a time for continuing to keep our house in order as we pour the foundation for long-term excellence in our essential and critical service areas.

The most effective and beneficial forms of tax relief at this time must be targeted toward helping Arizona families meet the rising costs of daily life and reward businesses that contribute to their employees' quality of life. To help ensure that working Arizonans have access to health care, I propose that the State offer an income tax credit to small businesses that have two to 24 employees and provide employee health insurance. To help parents send their students back to school in the fall, and to stimulate customer traffic for many Arizona retailers, I am proposing a three-day sales tax holiday during which State sales tax will not apply to the purchase of school supplies, clothing, and the first \$1,000 of computer equipment. To give families relief from the cost of their cars and trucks, I propose that we cut Arizona's vehicle license tax and, as an added incentive, we cut it in a way that rewards drivers who choose to conserve gasoline. And to encourage innovation by Arizona businesses, I am recommending that we expand the existing credit for research and development of new products, systems and technologies.

The spending priorities contained in the Executive Recommendation reflect, in large part, a strong focus on three critical areas that directly impact the present and future: public safety,

education, and health care. In addition, our objectives should include repaying fund transfers that were part of prior years' temporary fiscal measures. Specific recommendations consist of \$95.5 million to repay half of the K-12 rollover; \$118 million to fully pay back the Vehicle License Tax Fund; and \$40 million as a partial repayment to the Highway User Revenue Fund. We will also increase our savings by putting an additional \$180 million in the State's rainy day fund.

With respect to public safety, this budget provides a \$100 million initiative aimed at securing our border with Mexico, suppressing the entry and trafficking of illegal aliens into our state, preventing the importing of hazardous waste, and upgrading our crime lab resources in southern Arizona. To make our adult prisons safer for correctional officers and the public, we will make substantial progress toward implementing the system-wide reforms recommended by the Blue Ribbon Panel that investigated the 2004 hostage situation at the Lewis Complex. We also work toward ensuring that not one abused woman is turned away from a shelter or denied a place of safety. And, as part of our anti-drug efforts, we will take decisive action to halt the manufacture and distribution of methamphetamines and to deal harshly with the perpetrators of the meth epidemic that threatens every Arizonan.

No use of State funds provides a greater return than investing in our public education system. At every level, education funding must focus on the classroom. The Executive Recommendation provides for a pay hike for every teacher and a statewide increase in the base salary, in fair exchange for our heightened expectations for student performance, and it lays the groundwork for a progressive program of professional development for teachers in order to keep our best teachers in the classroom. Two years ago we made a laudable start in implementing voluntary all-day kindergarten, and now we must make that popular and valuable program available to all parents who want it for their children. Arizona's universities continue to achieve national and international prominence, and we must continue to focus on attracting and retaining top faculty in order to benefit from the economic and intellectual assets that accompany them. We can further help our universities achieve their mission by providing performance incentives on such criteria as graduation rates and degrees awarded. And as the academic climate on our campuses evolves, we must make it more accessible to Arizona students who require financial assistance.

One of State Government's most essential functions is to care for our most disadvantaged citizens of all ages. For children, the first months of life are crucial in terms of their overall well-being and development, and the Executive Recommendation provides additional resources for the Newborn Screening Program. As our economy grows, one of the consequences is the often fragile transition of parents from dependency to employment; during this time, childcare subsidies are crucial, and we must be prepared to meet that need. For children who are permanently separated from their parents, additional funding is required to meet adoption caseload growth and to assist the adoptive parents of more than 9,200 children each month. Finally, approximately 184,000 Arizona children live in households at or below 200% of the federal poverty level and are not covered by health insurance; additional funding for the KidsCare Children's Health Care Program will provide coverage for those children.

To meet the care needs of adults, the Executive Recommendation advocates a health care premium subsidy for workers earning below 200% of the federal poverty level to help them

afford their share of employer health care premiums. This budget also provides necessary funding for Breast and Cervical Cancer Treatment and for adult community services and independent living support programs. To help recruit and retain Arizona physicians, the Executive Recommendation strengthens medical student loan and scholarship programs that encourage physicians to set up their medical practices in underserved areas or to meet the needs of underserved populations. These actions build on the commitment we made last year to begin funding a medical school in Phoenix. Finally, the risks and sacrifices that military veterans have made on behalf of our nation warrant our unfading appreciation and our commitment to accommodate their unique needs. In Fiscal Year 2007 we will fund the startup cost of building a State veterans home in southern Arizona, increase the Veteran Benefit Counselor staff, and restore money to the Veteran Cemetery Fund for a cemetery in northern Arizona.

Most of these programs and initiatives carry a significant investment. In many instances, the investment is greater today because State government was unable or unwilling to pay the bill when it first came due. But today, for the first time since most of us first took our oath of office, Arizona's robust economy and the State's favorable fiscal condition present us with an uncommon and enviable opportunity to catch up with our obligations and to bring our equipment, buildings, programs and services up to date.

The packages included in this budget reflect the Executive's singular focus on making our state and our citizens safer, stronger and even more prosperous than ever before. Working together during this Legislative session, we can achieve this goal and continue to move Arizona forward. Let's do it.

Very truly yours,

A handwritten signature in black ink that reads "Janet Napolitano". The signature is written in a cursive, flowing style.

Janet Napolitano  
Governor



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## ACKNOWLEDGEMENTS



# The impact of the State budget

*For stakeholders who are directly impacted by State services and programs, how the Executive and Legislative branches allocate resources transcends mere public policy*

*What the Executive Budget Does for ...*

## CHILDREN

WE KNOW THAT the first years of a child's life are critical to his or her development. Disruptions during this formative period can have serious, long-term effects.

The Executive Recommendation provides funding for Arizona's children from the time they are born, by screening and treating possible afflictions that might hinder the child's development. Additionally, children will receive critical supports such as insurance, vaccines, childcare and, when necessary, intervention by Child Protective Services. The Executive's goal of providing a safe environment for children ensures that children removed from unhealthy environments will find safe alternative permanency options via adoption, foster care, or permanent guardianships.

Key highlights of the budget for children include additional funding of:

- \$4.6 million for KidsCare Outreach, to reach young, needy children and provide them with proper medical insurance;
- \$2.5 million for Arizona Families First, an expedited substance abuse treatment program that allows parents to receive services while their children remain safely in their homes;
- \$18.7 million to reduce the number of children in congregate care and to keep intact and reunite families;
- \$4.5 million for Adoptions Services caseload growth;
- \$2.7 million for Permanent Guardianship subsidies, permanency options where the guardian

does not want to sever the parental rights of the birth parent;

- \$7.9 million for Child Care Subsidies that allow low-income parents to work;
- \$7.9 million to increase market provider payments to the 2000 market rate, up from 1998 rates; and
- \$2.2 million for newborn screening, which will identify congenital defects and developmental challenges immediately after birth.

*What the Executive Budget Does for ...*

## EDUCATION

ARIZONA'S CHILDREN DESERVE the resources and opportunities to compete in today's global economy. As we increase expectations of our students, we must offer quality teachers to instruct them. Teachers do the heavy lifting and deserve to be compensated at the level of other comparable professionals.

The pay disparity between teachers and other professions puts schools and students at a disadvantage in attracting people to the profession. In addition, those districts able to pay more are able to recruit and retain the most qualified teachers, further increasing the disparities with poor, small, and rural districts.

The Executive Recommendation continues to demonstrate its commitment to education by establishing a Statewide minimum teacher salary, and increasing the base salary level of all teachers and creating performance pay structures. Additionally, the Executive Recommendation continues to increase educational opportunities by expanding Voluntary Full Day Kindergarten to all school districts and fully funding Eng-

lish language learning programs. Highlights include:

- full funding for the K-12 and Community Colleges formulae;
- an additional \$105.4 million to expand Voluntary Full Day Kindergarten to all school districts;
- compliance with court orders for English language learners by increasing funding by \$45.2 million;
- increased funding for the Gifted Support Program by \$528,900 in order to fully fund the statutory formula;
- a \$45.7 million teacher pay package to raise the teacher minimum base annual salary to \$30,000 and provide all teachers with a pay increase;
- a \$45 million pay increase to hold teachers harmless from increased retirement contributions;
- an additional \$2.5 million for districts to plan and develop criteria for statewide pay-for-performance programs, master teacher programs and professional development programs; and
- an additional \$4 million for grants to integrate technology in the classroom, improve parent outreach and communication, support innovative math and science literacy programs, and institute best practices for small schools.

*What the Executive Budget Does for ...*

## LAW ENFORCEMENT

EVERY DAY, THOUSANDS of law enforcement officers around the state risk their lives to protect our citizens and visitors. However, many Arizona law enforce-

ment agencies experience high levels of turnover, high levels of vacant positions, and difficulty attracting new recruits.

To more adequately compensate law enforcement officers and to attract more recruits to the law enforcement field, the Executive Recommendation provides for pay increases over and above those to be offered across the board to all State employees. It also provides additional resources to give officers the tools and support they need to perform their jobs effectively. The Executive Recommendation provides an additional:

- \$44.7 million for salary increases for law enforcement personnel within the Department of Corrections, Department of Public Safety, and Department of Juvenile Corrections; this funding is in addition to the Statewide salary increase for state workers;
- \$11.9 million to the Department of Public Safety for equipment, such as body armor, police patrol video cameras, medical equipment for patrol units, ballistic helmets, and traffic vests; new Highway Patrol vehicles; a new Highway Patrol helicopter for use in traffic enforcement and rescue operations to replace a 21-year old Bell 206L helicopter; mobile data computers for patrol vehicles to allow officers to access criminal justice information from remote locations; replacement equipment for DPS crime labs to strengthen scientific analysis of evidence submitted by law enforcement officers for criminal cases; and state-of-the-art upgrades to the Arizona Automated Fingerprint Identification System;
- \$9.7 million for border security personnel, including two additional Gang Intelligence Team Enforcement Mission (GITEM) squads dedicated to human trafficking and one domestic terrorism squad; additional expenditures include \$596,000 for a missing persons database, \$1.9 million to upgrade the Statewide Microwave Radio System, and \$1.4 million for costs related to continuation of vehicle theft in southern Arizona;

- \$1.4 million for positions in DPS operational units, including administrative support positions to help free up officer time otherwise spent doing administrative tasks so that officers can focus on patrols; crime lab positions to ensure that the work done by officers helps bring criminals to justice; and 9-1-1 call takers to help the communications division of DPS safely and effectively deploy law enforcement officers when there is a call for service;
- \$2 million to replace aging Department of Corrections equipment; and
- \$1.5 million to replace 33 old vans and to add 17 vans to the Department of Corrections vanpool fleet.

*What the Executive Budget Does for ...*

## COLLEGE STUDENTS

FOR ARIZONA TO achieve worldwide recognition as a center of North American trade and commerce, its higher education system must be able to produce a first-class workforce.

Training and retention of university graduates within Arizona is, therefore, critical for the state's future success. Arizona must strive to maintain university access to all students within the state while improving the quality of education.

The Executive Recommendation seeks to improve access to and the quality of university education by:

- raising the State match for financial aid to 2:1, increasing the State's contribution to student aid from \$2.2 million to \$9.1 million to help more Arizonans afford a college degree and minimize tuition;
- supporting student enrollment growth at all state universities by fully funding the growth formula;
- fully funding growth for community colleges;
- making available \$5.4 million for universities as an incentive to graduate students on time and in targeted occupations where there is a clear demand for more workers, such as teaching, engineering

and nursing (this new performance formula ensures that universities are rewarded for improving the rate of graduation and the numbers of students graduating);

- providing additional funding of \$2.9 million to expand the University of Arizona's pharmacy program to allow 20% more students to enroll and add a new program to address the critical shortage of pharmacists in Arizona;
- \$1 million for Northern Arizona University to increase counseling for students to improve retention rates during the first and second years of college; and
- \$2 million in funding for NAU to enhance relationships with community colleges throughout Arizona to provide greater access and options for students seeking a college degree, particularly in high-demand occupations such as allied health professions, law enforcement and medical imaging.

*What the Executive Budget Does for ...*

## HEALTHCARE

ARIZONA CONTINUES TO be a national leader in the efficient provision of health services to the medically needy and low-income populations.

However, with a growing population and birth rate, coupled with ongoing medical inflation, health care spending will grow in FY 2007, and the value of prevention cannot be overstated. Providing consistent, community-based primary care prevents long-term disorders and diverts people from more expensive forms of treatment. Additionally, investment in physician recruitment and retention, medical education, substance abuse treatment, newborn/infant health, and vaccines will result in long-term dividends.

Highlights include an additional:

- \$4 million to ensure that each hospital receives all funding available for graduate medical education;
- \$1 million to implement the Recruiting Arizona Physicians Office, to assist physicians in establishing

- rural medical practices and/or join existing group practices;
- \$6.1 million in premium subsidies for small businesses that provide health insurance for their lower-wage employees;
- \$4.9 million for Medicare Part-D co-pays for physical and mental health medications, to ensure that elderly low-income persons continue to receive medication;
- \$2.5 million for growth in the HIFA Parents program;
- \$52.6 million for growth in the Arizona Long-Term Care System, which provides home and community-based health services to Arizona's elderly and low-income disabled populations;
- \$22 million for an increase in the developmentally disabled population receiving long-term care services;
- \$1.2 million for methamphetamine treatment in rural communities and non-urban tribes; and
- \$8.6 million for the purchase of vaccines for children and for first time, high-risk, low-income adults.

*What the Executive Budget Does for ...*

## SENIORS

ARIZONA HAS LONG been a choice destination for individuals reaching retirement age. Coupled with a growing segment of aging adults within the state, the senior population age 65 and over is increasing relative to other population age groups. Nationwide, the first wave of Baby Boomers – over 78 million of them – will reach age 60 this year.

Seniors remain positive contributors to Arizona's economy well beyond retirement age and are living longer than ever thanks to advancements in health, wellness and medical science. While a vibrant senior population has emerged in Arizona, many individuals within this population group also remain at risk for chronic disabilities, economic fraud and reduced economic means.

The Executive Recommendation provides an additional:

- \$8.6 million to expand community services and independent living supports, including training of direct care workers, so that at-risk seniors can continue to live and function within the community;<sup>1</sup>
- \$1.5 million for protection of the elderly and physically disabled so that the Department of Economic Security can investigate 100% of reported cases of abuse, neglect, exploitation, and abandonment of vulnerable seniors;
- \$500,000 for assistance with utility bills for needy households;
- \$1.4 million of the aforementioned \$8.6 million for vaccines to fight pneumonia and diseases of the lungs in adults; and
- \$1.9 million for development of Arizona's 2-1-1 telephone service, which links individuals to State services and assistance.

*What the Executive Budget Does for ...*

## WOMEN

IN ALL STATES, women face unique challenges. In Arizona, domestic violence shelters experience a high turn-away rate that must be reversed. More women will also seek treatment for breast and cervical cancer in FY 2007. And pregnant women must also receive health services to ensure a safe birth.

The Executive Recommendation for FY 2007 addresses these and other initiatives for the benefit of women, including an additional:

- \$2.8 million to fund 243 domestic violence shelter beds, as the first of four steps to eliminate the unmet need for shelter space;
- \$145,600 to fund the continued growth of the Breast and Cervical Cancer Treatment program;
- \$1.9 million for the High Risk Perinatal program, which will al-

low caseworkers to visit high-risk families four times a year; and

- \$332,700 and 3.0 full-time equivalent (FTE) positions for the Sex Offender Monitoring Unit to conduct sex offender verifications on an annual basis and to assist in tracking down sex offender absconders.

*What the Executive Budget Does for ...*

## BORDER SECURITY AND IMMIGRATION

ONE OF THE critical issues facing Arizona is illegal immigration. Individuals who cross the border illegally risk serious danger to themselves and strain public and private health and social support systems. The result is often loss of life and additional taxpayer costs.

Unfortunately, much of the trafficking of illegal immigrants is organized and encouraged by human smugglers or "coyotes" who profit at the expense of the immigrants without concern for their health and welfare. Securing our border is a federal responsibility. Nonetheless, the human trafficking trade through Arizona results in state crimes negatively impacting our quality of life.

The Executive Recommendation includes a \$100 million Border Security and Immigration Package targeted at increasing the capabilities of State and local law enforcement agencies to stop illegal immigration. Key components include:

- \$13.1 million to the Department of Public Safety for county, local and tribal agencies in the four Arizona counties that share a border with Mexico (the funding includes \$8 million for border security and technology and \$5.1 million for the Border City Cops program);
- \$10 million of new funds to assist local, county and tribal law enforcement agencies in paying for overtime for law enforcement officers, first responder costs, extraordinary expenses for the medical examiner, and county jail costs;
- \$14.3 million for construction of a crime lab for southern Arizona to assist in the prosecution of border-related crimes;

<sup>1</sup> Of the recommended \$8.6 million, \$3.2 million is designated for senior agencies throughout Arizona to help seniors make informed decisions about their care, including options under the Medicare prescription drug benefit and for the necessary community infrastructure to support the state's growing aging population.

- \$9.7 million for border patrol efforts within DPS, including a domestic terrorism squad, two additional Gang Intelligence Team Enforcement Mission (GITEM) squads and two squads dedicated to human trafficking (additional expenditures include \$596,000 for a missing persons database, \$1.9 million to upgrade the Statewide Microwave Radio System, and \$1.4 million for vehicle theft details or interdiction in southern Arizona);
- \$1.3 million to allow the Attorney General to prosecute crimes related to illegal immigration, including human trafficking, drug trafficking, and employment and other identity fraud;
- \$730,000 for inmate work crews to perform debris and trash cleanup and brush clearing along the border area;
- \$873,000 for crime lab personnel; and
- \$50 million in one-time funding for a Border Security Mobilization Reserve Fund for additional border security and immigration-related measures; State, local and tribal agencies will be eligible to receive money from this Fund, which serves as a stop-gap measure until the federal government implements a solution to stem the flow of illegal immigration.

*What the Executive Budget Does for ...*

## TAXPAYERS

ALTHOUGH ARIZONA TAXPAYERS have a low tax burden compared to other states, they should be required to pay no more than is necessary to fund critical public investments.

Where possible and appropriate, tax cuts should be considered to achieve equity and fairness, encourage investment and improve economic well-being for families and businesses. The Executive Recommendation provides approximately \$100 million in tax cuts to families and businesses, including:

- a three-day sales tax holiday in August for families and individuals purchasing school supplies,

clothing and computers in preparation of the start of the school year (this investment in families and education is expected to save taxpayers \$25 million);

- a \$20 million tax cut in the Vehicle License Tax (VLT) afforded to owners of the most gasoline-efficient vehicles;<sup>2</sup>
- a \$20 million research and development tax credit to businesses who invest in new research and development initiatives designed to develop products that will advance new technologies and create additional jobs;
- a small business health care tax credit up to \$1,000 as an incentive to small businesses (two to 24 employees) to offer employee health insurance, at a total estimated cost of \$35 million; and
- a directive to the Department of Revenue to identify rental properties and ensure proper categorization for property tax assessment and for qualifying for the benefits of the homeowners' rebate (this enhanced enforcement will generate new revenues, saving the State's General Fund approximately \$20 million).

*What the Executive Budget Does for ...*

## BUSINESSES

THE SUCCESS OF Arizona's economy depends on the state's ability to attract and retain business and a talented workforce. It is vital that State government help create an appropriate climate in which businesses can thrive.

The proper mix of tax structure and public investment in infrastructure is critical. Additionally, the State must provide for a well-educated, well-trained work force.

<sup>2</sup> The reduction will be based on the specific gasoline efficiency of a vehicle make and model, starting with vehicles achieving at least 30 miles per gallon on average. The greater the fuel efficiency, the greater will be the reduction in the VLT. Vehicle owners benefit in two ways: by lowering expenses on fuel purchases, and by reducing VLT taxes.

Some important initiatives for businesses in the Executive Recommendation include:

- a small business health care tax credit up to \$1,000 as an incentive to small businesses (two to 24 employees) to offer employee health insurance, at a total estimated cost of \$35 million;<sup>3</sup>
- an insurance premium subsidy of \$6 million to help small businesses pay for lower-income workers' health insurance;
- \$25 million to fund "Innovation Arizona," which will invest in science-based research with strategic value to Arizona's long-term competitiveness and quality of life;<sup>4</sup>
- an additional \$1.1 million to expand enrollment in the Healthcare Group insurance program;
- an additional \$451,600 to the Department of Real Estate to improve customer service and provide more effective regulation;
- full funding of the Office of Tourism to promote Arizona as a destination for individuals and businesses;
- an additional \$5 million to the University of Arizona for research and technology management and innovation;<sup>5</sup>
- funding for a Small Business Support Center to provide resources and support to small businesses in

<sup>3</sup> The credit is available to small businesses that currently offer health insurance to their employees as well as those that begin offering health insurance to their employees.

<sup>4</sup> *Innovation Arizona* will provide funds to (a) attract top research talent to move Arizona into the forefront of research and development worldwide; and (b) provide a match source for use-inspired research and development initiatives resulting in products in targeted industries that, through commercialization, will expand and diversify Arizona's industrial base and its economy.

<sup>5</sup> This effort will move university and industry discoveries more surely and rapidly to commercialization, through enhanced public-private partnerships designed to identify and market research with high potential for commercial success and to enhance Arizona's economy.

the commercialization of proven concepts and ideas;

- an additional \$500,000 for “Jobs for Arizona Graduates,” to increase the graduation rate of high-risk youth and help place them in private sector jobs; and
- an additional \$1 million for the Summer Youth Training Program to help at-risk youths become productive workers.

*What the Executive Budget Does for ...*

## STATE EMPLOYEES

THE OPERATION OF State government is made possible through the 70,500 State employees who devote their working lives to public service.

However, recent studies show that employees working for the State receive pay that is well below market and significantly lower than that earned by their counterparts in local government. Further, most areas of State government suffer from high turnover and difficulty in filling vacant positions, due to the uncompetitive salary structure.

The Executive Recommendation recognizes the value of State employees and provides:

- a 7.5% employee pay hike;
- funding for pay raises for law enforcement personnel at the Department of Public Safety (\$3 million), Department of Juvenile Corrections (\$2.7 million) and Department of Corrections (\$39.0 million);
- funding for pay raises of licensing personnel at the Department of Health Services (\$80,000);
- funding for pay raises for psychiatrists and nurses at the Arizona State Hospital (\$3.1 million);
- funding for faculty recruitment and retention at Arizona’s three universities (\$27.6 million);
- an additional \$33 million to cover increased health insurance premium costs for State employees;
- \$55 million in financing for capital projects that include a new crime laboratory for southern Arizona

and a new forensic unit at the Arizona State Hospital;

- \$750,000 in one-time seed money to provide quality training programs for State employees; and
- an increase of \$259,000 for bus subsidies for State employees (the funding pays for 100% of bus costs for the three summer months and 65% of costs for the remaining months).

*What the Executive Budget Does for ...*

## RURAL COMMUNITIES AND AGRICULTURE

THIRTEEN OF ARIZONA’S 15 counties are considered rural. Yet, Arizona is among the nation’s most urban states, with 80% of the State’s population concentrated in Maricopa and Pima counties.

Delivering services to all Arizonans is central to the Executive’s priorities. It is especially important to provide adequate resources to communities along the southern border, to address the costs and consequences of illegal immigration (see “Border Security and Immigration” above).

Highlights of the benefits to rural Arizona include an additional:

- \$2.3 million to the University of Arizona for expansion of agriculture and county extension offices and outreach to rural communities;<sup>6</sup>
- \$7.3 million FY 2006 supplemental appropriation, most of which is to reimburse local fire fighting entities for fire suppression efforts undertaken in summer and fall of 2005;
- \$15 million for establishment of a Rural Water Supply Development Fund, to provide (a) grants up to \$150,000 for water supply feasibility and design assistance and (b) loans or bonds for water supply development;

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<sup>6</sup> The Recommendation adds 11 faculty and six support staff at county extension offices throughout Arizona to meet the growth of rural communities. The additional funding also expands outreach efforts for the College of Agriculture at UofA South.

- \$215,000 to allow the Forestry Division to provide community and landowner support to better plan and manage forest health and community forestry projects;
- \$225,000 to enhance the Forestry Division’s capacity to better manage and address wildfires;
- \$267,000 to the Department of Commerce to strengthen and support economic development in rural and tribal communities;<sup>7</sup>
- \$1.5 million for vehicles for van pools for employees working at prisons in rural areas, thus providing incentives to potential workers to take jobs at correctional facilities located in those areas;
- \$730,000 for inmate work crews to perform debris and trash cleanup and brush clearing along the border area; and
- \$1.5 million increase for fire suppression on State Trust land and rural private land.

*What the Executive Budget Does for ...*

## TRANSPORTATION

ARIZONA’S EXPLOSIVE GROWTH poses unique challenges in transportation planning. Recent developments of new communities in areas without adequate roads and highways has increased fuel use, contributed to pollution, added to law enforcement costs and increased congestion.

Arizona’s continued growth and development depend on a quality transportation system, which will require investment in transportation planning and highway construction. Key highlights include:

- repayment of \$118 million in Vehicle License Tax revenue for use by the State and local governments in building and maintaining roads;
- repayment of \$40 million to the Highway User Revenue Fund for construction of Arizona roads;

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<sup>7</sup> This initiative will provide specific economic development assistance such as development of energy systems and workforce development for tribal areas.

- \$5.8 million of additional funding to ADOT for highway maintenance and safety features related to new highway construction;
- an additional \$198,000 to the Governor's Office of Highway Safety costs for planning and administration of the Highway Safety Plan;
- \$164,000 for personnel at the Nogales Port-of-Entry to ensure adequate safety and supervision of border transportation crossing;
- \$380,000 for bridge safety and engineering; and
- \$1.1 million to address growth and workload increases in the Prescott District, which includes the areas of Payson, Cordes Junction, Wickensburg, Prescott and Verde Valley;
- \$5.3 million from the State Highway Fund to open two high-growth area Customer Service Centers at Surprise (to serve metro Phoenix) and Marana (metro Tucson); and
- \$1.7 million and 37.0 FTE positions for MVD offices to address population growth-driven workloads, reduce customer waiting time at Driver's License offices, and enhance credential security.

*What the Executive Budget Does for ...*

## LOCAL AND TRIBAL GOVERNMENTS

STATE GOVERNMENT PARTICIPATES with local governments in a variety of programs to provide services to citizens throughout Arizona. Collaboration between levels of government maximizes the efficient use of resources by matching local needs with the level of government best situated to provide services. Additionally, the State shares certain revenues and taxes with local governments to meet local service needs.

There are 21 tribal governments within Arizona's borders, serving nearly 300,000 tribal members. While gaming opportunities on tribal lands have im-

proved the economic environment for some of Arizona's Native American tribes, many tribal areas, particularly in rural or remote areas, continue to experience high levels of poverty and other social afflictions. Many Native Americans do not have access to state programs and services. Furthermore, tribal governments near the Mexico border face safety and security issues will illegal immigration.

