

SUMMARY

The Executive Budget

FISCAL YEAR 2013

Janice K. Brewer

GOVERNOR



JANUARY 2012

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State of Arizona

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January 2012

To the Honorable Members of the 50th Arizona Legislature:

As we begin this, Arizona's Centennial year, we have much to celebrate. First and foremost, the engine of commerce that powers our economy and fills State coffers is once again in motion. That said, we in State government must be mindful not to repeat the mistakes of the past, when economic recovery and fiscal exuberance too often went hand-in-hand - leading to unwise and unsustainable expenditures.

With that in mind, it's worth remembering how far the state has come since the recession began. Three years ago, Arizona confronted the most dire budget situation of any state in the nation. Our shortfall numbered in the billions of dollars, and elected officials - you and I - faced decisions that were heart-rending but necessary as we struggled to right this ship of state. Like all Arizonans, we have been severely tested by this recession, but I firmly believe the worst is behind us.

The good news? Today, I present to you a budget that is balanced, fiscally conservative and smart. This is a plan that furthers the financial blueprint I've followed since taking office in 2009. We will keep state government lean, knowing that the most effective government is one that focuses upon core functions and does them well. We will pay down debt, mindful not to allow past decisions of necessity to become an anchor against future prosperity. And we will use surplus dollars sparingly but smartly, directing limited funding to boost economic development, improve Arizona's competitive position and repair the most critical services for Arizonans in need.

This is a time of opportunity. We must take advantage - not by squandering temporary funds, restoring old programs or expanding the reach of state government. Rather, we can prudently modernize state infrastructure long in need, begin retiring debt accumulated to bridge the fiscal crisis and reserve funds in case of future budget troubles. I have structured my budget recommendation according to the following four principles:

1. Short-term decisions must be evaluated in light of their impact on the State's long-term fiscal health.
2. Funding for a program will not be restored simply because funding has been provided in the past.

3. Spending decisions must respect the wishes of citizens who, in voting for Proposition 100, recognized the importance of funding for education, health care and public safety.
4. Temporary resources will be used to improve the State's long-term position.

Consistent with the fourth principle, most of the funding recommendations in this proposal are confined to the next fiscal year and address the most glaring needs with respect to State infrastructure or debt. Further, the Executive Recommendation includes several needed reforms that update our statutes and modernize State operations. Some examples include:

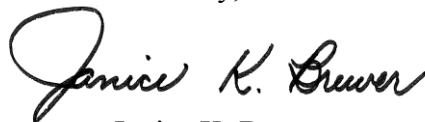
- paying down long-term debt;
- retiring a portion of the K-12 rollover and addressing soft capital needs;
- reforming our system of hiring, promoting, managing, terminating and compensating State employees;
- modernizing and updating the State's information technology infrastructure;
- reforming the funding of school construction; and
- expanding prison capacity.

Every proposal for ongoing funding relates to an existing program or mandate within the State's core functions. The Executive Budget Recommendation does not expand the size or scope of State Government.

We may take heart in having successfully navigated the State of Arizona's worst fiscal downturn in memory. However, risks remain. The national and global economies are uncertain. Federal health reform, if implemented, will impact our state budget beginning in FY 2014. Lastly, the federal government appears on the cusp of finally addressing its own fiscal crisis, with unclear ramifications for state finances.

As these and other events unfold, Arizona must be prepared. Consistent with that approach, my budget recommendation leaves significant cash balances at the end of both FY 2013 and FY 2014. By budgeting wisely and using our one-time surplus prudently, we can leave the State of Arizona better positioned and prepared for the future - whatever it brings.

Sincerely,



Janice K. Brewer
Governor

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ACKNOWLEDGEMENT



Budget Plan Summary for FY 2013

The Executive Recommendation improves infrastructure, attacks structural balance sheet weaknesses, and modernizes how the State does business

THE STATE'S BALANCED BUDGET at the end of Fiscal Year 2011, as well as the projected ending balances for FY 2012 and 2013, while driven by economic expansion, were achieved only after a series of necessary, one-time fiscal solutions, a temporary boost in sales taxes, and a temporary reduction in Medicaid spending.

The devastating recession, combined with federally required budget restrictions, eliminated any possibility of providing State government's core functions without these solutions. Notwithstanding the efficacy of employing temporary budget steps, the one-time solutions have left the State's balance sheet in tatters. The temporary nature of the revenue boost and the real threat of federal healthcare reform create both a funding cliff and an expenditure cliff that the State will have to resolve in FYs 2014 and 2015.

The Executive Recommendation recognizes the improved position of the State's budget as well as future risks and demands. To prepare, the Recommendation makes key improvements to the State's infrastructure, attacks structural weaknesses on the State's balance sheet, and modernizes how the State does business. The majority of recommended spending is one-time in nature, with permanent spending growth of 4.9% in FY 2013 and 2.4% in FY 2014. This conservative approach addresses key structural risks and preserves cash balances that will be needed to address future cliffs and risks.

The outline that follows summarizes major General Fund components of the Executive Recommendation. The Executive statement of Sources and Uses of Funds and a detailed discussion of the issues summarized below follow this section.

FY 2012 BUDGET RECOMMENDATIONS

THE FY 2012 EXECUTIVE RECOMMENDATION begins the process of addressing one-time budget steps and providing funds for major infrastructure needs for the School Facilities Board and the State's information technology.

FY 2013 BUDGET RECOMMENDATIONS

CONSISTENT WITH FY 2012, the FY 2013 Executive Recommendation addresses one-time budget steps and provides resources for the core programs of State government.

Good Government. The Executive Recommendation provides funding for several critical IT projects including replacement of the State's accounting system. The Recommendation also addresses K-12 soft capital needs, rollover repayment and tourism funding. Finally, the Executive recommends modernizing the State's personnel system in conjunction with a modest State employee compensation package.

Public Safety. Under public safety, the Executive Recommendation addresses capital needs at the Department of Corrections (building an additional 2,500 beds) and the Department of Public Safety (accelerating the replacement of high-mile Highway Patrol vehicles). The Recommendation also expands the correctional officer force to address safety concerns and provides DPS operating dollars to cover increased retirement costs.

Education. The Executive continues to reform State education funding by recommending several K-12 and higher education funding changes.

For K-12, the Executive recommends changing K-8 Group A weights to address third grade reading standards, changing the charter school statutes to clarify the role of the district-sponsored charter school, and overhauling the School Facilities Board statutes.