To enhance local government resources and restore funding for local programs and projects, the Executive Recommendation incorporates several initiatives, including:

- an additional \$750,000 for local and tribal law enforcement directed at abating methamphetamine distribution and use (the funds are to be used for training costs and overtime pay to deal with increased meth-related caseloads);
- replacing \$40 million in the Highway Users Revenue Fund, which is shared with local governments for maintenance of highways;
- an additional \$1.4 million to Pima County to relieve it of obligations to pay for court probation costs;
- full funding of the Arizona Office of Tourism to promote tourism in Arizona cities and towns;
- \$4.7 million of additional funding to ADOT for highway maintenance and safety features related to new highway construction;
- \$1.1 million to address growth and workload increases in the Prescott District (*see "Transportation" above*);
- repayment of \$118 million in Vehicle License Tax revenue for use by the State and local governments in maintaining and construction roadways;
- full funding of community colleges;
- an additional \$15 million for establishment of a Rural Water Supply Development Fund (*see "Rural*

*Communities and Agriculture" above*); and

- an additional \$266,800 to the Department of Commerce to strengthen and support economic development in rural and tribal communities, including development of energy systems and workforce development for tribal areas.

*What the Executive Budget Does for ...*

## ARIZONA VETERANS

The risks and sacrifices that veterans have made on behalf of our nation warrant our unfading appreciation and our commitment to accommodate their unique needs.

Approximately 585,000 veterans living in Arizona, and that population is certain to grow. Executive Order 2005-15 created the Arizona Veteran Task Force. In 2005 the Task Force analyzed and evaluated State services and benefits provided to Arizona's veterans and found those services and benefits to be inadequate. For example, there are rural counties in Arizona with thousands of veterans and no services provided by the State.

The Executive Recommendation provides additional resources to support veterans, including:

- \$10.1 million to build the Southern Arizona State Veteran Home;
- \$1.7 million for 40 new veteran benefit counselors, support staff, and veteran outreach programs statewide;
- an additional \$121,500 for maintenance and operation of the Southern Arizona Veteran Cemetery; and
- replenishment of \$182,700 to the Cemetery Fund to allow the Department of Veterans Services to begin the process of building a new cemetery in northern Arizona. •



## Budget Summary



**General Fund**  
**Sources and Uses of Funds**  
(in thousands)

	FY 2005 Actuals	FY 2006 Executive Recommendation	FY 2007 Executive Recommendation
<b>SOURCES OF FUNDS</b>			
Balance Forward	360,388.9	638,989.0	1,046,966.7
Base Revenues	8,172,216.5	9,130,889.5	9,783,158.6
<i>Urban Revenue Sharing</i>	(373,074.2)	(425,228.9)	(551,230.9)
Adjusted Revenues	7,799,142.3	8,705,660.6	9,231,927.7
Enacted Fund Transfers	37,341.1	15,972.0	-
VLT Transfer	118,000.0	-	-
Ladewig Refunds	(130,811.3)	(58,258.9)	(92,646.4)
Judicial Collections Adj for Pima Co			(1,400.0)
Rental Property Tax Enforcement			20,000.0
Revenue Maximization			10,000.0
Fuel Efficient Vehicles VLT Reduction			(20,000.0)
Education Sales Tax Holiday			(25,000.0)
Research & Development Tax Credit			(20,000.0)
Health Insurance Tax Credit			(35,000.0)
<b>TOTAL SOURCES OF FUNDS</b>	<b>8,184,061.0</b>	<b>9,302,362.7</b>	<b>10,114,848.0</b>
<b>USES OF FUNDS</b>			
Operating Budgets	7,475,547.5	8,191,767.7	9,153,754.9
Operating Budget Supplementals		87,628.3	
Voluntary Full Day Kindergarten			105,400.0
Teacher Pay Package			45,669.0
Teacher Retirement Hold Harmless			45,000.0
Innovation Arizona			25,000.0
State Employee Compensation			142,754.7
Employer Related Expense			22,800.0
Employee Health Insurance			33,000.0
Debt Service on Capital Projects			5,500.0
Water Supply Fund			15,000.0
Transfer to Budget Stabilization Fund	156,490.5	-	180,000.0
Border Security and Immigration Package			100,852.0
Kerr Lawsuit			15,000.0
Payback K-12 Rollover at one-half			95,500.0
Payback HURF -- Shift to Gen Fund			40,000.0
Payback VLT			118,000.0
Building Renewal and Capital Outlay		17,150.0	32,426.5
Administrative Adjustments	23,731.8	50,000.0	25,000.0
Revertments	(110,697.8)	(91,150.0)	(110,500.0)
<b>USES OF FUNDS</b>	<b>7,545,072.0</b>	<b>8,255,396.0</b>	<b>10,090,157.1</b>
<b>ENDING BALANCE</b>	<b>638,989.0</b>	<b>1,046,966.7</b>	<b>24,690.9</b>
<b>TOTAL USES OF FUNDS</b>	<b>8,184,061.0</b>	<b>9,302,362.7</b>	<b>10,114,848.0</b>

# Sources and uses of funds

THE SOURCES AND USES of funds document depicts the budget in terms of projected revenue sources and expenditures.

- For FY 2005, the data reflect actual expenditures taken from the State's Accounting and Financial Information System (AFIS).
- FY 2006 revenues reflect Office of Strategic Planning and Budgeting (OSPB) projections of taxes, fees and other General Fund Revenue sources, while FY 2006 Uses of Funds reflect appropriations made by the Legislature in the 2005 Legislative session and recommendations for 2006 supplemental issues.
- FY 2007 sources and uses include OSPB projections of taxes, fees and other General Fund revenue sources and estimates of expenditures in support of the Executive FY 2007 budget as well as FY 2007 appropriations made by the Legislature in the 2005 Legislative session for select agencies.

## SOURCES OF FUNDS

**Revenue projections.** The OSPB revenue estimating process involves participation by representatives from the L. William Seidman Institute at Arizona State University, the Arizona Department of Revenue, the Arizona Department of Economic Security, and OSPB. The process includes:

- Presentation of projection scenarios for the State's economy. Each participant provides independent views of projection scenarios based on various projection techniques and models.
- Consensus reached on forecasts of economic variables, including personal income, employment, and gross domestic product. These variables serve as inputs to the revenue projections. Baseline, optimistic, and pessimistic scenarios are finalized.
- Presentation of revenue projections for 'Big Three' tax sources based on economic scenarios. Each participant provides independent views on revenue projections for the economic scenarios. Revenue flows of recent tax collections are analyzed for consistency with projections.
- Blending of revenue projections by OSPB to reflect an achievable revenue collection scenario.

**Ladewig refunds.** Pursuant to the 2001 Arizona Supreme Court decision in *Ladewig v. State of Arizona*, the State is required to refund individual income taxes paid on non-Arizona dividends earned for the years 1986 through 1989. The final payments are to be made in FY 2007. The Department of Revenue has estimated the FY 2007 *Ladewig* payment obligation at \$92.6 million.

**Rental property tax enforcement.** The Executive budget provides \$20 million in additional revenue related to tax enforcement. Over the past two years, investment in Arizona real estate has increased significantly. A substantial portion of real estate activity has been the purchase of residential dwelling units by investors who rent the properties to individuals and families. While residential homeowners are eligible for a homeowners rebate on property taxes, the rebate does not extend to investors who lease-out their residential properties.

Despite this eligibility requirement, many investors who lease their properties fail to report their rentals to the county assessor's office leaving them as owner-occupied. As a result, the investors benefit from the homeowners rebate. During FY 2007, the Department of Revenue will work with the county assessor's office and the county treasurer's office to identify, reclassify, and collect additional taxes and penalties from property owners that have not voluntarily corrected the classification of their property. The estimated amount of FY 2007 additional tax collections by the State as a result of the enforcement program is \$20 million.

**Tax relief.** The FY 2007 budget incorporates tax relief estimated at \$100 million for enactment of four tax relief measures to strengthen the State's economy and invest in new technologies that will create jobs of the future. These measures include:

- **SMALL BUSINESS HEALTH CARE tax credit** (\$35 million) as an incentive to small businesses (i.e., those with two to 24 employees) to offer employee health insurance. The credit is available to small businesses that already offer health insurance to their employees as well as to those that begin providing that benefit.
- **SALES TAX HOLIDAY** (\$25 million) on selected back-to-school purchases to help offset the sticker shock for parents preparing children for the start of the school year. This three-day sales tax holiday will remove the State sales tax on purchases of clothing (\$100 limit per item), school supplies (\$50 limit per item) and the first \$1,000 of an item of computer equipment.
- **Extension of RESEARCH AND DEVELOPMENT TAX CREDIT** (\$20 million). This initiative would increase the amount of the existing credit to encourage additional investment by businesses in research and development.
- **VEHICLE LICENSE TAX RELIEF.** This \$20.0 million proposal would institute a reduction in the Vehicle License Tax paid by owners of the most gasoline-efficient vehicles. The tax relief is tiered, beginning with vehicles with MPG ratings of 31 MPG, receiving a VLT reduction of 25%. Vehicles with an average MPG rating of 46 MPG or more will pay only a \$10 minimum.

## USES OF FUNDS

**Operating Budget Supplementals.** The budget includes \$87.6 million for supplemental appropriations for agencies in FY 2006. This estimate reflects projected shortfalls for the following agencies:

Department of Revenue .....	\$1.3 million
Department of Corrections .....	\$30.8 million
Department of Education.....	\$21.4 million
State Board of Equalization .....	\$300,000
State Land Department .....	\$7.3 million
AHCCCS.....	\$15.2 million
Department of Health Services .....	\$11.3 million

**Voluntary Full Day Kindergarten.** The budget provides for an additional \$105.4 million to the Department of Education to fully fund Voluntary Full Day Kindergarten in all school districts and charter schools.

**Teacher minimum pay package.** The budget includes \$45.7 million to fund a teacher pay package that provides \$5.7 million to increase the minimum annual base salary of teachers to \$30,000. An additional \$40 million is designated to provide all teachers a pay increase. To hold teachers harmless from increases in retirement contributions, in FY 2007 the Executive Recommendation adds \$45 million.

**Teacher Retirement Hold Harmless.** The budget provides \$45 million to help offset Arizona State Retirement System increases.

**Innovation Arizona.** The budget includes \$25 million to the Department of Commerce to enhance Arizona's position in the global economy by investing in science-based research and innovation in areas beneficial to Arizona's long-term competitiveness and quality of life. The funds are to be used to attract world-class researchers to Arizona and support research into new products and technologies that can be commercialized and brought to the market.

**State Employee Compensation, Employer Related Expense and Employee Health Insurance.** The Recommendation includes a State employee general pay increase of 7.5%, estimated at \$142.8 million in General Fund expenditures. Additionally, \$22.8 million of General Fund expenditures are estimated to cover employee related expenses for the employer cost of funding increased retirement contributions.

As a result of rising health care costs, an additional \$33 million is required to fund the General Fund portion of the State's self-insured health insurance program. Additionally, the budget includes additional pay increases for certain high-demand occupations, including law enforcement and corrections officers and healthcare workers.

**Debt service on capital projects.** The Executive Recommendation includes \$55 million for three capital projects. The annual debt service cost through issuance of certificates of participation (COPs) is estimated at \$5.5 million, based on a 5.5 % interest rate and 15-year payback schedule. The projects to be financed include:

Southern Arizona Veterans Home.....	\$10.2 million
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Forensic Unit – Arizona State Hospital .....	\$30.5 million
Southern Regional Crime Laboratory.....	\$14.3 million

**Water Supply Fund.** The Recommendation provides \$15 million to improve the water supply in rural areas. The funds will provide assistance and grants for the development of water supply systems and infrastructure investment projects.

**Border security and immigration package.** The Recommendation includes \$100.8 million for initiatives involving several agencies to improve security at Arizona's border, stop human trafficking, and reduce border-related crime.

**Kerr lawsuit.** The budget provides \$15 million in anticipation of paying claims related to the lawsuit involving State taxation of federal employees' contributions to federal retirement programs.

Under a proposed settlement, the Department of Revenue would review a reduced set of claims from persons who actually filed refund claims during a discrete time period, and pay refunds to those determined to have actually paid the challenged tax.

**Deposit to Budget Stabilization Fund.** The Recommendation provides a deposit of \$180 million to the Budget Stabilization Fund for FY 2007. With this deposit, the BSF fund balance is expected to reach \$347 million, or 3.5% of projected revenues. This fund balance will allow the State's savings account to reach one-half of the statutory limit of seven percent.

**Payback of fiscal bridges.** The FY 2007 Recommendation provides for payback of funds that were necessary to balance the budget in prior years. These measures include:

Payback of one-half the K-12 Rollover .....	\$95.5 million
Partial Payback, Highway User Revenue Fund .....	\$40 million
Payback of Vehicle License Tax to the State Highway Fund .....	\$118 million

**Building Renewal and Capital Outlay.** The Recommendation provides \$32.4 million in General Fund monies for specific projects, which include:

Department of Corrections (prison cells and locks).....	\$5.2 million
Yuma Prison Complex (water treatment plant).....	\$2.2 million
State Library and Archives Building .....	\$15 million
Building Renewal (various projects).....	\$10 million

**Administrative adjustments and reverts.** The Recommendation includes an estimate of \$50 and \$25 million for administrative adjustments in FYs 2006 and 2007 respectively, which reflect payments from bills owed from prior year appropriations.

Additionally, the Recommendation incorporates projections of unexpended funds to be reverted to the General Fund in FY 2006 and FY 2007 in the amounts of \$91.15 million and \$110.5 million respectively. These projections reflect historical experience. The projection for FY 2007 is equal to the actual level of reverted funds in FY 2005. •

**STATE OF ARIZONA  
GENERAL FUND  
REVENUE SUMMARY  
FY 2005 THROUGH FY 2007  
(in thousands)**

<u>TAXES</u>	Actual FY 2005	Estimate FY 2006	Estimate FY 2007
Corporate Income Tax	701,859.3	850,000.0	863,850.0
Individual Income Tax	2,973,013.4	3,381,200.0	3,648,900.0
Property Taxes	26,556.2	34,900.0	36,600.0
Sales and Use	3,661,168.6	4,125,000.0	4,475,000.0
Luxury Taxes	64,659.8	66,200.0	66,200.0
Insurance Premium Taxes	358,752.0	372,089.5	399,356.2
Estate Taxes	31,236.1	9,500.0	0.0
Other Taxes	1,268.0	1,400.0	1,400.0
<b>TOTAL TAXES</b>	<b>7,818,513.4</b>	<b>8,840,289.5</b>	<b>9,491,306.2</b>
 <u>OTHER REVENUES</u>			
Licenses, Fees & Permits/Misc.	136,808.4	101,000.0	106,100.0
Interest Earnings	32,658.7	26,700.0	28,000.0
Lottery	36,061.8	26,700.0	28,000.0
Transfers & Reimbursements	36,168.7	40,100.0	42,100.0
Disproportionate Share	112,005.0	91,800.0	84,652.4
<b>TOTAL OTHER REVENUES</b>	<b>353,702.6</b>	<b>286,300.0</b>	<b>288,852.4</b>
<b>TOTAL REVENUE</b>	<b>8,172,216.0</b>	<b>9,126,589.5</b>	<b>9,780,158.6</b>
 ADJUSTMENTS			
Urban Revenue Sharing	(373,074.2)	(425,228.9)	(551,230.9)
B.S.F. Deposit	(156,490.5)	0.0	(180,000.0)
Ladewig Refunds	(130,811.3)	(58,258.9)	(92,646.4)
One-Time Transfers	155,341.1	15,972.0	0.0
<b>GRAND TOTAL REVENUES</b>	<b>7,667,181.1</b>	<b>8,659,073.7</b>	<b>8,956,281.3</b>

## General Fund Operating Budgets Summary

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Arizona Department of Administration	25,887.6	24,761.5	0.0	2,799.3	27,560.8
Office of Administrative Hearings	1,104.2	1,137.2	1,104.2	0.0	1,104.2
Arizona Department of Agriculture	10,276.8	10,561.6	10,224.3	0.0	10,224.3
Arizona Commission on the Arts	3,818.2	3,837.1	3,818.2	0.0	3,818.2
ASU - Polytechnic	13,040.2	15,394.7	0.0	2,815.2	18,209.9
ASU - Tempe	282,510.5	300,964.9	0.0	28,225.1	329,190.0
ASU - West	40,323.1	44,032.0	0.0	1,269.0	45,301.0
Attorney General - Department of Law	23,401.2	25,037.5	0.0	2,551.7	27,589.2
Auditor General	11,341.6	12,949.3	0.0	0.0	12,949.3
Department of Building and Fire Safety	2,964.8	3,373.5	3,278.4	0.0	3,278.4
State Board for Charter Schools	691.5	734.1	712.7	329.3	1,042.0
Department of Commerce	8,584.3	11,450.1	0.0	28,225.7	39,675.8
Arizona Community Colleges	145,690.0	154,075.7	0.0	7,460.9	161,536.6
Corporation Commission	4,947.9	5,133.0	0.0	0.0	5,133.0
Department of Corrections	632,206.5	697,612.4	0.0	122,198.5	819,810.9
Arizona Criminal Justice Commission	1,137.0	1,302.0	1,302.0	0.0	1,302.0
Arizona State Schools for the Deaf and the Blind	13,677.1	16,173.3	0.0	1,291.4	17,464.7
Department of Economic Security	596,389.6	630,214.3	0.0	98,406.0	728,620.3
Department of Education	3,127,044.4	3,342,529.3	0.0	573,617.3	3,916,146.6
Department of Emergency Services and Military Affairs	9,657.6	13,839.0	0.0	9,980.0	23,819.0
Department of Environmental Quality	13,137.5	24,347.0	0.0	20,438.0	44,785.0
Governor's Office for Equal Opportunity	220.8	227.2	220.9	0.0	220.9
State Board of Equalization	552.6	584.5	0.0	28.7	613.2
Board of Executive Clemency	903.1	985.3	956.7	0.0	956.7
State Department of Financial Institutions	2,856.8	3,264.4	0.0	170.3	3,434.7
Arizona Geological Survey	796.6	815.7	796.7	0.0	796.7
Government Information Technology Agency	0.0	0.0	0.0	1,500.0	1,500.0
Office of the Governor	6,041.5	6,288.6	0.0	0.0	6,288.6
Arizona Health Care Cost Containment System	876,604.1	1,035,090.9	0.0	226,081.4	1,261,172.3
Department of Health Services	383,782.2	476,823.2	0.0	36,750.6	513,573.8
Arizona Historical Society	3,461.4	4,063.2	3,979.5	0.0	3,979.5
House of Representatives	10,917.4	12,399.9	0.0	0.0	12,399.9
Arizona Commission of Indian Affairs	203.3	210.0	205.1	0.0	205.1
Department of Insurance	6,345.9	6,561.4	6,347.7	0.0	6,347.7
Joint Legislative Budget Committee	677.8	2,775.0	0.0	0.0	2,775.0
Judiciary	113,598.8	117,541.2	0.0	0.0	117,541.2
Department of Juvenile Corrections	68,195.1	69,801.3	0.0	6,573.8	76,375.1
State Land Department	17,266.0	22,821.7	0.0	3,152.1	25,973.8
Law Enforcement Merit System Council	58.0	71.5	66.6	0.0	66.6
Legislative Council	4,287.1	5,144.3	0.0	0.0	5,144.3
Arizona State Library, Archives & Public Records	6,551.9	7,058.1	0.0	0.0	7,058.1
Department of Liquor Licenses and Control	2,813.6	4,134.5	4,063.7	1,634.1	5,697.8
Board of Medical Student Loans	0.0	1,500.0	0.0	165.1	1,665.1
State Mine Inspector	1,116.2	1,148.1	1,116.2	0.0	1,116.2
Department of Mines and Mineral Resources	654.1	807.5	794.8	0.0	794.8
Arizona Navigable Stream Adjudication Commission	151.4	164.8	0.0	0.0	164.8
Northern Arizona University	117,440.5	122,336.8	0.0	15,433.2	137,770.0
State Board of Nursing	136.4	162.7	161.4	0.0	161.4
State Parks Board	22,282.8	22,447.6	22,380.5	3,350.0	25,730.5

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Personnel Board	292.0	343.8	338.3	0.0	338.3
Arizona Pioneers' Home	2,057.5	0.0	0.0	0.0	0.0
Commission for Postsecondary Education	1,391.3	1,391.7	0.0	0.0	1,391.7
Prescott Historical Society of Arizona	628.9	664.2	639.1	0.0	639.1
Department of Public Safety	27,347.4	44,582.1	0.0	122,370.8	166,952.9
Arizona Department of Racing	2,504.8	2,568.8	2,499.5	0.0	2,499.5
Radiation Regulatory Agency	1,540.0	1,661.3	1,625.8	255.4	1,881.2
Arizona Rangers' Pension	12.6	12.8	13.0	0.0	13.0
Department of Real Estate	3,201.9	3,658.3	3,529.5	499.4	4,028.9
Arizona Board of Regents	6,326.1	9,105.2	0.0	7,574.9	16,680.1
Department of Revenue	62,286.1	64,582.8	0.0	3,561.0	68,143.8
School Facilities Board	187,300.7	392,586.2	0.0	27,088.4	419,674.6
Department of State - Secretary of State	5,621.7	3,072.2	0.0	3,590.3	6,662.5
Senate	6,341.0	8,109.8	0.0	0.0	8,109.8
Governor's Office of Strategic Planning and Budgeting	1,720.7	2,075.4	0.0	0.0	2,075.4
State Board of Tax Appeals	246.5	285.8	277.9	0.0	277.9
Arizona Office of Tourism	11,963.5	12,844.5	0.0	1,389.2	14,233.7
Department of Transportation	71.7	74.7	0.0	0.0	74.7
State Treasurer	5,016.6	5,391.9	0.0	0.0	5,391.9
Commission on Uniform State Laws	43.0	52.3	52.3	0.0	52.3
University of Arizona - Health Sciences Center	54,849.1	63,208.6	0.0	3,556.1	66,764.7
University of Arizona - Main Campus	278,843.0	288,100.1	0.0	24,294.2	312,394.3
Department of Veterans' Services	2,259.8	2,336.3	2,259.0	2,037.4	4,296.4
Department of Water Resources	14,142.5	18,796.6	0.0	5,000.0	23,796.6
Department of Weights and Measures	1,451.0	1,573.4	0.0	144.1	1,717.5
<b>General Fund Operating Total</b>	<b>7,293,206.4</b>	<b>8,191,767.7</b>	<b>72,764.0</b>	<b>1,395,808.0</b>	<b>9,586,175.9</b>

STATE OF ARIZONA  
OTHER APPROPRIATED FUNDS  
REVENUE SUMMARY  
FY 2005 THROUGH FY 2007  
(in thousands)

	Actual FY 2005	Estimate FY 2006	Estimate FY 2007
<u>TAXES</u>			
Motor Fuel Taxes	716,931.6	716,310.1	734,488.2
Property Taxes	18,763.6	19,300.0	19,300.0
Sales and Use	56,621.1	71,062.7	73,819.2
Luxury Taxes	274,053.6	221,743.2	223,150.6
Insurance Premium Taxes	33,602.9	34,606.4	35,769.4
Motor Carrier License Tax	716,931.6	716,310.1	734,488.2
UST Contents Tax	29,110.9	29,093.3	29,093.3
Motor Vehicle Tax	190,821.7	338,284.9	379,701.0
Other Taxes	6,384.7	6,437.4	6,507.4
TOTAL TAXES	2,043,221.7	2,153,148.1	2,236,317.2
<u>OTHER REVENUES</u>			
Licenses, Fees and Permits	284,321.6	295,650.7	310,244.2
Charges for Services	1,052,579.2	1,082,734.7	1,109,712.9
Interest Earnings	55,307.2	77,610.3	76,449.7
Lottery	151,519.4	366,800.0	366,800.0
Miscellaneous Revenues	228,297.7	268,953.4	322,719.3
TOTAL OTHER REVENUES	1,772,025.1	2,091,749.1	2,185,926.2
<u>OTHER FINANCING SOURCES</u>			
Transfers & Reimbursements	1,202,918.2	1,075,078.1	1,046,107.4
GRAND TOTAL REVENUES	5,018,165.0	5,319,975.4	5,468,350.8

\*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.