For higher education, the Executive Recommendation implements performance funding for the Universities and calls for a review of the Community College funding formulas to move the colleges toward a performance-based system. The Recommendation also establishes a community college scholarship program and funding to revamp university education delivery.

Health and Welfare. Future Medicaid expansion continues to be the major concern for the State's health and welfare programs. The Executive Recommendation explores these costs as potential risks contingent on court and congressional action over the next two years.

The Executive does recommend a Medicaid provider rate adjustment, and, outside of Medicaid, the Executive Recommendation addresses behavioral health and Child Protective Services issues.

MAJOR RECOMMENDATIONS

FY 2012

Debt Reduction	\$106 million
SFB Building Renewal.....	\$100 million
Midnight Reversion Retirement	\$41 million
AFIS Replacement	\$10 million
DHS State Hospital.....	\$2.5 million
AG Tobacco Litigation	\$1.4 million
PROJECTED ENDING BALANCE:	\$392 million

FY 2013

MODERNIZING GOVERNMENT

AFIS Replacement/IT Modernization	\$95 million
Rollover repayment/Soft Capital	\$200 million
Tourism.....	\$7 million
Pay Package.....	\$53.7 million
HITF Reduction.....	(\$21.8) million
DOR Systems Refurbishment.....	\$7.1 million

PUBLIC SAFETY

DOC Maximum Beds	\$50 million
DOC New Officers.....	\$9.3 million
DJC Close Catalina Mountain.....	(\$3.8) million
DPS Retirement Adjustment	\$9.2 million
DPS Highway Patrol Vehicles.....	\$2.8 million

EDUCATION

K-12 CORL.....	\$40 million
EduJobs Backfill	\$35 million
K-12 Adult Education	\$4.6 million
K-12 Move on When Reading	\$50 million
Classroom Safety	\$0.7 million
University Performance Funding	\$15 million
University Classroom Redesign	\$15.3 million
Community Colleges SMART Scholarships.....	\$10 million

HEALTH AND WELFARE

Behavioral Health	\$38.7 million
Attorney General Tobacco Litigation.....	\$1.2 million
Medicaid 3% Provider Rate Increases.....	\$27.8 million

Child Protective Services.....	\$3.7 million
State Hospital.....	\$7 million

NATURAL RESOURCES

Land Department to General Fund.....	\$11.4 million
Apache Water Settlement.....	\$2 million
Forester	\$1 million

FY 2013 PROJECTED ENDING BALANCE..... \$588 million

FY 2014 PROJECTED ENDING BALANCE..... \$329.6 million

SOURCES AND USES OF FUNDS

THE GENERAL FUND SOURCES AND USES OF FUNDS statement that follows this section summarizes the Executive Recommendation in tabular form. The Statement presents the following:

- The “FY 2011 Actual” column reflects actual revenues and expenditures for FY 2011 taken from the State’s Accounting and Financial Information System.
- The “FY 2012 Baseline” column reflects the Executive’s FY 2012 revenue and expenditure projections based on updated caseload forecasts.
- The “FY 2012 Executive Recommendation” and “FY 2013 Executive Recommendation” columns reflect the Executive’s revenue projections and recommendation.
- The “FY 2014 Executive Baseline” column reflects the Executive’s calculation of the State’s fiscal situation in FY 2014 based on the FY 2013 Recommendation.

IMPACT ON LOCAL GOVERNMENTS

THE EXECUTIVE RECOMMENDATION ELIMINATES the \$38.6 million county transfer in FY 2013 and assumes it is not in place for FY 2014.

OUTCOMES

THE EXECUTIVE RECOMMENDATION PROVIDES total General Fund expenditure levels of \$9 billion in FY 2013 and \$8.9 billion in FY 2014. •

STATEMENT OF STATE GENERAL FUND SOURCES AND USES

Dollars in Thousands

	FY 2011 Actual	FY 2012 Baseline	FY 2012 Executive Recommendation	FY 2013 Executive Recommendation	FY 2014 Executive Baseline
SOURCES OF FUNDS					
Balance Forward	(5,723.0)	3,243.0	3,243.0	392,017.5	587,960.2
Base Revenues	7,723,728.9	8,058,154.2	8,058,154.2	8,531,731.2	9,052,818.8
<i>Urban Revenue Sharing</i>	(474,006.5)	(424,423.4)	(424,423.4)	(513,584.0)	(549,075.0)
Adjusted Base Revenues	7,249,722.3	7,633,730.8	7,633,730.8	8,018,147.2	8,503,743.8
Temporary One Cent Sales Tax	835,801.3	911,846.4	911,846.4	974,301.6	
Enacted Budget Fund Transfers	260,425.9	246,074.6	242,008.7	124,354.1	114,354.1
SFB QSCB Federal Interest Subsidy		6,213.8	6,213.8	4,438.4	4,438.4
Phoenix Convention Center		15,000.0	15,000.0		
MVD Funding Shift Savings		38,614.6	38,614.6	38,614.6	38,614.6
DPS HURF Increase		23,588.5	23,588.5	23,588.5	23,588.5
County Transfers	34,600.0	38,600.0	38,600.0		
Commerce Authority		(6,700.0)	(6,700.0)	(24,200.0)	(20,600.0)
Tax Recovery Program		12,867.4	12,867.4		
Other Revenues		(6,009.1)	(6,009.1)		
TOTAL SOURCES OF FUNDS	8,374,826.5	8,917,069.9	8,913,004.0	9,551,262.0	9,252,099.6
USES OF FUNDS					
Agency Operating Budgets	8,320,518.9	8,170,471.0	8,285,113.1	8,877,706.5	8,882,213.1
Additional Pay Period		79,000.0	79,000.0		
Total Operating Budget					
Prior-Year Continuing Appropriations Expenditures		40,759.7	40,759.7		
2010 Lease Purchase Debt Service	52,066.9	49,050.7	49,050.7	84,119.7	84,119.6
Capital	4,000.0			50,000.0	
Debt Reduction			106,000.0		
Administrative Adjustments	82,044.1	69,090.2	69,090.2	66,885.7	71,669.7
Reversions	(94,294.2)	(106,216.1)	(107,706.5)	(115,410.2)	(115,468.8)
Net Midnight Reversion	6,948.0				
Other Expenditures	299.8	(320.7)	(320.7)		
TOTAL USES OF FUNDS	8,371,583.4	8,301,834.8	8,520,986.5	8,963,301.7	8,922,533.7
ENDING BALANCE	3,243.0	615,235.2	392,017.5	587,960.2	329,565.9