## Other Appropriated Funds Operating Budgets Summary

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
<u>State Board of Accountancy</u>					
Accountancy Board	1,458.0	2,201.2	2,154.6	0.0	2,154.6
Agency Total	1,458.0	2,201.2	2,154.6	0.0	2,154.6
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners	81.5	100.6	97.6	0.0	97.6
Agency Total	81.5	100.6	97.6	0.0	97.6
<u>Arizona Department of Administration</u>					
Personnel Division Fund	13,990.2	15,034.0	0.0	1,256.2	16,290.2
Capital Outlay Stabilization	9,556.4	11,026.5	0.0	2.9	11,029.4
Watercraft Licensing Fund	0.0	800.0	0.0	(4.0)	796.0
Corrections Fund	609.0	667.3	0.0	2.5	669.8
Air Quality Fund	569.9	574.1	0.0	0.0	574.1
Records Services Fund	400.0	0.0	0.0	0.0	0.0
Special Employee Health	4,819.7	4,920.3	0.0	720.4	5,640.7
Technology & Telecommunications Fund	25,460.0	0.0	0.0	0.0	0.0
Motor Pool Revolving	9,823.0	11,655.1	0.0	0.0	11,655.1
State Surplus Property	2,791.4	4,156.8	0.0	0.0	4,156.8
Federal Surplus Materials Property	48.4	399.0	0.0	0.0	399.0
Risk Management Fund	96,435.4	83,649.3	0.0	4,827.8	88,477.1
Automation Operations Fund	0.0	23,710.9	0.0	(250.1)	23,460.8
Telecommunications Fund	0.0	2,169.0	0.0	259.2	2,428.2
Agency Total	164,503.4	158,762.3	0.0	6,814.9	165,577.2
<u>Office of Administrative Hearings</u>					
AHCCCS Donation Fund	13.9	14.1	13.9	0.0	13.9
Agency Total	13.9	14.1	13.9	0.0	13.9
<u>Arizona Department of Agriculture</u>					
Agricultural Consulting/Training Program	46.4	66.8	64.5	0.0	64.5
Agriculture Commercial Feed	342.6	276.9	270.2	0.0	270.2
Egg & Egg Product Control Fund	524.8	670.7	646.2	0.0	646.2
Pesticide Fund	247.1	256.0	247.0	0.0	247.0
Agriculture Dangerous Plants	1.4	21.4	21.4	0.0	21.4
Agriculture Seed Law	34.2	50.9	49.8	0.0	49.8
Livestock Custody Fund	69.2	79.4	79.4	0.0	79.4
Fertilizer Materials Fund	263.1	275.0	267.3	0.0	267.3
Citrus, Fruit, & Vegetable Revolving	798.1	955.7	920.7	0.0	920.7
Aquaculture Fund	7.4	9.2	9.2	0.0	9.2
AZ Protected Native Plant	141.2	168.4	162.1	0.0	162.1
Agency Total	2,475.5	2,830.4	2,737.8	0.0	2,737.8
<u>State Board of Appraisal</u>					
Board of Appraisal Fund	486.3	620.2	536.3	0.0	536.3
Agency Total	486.3	620.2	536.3	0.0	536.3
<u>ASU - Polytechnic</u>					
ASU Collections - Appropriated	10,372.0	12,961.4	0.0	0.0	12,961.4
Technology and Research Initiative Fund	2,000.0	2,000.0	0.0	0.0	2,000.0
Agency Total	12,372.0	14,961.4	0.0	0.0	14,961.4
<u>ASU - Tempe</u>					
ASU Collections - Appropriated	166,788.9	196,172.7	0.0	0.0	196,172.7

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Agency Total	166,788.9	196,172.7	0.0	0.0	196,172.7
<u>ASU - West</u>					
ASU Collections - Appropriated	15,766.1	18,447.3	0.0	0.0	18,447.3
Technology and Research Initiative Fund	1,600.0	1,600.0	0.0	0.0	1,600.0
Agency Total	17,366.1	20,047.3	0.0	0.0	20,047.3
<u>Attorney General - Department of Law</u>					
Consumer Protection/Fraud Revolving Fund	2,605.1	2,699.9	0.0	(720.3)	1,979.6
Attorney General Antitrust Revolving	218.5	208.2	0.0	0.0	208.2
Attorney General Collection Enforcement	3,605.6	4,281.5	0.0	0.0	4,281.5
Attorney General Agency Services Fund	17,704.2	11,282.1	0.0	0.0	11,282.1
Victims Rights Fund	2,704.4	3,228.3	0.0	0.0	3,228.3
Risk Management Fund	0.0	8,621.5	0.0	0.7	8,622.2
Agency Total	26,837.8	30,321.5	0.0	(719.6)	29,601.9
<u>Automobile Theft Authority</u>					
Automobile Theft Authority Fund	4,547.5	4,982.3	4,848.1	0.0	4,848.1
Agency Total	4,547.5	4,982.3	4,848.1	0.0	4,848.1
<u>Board of Barber Examiners</u>					
Barber Examiners Board	218.7	238.2	230.6	0.0	230.6
Agency Total	218.7	238.2	230.6	0.0	230.6
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiner Fund	795.5	1,402.6	1,259.8	0.0	1,259.8
Agency Total	795.5	1,402.6	1,259.8	0.0	1,259.8
<u>State Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board	441.3	477.6	462.7	0.0	462.7
Agency Total	441.3	477.6	462.7	0.0	462.7
<u>Department of Commerce</u>					
Lottery Fund	245.2	257.0	0.0	0.0	257.0
Commerce Development Bond Fund	98.3	131.1	0.0	0.0	131.1
Commerce and Economic Development	2,822.1	2,970.2	0.0	(2,247.4)	722.8
Oil Overcharge Fund	117.4	164.8	0.0	0.0	164.8
Agency Total	3,283.0	3,523.1	0.0	(2,247.4)	1,275.7
<u>Corporation Commission</u>					
Utility Regulation Revolving	11,122.4	12,078.2	0.0	64.6	12,142.8
Pipeline Safety Revolving	54.2	0.0	0.0	0.0	0.0
Securities Regulatory & Enforcement	3,115.6	3,505.5	0.0	57.4	3,562.9
Public Access Fund	2,349.5	3,623.2	0.0	(371.1)	3,252.1
Securities Investment Management Fund	793.1	828.2	0.0	0.0	828.2
Arizona Arts Trust Fund	40.7	44.1	0.0	0.0	44.1
Agency Total	17,475.5	20,079.2	0.0	(249.1)	19,830.1
<u>Department of Corrections</u>					
Corrections Fund	31,121.8	29,024.3	0.0	0.0	29,024.3
State Education Fund for Correctional Education	1,356.9	1,528.9	0.0	0.0	1,528.9
DOC - Alcohol Abuse Treatment	444.1	599.3	0.0	0.0	599.3
Transition Office Fund	0.0	351.4	0.0	0.0	351.4
Transition Program Drug Treatment Fund	0.0	500.0	0.0	(500.0)	0.0
Prison Construction and Operations Fund	4,160.9	10,250.0	0.0	0.0	10,250.0
Penitentiary Land Earnings	492.0	869.2	0.0	0.0	869.2
State Charitable, Penal & Reformatory Land Earnings	1,122.5	2,070.0	0.0	(1,870.0)	200.0
Agency Total	38,698.2	45,193.1	0.0	(2,370.0)	42,823.1
<u>Board of Cosmetology</u>					

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Cosmetology Board	1,555.1	1,613.2	1,510.0	0.0	1,510.0
Agency Total	1,555.1	1,613.2	1,510.0	0.0	1,510.0
<u>Arizona Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	554.6	593.6	552.2	0.0	552.2
Victims Compensation and Assistance Fund	3,593.6	3,900.0	3,400.0	0.0	3,400.0
State Aid to County Attorneys Fund	706.5	847.8	877.5	0.0	877.5
State Aid to Indigent Defense Fund	670.8	805.0	833.2	0.0	833.2
Agency Total	5,525.5	6,146.4	5,662.9	0.0	5,662.9
<u>Arizona State Schools for the Deaf and the Blind</u>					
Telecommunications Excise Tax Fund	1,267.0	991.4	0.0	(991.4)	0.0
Schools for the Deaf & Blind Fund	12,261.9	13,816.9	0.0	0.0	13,816.9
Agency Total	13,528.9	14,808.3	0.0	(991.4)	13,816.9
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecommunication for the Deaf	4,783.0	5,315.4	5,279.7	0.0	5,279.7
Agency Total	4,783.0	5,315.4	5,279.7	0.0	5,279.7
<u>State Board of Dental Examiners</u>					
Dental Board Fund	917.7	1,042.0	947.2	0.0	947.2
Agency Total	917.7	1,042.0	947.2	0.0	947.2
<u>State Board of Dispensing Opticians</u>					
Dispensing Opticians Board	84.9	96.9	0.0	5.8	102.7
Agency Total	84.9	96.9	0.0	5.8	102.7
<u>Arizona Drug and Gang Prevention Resource Center</u>					
Drug and Gang Prevention Fund	266.6	274.8	266.6	0.0	266.6
Intergovernmental Agreements and Grant Funds	401.5	297.2	280.0	0.0	280.0
Agency Total	668.1	572.0	546.6	0.0	546.6
<u>Department of Economic Security</u>					
Arizona Job Training Fund	3,914.4	0.0	0.0	0.0	0.0
Workforce Investment Grant	53,959.3	55,706.3	0.0	0.0	55,706.3
Temporary Assistance for Needy Families	226,539.4	246,471.1	0.0	(8,700.0)	237,771.1
Child Care and Development Fund	104,475.1	116,188.1	0.0	(1,300.0)	114,888.1
Special Administration Fund	196.0	2,158.5	0.0	0.3	2,158.8
Child Support Enforcement Administration Fund	13,197.8	13,197.8	0.0	0.0	13,197.8
Domestic Violence Shelter Fund	1,571.0	1,700.0	0.0	0.0	1,700.0
Child Abuse Prevention Fund	593.8	1,569.7	0.0	0.0	1,569.7
Children and Family Services Training Program Fund	51.1	209.6	0.0	0.0	209.6
Public Assistance Collections Fund	190.1	473.0	0.0	0.0	473.0
Department Long-Term Care System Fund	18,956.2	24,431.9	0.0	0.0	24,431.9
Spinal and Head Injuries Trust Fund	2,177.8	2,508.3	0.0	0.0	2,508.3
Utility Assistance Fund	287.5	500.0	0.0	0.0	500.0
Risk Management Fund	381.1	271.5	0.0	470.8	742.3
Indirect Cost Recovery Fund	0.0	1,000.0	0.0	0.0	1,000.0
Agency Total	426,490.6	466,385.8	0.0	(9,528.9)	456,856.9
<u>Department of Education</u>					
Teacher Certification Fund	1,652.9	1,991.6	0.0	0.0	1,991.6
School Accountability Fund Prop 301	3,078.3	7,000.0	0.0	0.0	7,000.0
Public Institutions Permanent School Earnings	46,509.1	43,223.0	0.0	7,497.4	50,720.4
School Improvement Revenue Bond Debt Fund	3,215.0	0.0	0.0	0.0	0.0
Agency Total	54,455.3	52,214.6	0.0	7,497.4	59,712.0
<u>Department of Emergency Services and Military Affairs</u>					
Emergency Response Fund	126.0	132.7	0.0	0.0	132.7

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Agency Total	126.0	132.7	0.0	0.0	132.7
<u>Department of Environmental Quality</u>					
DEQ Emissions Inspection	31,885.2	35,752.1	0.0	0.0	35,752.1
Hazardous Waste Management	33.1	746.1	0.0	0.0	746.1
Air Quality Fund	3,472.7	4,802.6	0.0	504.6	5,307.2
Clean Air In-Lieu Fee Account	891.6	4,500.0	0.0	0.0	4,500.0
Underground Storage Tank Revolving	4.6	22.0	0.0	0.0	22.0
Recycling Fund	963.9	2,138.8	0.0	0.0	2,138.8
Permit Administration	4,862.0	5,502.0	0.0	0.0	5,502.0
Solid Waste Fee Fund	770.2	1,411.8	0.0	0.0	1,411.8
Used Oil Fund	0.7	136.6	0.0	0.0	136.6
Water Quality Fee Fund	1,863.2	3,853.2	0.0	200.0	4,053.2
Indirect Cost Fund	9,515.4	12,120.4	0.0	51.4	12,171.8
Agency Total	54,262.6	70,985.6	0.0	756.0	71,741.6
<u>Arizona Exposition &amp; State Fair</u>					
Coliseum & Exposition Center	9,989.9	15,352.3	15,123.9	0.0	15,123.9
Agency Total	9,989.9	15,352.3	15,123.9	0.0	15,123.9
<u>State Board of Funeral Directors &amp; Embalmers</u>					
Funeral Directors & Embalmers	264.6	313.7	304.9	0.0	304.9
Agency Total	264.6	313.7	304.9	0.0	304.9
<u>Arizona Game &amp; Fish Department</u>					
Game & Fish Fund	18,268.6	24,597.9	23,234.7	0.0	23,234.7
Game & Fish Watercraft License	1,970.3	2,248.3	2,183.2	800.0	2,983.2
Game/Non-Game Fund	154.9	309.5	300.2	0.0	300.2
Game & Fish Capital Improvement	24.7	0.0	0.0	0.0	0.0
Waterfowl Conservation	17.5	43.4	43.4	0.0	43.4
Wildlife Endowment Fund	11.7	16.0	16.0	0.0	16.0
Agency Total	20,447.7	27,215.1	25,777.5	800.0	26,577.5
<u>Department of Gaming</u>					
Lottery Fund	299.6	300.0	300.0	0.0	300.0
Permanent Tribal-State Compact Fund	1,577.4	1,896.0	1,810.5	0.0	1,810.5
Arizona Benefits Fund	8,259.6	9,512.8	9,512.8	0.0	9,512.8
Agency Total	10,136.6	11,708.8	11,623.3	0.0	11,623.3
<u>Government Information Technology Agency</u>					
Information Technology Fund	2,214.1	2,609.9	2,539.2	0.0	2,539.2
Agency Total	2,214.1	2,609.9	2,539.2	0.0	2,539.2
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Tax and Health Care Fund	80,610.9	79,128.8	0.0	2,763.9	81,892.7
Tobacco Products Tax Fund	28,885.6	27,922.9	0.0	1,933.9	29,856.8
County Contribution Fund	7,446.5	0.0	0.0	0.0	0.0
Children's Health Insurance Program	91,570.4	102,779.2	0.0	19,317.0	122,096.2
Budget Neutrality Compliance Fund	5,566.7	2,395.4	0.0	0.0	2,395.4
Prop 204 State Match Clearing Fund	4,480.3	0.0	0.0	0.0	0.0
Healthcare Group Fund	3,060.8	3,602.0	0.0	1,123.5	4,725.5
Agency Total	221,621.2	215,828.3	0.0	25,138.3	240,966.6
<u>Department of Health Services</u>					
Tobacco Tax & Health Care Fund	29,424.8	33,824.8	0.0	(1,937.3)	31,887.5
Capital Outlay Stabilization	1,534.4	1,576.1	0.0	0.0	1,576.1
Child Care and Development Fund	658.3	750.1	0.0	101.4	851.5
Medical Board Fund	62.6	100.0	0.0	0.0	100.0

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Health Research Fund	1,000.0	1,000.0	0.0	0.0	1,000.0
Poison Control Fund	1,650.0	2,200.0	0.0	(1,100.0)	1,100.0
Emergency Medical Operating Services	3,458.3	5,015.9	0.0	15.0	5,030.9
Newborn Screening Program Fund	2,942.8	3,719.3	0.0	2,236.8	5,956.1
Substance Abuse Services Fund	2,500.0	2,500.0	0.0	0.0	2,500.0
Nursing Care Institution Resident Protection Revolving	496.0	38.0	0.0	128.5	166.5
Environmental Laboratory Licensure Revolving	823.3	883.2	0.0	0.0	883.2
Child Fatality Review Fund	97.4	100.0	0.0	0.0	100.0
Hearing and Speech Professionals Fund	115.0	302.3	0.0	0.0	302.3
The Arizona State Hospital Fund	9,138.9	11,164.6	0.0	26,874.9	38,039.5
DHS State Hospital Land Earnings	177.5	350.0	0.0	0.0	350.0
DHS - Indirect Cost Fund	5,628.8	7,299.4	0.0	24.5	7,323.9
Agency Total	59,708.1	70,823.7	0.0	26,343.8	97,167.5
<u>Arizona Historical Society</u>					
Capital Outlay Stabilization	193.7	193.7	193.7	0.0	193.7
Agency Total	193.7	193.7	193.7	0.0	193.7
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners	71.4	80.9	78.3	0.0	78.3
Agency Total	71.4	80.9	78.3	0.0	78.3
<u>Arizona Department of Housing</u>					
Housing Trust Fund	442.5	686.8	654.2	0.0	654.2
Housing Development	0.0	541.9	0.0	0.0	0.0
Agency Total	442.5	1,228.7	654.2	0.0	654.2
<u>Industrial Commission of Arizona</u>					
Industrial Commission Administration Fund	16,242.4	17,739.9	17,204.0	0.0	17,204.0
Agency Total	16,242.4	17,739.9	17,204.0	0.0	17,204.0
<u>Department of Insurance</u>					
Captive Insurance Fund	0.0	25.0	25.0	0.0	25.0
Agency Total	0.0	25.0	25.0	0.0	25.0
<u>Judiciary</u>					
Supreme Court CJEF Disbursements	5,187.2	10,092.7	0.0	0.0	10,092.7
Judicial Collection - Enhancement	12,744.7	14,783.1	0.0	0.0	14,783.1
Defensive Driving Fund	2,682.4	5,753.5	0.0	0.0	5,753.5
Court Appointed Special Advocate Fund	3,128.4	4,000.9	0.0	0.0	4,000.9
Confidential Intermediary Fund	116.4	487.0	0.0	0.0	487.0
Drug Treatment and Education Fund	0.0	500.0	0.0	0.0	500.0
State Aid to Courts Fund	1,840.4	2,445.1	0.0	0.0	2,445.1
Agency Total	25,699.5	38,062.3	0.0	0.0	38,062.3
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Distribution	585.3	585.3	0.0	100.3	685.6
Juvenile Education Fund	2,716.2	2,301.5	0.0	188.0	2,489.5
Endowments/land Earnings	360.0	3,360.0	0.0	(2,660.0)	700.0
Agency Total	3,661.5	6,246.8	0.0	(2,371.7)	3,875.1
<u>State Land Department</u>					
Environmental Special Plate Fund	320.0	266.1	0.0	(46.1)	220.0
Risk Management Fund	917.1	319.6	0.0	(319.6)	0.0
Agency Total	1,237.1	585.7	0.0	(365.7)	220.0
<u>Arizona State Library, Archives &amp; Public Records</u>					
Records Services Fund	535.2	626.7	0.0	0.0	626.7
Agency Total	535.2	626.7	0.0	0.0	626.7

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
<u>Department of Liquor Licenses and Control</u>					
Agency Total	0.0	0.0	0.0	0.0	0.0
<u>Arizona State Lottery Commission</u>					
Lottery Fund	34,877.9	60,154.2	59,779.5	0.0	59,779.5
Agency Total	34,877.9	60,154.2	59,779.5	0.0	59,779.5
<u>Arizona Medical Board</u>					
Medical Examiners Board	4,825.9	5,324.3	5,169.6	0.0	5,169.6
Agency Total	4,825.9	5,324.3	5,169.6	0.0	5,169.6
<u>Board of Medical Student Loans</u>					
Medical Examiners Board	283.4	283.4	0.0	(283.4)	0.0
Medical Student Scholarship Fund	0.0	1,500.0	0.0	0.0	1,500.0
Medical Student Loan Fund	13.2	13.2	0.0	176.8	190.0
Agency Total	296.6	1,796.6	0.0	(106.6)	1,690.0
<u>State Mine Inspector</u>					
Aggregate Mining Reclamation Fund	0.0	195.0	0.0	0.0	0.0
Agency Total	0.0	195.0	0.0	0.0	0.0
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board	385.9	508.5	453.9	0.0	453.9
Agency Total	385.9	508.5	453.9	0.0	453.9
<u>Northern Arizona University</u>					
NAU Collections - Appropriated	37,853.4	39,543.9	0.0	0.0	39,543.9
Agency Total	37,853.4	39,543.9	0.0	0.0	39,543.9
<u>State Board of Nursing</u>					
Nursing Board	2,909.6	3,132.8	3,049.9	0.0	3,049.9
Agency Total	2,909.6	3,132.8	3,049.9	0.0	3,049.9
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Administrators/ACHMC	332.7	383.5	372.7	0.0	372.7
Agency Total	332.7	383.5	372.7	0.0	372.7
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	176.1	224.2	217.9	0.0	217.9
Agency Total	176.1	224.2	217.9	0.0	217.9
<u>State Board of Optometry</u>					
Board of Optometry Fund	174.5	196.1	177.6	0.0	177.6
Agency Total	174.5	196.1	177.6	0.0	177.6
<u>Arizona Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board	476.2	664.4	602.0	0.0	602.0
Agency Total	476.2	664.4	602.0	0.0	602.0
<u>State Parks Board</u>					
Reservation Fund	346.6	480.8	460.3	0.0	460.3
Boating Safety Fund	1,220.3	1,092.7	1,092.7	0.0	1,092.7
State Parks Enhancement	9,827.7	10,868.6	10,505.8	(2,650.0)	7,855.8
Agency Total	11,394.6	12,442.1	12,058.8	(2,650.0)	9,408.8
<u>Arizona State Board of Pharmacy</u>					
Pharmacy Board	1,323.8	1,525.7	1,414.1	0.0	1,414.1
Agency Total	1,323.8	1,525.7	1,414.1	0.0	1,414.1
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	262.3	277.2	268.4	0.0	268.4
Agency Total	262.3	277.2	268.4	0.0	268.4
<u>Arizona Pioneers' Home</u>					

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Pioneers' Home State Charitable Earnings	1,990.1	4,353.9	4,222.4	(765.1)	3,457.3
Pioneers' Home Miners' Hospital	1,206.4	1,515.2	1,468.9	765.1	2,234.0
Agency Total	3,196.5	5,869.1	5,691.3	0.0	5,691.3
<u>State Board of Podiatry Examiners</u>					
Podiatry Examiners Board	93.9	114.8	110.9	0.0	110.9
Agency Total	93.9	114.8	110.9	0.0	110.9
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	2,125.1	2,878.1	0.0	0.0	2,878.1
Agency Total	2,125.1	2,878.1	0.0	0.0	2,878.1
<u>State Board for Private Postsecondary Education</u>					
Private Postsecondary Education	246.0	290.4	289.5	0.0	289.5
Agency Total	246.0	290.4	289.5	0.0	289.5
<u>State Board of Psychologist Examiners</u>					
Psychologist Examiners Board	265.4	356.3	351.7	0.0	351.7
Agency Total	265.4	356.3	351.7	0.0	351.7
<u>Department of Public Safety</u>					
State Highway Fund	32,680.1	41,701.5	0.0	27.8	41,729.3
Arizona Highway Patrol Fund	20,483.5	19,817.6	0.0	(554.8)	19,262.8
Safety Enforcement and Transportation Infrastructure	1,226.8	1,352.1	0.0	0.0	1,352.1
Crime Laboratory Assessment	3,952.0	4,473.1	0.0	1,063.4	5,536.5
Auto Fingerprint Identification	2,186.9	2,449.4	0.0	807.8	3,257.2
DNA Identification System Fund	2,550.7	2,582.9	0.0	0.0	2,582.9
County Transportation Contribution Fund	13,006.8	0.0	0.0	0.0	0.0
Sex Offender Monitoring Fund	125.0	355.5	0.0	0.0	355.5
Motorcycle Safety Fund	248.0	205.0	0.0	(91.0)	114.0
Parity Compensation Fund	0.0	0.0	0.0	3,000.0	3,000.0
Highway User Revenue Fund	52,216.3	63,189.1	0.0	(40,000.0)	23,189.1
Criminal Justice Enhancement Fund	2,365.8	2,600.1	0.0	376.3	2,976.4
Risk Management Fund	286.7	296.2	0.0	0.0	296.2
Agency Total	131,328.6	139,022.5	0.0	(35,370.5)	103,652.0
<u>Arizona Department of Racing</u>					
Racing Administration Fund	77.1	45.0	45.0	0.0	45.0
County Fair Racing	371.4	300.0	300.0	0.0	300.0
Agency Total	448.5	345.0	345.0	0.0	345.0
<u>Radiation Regulatory Agency</u>					
State Radiologic Technologist Certification	228.4	254.9	247.3	0.0	247.3
Agency Total	228.4	254.9	247.3	0.0	247.3
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	9,475.1	9,890.6	9,600.3	0.0	9,600.3
Agency Total	9,475.1	9,890.6	9,600.3	0.0	9,600.3
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving	992.2	1,206.2	1,175.1	0.0	1,175.1
Agency Total	992.2	1,206.2	1,175.1	0.0	1,175.1
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners	189.5	194.5	189.0	0.0	189.0
Agency Total	189.5	194.5	189.0	0.0	189.0
<u>Arizona State Retirement System</u>					
Retirement System Appropriated	13,320.4	20,029.2	0.0	(3,575.8)	16,453.4
LTD Trust Fund	2,456.1	2,897.7	0.0	0.0	2,897.7

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Agency Total	15,776.5	22,926.9	0.0	(3,575.8)	19,351.1
<u>Department of Revenue</u>					
Tobacco Tax & Health Care Fund	445.5	469.8	0.0	0.0	469.8
DOR Unclaimed Property	1,459.2	1,526.0	0.0	91.8	1,617.8
DOR Liability Setoff Fund	361.0	393.5	0.0	0.0	393.5
Agency Total	2,265.7	2,389.3	0.0	91.8	2,481.1
<u>School Facilities Board</u>					
Agency Total	0.0	0.0	0.0	0.0	0.0
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	47.1	40,000.0	0.0	(20,000.0)	20,000.0
Professional Employer Organization Fund	0.0	0.0	0.0	45.3	45.3
Agency Total	47.1	40,000.0	0.0	(19,954.7)	20,045.3
<u>State Boards Office</u>					
Admin - Special Services	231.8	177.3	172.1	0.0	172.1
Agency Total	231.8	177.3	172.1	0.0	172.1
<u>Structural Pest Control Commission</u>					
Structural Pest Control	1,905.7	1,991.3	1,925.7	0.0	1,925.7
Agency Total	1,905.7	1,991.3	1,925.7	0.0	1,925.7
<u>State Board of Technical Registration</u>					
Technical Registration Board	1,255.4	1,432.6	1,387.7	0.0	1,387.7
Agency Total	1,255.4	1,432.6	1,387.7	0.0	1,387.7
<u>Department of Transportation</u>					
State Aviation Fund	1,797.7	2,029.8	0.0	320.0	2,349.8
State Highway Fund	344,834.2	364,661.8	0.0	8,070.6	372,732.4
Transportation Department Equipment Fund	34,003.8	35,618.5	0.0	0.0	35,618.5
Safety Enforcement and Transportation Infrastructure	1,978.4	2,143.5	0.0	763.8	2,907.3
Air Quality Fund	58.6	61.5	0.0	0.0	61.5
Vehicle Inspection & Title Enforcement	1,112.6	1,468.6	0.0	29.6	1,498.2
Motor Vehicle Liability Insurance Enforcement	971.9	1,952.7	0.0	33.1	1,985.8
Driving Under Influence Abatement Fund	0.0	442.0	0.0	(314.7)	127.3
Highway User Revenue Fund	420.3	633.3	0.0	(45.3)	588.0
Agency Total	385,177.5	409,011.7	0.0	8,857.1	417,868.8
<u>State Treasurer</u>					
Capital Outlay Stabilization	150.0	0.0	0.0	0.0	0.0
Agency Total	150.0	0.0	0.0	0.0	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A College of Medical - Collections - Appropriated	18,340.2	14,903.4	0.0	0.0	14,903.4
Agency Total	18,340.2	14,903.4	0.0	0.0	14,903.4
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated	105,997.0	108,131.3	0.0	0.0	108,131.3
Agency Total	105,997.0	108,131.3	0.0	0.0	108,131.3
<u>Department of Veterans' Services</u>					
Veterans' Conservatorship Fund	589.7	677.5	634.9	0.0	634.9
State Home for Veterans Trust	11,729.5	12,213.3	11,834.6	0.0	11,834.6
Agency Total	12,319.2	12,890.8	12,469.5	0.0	12,469.5
<u>State Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board	384.2	415.9	401.6	0.0	401.6
Agency Total	384.2	415.9	401.6	0.0	401.6
<u>Department of Water Resources</u>					

	FY 2005 Expenditures	FY 2006 Appropriation	FY 2007 Appropriation	Changes and Adjustments	FY 2007 Executive Recommendation
Assured and Adequate Water Supply Administration Fu	0.0	0.0	0.0	2,000.0	2,000.0
Agency Total	0.0	0.0	0.0	2,000.0	2,000.0
<u>Department of Weights and Measures</u>					
Air Quality Fund	1,266.2	1,324.3	0.0	0.0	1,324.3
Motor Vehicle Liability Insurance Enforcement	0.0	67.1	0.0	39.6	106.7
Agency Total	1,266.2	1,391.4	0.0	39.6	1,431.0
<b>Other Appropriated Funds Operating Total</b>	<b>2,181,701.6</b>	<b>2,432,335.0</b>	<b>217,732.9</b>	<b>(2,156.7)</b>	<b>2,423,429.3</b>

## FY 2007 General Fund Executive Recommendation: Expenditure Growth Breakdown\*

Agency	FY 2006 Appropriation	Caseload Requirements and Inflation Growth	Debt Repayment	Unfunded Federal and Court Mandates	Legislative and Statutory Mandates	Extension of Existing Programs	Technical and Other Adjustments	Employee Compensation	Executive New Initiatives	FY 2007 Executive Recommendation
Dept. of Education	3,342,529,300	319,523,300	95,500,000			108,457,700	(532,800)	-	50,669,100	3,916,146,600
AHCCCS	1,035,090,900	181,591,800		13,410,100	967,600	8,002,200	3,376,800	-	18,732,900	1,261,172,300
Dept. of Corrections	697,612,400	60,328,400				2,242,400	19,850,900	39,047,100	729,700	819,810,900
Dept. of Economic Security	630,214,300	44,912,300	10,000,000	58,400	12,118,200	20,576,400	5,966,700	-	4,774,000	728,620,300
Dept. of Health Services	476,823,200	36,300,000		5,480,000	5,215,510	13,368,900	(29,537,600)	3,183,300	2,740,500	513,573,800
Three Universities (ASU, UA, NAU)	834,037,100	15,931,000				22,695,100	3,937,900	27,628,800	5,400,000	909,629,900
School Facilities Board	392,586,200	13,300,000	24,793,400		8,995,010	-	(20,000,000)	-	-	419,674,600
Community Colleges	154,075,700	4,891,600			2,569,300	-	-	-	-	161,536,600
Dept. of Juvenile Corrections	69,801,300	874,100		768,300		-	2,266,300	2,665,100	-	76,375,100
Dept. of Revenue	64,582,800					3,561,000	-	-	-	68,143,800
Dept. of Administration	24,761,500					1,061,800	237,500	-	1,500,010	27,560,800
Attorney General										
- Dept. of Law	25,037,500					153,200	-	-	2,398,500	27,589,200
State Land Department	22,821,700					4,018,900	(866,800)	-	-	25,973,800
Dept. of Water Resources	18,796,600				5,000,000	-	-	-	-	23,796,600
Board of Regents	9,105,200					7,574,900	-	-	-	16,680,100
Dept. of Public Safety	44,582,100	7,944,500	38,185,500		2,162,100	-	-	-	74,078,700	166,952,900
Environmental Quality	24,347,000				5,318,000	-	-	-	15,120,000	44,785,000
Emergency Services and Military Affairs	13,839,000					-	-	-	9,980,000	23,819,000
Dept. of Commerce	11,450,100				2,247,400	478,300	-	-	25,500,000	39,675,800
All Other Agencies	299,673,800	451,600	347,800		8,139,200	461,310	1,107,500	-	5,877,310	314,658,800
All Agencies	8,191,677,700	686,048,600	168,826,700	19,716,800	52,732,320	192,652,110	(14,193,600)	142,754,700	217,500,720	9,728,930,600
Percent of growth over base		8.4%	2.1%	0.2%	0.6%	2.4%		2.6%	2.7%	

\*Note: These data do not include the recommended deposit of \$180 million to the Budget Stabilization Fund, \$118 million transfer to VLT, \$40 million pay back to HURF, and \$15 million payment for Kerr Lawsuit.