STATEMENT OF GENERAL FUND SOURCES AND USES
Showing One-Time Sources & Uses Items

	FY 2012 Executive Recommendation	FY 2013 Executive Recommendation	FY 2014 Executive Baseline
REVENUES			
Ongoing Revenues	8,058,154.2	8,531,731.2	9,052,818.8
Urban Revenue Sharing	(424,423.4)	(513,584.0)	(549,075.0)
MVD Funding Shift Savings	38,614.6	38,614.6	38,614.6
DPS HURF Increase	23,588.5	23,588.5	23,588.5
Jobs Impact Net Commerce Authority Exp.	(6,700.0)	(24,200.0)	(20,600.0)
SFB QSCB Federal Interest Subsidy	6,213.8	4,438.4	4,438.4
Fund Transfers - FRATS	99,631.9	85,576.0	85,576.0
Other Revenues	(6,009.1)	0.0	0.0
Net Ongoing Revenues	7,789,070.4	8,146,164.7	8,635,361.3
One-Time Financing Sources			
Balance Forward	3,243.0	392,017.5	587,960.2
Temporary One Cent Sales Tax	911,846.4	974,301.6	0.0
County Transfers	38,600.0	0.0	0.0
Phoenix Convention Center	15,000.0	0.0	0.0
Tax Recovery Program	12,867.4	0.0	0.0
Funds Transfers - EBTs	142,376.8	38,778.1	28,778.1
Subtotal One-Time Revenues	1,123,933.6	1,405,097.2	616,738.3
TOTAL REVENUES	8,913,004.0	9,551,262.0	9,252,099.6
EXPENDITURES			
Agency Operating Budgets	8,175,113.1	8,674,643.4	8,877,097.6
2010 Lease Purchase Debt Service	49,050.7	84,119.7	84,119.6
Administrative Adjustments	69,090.2	66,885.7	71,669.7
Revertments	(107,706.5)	(115,410.2)	(115,468.8)
Subtotal Ongoing Expenditures	8,185,547.6	8,710,238.6	8,917,418.2
One-Time Expenditures			
Additional Pay Period	79,000.0		
Prior-Year Continuing Approps Expenditures	40,759.7		
Debt Reduction	106,000.0		
SFB Building Renewal	100,000.0		
AFIS Replacement/ IT Modernization	10,000.0	95,000.0	2,000.0
BRITS Refresh		7,139.2	3,115.5
K-12 Soft Capital		100,000.0	
AHCCCS Tech		923.9	
Capital- DOC New Max Beds		50,000.0	
Other Expenditures	(320.7)		
Subtotal One-Time Expenditures	335,439.0	253,063.1	5,115.5
TOTAL EXPENDITURES	8,520,986.5	8,963,301.7	8,922,533.7
ENDING BALANCE	392,017.5	587,960.2	329,565.9
STRUCTURAL SHORTFALL	(396,477.1)	(564,073.9)	(282,056.9)



Post-Recession Renewal Initiatives

The Executive Recommendation launches the overdue State modernization with a handful of one-time and long-term investments for FY 2013

TO BALANCE THE GENERAL FUND BUDGET during the initial years of the recent economic downturn, the State of Arizona implemented over \$9 billion in temporary solutions, one-time “fixes,” and deferrals of critical spending. A number of the budget-balancing measures represent long-term fiscal burdens on State Government and/or impair the ability of State agencies to carry out their essential missions.

While the State cannot, in one year, recover from a prolonged period of sacrifices laid at the altar of the balanced budget, the Executive Recommendation does begin the renewal process through a series of fiscally responsible initiatives.

PERSONNEL REFORM

FISCAL RESPONSIBILITY AND THE DEMANDS of long-term planning require State Government to address critical challenges pertaining to how State employees are hired and managed.

The State’s merit system, which covers approximately 25,000 employees, rewards longevity and, historically, has served a valuable function in ensuring that State workers are hired and promoted based on their ability to perform a job, rather than as a result of patronage or other considerations.

However, hiring and managing employees pursuant to the merit system is a complex and, in many instances, counterproductive process that:

- distracts managers and supervisors from more productive functions that benefit the public,
- limits the State’s ability to reward top performers, and
- makes it very difficult to appropriately discipline or terminate employees.

As a vital part of modernizing State government, the Executive recommends personnel reform in five major areas:

1. Consolidate the nine Executive personnel systems into one system, to achieve greater consistency and efficiency.



HIGHLIGHTS

- Personnel reform will enhance the State’s efforts to attract and retain high-quality employees
- Employees who meet specific criteria will qualify for a 5% pay increase
- Technology improvements include replacing AFIS, refreshing BRITS and improving computer security
- K-12 soft capital funding includes \$100 million for rollover repayment
- Funding for the Office of Tourism that will help the State seize opportunities associated with increased tourism activity
- The Midnight Reversion is retired
- The Capitol Building, Executive Tower and both Legislative chambers are repurchased

2. Begin shifting the State’s workforce away from the current merit system, to give managers more flexibility to reward top performers.
3. Improve workforce management by updating rules and regulations to focus more on measuring, fostering and rewarding employee performance.
4. Restructure the grievance and appeal system to enable supervisors to more effectively manage their employees and address issues of inadequate performance.
5. Modify the State’s classification system, compensation systems and hiring processes to enhance the

State's efforts to attract and retain high-performing employees.

While these reforms have been outlined above largely from the employer's perspective, they also hold significant benefits for State employees, particularly with respect to expanding opportunities to be rewarded for high performance. Most important, these reforms will benefit all Arizonans by enabling the State to function more effectively and efficiently in serving the people of Arizona.

EMPLOYEE PAY INCREASE

RELATIVELY LOW WAGES are another challenge facing the State in its efforts to attract and retain highly qualified employees.

The last statewide pay increase, in FY 2008, brought total State employee compensation to an average of 7.1% below market. Since that time, employee pay has been cut by 2.75%, retirement contributions have consumed another 1.8% of pay, and health insurance costs have increased considerably. While the State still provides its employees with competitive benefits, the State's total compensation package is now estimated to be 13.6% below market.