## Budget Message



## Arizona at the forefront of economic growth

*A robust real estate market and solid gains in employment and personal income help paint an encouraging picture of the state's short-term economic health*

**I**N 2006 AND 2007, the local economy will encounter somewhat different challenges than those confronting the nation as a whole. While Arizona will be seeking new economic stimuli beyond the spectacular real estate expansion of 2004-2005, the U.S. must deal with budget imbalances, lingering effects of Hurricanes Katrina and Rita, and the ongoing threat of adverse geopolitical events.

### NATIONAL OUTLOOK

U.S. growth in real GDP for 2005 was solid at about 3.7%, with 2006 growth projected to slow only slightly to about 3.5%. Historically, growth above 3% has been associated with a vibrant economic picture.

**Employment.** Employment gains at a national level continue at a modest pace, impeded by the same pressures that have existed for several years: high health benefit costs, global market opportunities, and labor saving productivity enhancements. The quality of job opportunities (as measured by access to increasingly high paying jobs) continues to erode nationally and in most states.

**Consumer spending.** Nationally, consumer spending has sustained growth despite only modest job gains. Catalysts for the consumer include modest inflation rates and historically low credit costs, with modest amounts of income creation.

Acceleration of housing equity has clearly enabled consumers to tap an additional source of wealth to sustain consumption levels. Economists debate whether this is cause for alarm, with some pointing to high rates of equity withdrawal as a share of income. In contrast, the pace of equity withdrawal

as a share of total household equity looks more reasonable. Of course, adverse credit market shocks or rapid slowing in the rate of appreciation will limit household equity as an ongoing source of spending power.

**Interest rates.** As the Federal Reserve enters a new era under Chairman Bernanke, most Fed watchers expect a smooth transition and believe that the current interest rate tightening cycle will last through the first half of 2006, with short-term rates reaching the mid- to upper 4% range.

While short-term rates clearly reflect Fed tightening, long-term rates remain very low for this point in the business cycle. Historically high short-term rates and low long-term rates have signaled an impending slowdown, but other explanations prevail today. The low long-term rates are sustained by very modest inflation and an unrelenting preference by foreign central banks to invest in the U.S. Treasury markets.

Homebuyers continue to benefit from the resulting attractive rates on conventional mortgages. Economists continue to speculate about the end of low long-term rates, but as long as inflation rates are moderate and the dollar avoids a downward spiral, the U.S. Treasury market will be attractive to credit market investors around the world, keeping our interest rates at or near current levels.

**Business spending.** The pace of corporate profits has accelerated smartly out of the 2001 recession, growing far more rapidly than the pace of job creation. As a consequence, corporations have large amounts of ready cash in addition to access to credit at historically low rates, putting businesses in a posi-

tion to invest in people, plant and equipment.

However, businesses continue to be cautious on this front, so predicting the pace of business investment going forward will be challenging. The catalyst will be ongoing improvements in business confidence about the health of the U.S. economy, coupled with a moderation in the trend to put capital in place offshore.

**Value of the dollar.** The dollar has appreciated considerably off the lows set in early 2005. At present, short-term interest rates in the U.S. are attractive in comparison to rates earned in alternative currencies, and investors have responded by buying dollars. The trade imbalance and domestic deficit will continue to pressure the dollar, but as long as inflation rates remain modest there should be no free-fall in dollar value despite ongoing concerns about trade and domestic fiscal imbalances.

**Current events and risks.** The U.S. economy displayed remarkable resilience to the adverse shocks of Katrina and Rita and associated energy shocks, although the full effect of natural gas price appreciation on heating and cooling costs has yet to work its way through the economy. As cost pressures drag on the economy, the economy will receive a boost from ongoing rebuilding efforts in the Gulf region.

Risks to continued national prosperity include the possibility of some housing-related pressures as regions heavily dependent on the real estate expansion lose momentum, the distinct possibility that energy prices will continue to spiral due to the rapid acceleration of global demand, and the ongoing threat of a geopolitical event.

## ARIZONA OUTLOOK

Arizona business cycles typically have more amplitude than national cycles, so we have come to expect faster expansions during the growth stage of the cycle.

This particular episode has the added bonus of a real estate market that has grown at a remarkable pace. From 2002 to 2005, the dollar value of residential real estate transacted in the greater Phoenix area has increased threefold – from about \$15 billion to about \$45 billion – with the growth in other parts of the state only slight slower. This has led to remarkable gains in wealth, income and employment for those directly related to the residential construction and real estate industries and for many homeowners.

**Employment.** Job growth in Arizona is accelerating, and the state's economy has generated more than 200,000 new jobs since 2002, including nearly 100,000 during the 12-month period that ended in November 2005. Another 100,000 new jobs are expected to be created in 2006. Once revisions in benchmarks take place, job growth in 2005 will have been between 4% and 5% over 2004.

The state's manufacturing employment picture has improved somewhat. While still rather flat, the manufacturing sector is no longer serving as a drag on overall employment growth. Job growth in construction (25,000 new jobs in 2005) and real estate has been spectacular, with ECONOMY.COM reporting that Arizona is among the leaders in the nation in the creation of jobs related to real estate. Some of the gains in the financial sector in general undoubtedly reflect increased emphasis on real estate.

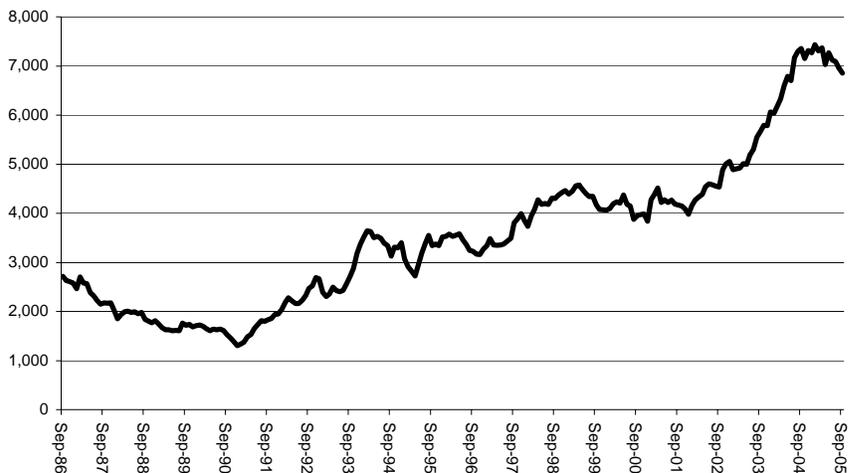
### Job Growth: Top 10 States

October 2005 over October 2004

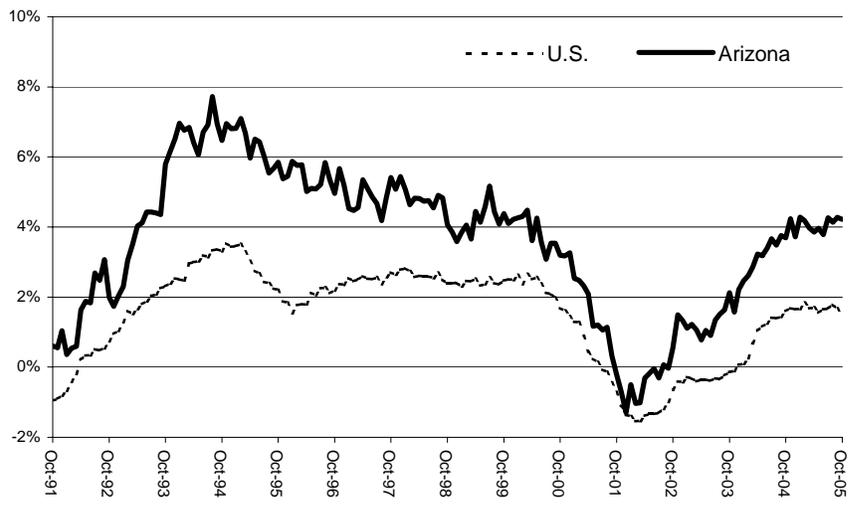
1. Nevada
2. Arizona
3. Utah
4. Idaho
5. Florida
6. Oregon
7. Wyoming
8. Washington
9. Hawaii
10. New Mexico

### Arizona Single Family Housing Permits

By Month, 1986 to 2005



### Employment Growth, 1991 to 2005



**Personal income.** Aggregate personal income growth in Arizona, as reported by the Bureau of Economic Analysis, is vibrant, with growth in 2005 averaging about 8.7% on a year-over-year basis. However, revisions to employment growth, coupled with evidence from recent revenue collections, suggests that aggregate income growth may be revised upward to the 9%-plus range, perhaps even reaching 10% in the fourth quarter of 2005 and the first quarter of 2006.

The challenge for economists is to discern how much of this growth is due to the real estate boom and how much comes from segments of the economy

that will yield sustainable growth over the longer term.

**Risks.** Risks to Arizona's continued economic growth come from two areas:

First, any prolonged U.S. downturn will adversely affect the state as it has in the past. Arizona's export, construction, and hospitality industries would suffer.

Second, as in several other states, Arizona has witnessed massive growth in the real estate sector, driven in part by an investor component estimated at between 25% and 30% of the market. If this investor component proves volatile and property liquidation accelerates, the entire market will be pressured. If investor interest remains steady, it will bolster the market. •

# Saving costs through Efficiency Review

*The Efficiency Review process challenges agency management to find sensible ways to reduce costs in an effort to do more with less*

IN JANUARY 2003, Governor Napolitano established the Efficiency Review (ER) program to improve the performance and efficiency of State government. The Governor's Efficiency Review initiative is intended to find practical and sensible ways to improve customer service, reduce costs, and eliminate duplication. The ER process involves a two-pronged approach that identifies both agency-specific savings as well as Statewide strategic initiatives to reduce costs.

The initial phase of the Efficiency Review program was completed in 2003, and the results were published in the December 2003 Efficiency Review Report.

In FY 2004, the second phase of the Efficiency Review process was initiated. This phase included continuing agency review of their spending and operational efficiencies for FY 2005 and future years, implementing Statewide strategic initiatives, and establishing agency accountability through monthly Efficiency Review Steering Committee meetings and budget integration. The results of the second phase of the Efficiency Review program were detailed in the Efficiency Review Annual Report for 2004.

As the program moves forward, in addition to the current efforts, Efficiency Review is taking the following steps to maximize efficiency for the State.

- a continuation of agency spending reviews and operational efficiencies for FY 2006 and future years,
- sharing best practices through bi-monthly interagency meetings with agency-appointed Efficiency Review Representatives, and
- distributing the best practices of Efficiency Review to agency heads and ER representatives.

The newly added processes form a base for ongoing improvements to management and operations that promote smarter, better government.

## AGENCY-SPECIFIC SAVINGS

Agencies were challenged to create an annual savings plan that produces new ideas for efficiency savings on an annual basis. While not yet implemented, the ideas for agency-specific efficiency savings in FY 2007 total \$99.4 million.

The two following tables, *FY 2007 Efficiency Review Initiatives* and *Efficiency Review Initiatives - Five-Year Summary*, identify estimated savings for FY 2007 by agency as well as the FY 2004 and FY 2005 actual savings, and FY 2006, FY 2007 and FY 2008 estimated savings for initiatives. If an initiative is a "cost avoidance" – i.e., a permanent or long-term savings – it is accounted for in each year of the five-year plan in which the avoidance applies. If an initiative is a cost savings – i.e., a temporary or short-term savings – it is accounted for in the year(s) it applies.

Thus far for FY 2004 and FY 2005, agencies have saved a total of \$122.9 million across both years. Agencies reduced and avoided costs through a variety of measures, including measures that were identified in the Governor's Executive Order 2003-14, such as:

- reducing unnecessary travel costs,
- reducing the number of agency fleet vehicles,
- increased use of electronic communications,
- making more effective and conservative use of outside consultants, and

- consolidating training for State employees.

The ER process is relatively new and is continuing to mature as time passes. Some ideas advanced in prior years do not get implemented or implemented as expected, resulting in a change in actual and estimated savings over the five-year horizon.

While many agencies report savings resulting from a variety of decisions and circumstances, the ones that result in savings from a review of their operational processes are most noteworthy and consistent with the true spirit of ER.

**Foster care children.** The Department of Economic Security increased its recruitment of foster homes. In addition to providing a more familial environment for children in the State's care, foster homes are significantly less expensive than congregate care settings such as shelters and group homes. The State pays about \$600 per month for a foster home, compared with congregate settings that range from \$1,000 to \$4,000 per month. This resulted in an actual savings of \$498,800 in FY 2005 and is expected to produce savings of \$1 million in FY 2006 and beyond. As the Department continues forward with its Service Integration initiative, one of the primary focuses will be to remove as many children from congregate care as possible, when appropriate.

**Continuous case planning.** The Department of Juvenile Corrections will use a variety of assessment tests to determine the needs of the youth and the associated risk of community placement. For youth whose needs could be served safely in the community, the Department will expedite their transition out of secure care and thereby save bed space.

The Department projects that approximately 30 youth could be safely served in the community. This will be a cost savings for the Department of approximately \$817,700 beginning in FY 2007 and will help juveniles integrate back into their communities.

**Revamped intake process.** The Department of Corrections (ADC) has historically completed an array of tests on all new inmates upon arrival at ADC facilities. In FY 2005, the Department adopted a new policy to assign short-term inmates to transition-specific services. This shortens the testing for inmates with less than six months of prison time to serve, reduces transportation costs, consolidates staff, and sharpens program focus. The results are a reduction of approximately 3.5 inmates per day at the reception center and a quicker turnaround for inmates with short sentences. The higher turnaround at the reception center allows jail inmates to transfer to ADC immediately upon sentencing. Previously, inmates may have waited several days before transferring, and the State was required to pay the jails the costs of keeping the inmates. This new policy resulted in a \$1.1 million savings in FY 2005 and expected savings of \$1.8 million in FY 2006 and beyond.

**Improved customer service.** The Department of Transportation's Motor Vehicle Division reduced the number of "Intent to Suspend" notices by over 22,000 per month. This change was made possible as a result of new software that allows a 30-day window before a notice is mailed, which has eliminated at least 5,000 invalid notices per week. This results in improved customer service and \$82,000 in annual efficiency savings due to less postage.

**Vendor payments.** In FY 2007, Game and Fish plans to implement the use of a purchase card to process vendor payments. This simple change in procedure will reduce the time involved in paper processing and costs associated with issuing warrants, resulting in an annual cost savings of \$21,500.

As the aforementioned examples delineate, the savings associated with a new business process can be large or they can be small. The efforts of agencies to think critically about how their busi-

ness process can be re-engineered or how a simple decision can achieve savings allows agencies to manage in an environment with increasing demands for resources and competitive policy priorities for each available dollar.

## STRATEGIC INITIATIVES

The Department of Administration (ADOA) began implementation of several Statewide strategic initiatives in 2005 that are hallmarks of good government practices. All of the initiatives that result in the largest savings involve improving the purchasing of goods and services as well as monitoring payments for accuracy and timeliness.

**Value in Procurement.** ADOA is implementing the Value in Procurement (VIP) program in the purchasing of goods and services for State Government – the first major reform of procurement operations in 20 years. VIP is using a variety of innovations, including aggressive use of market forces and purchasing techniques to get the best prices and maximum value. VIP is expected to save the State \$45 million annually.

**Self-insured health benefits.** On October 1, 2004, Arizona moved from a fully insured health benefits program to a self-insured model. The self-insured model for purchasing health care services will save the State \$48 million in FY 2007. Not only will the self-insured model significantly reduce costs, but it will also improve the health status of State employees through disease management programs that target high-risk health conditions such as diabetes and obesity.

**Returning fleet vehicles.** ADOA has worked effectively with agencies to return underutilized fleet vehicles. The savings from returning these vehicles cascades into savings on maintenance, insurance, parts, fuel and registration. The annual cost avoidance associated with this initiative is \$922,000.

## AGENCY ACCOUNTABILITY

Agency accountability is the critical third component of a successful good government program. An Efficiency Review process will not become in-

grained in operational thinking unless accountability is built into the system.

**Efficiency Review Steering Committee.** The Governor's Office established an oversight Steering Committee that meets monthly, and agencies are required to report to the Committee on a regular basis regarding the progress of ongoing initiatives. Monthly updates of the meeting are given to the Cabinet in order to share best practices among agency Directors.

**Budget integration.** OSPB created the Consolidated Efficiency Review Tracking System (CERTS) for State agencies to document their cost savings and to integrate those savings into their budgets by delineating how the savings are redeployed. This information is detailed in the Efficiency Review Section of the Executive Detail Budget for each agency in order to communicate what the budget request may have been in the absence of those savings.

**Redeployment of Efficiency Review savings.** Finding more efficient ways of doing business allows agencies to either mitigate future budget requests or redeploy savings. Redeployment of resources can take the form of:

- upgrading information technology,
- improving service delivery,
- enhancing work environment,
- absorbing costs of ongoing operations,
- increased revertments, and/or
- offsetting supplemental budget requests.

On an annual basis, agencies are required to submit to OSPB a plan for redeploying Efficiency Review savings retrospectively for the prior year or current budget year. This year agencies were required to report how they redeployed savings in FY 2005 and their expected redeployment for FY 2006.

These accountability measures will ensure that Efficiency Review will become institutionalized into agencies' operational thinking and become second nature when agencies make decisions that have a fiscal impact. Smarter and more efficient government will grow as a result and become the standard rather than an exception. •

## FY 2007 Efficiency Review

	<i>Agency Request Prior to Efficiency Initiatives</i>	<i>Agency Request Post Efficiency Initiatives</i>	<i>Efficiency Initiative Savings</i>
<b>Statewide Initiatives</b>			
Energy Conservation.....			205.0
Fleet Consolidation.....			922.0
Statewide E-Procurement .....			45,000.0
Employee Benefits .....			48,000.0
<b>Total for Statewide Initiatives</b>			<b>94,127.0</b>
Department of Administration .....	844,927.5	842,665.3	2,262.2
Department of Agriculture.....	23,666.9	23,471.5	195.4
Department of Commerce .....	44,320.5	44,134.5	186.0
Department of Corrections.....	966,901.6	958,224.8	8,676.8
Department of Economic Security.....	3,201,456.1	3,184,635.0	16,821.1
Department of Emergency Services and Military Affairs.....	80,073.4	79,967.4	106.0
Department of Environmental Quality.....	362,223.7	362,093.5	130.2
Governor's Office for Equal Opportunity .....	296.2	288.9	7.3
State Department of Financial Institutions.....	4,989.5	4,983.2	6.3
Game & Fish Department.....	70,908.1	69,435.0	1,473.1
Department of Gaming.....	11,741.5	11,623.3	118.2
Arizona Health Care Cost Containment System .....	7,631,067.7	7,580,325.8	50,741.9
Department of Health Services .....	1,953,233.9	1,944,837.6	8,396.3
Department of Housing.....	104,215.6	104,185.6	30.0
Department of Insurance .....	21,035.2	20,946.9	88.3
Department of Juvenile Corrections.....	89,831.9	88,719.6	1,112.3
State Land Department.....	34,792.3	34,752.3	40.0
Department of Liquor Licenses and Control.....	4,898.3	4,889.3	9.0
State Lottery Commission.....	572,381.5	569,609.5	2,772.0
State Parks Board .....	64,567.6	64,331.6	236.0
Department of Public Safety.....	270,723.5	268,588.8	2,134.7
Department of Racing .....	4,584.4	4,488.0	96.4
Department of Real Estate.....	3,775.2	3,773.4	1.8
Registrar of Contractors .....	15,869.7	15,768.7	101.0
Residential Utility Consumer Office .....	1,210.3	1,175.1	35.2
Department of Revenue .....	69,753.2	69,181.5	571.7
School Facilities Board .....	969,948.7	968,757.0	1,191.7
Office of Tourism .....	35,086.4	34,660.9	425.5
Department of Transportation .....	3,000,764.7	2,999,608.9	1,155.8
Department of Veterans' Services.....	15,226.2	15,169.0	57.2
Department of Water Resources .....	63,396.5	63,276.0	120.5
Department of Weights and Measures .....	3,047.5	2,964.8	82.7
<b>Total For Agency Initiatives</b>			<b>99,382.6</b>
<b>Total for FY 2007 - All Initiatives for All Agencies and Statewide</b>			<b>193,509.6</b>

## Efficiency Review Initiatives - Five-Year Summary

	2004 <i>Actual</i>	2005 <i>Actual</i>	2006 <i>OSPB Est.</i>	2007 <i>OSPB Est.</i>	2008 <i>OSPB Est.</i>	<i>Five-Year Total</i>
<b>Statewide Initiatives</b>						
Employee Benefits .....	0.0	0.0	25,000.0	48,000.0	59,000.0	132,000.0
Energy Conservation .....	0.0	442.8	205.0	205.0	205.0	1,057.8
Leasing/Space Utilization .....	0.0	1,543.0	0.0	0.0	0.0	1,543.0
Fleet Consolidation .....	0.0	922.0	922.0	922.0	922.0	3,688.0
Statewide E-Procurement .....	0.0	15,700.0	45,000.0	45,000.0	45,000.0	150,700.0
<b>Total for Statewide Initiatives .....</b>	<b>0.0</b>	<b>18,607.8</b>	<b>71,127.0</b>	<b>94,127.0</b>	<b>105,127.0</b>	<b>288,988.8</b>
<b>Total for Agency Specific Initiatives .....</b>	<b>31,527.2</b>	<b>91,341.3</b>	<b>88,812.7</b>	<b>99,382.6</b>	<b>108,067.5</b>	<b>419,131.3</b>
<b>Total for All Initiatives .....</b>	<b>31,527.2</b>	<b>109,949.1</b>	<b>159,939.7</b>	<b>193,509.6</b>	<b>213,194.5</b>	<b>708,120.1</b>

# Investing in future generations of Arizonans

*To support the ability of Arizona's schools at all levels to meet growing expectations for academic performance, the Executive places a strong emphasis on teacher pay and professional development*

**A**RIZONA'S STUDENTS FACE ever rising expectations as they move through the public education system and into the workforce. Continued demand for accountability and student achievement places enormous pressures on students and teachers to perform. For example, the class of 2006 will be the first required to pass the AIMS test in order to graduate.

Students desperately need quality professional teachers in order to meet the expectations placed on them. Nevertheless, many teachers in Arizona make less than \$30,000 per year, and the majority of beginning teachers enter the profession making far less than their counterparts entering the workforce in other professions.

## TEACHER COMPENSATION AND PROFESSIONAL DEVELOPMENT

In November 2000, voters approved Proposition 301, increasing the State sales tax to fund educational programs. School districts receive a portion of the Prop. 301 funds, and at least 60% of those funds must go to teacher pay: 20% for base salary, 40% for performance pay.

With these additional funds, since 2002 school districts have increased teacher pay by an average of 10%, or \$3,250 per teacher. Even with these additional funds, teacher salary remains a roadblock in recruiting and retaining quality candidates.

Research indicates that states that score high in improving teacher quality and student achievement also encourage and financially support ongoing professional development, and they require mentoring for all novice teachers. Teachers who work in Arizona school

districts need the resources to continue developing as professionals and to acquire the knowledge, skills and abilities to better support student achievement expectations.

**Committee proposals.** The Governor's Committee on Teacher Quality and Support, formed by executive order in May 2005, issued its initial findings and proposals on teacher compensation and professional development in December 2005. These recommendations include:

- adopting a Statewide minimum teacher salary in order to attract individuals to the profession and to reduce recruiting disparities between districts;
- providing substantial performance pay opportunities to reward teachers who reach established goals; and
- adopting a system of high quality professional development based on identifiable standards.

In reviewing these recommendations, the Executive recommends a two-year plan for increasing teacher base pay and for implementing a Statewide performance pay structure that incorporates professional development and rewards teachers for meeting measurable goals.

**Minimum salary.** The Executive recommends establishing a State minimum base teacher salary of \$30,000 per year. Approximately 1,700 teachers in 112 school districts earn less than \$30,000 per year, thus requiring an additional \$5.7 million in FY 2007 to reach the \$30,000 minimum base salary. An additional \$40 million is recommended to increase the base pay of every teacher making at or above the mandatory minimum.

**Performance pay.** Pay for performance will be linked to meeting established goals in student achievement, professional de-

velopment, and other measurable outcomes. The Executive Recommendation includes \$1 million for the State Board of Education to begin designing a system of performance pay for teachers that requires ongoing professional development and integrates the Master Teacher mentoring program.

The Recommendation also provides \$1.5 million to the K-12 Center at Northern Arizona University for technical assistance to help schools and districts understand and implement the National Staff Development Council's "Standards for Staff Development" and further implement the Master Teacher program. Originally initiated by the Governor in 2004, the Master Teacher program rewards teacher excellence and assists new teachers through mentoring.

Currently, every school district receives Proposition 301 money for performance pay, and they are allowed to design their own performance pay programs. Statewide coordination of districts' performance pay and professional development programs is essential to maximizing the benefits of these concepts for Arizona teachers and students. Further, integrating the Master Teacher program into the structure allows highly qualified, knowledgeable teachers to pass on their experience to novice teachers and help create a capable workforce to guide our children into the future.

**Program innovation.** To assist and reward districts for innovation in key subject areas, the Executive recommends \$4 million to the State Board of Education to fund innovative programs in Math and Science Literacy, Small Schools Best Practices, Integrated Technology, and Parent Outreach and Communication.

## FULL DAY KINDERGARTEN

Fiscal Year 2006 marked the second year of the Executive's initiative for Volun-

tary Full Day Kindergarten. In FY 2005, 136 of the State's most financially challenged schools received full funding, and approximately 10,000 of the neediest students were given the opportunity to attend Voluntary Full Day Kindergarten at no cost to their parents.

Continuing in FY 2006 the existing first-year commitment of \$21 million for schools in which 90% or more of the students participate in free and reduced-cost lunch programs, Voluntary Full Day Kindergarten expands into public schools with free and reduced lunch participation of 80% and above, reaching approximately 9,880 students in 128 districts at an additional cost of \$17 million. The Executive Recommendation continues to focus on educational opportunities for all students by phasing in Statewide participation in FY 2007 with \$105.4 million in additional funding, allowing all Arizona students entering kindergarten to benefit.

To properly prepare for this expansion, the Executive recommends the inclusion of Full Day Kindergarten students in the STUDENTS FIRST new school construction formula. This allows districts to adequately plan facilities for Voluntary Full Day Kindergarten.

Additionally, a portion – no more than \$250,000 – of the funding will be used by the Department of Education to administer the program and to ensure compliance with statutory fiscal and regulatory requirements.

**BASIC STATE AID**

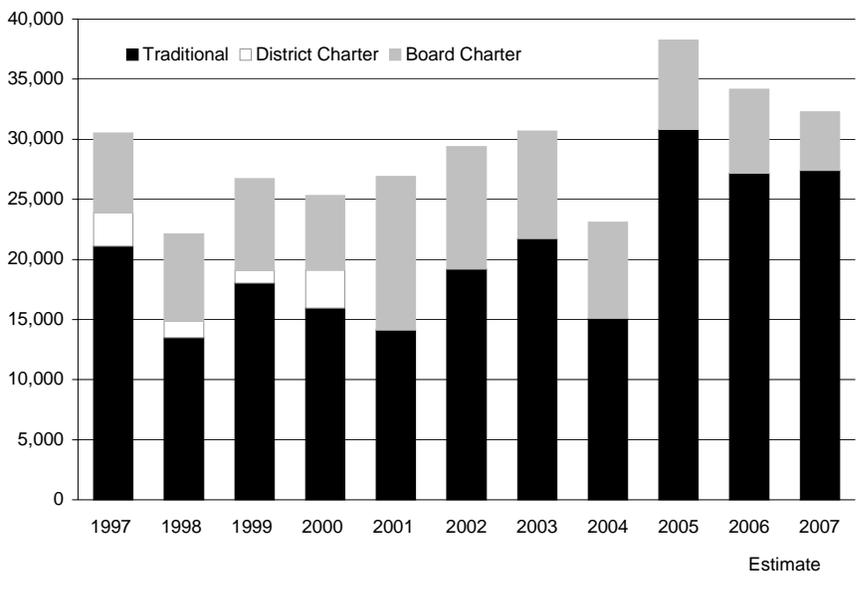
The largest formula-driven funding program for K-12 education, Basic State Aid provides financial assistance to school districts and charter schools for their maintenance and operations needs.

For FY 2007, the Executive recommends \$238.1 million to fully fund student growth in traditional and charter schools. The overall school district student growth is expected to rise by 27,400 – to 940,600 – and combined board- and district-sponsored charters student growth is projected to increase by 4,670, to 94,570. The Executive Recommendation is based on the following growth assumptions for FY 2007:

- 3.2% total growth in new students (3% growth in traditional students and 5% growth in charter students),

**Growth in Average Daily Membership, 1997-2007 (est.)**

Traditional, District Charter, and Board Charter Schools



- a 9% increase in net assessed valuation, and
- 2% inflationary growth.

\$75.7 million General Fund for the FY 2007 lease payments.

**OTHER STATUTORY PROGRAMS**

The Additional State Aid program provides a 35% subsidy for residential property owners toward the local obligation of funding public schools. The Executive Recommendation provides \$26.5 million for this program.

Additionally, \$2.9 million is earmarked for special education programs in permanent and residential educational institutions, \$44,400 for students whose parents are employed by and live at State institutions, and \$800,000 for students placed in school districts by federal or State agencies.

**NEW CONSTRUCTION**

For FY 2007 the Executive recommends \$317.5 million for the New Construction program, expected to fund approximately 25 new schools and/or build-outs of existing schools, including facilities planned for Voluntary Full Day Kindergarten, and factors in increased costs attributable to construction inflation.

To fund payments on existing obligations, the Executive recommends an additional \$24.8 million, for a total of

**COMMUNITY COLLEGES**

Arizona community colleges offer higher education opportunities for all students, regardless of previous academic experience. Between FY 2004 and FY 2005, community college student enrollment increased by 3.6% increase (see chart, next page). The Executive recommends fully funding the growth with an additional \$7.5 million for formula programs, to include:

- \$4.2 million for Operating State Aid,
- \$715,00 for Capital Outlay, and
- \$2.6 million for Equalization Aid.

The 3.6% growth rate represents 4,191 new full-time equivalent students (FTSE) from FY 2004 to FY 2005. The largest FTSE growth occurred in Mohave County, which experienced an enrollment surge after years of static or declining enrollment. Overall, the highest growth-rate counties were:

County	Growth %	New FTSE
Mohave	21.7%	2,775
Coconino	9.9%	182
Cochise	8.9%	542
Yuma/La Paz	5.3%	218
Maricopa	4%	2,775

Four districts – Graham, Navajo, Pima and Yavapai – experienced declining enrollment. Funding levels are not decreased for districts experiencing enrollment decline; instead, community college districts are held harmless as their funding level remains the same as the previous fiscal year.

## UNIVERSITIES

The state’s population growth and the rising profile of Arizona’s universities will combine to fuel an anticipated 3% increase in student enrollment during FY 2007. Responding to this growth, the Executive recommends \$15.9 million for needed faculty and staff.

**Performance incentives.** The quality of a university can be measured in a number of ways, and the Executive recommends creating monetary incentives that will recognize improvement by the State’s universities with regard to three key indicators:

- *Average Time to Graduate:* \$150,000 for each 0.1% reduction in the time for a full-time student to graduate.
- *Graduation Rate:* \$75,000 for each 0.1% improvement in the number of full-time students who earn a Bachelor’s degree in less than six years.
- *Number of Degrees Awarded:* \$3,000 to \$5,000 for each 1% improvement in the number of degrees awarded relative to the number of students enrolled.

Separate reward amounts would be provided for Bachelor’s, Master’s and Doctoral degrees at each university. In addition, there would be separate rewards for all degrees awarded by a university and for degrees awarded in education, engineering, nursing or clinical health.

**Financial aid.** Since 2001 the State has not complied with its own statutory requirement for financial aid. Consistent with that fact, in 2004 a ranking published by the National Association of State Student Grant and Aid Programs placed Arizona among the bottom five states in terms of financial aid to its college students.

In FY 2005, students at Arizona universities contributed \$4.5 million toward

the Arizona Financial Aid Trust. A.R.S. § 15-1642 requires an equal amount of State funding to match the student contributions. The combination of the contributions, State match, and interest earned is split evenly between providing immediate financial aid and being deposited into the Trust Fund.

The State match has not been increased since FY 2001. The Executive recommends increasing the State match to twice the student contribution and also recommends using 75% of the current contributions and student contributions for immediate financial aid. To meet the current statutory requirement, the Executive recommends \$2.4 million. Another \$4.5 million is recommended to increase the State match from one-to-one to two-to-one.

**Faculty.** The quality of a university is directly and inextricably tied to the quality and reputation of its faculty. For several years, one of the major concerns at all three of Arizona’s universities has been their ability to attract and retain excellent faculty. At the root of that concern is low pay, which makes it difficult to recruit the best teaching and research talent and to retain the excellent professors that our universities develop.

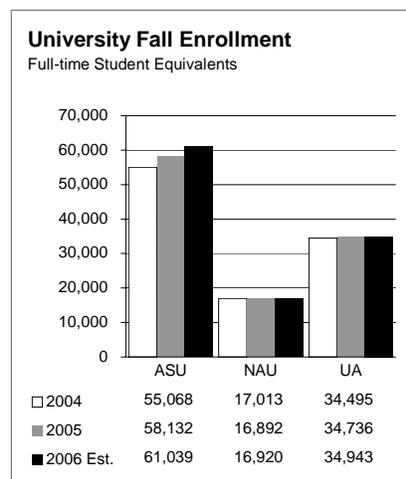
To help attract excellent faculty and to stop the “brain drain” that threatens the educational experience of Arizona students, the Executive recommends \$27.6 million specifically to retain and attract the best faculty. Gifted, high-profile professors come at a high price, but they bring with them funded research and grants that justify the costs of attracting and keeping them. In addition,

star-quality faculty members raise the profile and reputation of their universities and help attract high-level talent, and they raise the standards of the university and the learning environment of the students.

**Innovation support.** To further enhance the recruitment and retention of top-quality faculty and students and to encourage innovation and discovery, State government should foster the process by which new ideas, processes and products achieve their potential impact on society and the economy. The Executive recommends \$5 million to help the University of Arizona develop successful methods of taking valuable innovation to the commercial market.

**Other initiatives.** To seize other opportunities in higher education that will benefit the people of Arizona, the Executive recommends:

- \$2.9 million for expansion of the College of Pharmacy at the University of Arizona, thus addressing the state’s shortage of pharmacists;
- \$1.5 million for the development of cohesive American Indian academic programs;
- \$1.5 million for additional staff as part of the expansion of the County Extension Offices and Agricultural Offices;
- \$4 million for teacher education, access to education, and improving the chances for success for students;
- increasing access to degree programs, regardless of geographic location, by recommending additional resources for increases in the number of cooperative degree programs between community colleges and universities; and
- strengthening the loan program for students from Arizona who are forced to pursue their health care education in other states because Arizona universities do not provide degrees in their chosen field of study (there are 149 such students from Arizona; increasing the loan program will help them keep up with tuition increases in other states). •



# Expanded access to health care

*Executive initiatives will make Arizona more physician-friendly and encourage small businesses to provide employee health coverage*

IN AN ENVIRONMENT of double-digit increases in private-sector health insurance costs and a declining percentage of employers offering health insurance, Arizonans are concerned that something be done to ensure that they have access to the medical care they need when they need it.

To help address this concern, the Executive Recommendation proposes a package of new initiatives to make Arizona more physician-friendly and to encourage private small businesses to provide health insurance for their employees.

## EMPLOYER INCENTIVES

The Executive recommends providing incentives for small businesses to continue to provide, or to start providing, health insurance for their employees.

One such incentive is a targeted tax credit of up to \$1,000 for each business that employs between two and 24 people and that already provides health insurance for its workers. The program would be targeted at companies whose employees earn less than \$75,000 and would be capped at \$24 million. This amount includes funding for administrative staff in the Departments of Revenue and Insurance.

A second initiative would focus a tax credit of up to \$1,000 on companies that begin providing health insurance to their employees after the effective date of the legislation. This program would be capped at \$11 million per year.

A third effort would provide a \$100 monthly insurance premium subsidy to small businesses for each small business employee who earns less than 200% of the Federal Poverty Level (\$38,700 for a family of four). By lessening the burden

of health insurance on both the employer and the employee, this incentive would encourage companies to provide health insurance.

## PHYSICIAN-FRIENDLY STATE

The Executive also recommends funding to make Arizona more physician-friendly. Specifically, the Executive recommends three efforts that will require additional resources:

- maximizing the amount of Graduate Medical Education money to expand residency and fellowship programs in Arizona hospitals,
- providing seed funding for new residency and Graduate Fellowship programs in Arizona, and
- establishing an office that will help physicians develop rural practices and help with recruiting physicians in current group practices.

The Graduate Medical Education (GME) program was established in 1997 to provide additional resources to hospitals that provide training for medical students. Hospitals were apportioned this funding based on their FY 1996 GME costs. Pursuant to State law, this amount has been annually increased by the medical inflation rate established by the federal government. However, costs of providing medical training have increased faster than this medical inflation rate. The Executive recommends fully funding current total GME costs rather than limiting the funding to the 1997 formula.

Additionally, new GME and Graduate Fellowship programs will be funded to increase the number of physicians produced by Arizona's residency programs. Therefore, the recommendation

supports expanding the pool of hospitals that are participating in the GME program, especially those in rural areas.

In addition to these health care efforts, the Executive supports other efforts to protect the most vulnerable Arizonans in the most cost-effective manner, as discussed below.

## SERVICES FOR CHILDREN

Children constitute one of society's most defenseless populations, and the Executive Recommendation provides a variety of expanded services in order to ensure that every child can receive adequate care.

**Child Safety and Permanency.** As a result of declining caseloads, the Executive Recommendation includes a \$16.9 million General Fund decrease to the Temporary Assistance for Needy Families (TANF) Cash Benefits line item.

Caseloads peaked in fall 2003 and have been declining ever since. The DES redesign of the Job Opportunity and Basic Skills (JOBS) program is a significant contributor to falling caseloads, though improving economic conditions in Arizona have also had an impact. Changes to the program have included:

- reducing the waiting time, from four months to less than one month, before clients receive services;
- ensuring that clients receive training tailored to their needs, and
- accelerating the identification of clients that are job-referral ready.

As DES continues its Service Integration Initiative, savings in Cash Assistance should be reinvested into other programs to offset costs and produce

positive outcomes for Child Safety and Permanency.

Over the past year, the State has made important strides toward ensuring that Child Protective Services (CPS) has the resources necessary to protect the state's vulnerable children. Last year's special session produced an increase of 179.3 FTE positions to lower the high caseload-per-caseworker ratio. No new FTE will be requested in FY 2007, though the FTE positions mentioned above will require \$1.4 million to be annualized. The Executive Recommendation includes \$18.7 million to fund an increase of intensive in-home services and reduce out-of-home placements. Savings from a reduced Cash Assistance caseload will offset much of this cost.

**Arizona Families First.** This nationally recognized program reduces the burden shouldered by CPS workers by providing support services to needy families that might otherwise lose their children to foster care. Over 90% of the families involved with Child Protective Services struggle with some sort of substance abuse.

This early intervention effort, which is a product of the DES/DHS Joint Substance Abuse Treatment (JSAT) program, is designed to keep parents sober and clean and children in their homes. Arizona Families First also serves families that receive Temporary Assistance for Needy Families (TANF) and for which a substance abuse problem is a main barrier to finding employment. The Executive recommends \$2.5 million General Fund as part of a two-year initiative to nearly double the JSAT funding.

**Adoption Services.** Adoption is the preferred outcome for children whose natural parents are unable to care for them. Adoption provides a permanent placement for a child and is less costly to the State than out-of-home placements. The Executive Recommendation includes a \$4.5 million General Fund increase to cover new caseload growth in FY 2007. The program is anticipated to provide maintenance payments to the adoptive parents of an average of 9,245 children each month.

**Permanent Guardianship.** At times, adoption may not be possible for a child in the CPS system. In these instances,

the Department of Economic Security (DES) seeks to place the child in a permanent guardianship that, while not severing the parents' legal rights, does provide a more permanent placement for the child. The Executive recommends \$2.7 million from the General Fund to cover 16% natural caseload growth plus additional children that will be moved from out-of-home placements. Of this group, approximately 10% of all out-of-home reductions will be addressed in permanent guardianships.

**Childcare.** Childcare subsidies have proven to be important tools in moving people off of welfare and helping them remain employed. For FY 2007, the Executive recommends an increase of \$7.9 million from the General Fund for this program. Subsidies are available to individuals attempting to achieve independence from the Cash Assistance program, those transitioning off of Cash Assistance, families referred by CPS, foster parents, and low-income working families. The total recommendation would provide subsidies for 30 additional FTE positions and an average of 52,200 children per month. The additional funding would preclude the need for a waiting list in FY 2006.

In addition to increasing the subsidies, the Executive proposes \$200,000 in General Fund monies for the provision of childcare health and safety consultants in one or more counties currently without such resources.

**Children's Rehabilitative Services.** Continuing a tradition that dates to 1927, the Children's Rehabilitative Services (CRS) program, administered by the Department of Health Services (DHS) Office for Children with Special Health Care Needs, provides specialty rehabilitative services to Arizona children who are afflicted with a crippling disorder, regardless of financial status. Services include medical treatment, rehabilitation, support services and case management. To be eligible for services, the child or youth must be an Arizona resident under 21 years of age and have an identified physical disability, chronic illness, or medical condition that is potentially disabling. Services are provided through four contracted regional clinics in Phoenix, Tucson, Flagstaff and Yuma.

Early referral is encouraged to assure the most successful results. Anyone – including doctors, nurses, teachers, patients or friends – may refer a child to CRS.

The Title XIX CRS Program, which is eligible for federal matching dollars, provides services under a monthly capitated rate basis. Title XIX CRS requires that capitation rates paid to CRS contractors are actuarially sound and developed in compliance with federal regulations. The Title XIX CRS General Fund increase recommended for FY 2007 will fund an expected 4.4% medical inflation increase and a 6.9% client growth rate for FY 2007. The program expects to provide services to 23,650 children in FY 2007 (the Phoenix clinic alone receives approximately 300 new applications every month).

**Newborn Screening Program.** The first months of a child's life are crucial in terms of their overall well-being and development. Accordingly, the Executive Recommendation provides additional resources for the Newborn Screening Program (NSP). The NSP recommendation provides an additional \$2.2 million from the NSP Fund in order to operationalize the expanded requirements of the program pursuant to Laws 2005, Chapter 172, which increased the number of required tests from eight to 29. This funding will promote the early identification and treatment of metabolic and/or congenital disorders.

**KidsCare Outreach.** There are approximately 184,000 Arizona children who live in households at or below 200% of the federal poverty level (FPL) and who are not covered by health insurance. The KidsCare Children's Health Care Program (CHIP) is designed to provide coverage for those children.

CHIP premiums were increased in FY 2004. In the year after implementation of the new premium levels, CHIP enrollment was virtually flat at approximately 49,000 children. Despite the program's return to growth, the Executive believes that too many children are uninsured simply because their parents cannot afford the premiums. Uninsured children are 70% less likely to seek health care for minor ailments, keeping them out of school for longer than nec-

essary. For FY 2007 the Executive proposes that \$4.6 million General Fund be used to:

- return premiums to prior levels,
- initiate a media outreach program to enroll more of Arizona's uninsured children, and
- provide funds to pay for the projected increase in enrollment.

Since keeping children healthy puts them in a better position to learn and become contributors to Arizona's economy, the additional funds represent an investment in Arizona's present and future. Further, providing health coverage helps parents focus on their jobs and improve their skills so that they can free themselves from State assistance programs.

### SERVICES FOR WOMEN

Many Arizona women face medical needs and a major unmet need for domestic violence shelters. The Executive Recommendation addresses these concerns.

**Domestic violence.** The Executive Recommendation includes \$2.8 million from the General Fund to begin to address the large unmet need for emergency shelter beds for domestic violence victims. In FY 2005 there were nearly 14,000 unmet requests – 60% of the total – for emergency shelter. Due to capacity constraints, the Executive Recommendation does not eliminate the unmet need. It will, however, fund an additional 243 beds, which will shelter over 3,500 victims of domestic violence. This first phase of a four-year initiative to eliminate the unmet need for emergency shelter addresses approximately a quarter of the unmet need.

**High Risk Perinatal Program.** An additional \$1.9 million is recommended to restore HRPP to the point at which participating families may be visited four times per year, per industry standards. Currently, families typically receive two to three visits annually.

**Women's health.** The Executive Recommendation provides \$145,600 to fund the continued growth of the Breast and Cervical Cancer Treatment program. This program was created to provide Medicaid coverage to women

diagnosed by the DHS Well Woman Health Check program as having breast or cervical cancer. The program has seen substantial growth since its implementation in 2002, when it provided services to 37 women. The enrollment grew to 573 in FY 2004 and is expected to reach 1,769 women by FY 2007 (a 30% increase over FY 2006 expected enrollment).

### SERVICES FOR SENIORS

An aging population makes services for seniors more crucial. The Executive Recommendation seeks to build the infrastructure to support the growing number of aging Arizona constituents.

**Community services and independent living supports.** Adult Services provides non-medical support for the elderly population. DES proposes spending \$8.6 million to expand the program in response to growing caseload demand.

Eight local area agencies – two of which support tribal communities – will receive \$3,175,000 of that total to build the necessary infrastructure and educate constituents about Medicare Part D. Approximately \$300,000 will be used to expand the Long Term Care Ombudsman Program; \$25,000 will cover mileage costs; and \$160,000 will fund two BCU project coordinators. The remainder (nearly \$5 million) will pass-through to local area agencies for aging to support non-medical assistance.

### RURAL ARIZONA

Rural communities face the same crises as the urban centers but do not always have the resources found in densely populated areas. As previously discussed, the Executive Recommendation seeks to recruit more medical professionals to these areas by expanding the Graduate Medical Education program and developing physician recruitment efforts. Furthermore, the Executive proposes strengthening the medical student loan program as well as combating the growing methamphetamine epidemic sweeping through the state.

**Medical Student Loan and Scholarship Programs.** In support of the statewide initiative relating to recruitment and retention of Arizona physicians, the

Executive Recommendations provides full funding for the Medical Student Loan and Scholarship Programs, overseen by the Medical Student Loan Board, which are intended to encourage physicians to set up their medical practice in underserved areas or to meet the needs of underserved populations.

In the Board's history, few students have defaulted on their service requirement. In fact, 32 of the 55 program participants since 1979 are still practicing in eligible service areas, although they already fulfilled their obligation to the State. Currently, 12 additional physicians are serving their commitments.

**Methamphetamine epidemic.** The Executive Recommendation provides support to the broad-scale attack on methamphetamine production and addiction. The FY 2007 budget provides \$1.2 million to DHS for the expansion of treatment options in rural and tribal areas, where no such State resources are currently directed.

### PUBLIC HEALTH SERVICES

Public health services are targeted at a broad population to suppress epidemics and provide for an overall improvement to the quality of life for Arizona's citizens.

**Vaccinations.** Vaccinations are a crucial component of public health. The Institute of Medicine estimates that a dollar spent on vaccinations yields long-term savings of up to \$27.

In FY 2007, the Executive Recommendation provides an additional \$8.5 million for the purchase of vaccines for children and underinsured adults, including \$1.4 million specifically for adult pneumococcal vaccines. Another \$650,000 will provide 3.0 FTE and additional resources for the solidification of the Arizona Statewide Immunization Information System (ASIIS). Combined, the funding directed toward the promotion of vaccinations and centralized reporting will promote prevention, provide vaccinations to uninsured adults aged 18-64 for the first time, establish crucial links with other State reporting systems for use in a public health emergency, and remove barriers to reporting.

**Community Health Centers.** Acutely ill uninsured or underinsured

persons have few treatment options available to them beyond the emergency room. Community Health Centers (CHCs) provide an alternative to this most expensive form of health care.

When patients are able to pay, CHCs collect fees on a sliding scale from patients who are between 100% and 200% of FPL. However, many CHCs are providing uncompensated care to patients in this category. For FY 2007, the Executive Recommendation includes \$3 million to fill this gap. This would be the first year of a two-year phase-in of additional funding that will bring State funding for Community Health Centers back to FY 2000 funding levels.

## HEALTH CARE

Demand for health care for low-income individuals continues to grow nationwide, particularly in rapidly growing states such as Arizona.

**AHCCCS.** Like most other state governments, Arizona spends more on Medicaid (through the Arizona Health Care Cost Containment System, or AHCCCS) than on any other program except education. Over one million Arizonans – 18% of the state’s population – receive AHCCCS benefits, and as the number of people depending on the State for health care grows, the State must address its competing responsibilities of providing adequate services while containing costs.

AHCCCS enrollment is expected to climb by 1.2% in FY 2007 compared with the caseload developed for the FY 2006 appropriation. In addition to the projected enrollment increase, a capitation rate increase of 5.8% is anticipated for FY 2007.<sup>1</sup>

The growth of persons enrolled in AHCCCS, while not extraordinary, is forecast to be slightly higher than expected, resulting in the Executive’s FY 2006 supplemental recommendation of \$15 million. For FY 2007, the Executive recommends an additional \$115.8 million above the FY 2006 appropriation.

The KidsCare Parents program provides health insurance to approximately 13,000 parents of children enrolled in the

KidsCare program. By providing coverage for this population, Arizona can utilize enhanced federal participation to pay for a selected population within AHCCCS. This provides direct savings for the General Fund.

The KidsCare parents program is legislated to end on June 30, 2006; consequently, the Executive Recommendation provides \$10.9 million General Fund to fund the KidsCare Parents program through FY 2007. By continuing this program the State will qualify to receive enhanced federal funds, producing a \$6 million General Fund savings.

**Behavioral Health.** Arizona’s public behavioral health system provides psychiatric treatment, rehabilitation, crisis intervention, in-patient, residential and prevention services to individuals of all age groups.

In November 2005, almost 100,000 children and adults were receiving services under the Title XIX behavioral health system. Twenty percent of recipients were adults with a serious mental illness, i.e., emotional or behavioral functioning that is so impaired that it interferes with their capacity to remain in the community without supportive treatment. After a series of peaks and valleys since 2000 in the Behavioral Health Title XIX eligible population, in December 2004 the caseload began a steady decline. This overall decline is projected to continue for the duration of FY 2006 and into FY 2007.

In contrast to fluctuating caseloads, steady medical inflation continues to drive increased costs. The Executive Recommendation for capitation rate inflation for FY 2007 is based on the average incremental growth for each category since 1996, as follows:

- 10.8% for children’s behavioral health,
- 12.9% for general mental health and substance abuse services, and
- 7.5% for seriously mentally ill individuals.

Further, the amount of Federal Medical Assistance Percentage (FMAP) is expected to decrease as of October 2006, from 67% to 66.3%. As a consequence of inflation and the reduced FMAP, overall costs to the State for the Behavioral Health program are pro-

jected to increase, despite the anticipated caseload decline. The Executive Recommendation includes the General Funds required in order to fund these trends.

**Housing for the Seriously Mentally Ill (SMI).** The provisions of *Arnold v. Sarn* require safe and affordable housing for SMI persons, which, among the homeless, number at least one in four.