This large wage disparity poses a particular challenge due to the fact that 30% of the State's workforce is expected to be eligible for retirement within the next five years. In order to attract and retain the highly qualified employees who will ultimately move State Government forward, employee compensation must be addressed.

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

- uncovered non-university employees,
- employees uncovered by personnel reform,
- employees who voluntarily elect to leave the merit system, and
- employees required to remain covered (e.g., full authority peace officers and certain correctional officers).

The Executive also recommends supervisors be empowered to give future raises based on employee merit.

Funding. The total General Fund cost of the employee pay increase is \$53.7 million. The Executive recommends that funding for the increase come primarily from the Health Insurance Trust Fund (HITF), which has developed a substantial fund balance due to lower-than-expected claims costs. This funding would come in two forms:

- a \$26.8 million fund transfer to offset the General Fund cost of the pay increase for the first half of the year, and
- a 13.2% rate reduction in employer-paid health insurance premiums for the plan year beginning January 1, 2013. This would reduce General Fund health insur-

ance costs by \$21.8 million in FY 2013, bringing the net pay increase cost to \$5.1 million.

The rate reduction would also help decrease the impact of the employee pay increase on other funds by reducing health insurance costs \$13.3 million. To further reduce the impact on other funds, the Executive also recommends eliminating \$23.1 million in fund transfers, including \$8.9 million of Vehicle License Tax monies. The net impact of these recommendations is summarized in the table below.

Cost of 5% Pay Increase

	General Fund	Other Funds	Total
Pay Increase	\$53.7	\$54.7	\$108.4
HITF Transfer to General Fund	(26.8)	0.0	(26.8)
HITF Rate Reduction	(21.8)	(13.3) ¹	(35.0)
Transfer Reductions	23.1	(23.1)	0.0
Net FY 2013 Cost	\$28.2	\$18.5	\$46.6

DATA MANAGEMENT

TECHNOLOGICAL ADVANCES, SECURITY THREATS and aging computer systems combine to pose new challenges and opportunities to which State Government must respond if State agencies are to continue to function at acceptable levels.

AFIS Replacement and IT Modernization. The Arizona Financial Information System (AFIS), the computer system upon which virtually all of State Government depends, is at end-of-life. Replacing it is critical both to protecting the State against the serious risk of system failure and to modernizing government to serve the citizens of Arizona with greater accountability, transparency and efficiency.

Because AFIS is obsolete, few programmers are familiar with the language in which it is programmed, and the State has only one experienced programmer to address system issues that are arising more and more frequently. Also because of its age, AFIS is unable to provide certain reports and interfaces that would prove valuable in properly managing State agencies. Even determining a simple cash balance in AFIS can be difficult, because system limitations truncate any numbers of \$100 million or more, omitting the higher end of the number by default.

Additional investments are needed to maintain the State Data Center and better manage the State's critical IT (information technology) resources. To fund these projects, the Executive recommends increased appropriations for each of the Department of Administration's IT funds as well as General Fund appropriations of \$10 million in FY 2012 and \$95 million in FY 2013 to be deposited into a new Information Technology Modernization Fund.

Tax Processing. The State's centralized tax system, commonly known as BRITS (Business Re-engineering/ Inte-

¹ Excludes other university funds

grated Tax System), processes the tax revenues that sustain the operations of State Government.

BRITS, which was initially deployed in 2002 and completed in 2007 at a cost of \$152 million, requires an update and some maintenance. The system operates on outdated hardware that is vulnerable to failure, and the operating system and essential software applications are no longer supported by conventional third-party resources. Further, it is the Executive's position that the vendor failed to build the system with the capacity to handle the transaction volumes currently demanded of it or to design the system with the ability to react in a timely manner to changes in tax law.

The Executive recommends replacing the vulnerable hardware and updating outdated software that is critical to the processing of State tax revenues. At a cost of \$7.1 million in FY 2013, refreshing the current system will extend its life through the next five to ten years, increase its capacity in preparation for tax season, reduce the risk of failure of critical system components, and limit delays in the capture of revenue.

Computer Security. A recent series of hacking attacks, including one against the Department of Public Safety's computer systems, has highlighted the State's IT vulnerability. Given the vast quantity of personal data contained in its databases, AHCCCS faces a particularly significant liability.

The Executive recommends \$1.86 million – \$923,900 from the General Fund and \$935,500 from other funds, to (a) provide a Security Monitoring, Analysis and Response System to centralize, detect, mitigate and report on priority threats and (b) purchase and deploy improved encryption technologies. Ongoing General Fund costs in FY 2014 and beyond are expected to be \$106,800 for software licensing and maintenance.

ROLLOVER REPAYMENT

ANOTHER ONE-TIME BUDGET-BALANCING MEASURE that must be resolved is the "rollover" mechanism that deferred approximately \$1.3 billion in payments from one fiscal year to the next. The lion's share of the rolled-over amount – \$952 million – was for funding of K-12 education.

It is important to note that implementing the K-12 rollover did not curtail local school district spending authority. Districts were able to spend the same amount of money as though they were funded in the current fiscal year, provided they could find alternative sources of funds. Some districts borrowed funds, and others were able to use cash balances. While the Executive is committed to retiring the rollover, in some cases repayment would simply restock school district cash balances.

As an alternative, the Executive recommends distributing \$100 million per year to school districts for rollover repayment. However, the funds will be distributed outside of the K-12 funding formula, and districts will be able to use the funds for either rollover backfill or soft capital pur-

chases. For FY 2013, this \$100 million will be part of the \$200 million soft capital recommendation outlined in the K-12 section of the budget.

TOURISM

DOMESTIC AND INTERNATIONAL TOURISM is on the upswing, in contrast to recent years, when America's recession severely dampened discretionary travel. To take advantage of this opportunity, many states that compete with Arizona for tourism dollars are increasing their tourism budgets.

To help Arizona's tourism and hospitality industries in both the urban and rural areas capitalize on this positive trend, the Executive recommends depositing \$7 million from the General Fund into the Tourism Fund for marketing Arizona as a premier tourist destination. The Executive also recommends that the tourism funding formula be eliminated in lieu of appropriations to the Tourism Fund.

This investment will fund new programs such as:

- a privately matched national marketing campaign;
- an initiative to capture emerging visitor markets such as China, South Korea and Brazil; and
- a rural Arizona cooperative advertising program designed to encourage visitors to travel throughout rural Arizona.