For the approximately 18,000 SMI in Maricopa County, there are only 6,600 housing units available. Placing mentally ill persons in permanent housing produces significant savings. A recent New York study found that SMI homeless persons consumed services totaling \$40,449 annually, while those in permanent housing consumed just \$16,282 annually.

The Executive Recommendation includes \$5 million for the purpose of expanding the available permanent housing units in Maricopa County; the recommended amount will provide independent living units to approximately 400 enrolled SMI adults.

**Developmentally Disabled.** This population includes individuals with mental disabilities, cerebral palsy, autism and epilepsy. Funding for this program supports the Arizona Training Program at Coolidge, smaller State-operated homes, case management, home services, respite care, and medical services for this population. All services provided are considered entitlements. The Executive Recommendation includes \$22 million to fund an estimated 5.25% caseload growth in the Title XIX developmentally disabled population and a 3.43% capitation rate increase. These funds will allow the State to provide services to developmentally disabled individuals consistent with federal law.

## SERVICES TO ARIZONA VETERANS

Approximately 585,000 veterans live in Arizona, and that population is certain to grow. The risks and sacrifices that veterans have made on behalf of our nation warrant our unfading appreciation and our commitment to accommodate their unique needs.

Executive Order 2005-15 created the Arizona Veteran Task Force. In 2005 the

<sup>1</sup> The capitation rate is comprised of medical inflation, program changes, and utilization.

Task Force analyzed and evaluated State services and benefits provided to Arizona's veterans and found those services and benefits to be inadequate.

In response to identified needs, the Executive recommends:

- funding the startup cost of building a State veterans home in southern Arizona (a region in which 150,000 veterans reside),
- increasing the State Veteran Benefit Counselor (VBC) staff from 19 to 59, and
- restoring money to the Veteran Cemetery Fund for a cemetery in northern Arizona.

**Veterans Home.** The U.S. Department of Veterans Affairs has made available seven acres on its Tucson campus to build the Southern Arizona State Veteran Home. The proposed Home will have 180 beds and meet the long-term nursing care needs of southern Arizona veterans. The Executive's capital budget includes \$10.2 million for the Home.

**Benefit Counselors.** Veteran Benefit Counselors help veterans through the complex and timely process of applying for federal benefits. Helping veterans in this way is not only the right thing to do but also provides an economic benefit for the state, since a veteran who utilizes a VBC in applying for benefits will re-

ceive, on average, \$6,225 more than a veteran who applies for benefits without a counselor.

The current ratio of veterans to VBCs in Arizona is 30,789-to-1, and in several counties, containing thousands of veterans, there is no local VBC. Tripling the VBC staff will ensure that all 585,000 veterans in the state are represented and will lower Arizona's ratio to a level close to the VA's recommendation of one VBC per 5,000-10,000 veterans. •

# Responding to threats from within, beyond our borders

*The Executive Recommendation for public safety focuses on border security, Highway Patrol resources, and reforms in the adult and juvenile correction systems*

**WORKING TO CREATE** a safe and secure environment for Arizona citizens and visitors is one of the greatest responsibilities and challenges to our State and local governments.

The Executive recommendation includes substantial and prudent investments in improving the quality of life for Arizona’s citizens through enhanced protection and safety services, with a strong emphasis attracting and retaining top law enforcement and corrections professionals as well as funding to alleviate the burden of illegal immigration on the citizens of Arizona.

## PUBLIC SAFETY

The Department of Public Safety has experienced substantial caseload growth related to Arizona’s population explosion.

In the past 10 years the number of registered vehicles has increased by 113%, the number of daily vehicle miles traveled in Arizona increased by 68.5%, and the number of urban highway miles increased by 48%.

Over the same period, the number of Highway Patrol officers increased by a mere 38%. DPS also faces the considerable task of providing a proactive approach to mitigating and abating crime.

Due to the substantial increase in DPS caseloads, competition with other law enforcement agencies in the state for new recruits, and a growing number of retiring officers, the Department is struggling to hire enough new officers to keep our highways adequately patrolled and the public safe.

In response to these challenges, the Executive Recommendation for DPS focuses on the following areas:

### Population, traffic and caseload growth

- \$6.6 million and 67.0 FTE positions for increased Highway Patrol staff and support personnel to maintain manpower at a level consistent with Arizona’s growth in population and traffic.
- \$3 million for salary increases for sworn personnel in addition to any other pay package approved for State employees. Sworn salaries at DPS currently rank about 11% behind the “market,” defined as the average of the top five paying law enforcement agencies in the state (*see chart below*). This funding will facilitate the recruitment and retention of DPS law enforcement personnel by bringing DPS salaries to the level of other law enforcement agencies in the

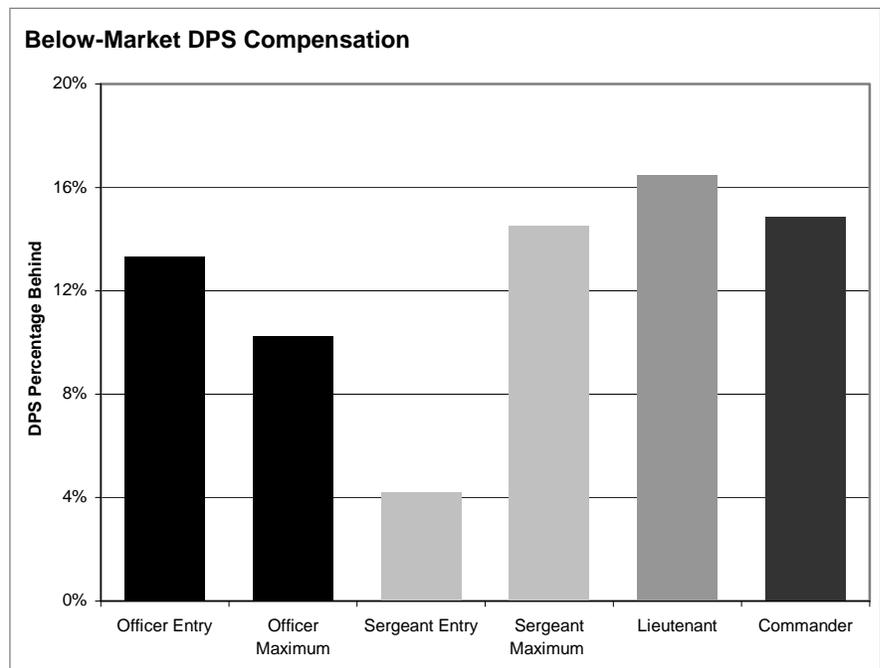
state.

- \$500,000 in additional funding for a joint marketing and recruiting effort among the Departments of Public Safety, Corrections, and Juvenile Corrections. The Department of Administration will coordinate this effort.

### New initiatives

In order to meet crime head-on and stay ahead of criminals, DPS closely monitors crime trends to effectively deploy law enforcement resources. The Executive recommends funding targeted at combating crimes where negative trends indicate the need for extra attention.

These areas include increases in identity theft, a great number of sex offenders who fail to update their address with DPS, and a growing epidemic



of methamphetamine use within Arizona. The Executive recommends over \$2 million and 11.0 FTE positions to help reverse these negative trends.

The Executive recommendation also includes funding for equipment and other operating costs that keep officers safe and enable them to perform their jobs effectively.

## **BORDER SECURITY**

In August 2005 Governor Napolitano stated, "More illegal immigrants from Mexico enter the United States through Arizona than through any other U.S. state. Arizona's taxpayers continue to carry an unfair share of the tax burden. We can no longer afford to wait on the federal government to live up to its responsibility."

Arizona citizens are familiar with these problems, although some background serves to illustrate the Governor's statement.

- An estimated 500,000 illegal immigrants reside in Arizona.
- At the end of October 2005, 4,207 illegal immigrants were confined to State correctional facilities.
- According to U.S. Border Patrol statistics, between October 2004 and September 2005, 267 bodies were recovered along the Arizona-Mexico border.

Anecdotes of environmental degradation and crime along the border abound. While Congress continues to hash out a solution to the illegal immigration problem, Arizona continues to endure the negative effects. The Executive Recommendation provides funding to alleviate some of the burdens on Arizona related to our proximity to the border. The Executive recommends over \$100 million in new funding for the following border security initiatives.

### **Enforcement personnel**

- \$2 million to the Department of Public Safety for two new squads to enhance the Gang Intelligence Team Enforcement Mission (GITEM).
- \$1.3 million and 18.0 FTE positions to the Attorney General's Office to deal with increased caseloads re-

lated to the prosecution of cases involving methamphetamine, human trafficking, and identity theft.

- Just under \$2 million and 16.0 FTE positions to the Department of Public Safety for two new squads dedicated to combating human trafficking and human smuggling.
- \$1.7 million and 12.0 FTE positions to the Department of Public Safety for a Domestic Terrorism squad dedicated to following up on leads produced by the Arizona Counter-Terrorism Information Center.
- \$164,000 and 2.0 FTE positions to the Department of Transportation to increase safety and security inspections at the Nogales Port of Entry.

### **Equipment and technology**

- More than \$7.9 million for border security equipment grants to counties that share a border with Mexico. These grants will be used for items such as night vision equipment, smart fence technology, infrared technology, off-road vehicles and radio equipment.
- More than \$1.8 million to upgrade the Statewide Microwave Radio System. The first phase of this project involves replacing the radio system in the Southern Region.
- \$14.3 million in capital expenditures for a new DPS Southern Regional Crime Lab in Tucson.

Local and county law enforcement agencies within the border regions rely on this lab to provide scientific analysis services. Submissions to the Southern Regional Crime lab have soared by 313% over the past six years, far outpacing the growth at other crime labs in the state. This increase is due, in part, to the increase in criminal activity related to the proximity of the southern region to the border. The current crime lab facilities are overcrowded and unsafe due to poor architecture and limited space. There is a need for more capacity and better facilities at this crime lab.

### **Strengthening local jurisdictions**

- \$5.1 million for a Border City Cops program to provide grants to law

enforcement agencies within the four border counties to enhance protection and safety services in these areas.

- Nearly \$10 million to assist in alleviating the impact of illegal immigration and related crimes on residents of border communities.

In August 2005 Governor Napolitano declared an emergency along Arizona's border with Mexico and dedicated \$1.7 million in emergency funding for local and county governments in the border region for costs related to illegal immigration. As part of the \$100 million border security package, the Executive recommends increased funding for these purposes in FY 2007. Costs to be funded include overtime for county law enforcement/personnel, first responder costs (mileage costs and ambulance charges), extraordinary expenses for the medical examiner, county jail costs, and other miscellaneous costs.

### **Border cleanup**

- \$729,700 to the Department of Corrections for three new inmate work crews to perform trash cleanup and brush clearing along the border area.
- \$275,000 to the Department of Environmental Quality for three Border Hazardous Waste Inspectors to monitor cross-boundary hazardous waste from Mexico.
- \$596,000 to the Department of Public Safety for the establishment of a missing persons database, which will contain DNA profiles from missing persons and from unidentified deceased persons, including the many unidentified immigrants who perish in the desert.

### **Immigration-related crime**

- \$1.6 million to the Department of Liquor Licenses and Control for costs related to the Fraudulent I.D. Task Force. This multi-agency task force targets businesses that provide fraudulent documents to aid illegal immigrants in gaining employment in the U.S. Previously,

no funding has been set aside specifically for the Task Force.

- \$1.4 million to the Department of Public Safety to allow for the continuation of vehicle theft details in the Southern Region during FY 2007.
- \$50 million to set up a border security mobilization reserve fund for additional border security and immigration-related measures. State, local, county and tribal agencies will be eligible to receive money from this fund. This is one-time funding designed to serve as a stopgap measure until the federal government develops a solution to stem the flow of illegal immigration. The Department of Public Safety in consultation with the Governor's Office will determine expenditures from this fund.

## ADULT CORRECTIONS

Arizona's adult prison population grew by nearly 2.9% during calendar year 2005, to a total of 33,501. In response, the Executive plans to open 1,000 private beds in Florence in December 2006 for inmates convicted of sex offenses. Another 900 beds will be procured as provisional beds beginning in July 2006, in part to accommodate the return of 645 Arizona inmates from a private prison in Texas.

**Reforms.** Several provisions of the Executive Budget recommendation address findings of the Governor's Blue Ribbon Panel that investigated the January 2004 hostage situation at the Lewis Prison. The Panel identified a long list of contributing factors, including several that impact State spending, such as:

- Correctional Officer pay,
- high turnover and vacancy rates,
- long commutes,
- understaffing,
- mandatory overtime, and
- old or inadequate equipment.

**Compensation.** Currently, entry-level Correctional Officers at the Department of Corrections (ADC) earn \$5,000 to \$7,000 less – 18% to 25% – per year than their counterparts in jurisdic-

tions such as Maricopa, Pima and Pinal counties.

In the case of experienced officers, such as Sergeants, Lieutenants and Captains, the disparity ranges from 25% to 77% below market, due to many years of increasing entry-level pay without addressing the higher ranks. As an unacceptable consequence, in many cases Sergeants earn less than the less experienced officers they supervise.

Wage pressure will increase before April 2006, when Pima County implements an 18% salary increase for its officers. At the same time, Maricopa County plans to hire 1,000 new officers and will consider pay increases after a two-year moratorium. Pinal County is recruiting 200 officers and is directly targeting ADC Correctional Officers.

Clearly, ADC cannot compete for the most desirable candidates and will struggle to keep the best of its current force.

The Executive recommends a \$39 million compensation reform package to bring officer pay closer to market, eliminate the salary compression problem throughout the ranks, and eliminate many of the convoluted and confusing pay practices that have evolved over many years in the current pay system.

**Vacant positions.** One of the problems that result from below-market pay is the high Correctional Officer turnover and vacancy rates that plague the State's prison system. Since prisons must maintain adequate staffing to maintain security, officers are often required to work double shifts because of inadequate staffing. When overwork is combined with long commutes (for many officers, 30 to 70 miles), burnout and fatigue are inevitable, and the risk to public safety grows.

The lure of other jurisdictions is strong: Officers can work at local county jails for more money, shorten their commuting time, and supervise less dangerous inmates.

High vacancy rates and double shifts result in high overtime payments. During the spring of 2005, when the appropriations for FY 2006 were being finalized, the Department expected to pay roughly \$18 million in overtime in FY 2006. The revised estimate: more than double, to about \$37 million. Dur-

ing the 18-month period that ended in November 2005, the vacancy rate grew sharply, from 11.5% to 19.4%.

**Changes.** One of the Department's most effective tools to offset the long commutes of its staff is the use of van pools. The Department currently operates 67 vans for 992 officers and staff. The vans are too few in number (208 would-be riders are on a waiting list) and too old for the job, at an average of 180,000 odometer miles. The Executive recommends replacing half of the vans and adding 17 more to the pool.

The Executive intends to make the prisons safer for the communities in which they are located and for the people who work there by improving some of the equipment used at the facilities. The Blue Ribbon Panel specifically recommended security and communication equipment upgrades for the safe operation of the prisons. As part of the FY 2006 appropriation, communications equipment was targeted as a first priority; it remains high on the list. Also needed are upgraded metal detectors, and the Department has committed to use \$1.4 million from its existing budget to obtain this important equipment. The Executive is recommending an additional \$2 million for the replacement of other equipment.

**Inmate health care.** For years, ADC has sought to provide constitutionally guaranteed health care services to inmates with only slight funding adjustments. Since 2001 the size of the inmate population has grown by 20%; during that same period the inflation adjustment approved by the Legislature for rate increases at AHCCCS has provided total adjustments of 51%. The combined effect: a 71% hike in prison health care costs. In contrast, appropriations for health care over that time have increased by only 17%.

ADC has been able to manage the extra health care expenditures by the use of available vacancy savings, delaying the payment of compensatory time payments to officers until the year after the money was earned, and by thoroughly examining every aspect of its health care services.

This year, the vacancy savings are wiped out because of the large amounts of overtime payments, and compensa-

tory time was eliminated in October 2005 as a way to slow the loss of officers. However, a thorough examination of the health care system did produce significant efficiencies that help to reduce the amount of funding needed to cover health care expenses. Rather than the amount that would be expected in light of the inflationary increases to health care costs and the increase in the number of inmates, which would have meant a shortfall of roughly \$57 million, the Executive is requesting additional funding of just \$27 million to cover FY 2006 expenses and an additional \$3 million in FY 2007.

### JUVENILE CORRECTIONS

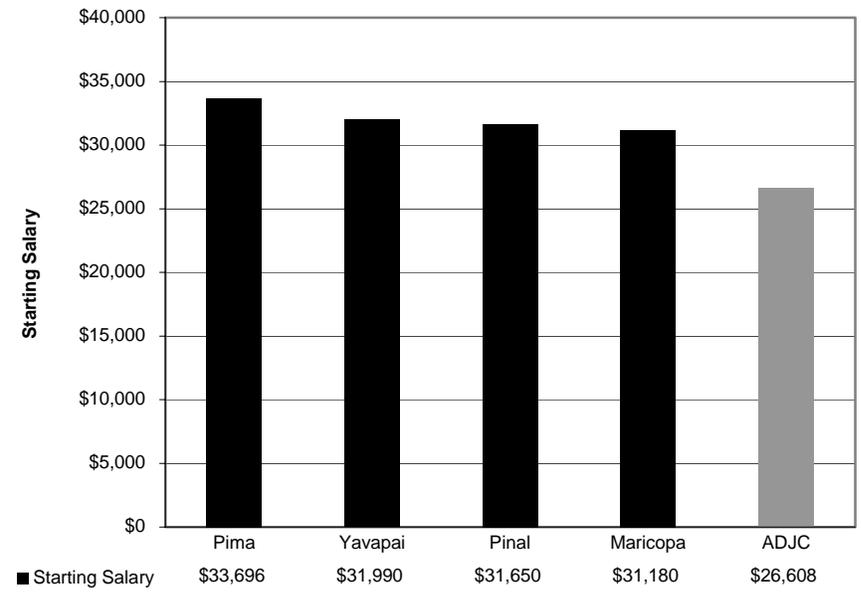
The Department of Juvenile Correction (DJC) delivers a valuable public safety service to Arizona by providing secure care, rehabilitation, treatment and education for some of Arizona’s most troubled youth.

In 2004 a federal audit identified areas of needed improvement within DJC. Significant progress has been made in these areas; however, much remains to be done to bring DJC into full compliance. This budget recommendation addresses efforts to implement the measures recommended by the federal government and to aid DJC in providing its very important service for Arizona and its youth.

The Executive recommends funding for the following:

- **Compensation:** More than \$2.6 million for pay increases for Youth Correctional Officers (YCOs). The starting salary for a YCO currently lags 21% behind the average start-

**DJC Pay vs. Comparable Counties**



ing salary of similar positions within Maricopa, Pinal, Yavapai and Pima counties (see chart). DJC competes with these entities for qualified recruits and the low salary places them at a competitive disadvantage to fill positions. During FY 2005, DJC experienced a turnover rate among Youth Correctional Officers of 36.9%, due in part to the below market salaries. This recommendation increases annual salaries for all youth correctional officers by \$3,000 in addition to any other salary increase extended to State employees.

- **Population:** More than \$1.1 million and 24.0 FTE positions to allow DJC to accommodate a juvenile population of up to 655

youth. DJC is currently budgeted for a population of 624 youth. On December 15, 2005, the youth population at DJC was 634, ten above the budgeted population.

- **Education:** \$273,300 to allow the Department to maintain four Special Education Diagnosticians. Forty-five percent of the juveniles in DJC custody are classified as special education students. Retention of these diagnosticians is vital to DJC operations.
- **Suicide Prevention:** \$495,000 for suicide resistant renovations to three housing units. This recommendation is related to the 2004 Federal audit, which identified a need for renovations to make DJC housing units suicide resistant. •

# Environmental protection in a rapidly growing state

*Balancing population growth, economic vitality and the preservation of Arizona's natural resources requires a three-pronged effort focusing on water management, protection of State lands, and enforcement of environmental quality*

**P**OPULATION GROWTH AND urbanization have been synonymous with Arizona for several decades. According to the 2003 Census Bureau estimates, Arizona is the 18th largest – and, perhaps surprising to some, eighth most urban – of the 50 states.

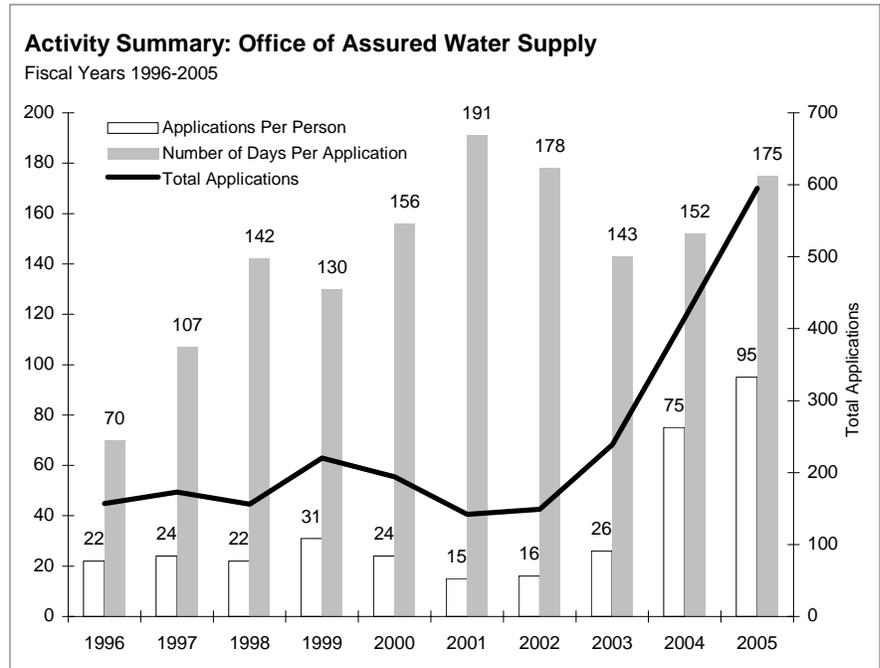
Balancing Arizona's population growth and economic vitality with its natural resources and environment is a permanent challenge and a focal point of the Executive Budget Recommendation for FY 2007.

## WATER

Arizona's desert climate directly affects its economy and quality of life. Long-term economic activity – including mining, irrigated agriculture, and urban growth – is possible only where dependable water supplies are available. Our nine-year drought has focused public attention on the finite and delicate nature of our water resources, and State Government has responded effectively to the challenges and opportunities associated with Arizona's water supply.

**Water supply.** During its 2005 session, the Legislature approved H.B. 2174 (Laws 2005, Chapter 217) and authorized the Department of Water Resources (ADWR) to develop a fee-for-service structure and provide a stable funding source for the Assured and Adequate Water Supply Program.

Consistent with that legislation and the findings of the Governor's Drought Task Force, the Executive Recommendation establishes an expenditure authority of \$2 million and 16 FTE for the newly created Assured and Adequate Water Supply Fund. The new funding stream and the recommended expendi-



ture will help offset operational costs and minimize reliance on the General Fund as well as expand key water programs.

**Water protection.** The FY 2007 Executive recommendation provides an increase of \$5 million from the General Fund to the Arizona Water Protection Fund, established pursuant to A.R.S § 45-2102. The Fund is administered by the Water Protection Fund Commission to provide grants to organizations for the preservation, enhancement and restoration of Arizona rivers, streams and riparian environments.

Due to budget constraints in the General Fund and the existing balance of the Water Protection Fund, the Legislature did not authorize deposits to the Fund in FY 2006. The FY 2007 Recom-

mendation restores the statutory deposit.

**Rural infrastructure.** The Executive Recommendation calls for statutory changes to establish rural water improvement districts empowered to set water management objectives and manage water supply projects. Statutory changes include creation of a Rural Water Supply Development Fund to provide financial assistance and grants for the development of water supply systems and infrastructure investment projects. Participation in the financing pool would encourage districts to adhere to plans that are designed to protect groundwater for future uses, drought contingency and conservation standards.

In total, the Executive Recommendation provides \$15 million for rural water supply development.

## STATE LANDS

Only six states have more national forest acreage than Arizona, and the state's vulnerability to devastating wildfires has been exacerbated by drought during the last nine years. Climatologists warn that, despite a rainy winter in 2005, the drought may not be over, and State Government must continue to formulate and implement long-term forest management strategies to minimize the mounting threat to people and property.

**Fire suppression.** To strengthen the Forestry Division's ability to address wildland fires, the Executive recommends amending A.R.S. § 37-623 to strengthen the ability of the State Land Department to respond to wild land fires by increasing the funding limit to \$4.5 million. The recommendation also provides 4.0 additional FTE positions and \$439,900 to increase manpower, operating supplies and resource equipment, including a radio-dispatch system and mountaintop repeaters. Included in the recommendation are two positions to work directly with landowners and communities to mitigate fire-related risks and help property owners minimize threats from wildfires.

**Technical expertise and asset management.** The recommendation provides \$2 million and 6.5 FTE to automate the State Land Department's record management and enhance its ability to carry out its statutory responsibilities and protect State assets. The additional funding will allow the Department to expedite land disposition in a timeframe that focuses on revenue maximization for the State Land Trust's beneficiaries and stakeholders.

## ENVIRONMENTAL QUALITY

A crucial part of the State's water management efforts, the Arizona Department of Environmental Quality (ADEQ) works to protect public health and the environment through compliance with air, water and land quality standards. For FY 2007, the Executive Recommendation includes several components

designed to help the Department fulfill its vital mission.

**Water Quality Assurance Revolving Fund.** As part of the Environmental Quality Act of 1986, the Legislature established the Water Quality Assurance Revolving Fund (WQARF) to support efforts to identify, assess and clean up groundwater contamination caused by the release of hazardous substances. Revenue sources for the WQARF include legislative appropriations, registration and licensing fees, cost recovery, and an annual transfer of \$15 million from State corporate income tax revenues.

To help balance revenue in the General Fund, for FY 2006 the Legislature reduced the statutory transfer to \$11 million (per Laws 2005, Chapter 332). The Executive Recommendation restores the \$4 million in FY 2007, raising the total transfer to \$15 million, as required by A.R.S. § 49-282.

**Water Permitting Program.** ADEQ is charged with administering the Aquifer Protection Permit (APP) and the Arizona Pollutant Discharge Elimination System (AZPDES) programs to minimize the impact of pollutants in Arizona waters. The state's rapid growth has prompted increases in the number of wastewater treatment plants that need to expand their operations, thus creating additional workload for ADEQ's permitting staff.

The Executive Recommendation provides a total of \$400,000 – \$200,000 from the General Fund and \$200,000 from the Water Quality Fee Fund – to contract with permit writers to address backlogs and workload increases in the Water Quality Division.

**Safe drinking compliance.** Budget shortfalls from FYs 2002 and 2003 eliminated funding for about 20 positions in the Water Quality Division. The funding and FTE reductions, along with continued increases in workload, have severely impacted the water quality compliance efforts of the Division's Compliance Assistance and Assurance Program, which works with communities, water systems and businesses to address environmental issues before major problems arise. The Executive Recommendation includes \$216,000 for

four unfunded FTE positions associated with that program.