The FY 2011 budget (Laws 2010, 7th Special Session, Chapter 12) eliminated the tourism formula and, in its place, allowed the Office of Tourism (AOT) to use up to 50% of the revenues from Maricopa County hotel taxes and rental car surcharges for AOT operational costs. (Previously, 100% of the aforementioned revenues were distributed to tourism-related organizations in Maricopa County.)

Legislative action on this issue is vital. In Laws 2010, Chapter 128, the Legislature restricted AOT's operational use of the Maricopa County funds to FY 2011 and FY 2012. Consequently, without new funding or a statutory change, AOT will not be funded in FY 2013, violating the State's gaming compact and severely limiting Arizona's ability to capture its historic share of the rebounding tourism market.

REPURCHASE OF CAPITOL BUILDINGS

IN FY 2010, BUDGET PRESSURES led to the sale and lease-back of several State buildings, generating nearly \$1 billion that was used to cover operating expenses. The terms of those transactions require the State of Arizona, for the next 20 years, to pay rent on those buildings, which include the historic State Capitol.

The State's more favorable fiscal position allows the Executive Recommendation to include \$106 million to repurchase the State Capitol buildings, which includes the original Capitol Building, the Executive Tower and the House of Representatives and Senate buildings. These funds should be provided as soon as possible – outside of the

budget if necessary – so that the Arizona Centennial can be properly celebrated in an unencumbered Capitol.

RETIRING THE MIDNIGHT REVERSION

IN FY 2009, THE STATE IMPLEMENTED an accounting measure that required all non-reverting funds to revert to the General Fund at the end of the fiscal year. Those funds were used to close out the current fiscal year and then immediately re-appropriated in the next fiscal year. The result was a one-time benefit of \$54.9 million.

The Executive recommends retiring this mechanism in FY 2012. The estimated fiscal impact is approximately \$41 million.

STRATEGIC PLANNING

IN LIGHT OF THE EXTENSIVE CHANGES that have occurred in State Government during the past three years, it is crucial for State agencies to focus on providing the programs and services most critical for Arizona citizens.

Thorough and committed strategic planning is vital to ensuring that limited resources are used as efficiently and

effectively as possible, as State government continues to pursue even greater improvements. Each agency should develop a Five-Year Strategic Plan, including the agency's strategic issues, mission statement, description, goals, strategies, and resource assumptions.

Current law requires Five-Year Strategic Plans only of annual budget units. The Executive recommends changing the law to apply that requirement to all Executive agencies.

CONCLUSION

THE FISCALLY RESPONSIBLE INITIATIVES described above collectively represent an important first step toward achieving two vital objectives in moving the State of Arizona forward during still-challenging economic times:

- modernizing and protecting the State's technological assets where necessary and prudent, and
- correcting some of the prior years' budget-balancing decisions that, while necessary, are impediments to reaching the standards of effective government that the people of Arizona expect. •



Preserving the Safety of Law-Abiding Arizonans

The Executive Recommendation reflects carefully selected spending priorities in meeting the State's needs in law enforcement, adult corrections and juvenile detention

PUBLIC SAFETY IS A CORE FUNCTION and a fundamental responsibility of State Government. Consistent with the Executive's guiding principles in developing the FY 2013 Executive Recommendation, prudent expenditures are proposed to respond to the changing nature of Arizona's prison population, the aging Highway Patrol vehicle fleet, backlogs in forensic investigation, and opportunities for more effective and consistent rehabilitation of juvenile offenders, all in the interests of increasing the security of Arizona's citizens.

ADULT CORRECTIONS

IN OCTOBER 2009, ARIZONA'S ADULT PRISON POPULATION peaked at 40,766 inmates. During the subsequent two years, that population has declined by an average of 25.5 inmates per month, to a total of 40,154 on October 31, 2011. As shown in the graph on the next page, for Fiscal Years 2012 and 2013 the Department of Corrections (DOC) projects zero growth in the adult prison population.

Despite the unusual decline in the size of the inmate population, in October 2011 the total population still exceeded the prison system's rated capacity (37,159 beds) by 2,995 inmates. To house the surplus inmate population, over the years DOC has created 5,284 temporary beds by using bunk beds and utilizing unorthodox areas of the prisons (e.g., barber shops, day rooms and libraries). The temporary beds also serve as emergency space for the safe operations of a prison.

Since the end of FY 2001, the number of makeshift temporary beds has increased significantly, from 2,096 to the current 5,284. As the number of temporary beds has increased, the relative safety of the more recently created temporary beds has decreased.

Growth of Subgroups. The decline in the overall prison population is deceiving, as some of the more challenging segments of the prison population are experiencing significant growth:

- The *maximum-custody population* has grown by an average of 12 inmates per month over the past two



HIGHLIGHTS

- 2,500 new prison beds accommodate growth in the most challenging segments of the inmate population
- The addition of 153 correctional officers in each of the next two fiscal years addresses dangerous security gaps
- Funding is provided for 126 Highway Patrol vehicles in FY 2013, and a new replacement standard is recommended

years. If that rate continues as expected, by March 2013 the prisons' maximum-custody bed capacity, using both permanent and temporary beds, will be exceeded.

- The *sex offender* population makes up 14% of the total prison population, with the majority housed within the medium-custody level. That population has grown by 4.1% over the last year.
- The *protective segregation* population is made up of prisoners who must be segregated from the general population as well as from each other because of threats and conflicts due to such issues as religion, race, gang affiliation, type of crime, etc. The population of this subgroup was 791 in FY 2008 and is expected to triple to 2,441 by the end of FY 2012.

Bed Management. A vacancy rate of at least 5% is necessary within each custody level to allow for the safe management of a prison population that is becoming exceedingly subdivided into incompatible groups. Housing

restrictions, maintenance, disturbances and emergencies all require movement of inmates, which creates greater risk of escape and of harm to correctional staff and inmates. The lower the vacancy rate, the more frequently the inmates must be moved to manage a compatible housing plan of multiple-custody levels and subgroups.