**Colorado River protection.** The Recommendation includes \$120,000 from the General Fund to help support the ADEQ's oversight and implementation of recommendations from the newly formed Clean Colorado River Alliance. The CCRA recommendations are designed to prevent toxic chromium contamination of the Colorado River and evaluation of potential mercury contamination in Lake Powell. The additional funding will enable ADEQ to implement the CCRA recommendations and conduct other important activities.

**Border security.** Border Hazardous Waste Inspectors monitor cross-boundary hazardous waste shipments entering Arizona from Mexico. To more effectively deal with pollution issues affecting communities near the Arizona-Mexico border, the Executive recommends \$275,000 from the General Fund to establish two Border Hazardous Waste Inspector positions to perform inspections of hazardous waste (including cargo crossing the international border at Douglas, Nogales and San Luis) and to provide for a Solid Waste Emergency Readiness Coordinator who will focus on border-related solid waste management and emergency preparedness needs in the potentially affected communities.

**Solid waste facilities inspections.** Due to recent budget shortfalls, the ADEQ's solid waste inspection capability has been reduced by nearly half. The lack of solid waste inspection puts the public health at risk by not fully determining whether the growing numbers of landfills and other types of solid waste facilities are complying with public health and other permit requirements governing the treatment, storage and transportation of solid waste. The Executive recommends restoring \$127,000 to fill 2.0 FTE inspector positions and allow ADEQ to improve its oversight capacity.

**Hazardous Air Emergency Response.** ADEQ currently receives no funding for the operation of Hazardous Air Emergency Response, designed to provide air quality monitoring and support the ADEQ emergency function required by A.R.S. § 49-108.

Recent developments requiring more advanced and sophisticated response capabilities to support Homeland Security needs have compounded the problem caused by lack of funding. The recommendation includes 2.0 FTE and \$161,600 as a non-lapsing reserve to enable the Department to respond to environmental contingencies that have no designated funding source.

**Children's respiratory illnesses.** The recommendation supports \$220,000 and 1.0 FTE from the Air Quality Fund to assist in a special project designed to reduce airborne pollutants that exacerbate asthma attacks among Arizona children. The funding will allow ADEQ to analyze and examine air quality monitoring data with asthma-related

data from the Department of Health Services and other entities to address the relationship between ambient air quality and respiratory diseases among children.

**Air quality.** ADEQ has indicated that there is no acceptable funding source to support air permit enforcement. Per A.R.S. § 49-426(E), the Department has promulgated rules with the authority to charge fees for the time it spends administering permits, and all fees collected pursuant to these rules are deposited into the Air Permits Administration Fund (APAF). No General Fund monies currently support Air Quality Enforcement, and permit fees collected in the APAF are dedicated to cover the permitting program.

Failure to adequately enforce the terms and conditions of the Department's air quality permits will likely result in negative impacts to public health and the EPA's disapproval of the Department's air quality permitting program. This disapproval will then force sources requiring Title V sources (major regulated entities) to obtain their operating permits from the U.S. Environmental Protection Agency (EPA), significantly increasing the permittees' transaction costs.

The recommendation supports 2.0 FTE and \$123,000 from the Air Quality Fund to help with the enforcement of Title V air permits and related violations. •

# Infrastructure to support economic vitality

*That Executive reaffirms its a commitment to quality and excellence in safety, environmental protection, expanding system capacity, and improving customer service*

**T**HE ABILITY OF Arizona’s economy to outperformed most of the nation in 2005 was directly attributable to the quality of the state’s physical infrastructure. If we are to sustain our economic vitality in a rapidly growing state, where expectations for the movement of people and goods will continue to be propelled by a growing and diverse population, maintaining a strategic vision for the Department of Transportation is essential.

## BUDGET HIGHLIGHTS

The Executive Recommendation for the Department of Transportation (ADOT) increases mission-critical funding by \$10.1 million, for a total operating budget of \$419.2 million, and adds 57 new transportation professional and staff positions.

The recommended funding will enable ADOT to:

- carry out its \$5 billion, five-year Transportation Facilities Construction Program for fiscal years 2006 through 2010; and
- stay on schedule for completion of the Maricopa Regional Freeway System by the accelerated date of December 31, 2007.

The primary sources of ADOT’s operating and construction budgets are the Federal Highway Trust Fund, State Highway User Revenue Fund (HURF), bond proceeds, and the Maricopa County Transportation Excise Tax, which is deposited into the Regional Area Revolving Fund (RARF). In FY 2007, the Excise Tax is expected to generate \$365.5 million, an increase of 7.6% over FY 2006. Since the excise tax is collected from Maricopa residents only,

FY 2007 ADOT Financial Plan		
In Millions of Dollars		
S O U R C E S		
HURF	\$661	37%
Federal Funds	458	26%
RARF	197	11%
Other	17	1%
Bonds	451	25%
HELP Fund	3	0.1%
U S E S		
Capital Budget	\$1,152	64%
Debt Service	220	16%
Highways	110	6%
Maintenance	117	7%
MVD	99	6%
Administration	42	2%
Magazine	10	1%
Aeronautics	2	0.1%
<b>Total Program: \$1.79 Billion</b>		

RARF monies are exclusively dedicated to the Maricopa Regional Transportation System.

More than half (50.5%) of the monies flowing into the HURF are shared with cities and counties while the balance remains with the State. In FY 2007, the HURF is projected to receive \$1.38 billion, reflecting an increase of 5.3% over FY 2006.

That strategic vision reflects a commitment to quality and excellence in maximizing safety, protecting the environment, expanding system capacity, and improving customer service.

**Maximizing safety.** The need to improve maintenance and safety on our highways is critical. The Executive is committed to improving transportation safety and relieving congestion. This involves a comprehensive approach to

improvements throughout the transportation system that includes:

- \$5.8 million and 16.0 FTE positions for highway safety, highway maintenance and roadway conditions;
- \$400,000 and expanded engineering staff to improve bridge inspections, maintenance and safety statewide;
- improvements in logistics systems sparked by information technology, such as navigation equipment, synchronized traffic signals and tracking systems; and
- \$1.5 million to help cover fuel costs and expand maintenance operations provided by the Equipment Services program.

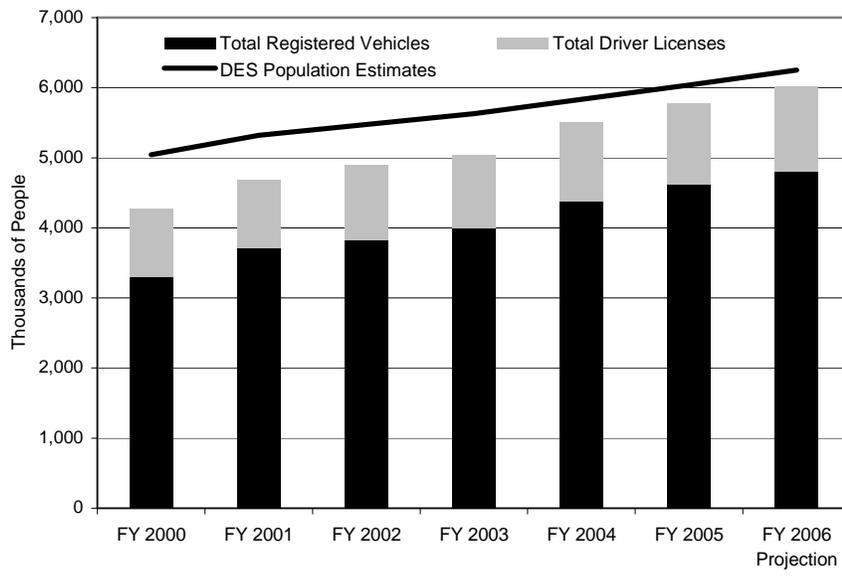
**Expanding system capacity.** Transportation congestion is another challenge, which clearly continues to be a growing concern to Arizona’s economic well-being. Congestion and bottlenecks damage air quality, slow commerce, increase energy consumption and threaten our quality of life, causing motorists to waste significant time and money.

Our citizens seek solutions to transportation problems, but they also want solutions that are consistent with sound environmental planning and stewardship. It is a healthy expectation and a positive way of doing business that involves all stakeholders in ensuring that transportation decisions fully respect communities and environmental resources, without jeopardizing the timely delivery of transportation projects

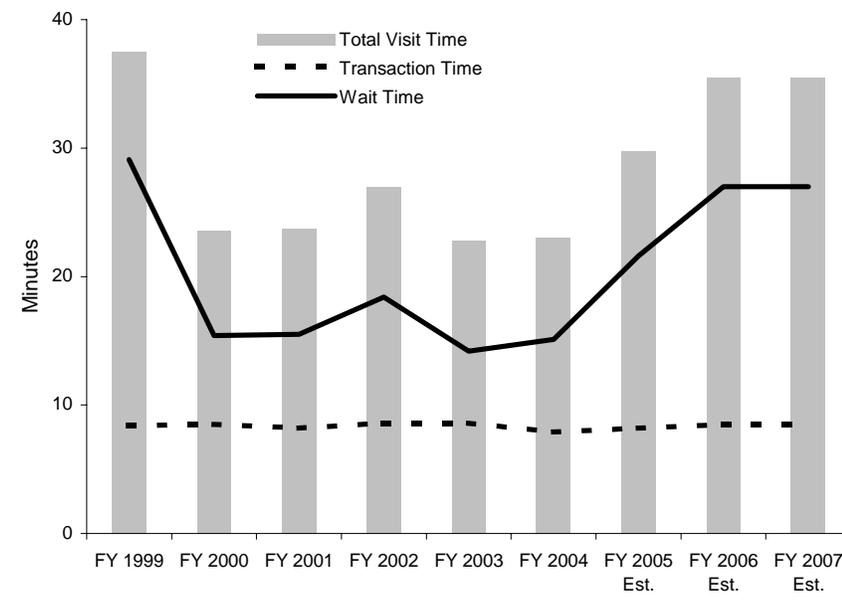
Increased growth and complexity require more strategic expansion of our system capacity and more effective solu-

### Population and MVD Transaction Growth

Fiscal Years 2000-2006 (projected)



### Wait Times in MVD Field Offices



tions, including public transit, to address our growing mobility and transportation needs. Meeting those challenges requires commitments for strategic investments in the transportation infrastructure.

### HIGHWAY CONSTRUCTION

The State Transportation Board has approved a \$5.1 billion highway construction program as part of the Five-Year Transportation Facilities Construction

Program for Fiscal Years 2006 through 2010. The statutory power to prioritize individual airport and highway projects is placed on the State Transportation Board, a seven-member panel appointed by the Governor and confirmed by the Legislature. Members of the panel serve six-year terms and represent different geographical regions of the state. The Board presides over the establishment of priorities and oversees all highway contracts.

### Highway Program, FYs 2006-2010

In millions of dollars

System Preservation.....	\$ 756
System Improvements.....	1,202
Systems Management.....	359
MAG Regional Plan.....	<u>2,800</u>
<b>Total Highway Program.....</b>	<b>\$5,117</b>

The construction program covers highways and airports under the "Priority Programming Law," which sets guidelines that the Department follows in prioritizing projects for the program. Included in the program are transportation corridors under both the national highway system and the statewide system. During the five-year program period, the Maricopa County urban freeway system will receive nearly \$2.8 billion of the expected funds.

The Executive Recommendation supports the Department's Program and includes \$364.2 million from the State Highway Fund in FY 2007 for highway construction and debt service. In accordance with statutes, the actual expenditures levels will continue to be determined and adjusted within the scope the Five-Year Highway Construction Program as approved by the State Transportation Board.

**Fund restoration.** The Executive Recommendation transfers back \$118 million from the General Fund to the State Highway Fund to support highway construction and to reimburse the one-time use, in FY 2005, of Vehicle License Tax for General Fund budget shortfalls.

Furthermore, the Executive Recommendation restores \$40 million in the Highway User Revenue Fund (HURF) to make it available for State and local transportation programs. The recommended shift reverses a FY 2006 HURF appropriation to the Department of Public Safety.

**Controlled access highways.** The primary source of the Maricopa Association of Governments (MAG) Regional program is the transportation excise tax assessed in Maricopa County. Another portion of this program will be financed by 15% controlled access funds and federal funds dedicated to the MAG area.

For FY 2007, the Executive recommends \$103.4 million from the distribu-

tion formula for dedicated highway revenues to the construction of urban freeways. The current allocation provides 75% to MAG and 25% to the Pima County Association of Governments (PAG).

**AIRPORT DEVELOPMENT**

Funding for the Five-Year Aviation Program totals \$664.7 million, derived from federal, state and local funds. Federal monies come mainly from taxes on airline tickets and are distributed by the Federal Aviation Administration to local airports through the National Airport Improvement Act. State funds come mainly from flight property tax, lieu taxes on aircraft, and aviation fuel taxes. Federal grant monies will finance \$551 million of the program, while the State share is \$56.1 million, and local sponsors contribute \$34.4 million.

The Executive Recommendation provides \$20.5 million from the State Aviation Fund for development and improvement of state, county and municipal airports as approved by the State

Transportation Board. The Recommendation also appropriates to ADOT all monies in the State Aviation Fund that are in excess of amounts determined in the General Appropriation Act and the Capital Outlay Act for airport planning and development. Monies in the State Aviation Fund consist of receipts from a flight property tax, aircraft lieu tax, and revenues from the operations of Grand Canyon Airport.

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**Airport Development Program, State Share**

In millions of dollars

Commercial and reliever airports ....	\$43.0
Public airports .....	<u>13.1</u>
<b>Total Airport Program.....</b>	<b>\$ 56.1</b>

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**CUSTOMER SERVICE**

To meet the reasonable expectations of Arizona residents and visitors for service quality, the Executive Recommendation:

- provides an additional \$500,000 to enhance business systems and

identify improvements of e-government and customer services of the Motor Vehicle Division (MVD);

- includes an additional \$1.7 million and 37.0 FTE positions for MVD offices to address population growth-driven workloads, reduce customer waiting time at Driver’s License offices, and enhance credential security;
- adds \$163,800 and 2.0 FTE positions for the Nogales Port of Entry to provide support and enhance security at the Arizona-Mexico border;
- provides \$5.3 million from the State Highway Fund to open two high-growth area Customer Service Centers at Surprise (to serve metro Phoenix) and Marana (metro Tucson); and
- includes \$300,000 for the Grand Canyon Airport to improve operations and travelers satisfaction. •

STATE EMPLOYEES

# Recommended FTE increases

*The net increase of 1,131.6 FTE positions is comprised of two components: technical changes to the appropriations base and newly funded positions*

IN THE SECOND year of the FY 2006-2007 biennium, many small General Fund agencies and most other fund agencies have already received FY 2007 budgets. The focus in FY 2007 will be on larger, predominately General Fund agencies. The next fiscal year will bring many full-time equivalent (FTE) increases, including FTE positions for such critical issues as border security, protection of the elderly, and veteran assistance.

The Executive Recommendation includes the appropriation of 48.0 officers to combat human trafficking, terrorism and gangs in the ever-expanding need for border security. This is in addition to the 47.0 Highway Patrol Officers recommended to make Arizona’s highways safer. The Attorney General will also receive additional attorneys and staff to combat the growing border security issue.

The Department of Economic Security will add 30.0 Adult Protective Service workers to ensure that every reported case of abuse, neglect, exploitation, and abandonment is investigated. The Executive also recommends an appropriation of 40.0 Counselors for Veterans Federal Benefits. Veteran Benefit Counselors assist disabled veterans in the difficult and time-consuming process of applying for benefits from the U.S. Department of Veterans Affairs (VA).

Of the 1,131.6 new FTE, 922.7 will be funded from the General Fund, and 208.9 will be funded from other appropriated fund sources.

As reported in the FY 2007 budget detail that follows, the net increase in positions of 1,131.6 FTE is comprised of two components: a net increase of 48.3 FTE through *technical* changes to the appropriation base, and a net increase of 1,083.3 FTE resulting from *newly funded* or *eliminated* programs.

**FY 2007 FTE TECHNICAL CHANGES**

Department of Administration .....	8.0
7.0 Police Officers for Executive Tower	
1.0 Minority/Women-Owned Business Development/Outreach	
State Parks Board .....	72.0
72.0 Park Staff	
Department of Economic Security .....	(47.3)
(47.3) Arizona Training Program-Coolidge Staff Shifted to Title XIX	
Department of Education .....	15.6
15.6 Assistance for Struggling Students	

**FY 2007 NEW FTE POSITIONS**

Department of Administration.....	4.0
4.0 Self-Insurance Administration	
Arizona Health Care Cost Containment System .....	70.6
22.5 Long Term Care Eligibility and Customer Service Workers	
20.3 Eligibility Workers and Customer Service	
13.9 Customer Service and Medical Management	
7.7 Cost and Quality Control	
3.2 KidsCare Staff	
3.0 Small Business Health Insurance Incentive Staff	
ASU - Main Campus.....	137.7
132.7 Faculty and Support Staff	
5.0 Faculty and Researchers	
ASU - Polytechnic .....	30.8
25.8 Faculty and Support Staff	
5.0 Landscaping, Janitorial and Maintenance Staff	
ASU - West.....	15.0
15.0 Faculty and Staff	
Attorney General .....	20.0
18.0 Attorneys and Support Staff for Illegal Immigration	
1.0 Attorney for Tobacco Enforcement	
1.0 Solicitor General Support Staff	
Department of Commerce .....	7.0
4.0 Tribal and Rural Economic Development	
3.0 Small Business Support and Certification	
Department of Corrections .....	22.0
13.0 Substance Abuse Counselors	
9.0 Security for Inmate Crews	
Department of Economic Security .....	104.5
30.0 Child Care Case Managers	
30.0 Adult Protective Services	
25.3 Title XIX Developmentally Disabled Services	
14.9 Employment Services for the Physically Disabled	
2.0 Elderly Survey Coordinators	
0.8 IT Specialist	
0.8 IT Specialist	
0.7 Child Support Hearings	

Department of Environmental Quality .....	10.0	Radiation Regulatory Agency .....	4.0
3.0 Hazardous Border Waste Inspection		2.0 X-Ray Tube Inspections	
2.0 Title V Air Permit Enforcement		1.0 Uranium Mining and Milling Inspections	
2.0 Hazardous Air Monitoring/Response		1.0 Radioactive Materials Inspections	
2.0 Solid Waste Inspectors		Department of Real Estate .....	7.0
1.0 Air Quality Monitor		7.0 Customer Service Staff	
Department of Financial Institutions .....	2.0	Department of Revenue .....	7.0
1.0 Financial Institutions Recordkeeping Examiners		4.0 Customer Service for Unclaimed Property	
1.0 Regulation/Enforcement of Unlicensed Financial Activity		3.0 Economists	
Department of Health Services .....	120.2	Secretary of State.....	3.0
78.1 Behavioral Health Services		1.0 Constituent Service Representative	
7.0 Newborn Screening (Laboratory and Follow-up)		1.0 Policy and Procedure Professional	
6.0 IT Personnel and Instructors for State Hospital		1.0 Professional Employer Organization Service Representative	
4.6 Laboratory Services		Department of Transportation .....	59.0
3.0 Immunization Quality Assurance		25.0 MVD Customer Service Staff	
20.2 Licensing and Regulation Staff		11.0 Traffic Signal Technicians	
1.3 Title XIX State Match for Behavioral Health Staff		5.0 Quality Assurance and Security	
Department of Juvenile Corrections.....	28.0	5.0 Highway Maintenance Staff	
24.0 Officers and Staff for Growing Juvenile Population		4.0 Bridge Engineer Specialists	
4.0 Special Education Diagnosticians		4.0 Customer Service Staff	
Land Department .....	10.5	2.0 Nogales Port-of-Entry Security	
4.5 Asset Management Support Staff		2.0 Vehicle Inspection and Title Enforcement	
2.0 IT Security and Compliance		1.0 Liability Insurance Enforcement	
2.0 Fire Suppression Support Staff		University of Arizona - Health Sciences Center.....	30.0
2.0 Fire Prevention Management and Support Staff		20.5 Pharmacy Education Faculty and Support Staff	
Northern Arizona University.....	85.2	9.5 Faculty and Support Staff	
48.7 Landscaping, Janitorial, and Maintenance Staff		University of Arizona - Main Campus.....	108.8
15.3 Faculty and Staff – Focus on Undergraduates		35.7 Staff: University Ideas and Inventions	
10.0 Faculty and Staff – Teacher Education		to Commercial Markets	
6.2 Faculty and Staff – Educating Arizonans		29.4 Landscaping, Janitorial, and Maintenance Staff	
5.0 Faculty and Researchers		21.9 Faculty and Support Staff	
Department of Public Safety .....	121.0	17.0 Faculty, Researchers, and Support Staff	
48.0 Trafficking, Terrorism and Gang Intelligence		4.8 Faculty and Staff	
47.0 Highway Patrol Officers		Department of Veterans' Services.....	55.0
11.0 Criminalists (Crime Lab)		40.0 Counselors for Veterans Federal Benefits	
5.0 Administrative Support		15.0 Veterans Administrative Support	
4.0 911 Operators		Department of Water Resources .....	16.0
3.0 Sex Offender Detectives/Intelligence Analysts		16.0 Assured and Adequate Water Supply Staffing	
2.0 Administrative Support		Department of Weights and Measures.....	5.0
0.5 Sexual Violence Victims Treatment		4.0 Field Inspectors	
0.5 Methamphetamine Treatment		1.0 Licensing Staff	

## LEGISLATIVE ACTION

# Proposed Legislative changes

*The following changes are necessary to implement the Executive Budget Recommendation*

### **Administration, Department of**

*Increase Pro Rata Assessment: A.R.S. § 41-764 (A)*

To raise additional revenue for human resources, the Executive recommends an increase in the pro rata assessment on System A agencies from the current statutory rate of 1.04% to 1.07%. These funds would be deposited in the Department of Administration's Personnel Division Fund, which supports human resources, including the certificate of participation payment for the Human Resources Information Solution payroll system.

### **Arizona Health Care Cost Containment System**

*County Acute Care Contribution: Laws 2005, Ch. 328, Sections 13 and 14 (BRB from 2005 Legislative session)*

Two session laws pertain to county contributions totaling \$62.6 million for Acute Care services within AHCCCS. The Executive Recommendation continues the Acute Care county contribution at this level.

*KidsCare Parents Program Continuation (Laws 2005, Ch. 328, Sec. 21): A.R.S. §§ 36-2984 (repealed by Laws 2002, Ch. 329, Sec. 15)*

This program is legislated to end June 30, 2006. The Executive Recommendation would continue it through FY 2007 and beyond.

*Withholding State Shared Revenues for FY 2007: Laws 2005, Ch. 328, Section 15*

The Executive recommends that the FY 2006 Transaction Privilege Tax withholdings, authorized under the DSH Payments Program, be \$84,652,400.

### **Attorney General - Department of Law**

*Attorney General Legal Services Cost Allocation Fund: A.R.S. § 41-191.09*

The Executive recommends repealing Section 2 of Laws 2005, Chapter 300, which established the Attorney General Legal Services Cost Allocation Fund and is scheduled to be implemented July 1, 2006. The Attorney General Legal Services Cost Allocation Fund will cause many problems: loss of federal funds, federal fund penalty fees, use of agency funds for purposes not established in statute, agency double billing, additional expenses for implementation, and negatively impacting the Attorney General's budget.

### **Corrections, Department of**

*Collection Enforcement Revolving Fund: A.R.S. § 41-191.03*

For FY 2007, the Executive recommends continuing language that began with Laws 2003, Chapter 263, Sec. 90 and was extended by Laws 2004, Chapter 281, Sec. 11 and Laws 2005, Chapter 300, Sec. 9, which includes a session law provision allowing the Attorney General to use Collection Enforcement Revolving Fund monies for operating expenses. The Executive further recommends that A.R.S. § 41-191.03 be modified to allow the Attorney General's Office to keep a fund balance of \$400,000, instead of \$100,000, to help manage cash flow in the early part of the fiscal year.

### **Deaf and the Blind, Arizona State Schools for the**

*Elimination of the Telecommunications Excise Tax Fund: A.R.S. §§ 15-1306 and 42-5252*

The Executive recommends the elimination of the 0.16% distribution from the Telecommunications Excise Tax (TET) to ASDB and recommends that the distribution be reallocated to the Commission for the Deaf and Hard of Hearing and the Poison Control Fund.

## **Economic Security, Department of**

### *Cash Assistance: General Appropriations Act*

The Executive recommends the removal of the following footnote in the General Appropriations Act: "Notwithstanding section 35-173, subsection C, Arizona Revised Statutes, any transfer to or from the \$152,859,100 appropriated for Temporary Assistance for Needy Families cash benefits requires review by the Joint Legislative Budget Committee." Eliminating this footnote will provide the Department of Economic Security with the flexibility to reinvest the savings it generates by reducing Cash Assistance caseload into its Service Integration initiative, to improve outcomes for clients through improved investments. In addition to reducing the number of families on Cash Assistance by increasing self-sufficiency, Service Integration aims to reduce the risk of abuse and neglect for children and to reduce the use of restrictive and institutional placements for children in the child protection system.

### *Repeal Child Support Statute of Limitations: A.R.S. § 25-503 (H)*

The Executive recommends the elimination of the following statute of limitations for the administrative collection of child support arrearages: "Unless it is reduced to a written money judgment, an unpaid child support judgment that became a judgment by operation of law expires three years after the emancipation of the last remaining unemancipated child who was included in the court order."

## **Education, Department of**

### *K-12 Rollover: Session law*

The Executive recommends a partial repayment of the K-12 rollover, requiring an extension for the remaining portion. Notwithstanding A.R.S. § 15-973, it is recommended that \$95.5 million from the June 15, 2007, State Aid payment be deferred until July 1, 2007, and that districts be allowed to recoup interest charges related to issuing warrants.

### *Transportation Support Level: A.R.S. § 15-945(A)(2)*

The Executive recommends an increase to the transportation formula within the school finance formula to fund 180 school days. Currently, the formula generates funds for only 175 days of school operation. Proposition 301, as passed by the voters in 2000, increased the number of school days from 175 to 180, but the transportation support level was not increased to reflect the additional days.

### *Desegregation "soft cap" extension FY 2007: Session law*

The Executive recommends extending into FY 2007 the desegregation "soft cap." This "soft cap" allows school districts to increase their desegregation budgets for increased enrollment and inflation.

### *Integrated Technology Programs: New session law*

The Executive recommends that the State Board of Education be directed to distribute grants for planning and development to implement integrated technology programs and professional development grants.

### *Math and Science Literacy: New session law*

The Executive recommends that the State Board of Education be directed to distribute grants for innovative programs improving math and science literacy in K-12.

### *Minimum Teacher Salary: New statute*

The Executive recommends establishing a Statewide minimum base salary of \$30,000 per year for teachers. Of the amount recommended, any additional remaining funds not used to establish a \$30,000 base salary shall be distributed on a per teacher basis to those at or above the minimum salary.

### *Parent Outreach and Communication: New session law*

The Executive recommends that the State Board of Education be directed to distribute planning grants to improve parent outreach and communication through websites.