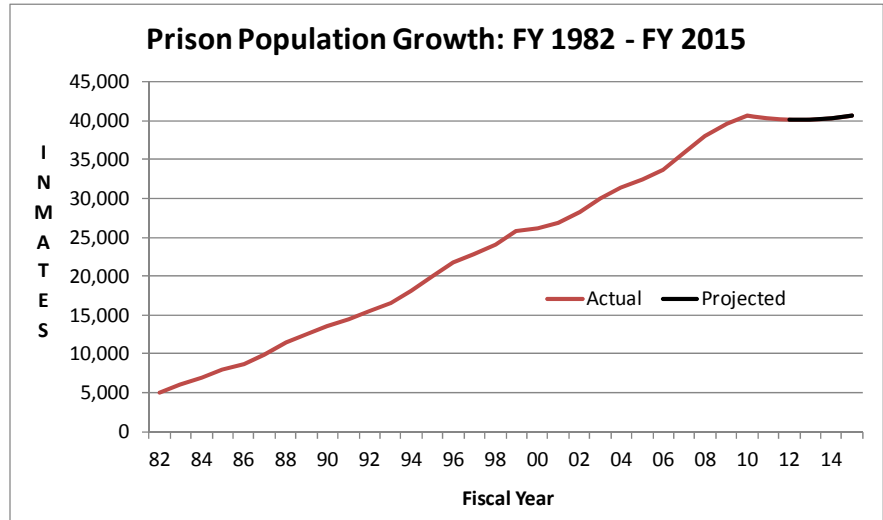
When combining permanent and temporary beds, the prison system as a whole has a vacancy rate of about 6%. Unfortunately, most of the vacant beds are isolated to the female and minimum-custody male populations. The male inmate population across all custody levels has about a 4% vacancy rate, with the medium-custody male population having less than 1% of vacant bed space for management (this includes the use of 2,928 temporary medium-custody beds, 40% more than the entire system used in FY 2001). The current maximum-custody male population has a bed vacancy rate of 6%. However, as was mentioned earlier, at the current growth rate of 12 inmates per month, DOC will have exhausted its vacant maximum-level beds by March 2013.

Recommendation. Laws 2009, 3rd Special Session, Chapter 6, required DOC to issue a request for proposals and contract for 5,000 private prison beds. The Legislature enacted the provision based on the expectation that the prison population would grow by 114 inmates per month during FYs 2010 and 2011 and beyond. Considering the dramatic change in population growth and the inflexible language that requires the Department to contract for exactly 5,000 private prison beds, and not a lesser amount, the Executive canceled the request for proposals on December 22, 2011.

As alternatives to the canceled beds, the Executive recommends the following additions:

- To deal with the rapid growth of specific medium-custody, sex offender, and protected-segregation populations, the Executive recommends a private contract for 2,000 male, medium-custody beds planned to open in January 2014.
- The maximum-custody population growth will require the immediate construction of new State beds. The Executive recommends allocating \$50 million to construct 500 maximum-custody male beds on the site of the Rast Unit at the Lewis Prison in Buckeye. The beds will be planned to open beginning in July 2014.

Correctional Officers. The number of Correctional Officers needed to secure a prison is determined by the layout of the building and the risk level of the inmates. Each Correctional Officer post is assigned to a specific space, and



insufficient staffing of these posts puts Correctional Officers at risk. Assaults on correctional staff have increased by 14% in the last two years, while inmate-on-inmate assaults and fights have increased by 39%. At the time the Executive Recommendation was prepared, the Department had 193.0 unfilled security posts inside the prisons.

When an inmate is transported outside the prison for medical care, the Correctional Officers who provide security for the transport must leave their regular duty posts, often resulting in security gaps. The Department devotes an average of 235,040 man-hours per year – the equivalent of 113.0 full-time Correctional Officers – to cover hospital transportation security.

In responding to the security exposure described above, the Executive recommends 306.0 FTE Correctional Officer II positions, with the increased staffing implemented over two fiscal years (153.0 officers in FY 2013 and 153.0 in FY 2014).

Prisoner Shift. Laws 2011, Chapter 33, obligates each county sheriff to house at the county jail all prisoners sentenced to one year or less in a DOC facility, unless an agreement is entered into for reimbursement to the State for housing the inmates. This law is scheduled to go into effect on July 1, 2012. However, the simple language of the bill leaves many questions and concerns unanswered.

The potential shift of future prisoners from State correctional facilities to county jails would result in inconsistencies in programming, protection, time computation of sentences, community supervision, and work release opportunities. Therefore, the Executive recommends repealing this law before it goes into effect.

LAW ENFORCEMENT

ENSURING THAT THE STATE'S LAW ENFORCEMENT AGENCY, the Department of Public Safety (DPS), is equipped to carry out its vital mission is one of the Executive's highest priorities.

Highway Patrol Replacement Vehicles. For the last few years, DPS has not had a separate budget for replacing Highway Patrol vehicles. Historically, the Department has replaced a vehicle when it accumulates more than 100,000 miles.

It is projected that, at the end of FY 2012, 50% of the vehicles in the Highway Patrol fleet will be at more than 100,000 miles. With the average mileage of the entire Highway Patrol fleet projected to reach 96,000 miles by the end of FY 2012, providing for vehicle replacement is a high priority.

As the chart at right indicates, the Executive recommends establishing a new standard for replacing vehicles based on the average mileage of the Highway Patrol fleet and has set a target average mileage of 70,000 miles. Average mileage recognizes the varied use and wear of the fleet. Some vehicles may continue service well after 100,000 miles, while others may need replacement well before that point.

The Executive will fund vehicle replacement by:

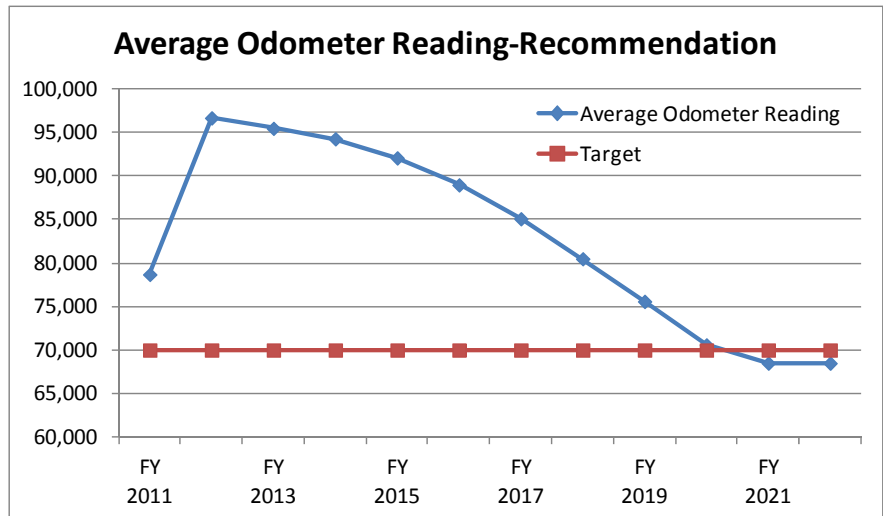
- retaining in the Public Safety Equipment Fund \$3.5 million in DUI/DWI fines and penalties that is currently transferred to the General Fund; and
- appropriating \$2.8 million from the General Fund.

The recommended funding will allow DPS to purchase approximately 126 cars in FY 2013 and gradually reduce the average mileage of the fleet over a period of several years.

DNA Backlog Reduction. Sweeps against the funds that support DNA operations at the DPS Crime Laboratory have resulted in a backlog of cases waiting to be processed. The Executive recommends an appropriation increase of \$1.5 million in FY 2013 from the DNA Identification System Fund to be used to reduce DNA backlogs.

ERE Adjustment. In FY 2012, DPS's Employee Related Expenditures (ERE) increased by approximately \$3.1 million, with no corresponding appropriation increase. The vast majority of this increase was due to a rise in the Public Safety Personnel Retirement System (PSPRS) contribution rate. An additional increase of \$6.1 million in FY 2013 is anticipated as well. The Executive recommends making the following adjustments:

- \$778,000 in supplemental funding from the General Fund in FY 2012;
- \$9.2 million from the General Fund in FY 2013.



The FY 2012 adjustment is equal to one-fourth of the FY 2012 ERE increase. The FY 2013 adjustment includes annualizing the FY 2012 increase, along with an additional \$6.1 million.

GIITEM Subaccount Revenue. Revenues from the State Aid to Indigent Defense Fund were allocated to the GIITEM Fund Subaccount in FY 2012. The Executive recommends permanently continuing this allocation.

JUVENILE CORRECTIONS

THE DEPARTMENT OF JUVENILE CORRECTIONS (DJC) has initiated an ambitious – and, to date, successful – plan to reform the agency, improve operational efficiencies and provide better programming for youth offenders.

In FY 2011, DJC housed 405 youths at three facilities: Adobe Mountain (males), Black Canyon (females) and Catalina Mountain (males). In response to a decline in the juvenile offender population, the Department closed Catalina Mountain, which housed approximately 74 male youths and, at \$7.75 million per year, was DJC's most expensive facility to operate. Catalina Mountain provided only core treatment programs, and any youth with specific problems had to be housed at Adobe Mountain.

With the closure of Catalina Mountain, all youth were transferred to Adobe Mountain, and 68 of 129 FTE positions were also transferred. In the wake of the closure, DJC is able to expand core and substance dependence programs, expand available career technical educational programs, and make mental health and sex offender programs available to all youth as needed. This closure saved DJC \$3.8 million and improved the Department's services to youth. •



School Funding Focuses on Critical Needs

The Executive Recommendation emphasizes helping students in the early grades and improving decision-making in capital funding

THE FY 2013 EXECUTIVE RECOMMENDATION for K-12 education provides funding for the high-priority needs of young children and undereducated adults. Equally important, the Executive Recommendation provides solutions concerning:

- school safety and achieving more timely investigations of alleged teacher, staff and administrator misconduct;
- the relationship between school districts and the charter schools that they sponsor; and
- new construction and building renewal funding for school districts and charter schools.

LEARNING INITIATIVES

LOOKING FIRST ON THE CLASSROOM, the Executive addresses important needs with respect to reading in the early grades, and educating adults who have not completed high school.

Move on When Reading. Laws 2010, 2nd Regular Session, Chapter 296 requires retention of third grade students whose reading skill is far below grade level. With implementation of “Move on When Reading” to begin in the 2013-2014 school year, districts and charters will be required to develop comprehensive reading assessments for grades K-3 and offer intensive remediation and intervention to students reading below grade level.

The Executive Recommendation provides \$50 million for reading specialists and for development and implementation of comprehensive curriculum, intervention and remediation programs in grades K-3. These funds should be used to identify students that are not on track to pass the third grade standards and intervene well before third grade, when they are at risk of retention. Funding will be generated by an increase in the K-8 Group A weight.

The K-12 formula uses per-pupil weights to account for the costs associated with educating different types of students. The elementary weight is currently lower than the high school weight, to reflect the presumed higher costs of educating high school students. The Executive recommends increasing the elementary weight from 1.158 to 1.179, to



HIGHLIGHTS

- \$50 million for reading intervention and remediation programs in the early grades
- \$4.6 million for adult education services to enhance employability among non-high school graduates
- Increased capacity for investigating allegations of misconduct among teachers, administrators and staff
- \$200 million for school district soft capital
- A ban on new district-sponsored charter schools
- Closing a loophole that allows duplicate capital funding
- New approaches to funding new school construction and building renewal, including a one-time \$100 million appropriation for building renewal grants

provide funding for “Move on When Reading.” The additional funding generated by the increase in the K-8 Group A weight will be used on programs and services that align with A.R.S. § 15-701 in grades K-3.

Workforce Investment. According to the U.S. Department of Labor, the median annual income of a person with less than a high school diploma is \$8,580 less per year than a high school graduate. Approximately 825,000, or 17%, of Arizonans age 16 or older do not have a high school diploma or GED and are not enrolled in school. The loss of

individual income attributable to the lack of high school-level education represents a total yearly loss of nearly \$7.1 billion in statewide taxable income.

Adults with less than a high school diploma have a more difficult time finding employment than those with higher levels of education. In 2010, 14.9% of adults with less than a high school diploma were unemployed, compared to 10.3% among high school graduates.

The Department of Education's Adult Education Services program provides funding to 26 programs statewide through a rigorous and competitive grant program. Arizona's adult education system ranks fourth in the nation in educational gains, as reported by the U.S. Department of Education's Office of Vocational and Adult Education.

Without additional funding, the State will lose eligibility for federal Workforce Investment Act dollars targeting adult education and will lose capacity to serve Arizona's under-educated adults and support economic recovery in the state. The Executive Recommendation of \$4.6 million is the minimum required to draw down \$11.8 million in federal Workforce Investment Act dollars and maintain adult education services statewide.