*Small Schools Best Practices: New session law*

The Executive recommends that the State Board of Education be directed to fund research and data collection on best practices for small schools and create models for implementation.

*English Language Learners: Title 15*

The Executive recommends that companion legislation be enacted establishing the English Language Acquisition Program to remedy issues raised by the *Flores v. State* lawsuit and provide a method for schools to administer English language instruction.

*Voluntary Full Day Kindergarten: A.R.S. § 15-901 Definitions and A.R.S. § 15-901.02 Full-Day Kindergarten Instruction*

The Executive recommends increasing the Average Daily Membership count for kindergarteners from 1/2 ADM to 1 ADM to expand Full Day Kindergarten into all school districts.

*Performance Pay and Professional Development, Technical Assistance: New session law*

The Executive recommends that the State Board of Education be directed to design a statewide system for teacher performance pay and professional development, including Master Teacher components.

**Health Services, Department of**

*Disproportionate Share Hospital Payments to State Hospital: A.R.S. §§ 36-545 and 36-2903.01(P)*

In FY 2006, the State Hospital was appropriated \$54 million from the General Fund. Under current practice, DHS receives Disproportionate Share Payments (DSH) totaling \$28.5 million in April or May. Shortly after that, the funds are transferred back to the General Fund for "reimbursement" of General Fund expenses incurred in the operation of the Hospital during the preceding months of the fiscal year. As a result, throughout the year the Hospital spends General Fund monies rather than DSH monies. The Executive recommends, in FY 2007, a reduction in the Hospital's General Fund appropriation in an amount equal to the DSH payment, or \$28.5 million. Additionally, the Executive recommends that the Hospital's DSH payment be transferred to the Hospital in October, when it becomes available from the federal government, rather than in April. Making this adjustment will not create cash flow issues for the Hospital, as the Executive will roll forward General Fund dollars into the Hospital's first quarter allotment to cover operations until October. This change will serve to alleviate potential concerns from CMS about the methodology employed by the State in utilizing DSH funds.

*Restoration to Competency, County Reimbursements: A.R.S. § 13-4512*

The proposed change (a) notwithstanding A.R.S. § 13-4512 in order to continue the county reimbursements established by Laws 2005, Chapter 328 (session law) and (b) requires that cities and counties pay a percentage (ranging from 50-86%, depending on population) of the cost of Restoration to Competency treatment provided at the Arizona State Hospital.

*Suspension of Suicide Prevention Program in FY2007: A.R.S. § 36-3415*

This proposed change notwithstanding A.R.S. § 36-3415 to continue the suspension of the suicide prevention program in FY 2007.

*Vital Records Electronic Fund Continuation: A.R.S. §§ 36-341.01 and 36-341(C)*

The implementation of the Executive Budget requires the continuation of the non-appropriated Vital Records Electronic Systems Fund, which supports the operation of the electronic vital records system in the Office of Vital Records, under the Department of Health Services Division of Public Health. The Executive recommends that the repeal language in A.R.S. § 36-341.01 be struck, as well as the following clause in A.R.S. § 36-341(C): "Beginning on July 1, 2006, the State Registrar shall deposit, pursuant to sections 35-146 and 35-147, all of these monies in the State General Fund." Without striking this language, the Fund will be repealed, and all monies in the Fund will be deposited in the General Fund. If this happens, the Department will not have an appropriation by which it may continue operating the Electronic Vital Records System established since this Fund was created. If the Fund is in fact repealed, the Department would require a General Fund appropriation of \$475,000 in order to continue operating the System. Continuing the Fund by default continues the source of revenue that has supported these operations to date and eliminates the need for General Fund monies. Eliminating the program is not an option, as it is a statutory mandate. Eliminating the System would result in reversion to a paper-based vital records system, which results in longer wait times (from 20 to 120 minutes in lobby, and from five to 15 days by mail); further, original documents will be held in the main office, and customers will not be able to access records at the county level.

Under a paper-based system, DHS estimates the need for an additional 30.0 positions.

## **Land Department**

*Fire Suppression Liabilities Limit Increase: A.R.S. § 37-623.02(D)(1)*

A.R.S. § 37-623.02(D)(1) dictates that wild land fire suppression or other unplanned risk emergency liabilities shall not exceed \$2 million of State General Fund monies. The FY 2007 Executive Recommendation provides an additional \$1.5 million for fire suppression activities. The recommended funding will provide the Land Department with more resources to fight the increasing number of wild land fires.

## **Lottery Commission**

*On-Line Vendor Fee Footnote: Session law*

As the result of the new on-line vendor contract, the footnote will need to be changed to reflect the new rate. The new rate is flexible, so the footnote cannot be as specific as in prior years. The revised footnote should only reference the rate as “specified in the current contract” and then use the sales estimate as of the time the budget is adopted. There are provisions in the new contract that permits the Lottery Commission to implement additional features of the on-line system for small increases in the vendor rates.

## **Parks Board**

*Off-Highway Vehicle Recreation Fund; use: A.R.S. § 28-1176*

Notwithstanding Section 28-1176, the State Parks Board may spend up to \$692,100 from the State Parks Board portion of the Off-Highway Vehicle Recreation Fund in Fiscal Years 2006-2007 for parks operating expenses.

*State Parks Enhancement Fund; use: A.R.S. § 41-511.11*

Notwithstanding Section 41-511.11 or any other law, all monies are available either for the operating of State parks in Fiscal Year 2006-2007 as appropriated by the Legislature in the General Appropriations Act or for capital needs as determined by the Arizona State Parks Board with the prior approval of the Joint Committee on Capital Review, to acquire and develop real property and improvements as State parks consistent with the purposes and objectives prescribed in Section 41-511.03.

*Border Security & Illegal Immigration Set Aside: A.R.S. § 35-144(B)*

The Executive recommends allowing the legislature to make a \$50.0 million appropriation to the Department of Public Safety from revenues otherwise slated to go to the budget stabilization fund. A notwithstanding provision is necessary to make this appropriation. The funding will be used for the Border Security and Illegal Immigration measures. The appropriation is designed to be a one-time stopgap measure until the Federal government develops a solution to stem the flow of illegal immigration to and through Arizona. State, local, tribal and county government agencies in the entire state are eligible for this funding for illegal immigration related measures. Distribution will be based on population.

*CJEF Distribution to General Fund Redirected to Crime Lab Assessment Fund: A.R.S. §§ 41-2401(D)(11) and 41-2415(C)*

This recommendation continues the policy from previous years of redirecting to the Crime Laboratory Assessment Fund the 9% Criminal Justice Enhancement Fund (CJEF) distribution to the General Fund.

*Highway User Revenue Fund (HURF)/State Highway Fund DPS Expenditure Limits: A.R.S. §§ 28-6537 and 28-6993*

The Executive recommends continuing the provisions of Laws 2005, Chapter 300 that notwithstanding expenditure limits of Highway Fund monies to DPS. These provisions will allow the Legislature to appropriate the amounts recommended in the Executive Budget for the Department of Public Safety. These expenditure limits can be found in A.R.S. §§ 28-6537 and 28-6993.

## **Real Estate, Department of**

*Fee Recovery: A.R.S. § 32-2103(B)*

The Executive recommends continuing the provisions of Laws 2005, Chapter 299 that notwithstanding Section 32-2103(B), which prevents the Real Estate Commissioner from revising fees in FY 2007 for the purposes of meeting the requirement to recover at least 95% but no more than 110% of the Real Estate Department's appropriated budget.

## **Regents, Board of**

*Financial Aid Trust State Match: A.R.S. § 15-1642*

Currently, statute requires a State match equal to student contributions. It also stipulates that 50% of the State match, student contribution, and interest on the Trust Fund are to be used for Immediate Student Financial Aid and the other 50% is to be deposited into the Fund. The Executive Recommendation is to (a) change the State match to twice the student contribution and (b) authorize 75% of each year's State match, student contributions, and interest on the Trust Fund to be used for Immediate Student Financial Aid.

## **Revenue, Department of**

*Contract Audit Administrative Costs: A.R.S. § 44-313*

The Executive recommends that A.R.S. § 44-313 be amended to exempt the administrative cost of contract audits from legislative appropriation. This will allow the Department of Revenue to subtract the cost of contract audits from the revenue received from the audits. Current appropriation authority does not allow for this unpredictable cost and could result in lost revenue for the General Fund.

*Unclaimed Property Advertising: A.R.S. § 44-309*

The Executive recommends that A.R.S. § 44-309 be amended to allow the Department of Revenue to publish semi-annual ads directing people to the Internet and the state's Unclaimed Property Website instead of publishing names in the newspaper. This will save the Department approximately \$70,000 annually and should increase the number of claims returned.

## **School Facilities Board**

*Kindergarten as full Average Daily Membership (ADM) for new construction purposes: A.R.S. § 15-2011*

The School Facilities Board currently counts kindergarten students as 1/2 ADM for new construction purposes. As Voluntary Full-Day Kindergarten expands to all school districts; kindergarten students must be counted as full ADM in all school funding formulas, including new construction. This will allow districts to develop facilities able to accommodate full-day kindergarten.

## **Transportation, Department of**

*General Fund Transfer to the State Highway Fund: A.R.S. §§ 28-5808 and 28-6993*

For FY 2007, the Executive recommends transferring \$118 million from the State General Fund for deposit into the State Highway Fund (#2030) for ADOT's highway construction and reimbursement of the one-time use in FY 2005 of Vehicle License Tax. Due to budget shortfalls, the amount approved in FY 2005 for the State General Fund included \$118 million from ADOT's portion of the VLT receipts. The FY 2007 Recommendation reinstates this funding shift to provide additional resources for statewide highway construction.

## **Treasurer**

*Budget Stabilization Fund: A.R.S. § 35-144 and Section 114 in Laws 2005, Chapter 286*

Notwithstanding the provisions of section 35-144 and Laws 2005, Chapter 286, section 114 or any other relating to the transfer of monies to the Budget Stabilization Fund (BSF), the FY 2007 Executive Budget transfers \$180 million from the General Fund to the BSF. This objective will be accomplished by the transfer of \$180 million from the General Fund to the BSF and the repeal of Sec 114, Laws 2005, Chapter 286.





**Capital Outlay**



# Asset preservation and infrastructure development

*The Executive's Capital Outlay addresses current needs and provides funding for strategic projects to support the delivery of vital services*

**T**HE CAPITAL OUTLAY Budget provides funding from the General Fund and Other Appropriated Funds for two main categories of projects: Building Renewal and New Construction. Funding for capital projects is typically made through the Capital Outlay Bill, but it may also be approved through other legislative enactments. The Capital Budget may also include recommendations for advanced appropriations.

For the purposes of capital planning and management, State Government is divided into three building systems:

- the Arizona Department of Administration (ADOA) Building System,
- the Arizona Department of Transportation (ADOT) Building System, and
- the Arizona Board of Regents (ABOR) Building System.

The ADOA Building System contains 2,876 structures and comprises all State buildings except for the Arizona Department of Transportation (ADOT) and the Board of Regents, which oversees the three State universities.

The FY 2007 request for New Construction capital from State agencies within the ADOA Building System exceeded \$252.1 million, while their Building Renewal request was estimated at \$51.5 million. ADOT requested \$57.6 for New Construction and \$7.2 million for Building Renewal.

## FY 2007 CAPITAL PROJECT REQUESTS, BY AGENCY

AGENCY	New Construction	Building Renewal
Department of Administration	\$18,000,000	\$7,500,000
Arizona State Courts Building	3,000,000	370,000
Department of Corrections	134,500,000	27,135,000
Department of Economic Security	8,000,000	735,000
Department of Health Services	30,700,000	2,800,000
Department Game & Fish	3,300,000	393,000
Dept. of Juvenile Corrections	6,900,000	9,300,000
Arizona Schools for Deaf & Blind	10,700,000	1,802,600
State Parks Department	6,900,000	250,000
Department of Public Safety	30,200,000	1,200,000
Department of Transportation	<u>57,600,000</u>	<u>7,200,000</u>
<b>Total Needs - Request</b>	<b>\$309,800,000</b>	<b>\$58,685,600</b>
General Fund	248,900,000	51,092,600
Other Funds	60,900,000	7,593,000

## Executive Recommendation

### ADOA BUILDING SYSTEM NEW CONSTRUCTION

The Executive recommends \$12.9 million in FY 2007 for new capital projects. The recommendation includes:

- \$7.4 million from the General Fund to secure and replace non-working cell locks and doors throughout the prison system and to construct a water treatment plant at the Yuma correctional complex, and
- \$5.5 million annual debt service payments for a Southern Arizona Veteran Home, a DPS Regional Crime Laboratory (Tucson), and the Forensic Unit at the Arizona State Hospital.

## GENERAL FUND

### Department of Corrections

*Prison Cell Doors and Locks.* The Executive recommends an annual commitment of \$5.2 million for the next eight years to replace cell doors and locks at State prisons. The project's magnitude and the complexity of relocating inmates during construction make it impossible to carry out the project without phasing the work. Funding to address these public safety needs has been requested in several preceding budget cycles. Deferring support for this project will continue to compromise security through the prison system and increase liability and personal risks to officers and other personnel. Additionally, the cost to maintain the useful life of the buildings is increasing, which forces the Department to face broken and dysfunctional components on an emergency basis rather than system replacement. This approach is disruptive to management and leads to higher operating costs and creates inefficient systems.

*Yuma Prison Complex – Water Treatment Plant.* The Recommendation includes \$2,189,000 to construct a water treatment plant at the Yuma prison complex. The untreated groundwater is deteriorating pipes, water heaters, evaporative coolers and other system components. The current plant is outdated and non-compliant with environmental standards and constitutes a risk to public health inside and outside the prison.

**LEASE PURCHASE FINANCE**

The Executive recommends \$5.5 million for FY 2007 debt service payments on \$55 million in new 15-year Certificates of Participation (COP) for the Southern Arizona State Veteran Home, the DPS Regional Crime Laboratory in Tucson, and the new Forensic Unit at the Arizona State Hospital.

**Department of Health Services**

*Arizona State Hospital – Forensic Unit.* The current Arizona State Hospital (ASH) wing designated as the Forensic Unit is housed in a 50-year old building that contains asbestos, which provides an unhealthy and dangerous environment for patients and medical staff. Due to the age and conditions of the current structure, renovation of the building is not cost effective to transform as a forensic unit that would meet security and health standards. Forensic patients require treatment and rehabilitation as well as the equivalent of Level 5 security, as defined by the Arizona Department of Corrections. The Executive recommends funding of approximately \$30.5 million for demolition and construction of a new Forensic Unit at ASH to provide functional and secured facility for forensic patients.

**Department of Veterans’ Services**

*Southern Arizona State Veteran Home.* The Executive recommends funding for the Southern Arizona State Veteran Home. The U.S. Department of Veterans Affairs (VA) offers grants to build such homes, and the State match is 35%, or about \$10.2 million. The Home will be located on the VA Hospital campus in Tucson. The Southern Arizona VA Hospital serves 150,000 veterans and will refer veterans in need of long-term care to the Home. After it begins operating, the Home will be financially self-sufficient.

**Department of Public Safety**

*Southern Regional Crime Laboratory.* The Executive recommends \$14.3 million for a new Regional Crime Laboratory in Tucson to replace the existing facility, which does not conform to fire safety standards and is inadequate for the operation and use of scientific equipment. The toxicology area cannot accommodate analysis of blood specimens for drugs and poisons and constantly requires such cases to be sent to Phoenix for testing. Transport of criminal evidence may affect its credibility before the Court. Inadequate standards at the existing facility have become serious concerns and could jeopardize the laboratory’s accreditation.

**OTHER FUNDS**

**Game and Fish Department**

The Executive recommends \$1.1 million from Other Funds in FY 2007 for Game and Fish Department projects. This amount includes \$850,000 from the Capital Improvement Fund, \$151,000 from the Game and Fish Fund, and \$100,000 from the Waterfowl Conservation Fund.

*Alert Dam/Flood Warning System.* The Executive recommends \$350,000 to allow the Department of Game and Fish to develop a remote flood warning system. This new system will

<b>New Construction</b>	<b>Cost</b>	<b>Funding Source</b>
Prison Cell Doors and Locks	\$5,200,000	General Fund
Yuma Prison Complex: Water Treatment Plant	\$2,189,000	General Fund
Southern Arizona State Veteran Home	\$10,200,000	General COP: \$5.5 million annually to make payments related to \$55 million COP financing
DPS: Regional Crime Laboratory	\$14,300,000	
Arizona State Hospital: Forensic Unit	\$30,500,000	
<b>Building Renewal</b>	<b>Cost</b>	<b>Funding Source</b>
Statewide Projects: Multi-Agency	\$10,037,500 \$6,755,000	General Fund

allow the Department as well as other jurisdiction agencies to monitor rainfall and reservoir level from remote base stations.

*Black Canyon Lake Dam Modifications.* The Executive recommends \$300,000 from the Capital Improvement Fund to modify the dam spillway design of Black Canyon. The modification is needed to compensate for the downstream development that has elevated the hazard classification of this dam. The dam capacity must be increased to comply with safety design standards.

*Shooting Range Access Improvement.* The Executive recommends \$200,000 from the Capital Improvement Fund to resurface selected roadways to the Ben Avery Shooting Range Facility.

*Facilities Improvement Projects.* The Executive Recommendation includes \$151,000 from the Game and Fish Fund for the improvement and restoration of various statewide facilities.

*Migratory Waterfowl Habitat.* The Recommendation includes \$100,000 from the Waterfowl Conservation Fund as matching grants for the acquisition and preservation of waterfowl habitat.

**ADOA BUILDING SYSTEM BUILDING RENEWAL**

The Executive Recommendation provides \$16,792,500 for Building Renewal, including \$10,037,500 from the General Fund and \$4.8 million from the Capital Outlay Stabilization Fund for the Arizona Department of Administration (ADOA), \$1,508,400 from the Exposition and State Fair Fund, \$393,000 from the Game and Fish Fund, and \$53,600 from the State Lottery fund.

Pursuant to Laws 1986, Chapter 85, appropriations for Building Renewal in Arizona are based on a formula approved by the Joint Committee on Capital Review. The formula takes into account a building’s replacement value, age and life cycle. The formula does not consider deferred maintenance resulting from less than 100% funding in prior years.

The ADOA Building System historically has been funded through a combination of the General Fund and the Capital Outlay Stabilization Fund (COSF), which consists of rent payments on about 30 State-owned buildings. Since funding is dependent on legislative appropriation, it must compete for funding during each budget cycle.

The State has not fully funded the formula in recent years, and deferred maintenance costs have risen to approximately \$119 million for the ADOA Building System. The Executive recommended level for FY 2007 is the highest dollar amount since FY 1999 and is dedicated to be at 61.2% of the formula funding.

**GENERAL FUND**

The Executive Recommendation provides \$10,037,500 to enable ADOA to address its highest priorities in major maintenance and repair of State-owned buildings. Since funding for Building Renewal is dependent on appropriation from the Legislature, it must compete for funding during each budget cycle. No General Fund monies have been approved for Building Renewal since FY 2000. Analysis and review of the State’s buildings indicate that conditions are deteriorating and costs to maintain them continue to increase. While the General Fund recommendation is only at 39.4% of the formula funding, it is directed at meeting a variety of deferred maintenance and deficiencies that have become a high priority. Absence of adequate funding for Building Renewal has created threats to building reliability and safety. The list below depicts the most critically known areas of attention within the ADOA Building System.

**CAPITAL OUTLAY STABILIZATION FUND (COSF)**

The Executive recommends \$4.8 million in COSF monies for Building Renewal. This funding level is at 18.9% of formula funding but is 41.2% higher than, or \$1.4 million above, the FY 2006 appropriation.

The COSF consists of rents paid from approximately 30 buildings within the ADOA system; however, there are 2,876 facilities within the System that are supported by Building Renewal monies. Since not all buildings make rent payments into the COSF, the Fund is unable to support Building Renewal needs for the entire ADOA Building System. Unless an alternative funding source can be identified, the General Fund should provide support to maintain and preserve the State’s assets. The COSF continues to be strained because, statutorily, it is used to fund utilities, preventive maintenance and a portion of ADOA’s operating budget.

**OTHER FUNDS**

The Executive Recommendation includes \$1,955,000 for Building Renewal, reflecting 100% formula funding for each agency within the ADOA Building System that has its own funding source. The funding includes \$1,508,400 from the Ex-position and State Fair Fund, \$393,000 from the Game and Fish Fund, and \$53,600 from the State Lottery Fund.

PROJECT / AGENCY	General Fund	COSF
<b>Department of Administration</b>		
Replace Revenue Building fire alarm system	\$830,500	
Renovate old State Health Lab - Phoenix		\$3,300,000
Replace chillers, cooling tower - Phoenix	500,000	
Replace chillers, cooling towers - Tucson	1,000,000	
Replace carpet - Tucson <sup>1</sup>		120,000
Replace carpet, Sun States Bldg. - Phoenix		200,000
Replace carpet and stair treads - State Capitol		50,000
Replace Doubletree office building roofs	175,000	
Replace Evans House roof	30,000	
Phase II cooling tower rehabilitation - Courts	365,000	
Construction Planning and Management	425,000	
<b>Adult Correctional Facilities</b>		
Replace water tank - Florence	1,000,000	
Replace fire alarm systems – four locations <sup>2</sup>	2,171,000	
Replace gas lines - Perryville	856,000	
<b>Youth Correctional Facilities</b>		
Replace housing HVAC, Black Canyon	800,000	
Sally-port gates - three locations <sup>3</sup>	325,000	
<b>Public Safety Department</b>		
Replace headquarters fire alarm	50,000	
Replace HVAC units - 14 locations	50,000	
Replace district/area office roofs	190,000	
Replace flooring, telecom, 11 offices	60,000	
<b>Schools for the Deaf and the Blind</b>		
Renovate Phoenix Day School cafeteria	595,000	
Replace building locks		63,000
Renovate Maricopa dorm		500,000
Renovate Kachina classroom		400,000
<b>Department of Economic Security</b>		
Renovate sewage treatment plant <sup>4</sup>	615,000	
Replace HVAC systems - 2 locations <sup>5</sup>		130,000
Renovate water well – ATP-Coolidge		37,000
<b>TOTAL RECOMMENDATION</b>	<b>10,037,500</b>	<b>4,800,000</b>

**ADOT BUILDING SYSTEM  
NEW CONSTRUCTION**

The Executive recommends \$12,543,800 to the Department of Transportation for new capital improvement projects. The amount includes \$9,343,800 from the State Highway Fund and \$3.2 million from the State Aviation Fund. For Building Renewal, the Executive recommendation provides \$4,719,100 or 65.6% of the formula funding. Included in the recommendation

<sup>1</sup> 402-416 W. Congress

<sup>2</sup> Eyeman, Yuma, Tucson, Douglas

<sup>3</sup> Adobe Mountain, Southwest Regional Juvenile Corrections Center, and Black Canyon

<sup>4</sup> ATP-Coolidge

<sup>5</sup> ATP-Tucson and ATP-Coolidge

is \$4,590,400 from the State Highway Fund and \$128,700 from the State Aviation Fund.

**STATE HIGHWAY FUND**

*Surprise Customer Services Center.* The Executive recommends \$3,296,900 to acquire land and to design a 14,500-square-foot MVD service center in Surprise. The current MVD customer is inadequate and cannot accommodate the business volume from the area’s growing population. The Department needs to expand capacity to meet the area’s service needs and comply with business and public safety standards.

*Vehicle Wash System, Statewide Program.* The Executive recommends \$1,925,000 to install vehicle wash systems that meet EPA and ADEQ regulations regarding controlled water distribution.

*Demolition of Abandoned Building and Structures.* The Recommendation provides \$208,000 for demolition for several old buildings that have been abandoned at highway maintenance yards. The age of these structures range from 20 years to 73 years.

*De-Icing Materials Storage Buildings.* The Executive recommends \$1,478,000 to build storage facilities to house bulk sand, cinders and materials used during the winter months for highway de-icing operations. Some of these materials are being stored outside, where exposure to moisture and freezing temperatures makes their use difficult.

*Marana MVD Customer Center.* The Recommendation provides \$2,335,900 to acquire land and to design a 14,500-square-foot regional customer service facility to expand capacity and meet business and public demands for motor vehicle services in the area north of Tucson.

*ADOT Business Headquarters.* The Recommendation includes \$100,000 to prepare specifications for a new administrative building on the current Phoenix site between 17th and 18th Avenues and between Madison Street and the railroad tracks. The current ADOT administrative complex is comprised of five buildings whose average age is nearly 53 years. The existing structure poses safety and health concerns.

**Highway Construction.** The Executive Recommendation includes \$364.2 million from the State Highway Fund for highway construction and debt service. In accordance with statutes, the actual expenditures levels are determined within the scope of the Five Year Highway Construction Program as approved by the State Transportation Board.

*Controlled Access Highways.* The Executive recommends \$103.4 million from the distribution formula for dedicated

**FY 2007 Highway Construction Program Costs**

Construction <sup>1</sup> .....	\$ 114,900
Pavement Preservation Maintenance .....	116,200
Other <sup>2</sup> .....	184,800
MAG Regional Program <sup>3</sup> .....	610,700
Debt Service <sup>4</sup> .....	220,200
<b>Total</b> .....	<b>\$ 1,246,800</b>

<sup>1</sup> Includes corridor improvements, major capacity/operational spot improvements, minor capacity/operational spot improvement, and roadside facilities improvements.

<sup>2</sup> Includes bridge preservation, operational facilities, public transit, roadside facilities, safety program, development support, operational support and program contingencies

<sup>3</sup> Includes \$33,000 for remaining costs for MAG 2007 Acceleration Program and \$577,700 for Proposition 400, MAG Regional Plan – Phase I.

<sup>4</sup> Includes \$65,805,000 for HURF statewide construction bonds; \$58,805,000 for HURF, Maricopa and Pima Associations of Governments (MAG and PAG) controlled access facilities bonds; \$31,396,000 for Maricopa Regional Area Road Fund bonds; and \$64,243,000 for Grant Anticipation Notes

highway revenues for the construction of urban freeways. The current allocation provides 75% to the Maricopa Association of Governments (MAG) and 25% to the Pima County Association of Governments (PAG).

*Debt Service.* The Executive recommends \$65.8 million from the State Highway Fund for the appropriated portion of the debt service on bonds in FY 2007. The Legislature has authorized the Department to issue bonds against the Highway User Revenue Fund (HURF). These bond payments are the sole obligation and enforceable only from the HURF.

**STATE AVIATION FUND**

*Employee Housing at Grand Canyon Airport.* The Executive recommends \$3.2 million to construct new homes for the Department’s employees at the Grand Canyon Airport and replace their existing mobile homes with permanent structures.

*Airport Planning and Development.* The Executive Recommendation provides \$20,465,100 from the State Aviation Fund for development and improvement of State, county and municipal airports as approved by the State Transportation Board. The Recommendation also supports appropriating to the Department all monies in the State Aviation Fund that are in excess of amounts determined in the General Appropriation Act and the Capital Outlay Act for airport planning and development. Monies in the State Aviation Fund consist of receipts from a flight property tax, aircraft lieu tax, and revenues from the operations of Grand Canyon Airport. •

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