SCHOOL SAFETY

THE STATE BOARD OF EDUCATION'S INVESTIGATIVE UNIT is responsible for investigating allegations of immoral or unprofessional conduct made against certified personnel. Because certified individuals may continue to work in Arizona schools during the investigative period (provided their fingerprint clearance remains valid), timely investigation of alleged misconduct is crucial.

The Board currently has five investigators, each carrying a caseload of approximately 125 cases. The current staffing level cannot keep up with the volume of allegations, resulting in inadequate and/or delayed investigations and possibly allowing violators to continue working in close contact with students and co-workers.

The Executive recommends \$186,500 and 2.0 FTE investigator positions to assist with increased case productivity. The proposed staffing levels will increase the number of investigations each year and shorten the average time required to resolve a complaint.

School safety will be further enhanced by the Executive Recommendation for \$500,000 to finalize the development of a database that will expedite the researching of educator certifications and disciplinary actions.

SOFT CAPITAL

THE K-12 FUNDING FORMULA provides school districts with money for "soft capital," which includes such short-term capital items as computers, software, library materials, etc. Soft capital has not been fully funded since FY 2008, which has created growing needs in the schools.

The soft capital allocation for districts is determined using the legislated per pupil amount and the district's average daily membership (ADM). For FY 2013, the estimated formula amount for soft capital is estimated at \$208 million. With current reductions in place, school districts would receive roughly 10% of the formula amount – just \$20 million, or slightly less than \$22 per student.

To alleviate that underfunding, the Executive recommends \$200 million for school district soft capital, which includes \$100 million in the base soft capital allocation and \$100 million in onetime funding. The base increase will be ongoing and will retire \$100 million in deferred payments each fiscal year, beginning in FY 2013, until the rollover is paid in full.

BASIC STATE AID

THE K-12 EQUALIZATION FORMULA determines budget capacity, tax rates and State Aid for school districts and charter schools. The formula is heavily dependent on student counts, calculated by ADM. School districts are funded on prior-year ADM plus current year growth, while charter schools are funded on current-year ADM.

FY 2012 Baseline Changes. According to payment data from the Department of Education, total ADM for districts and charters is 2.3% lower than projected in FY 2012. Local property tax collections are also lower than estimated, increasing the State Aid share of formula costs.

The Executive recommends a reduction in Basic State Aid of \$67.9 million in FY 2012 for variances between projected and actual amounts in enrollment and local levies.

FY 2013 Funding. In FY 2013, total ADM is projected to increase by 0.5% from the recalculated FY 2012 baseline. This includes a 0.6% decline in school district ADM and 7.8% growth in charter school ADM. Though growth is expected, estimates for FY 2013 are still 1.9% lower than the FY 2012 appropriated amount. The Executive Recommendation reduces Basic State Aid by \$42.7 million for changes in enrollment.

Total formula costs are funded by a combination of local property taxes and State Aid. The amount paid by State Aid decreases or increases with corresponding changes in property tax collections. Net Assessed Valuation is projected to decrease by 6.5% in FY 2013. This includes an 8% reduction in existing property and a 1.5% increase in new property.

The Executive recommends a reduction of \$27.9 million to Basic State Aid to adjust for changes in the Qualifying levy and the State Equalization Tax levy.

OTHER FUNDING

- **Education Jobs Backfill.** The Executive recommends an increase of \$35 million in the Capital Outlay Revenue Limit to backfill the loss of federal Education Jobs Act funding.

- **Additional State Aid.** Laws 2011, 2nd Special Session, Chapter 1, limits the homeowner's property tax rebate to properties of primary residence. The Executive Recommendation reduces Additional State Aid by \$37 million to adjust for projected savings.

CHARTER SCHOOLS

TWO STATUTORY ISSUES that affect the funding of charter schools should be addressed and resolved.

Duplicate Operational Funding. Statutory language that draws financial and budgetary distinctions between school districts and district-sponsored charter schools (DSCSs) is unclear and should be revised to avoid duplicative State funding.

School districts are funded on *prior*-year enrollment, while charter schools are funded on *current*-year enrollment. In the first year of operation, DSCSs are restricted from including in their student count pupils who were previously enrolled in the school district. DSCSs are not statutorily barred from including students previously enrolled in their district after the first year of operation. In addition, if a district were to charter a school through the State Board for Charter Schools, it would not be prohibited from counting the students as part of the school district and the charter school in the same year.

Current law also allows districts to include DSCS pupils in their student count for the purpose of computing the districts' revenue control limits, if the charter schools are located within the boundaries of the district.

To address these issues, the Executive recommends a statutory change to prohibit the creation of new DSCSs (existing DSCSs would be grandfathered in). For grandfathered DSCSs, the Executive recommends developing a clear legal distinction between DSCS and district budgets and excluding the DSCS ADM from the calculation of the sponsoring district's revenue control limit (RCL).

Duplicate Capital Funding. Another unclear part of current law is whether the space leased to a DSCS is counted towards the sponsoring district's space for new school construction purposes.

Attorney General Opinion No. I02-008 provides as follows:

The [DSCS] becomes ineligible for building renewal monies when the charter contract is signed, and the school should be removed from SFB's records as of that date.

This opinion could give rise to a situation in which (a) a district creates a DSCS, (b) the space occupied by the DSCS is removed from the School Facilities Board (SFB) database, and (c) SFB awards a new school to the district, all while collecting Additional Assistance.

The Executive recommends clarifying current law to provide that district-owned space that is leased to another

entity is included in SFB's square footage calculations for new school construction considerations, including space leased to a DSCS.

The Executive further recommends that projects for district-owned buildings or any part of a district-owned building that is leased to a charter school be included in the list of projects not eligible for Building Renewal grant funds.

K-12 CAPITAL

THE EXECUTIVE RECOMMENDATION related to K-12 Capital addresses complicated funding issues with respect to new school construction and building renewal.

New School Construction. Prior to 1998, new schools were built primarily through local, voter-approved bonds. That traditional connection between parents and school boards determined the level and extent of new school construction.

However, passage of the Students FIRST legislation in 1998 dramatically altered how new school construction was financed. Students FIRST was passed in response to the Arizona Supreme Court's ruling, in *Roosevelt Elementary School v. Bishop*, that the prior system did not provide adequate school facilities to property tax-poor districts.

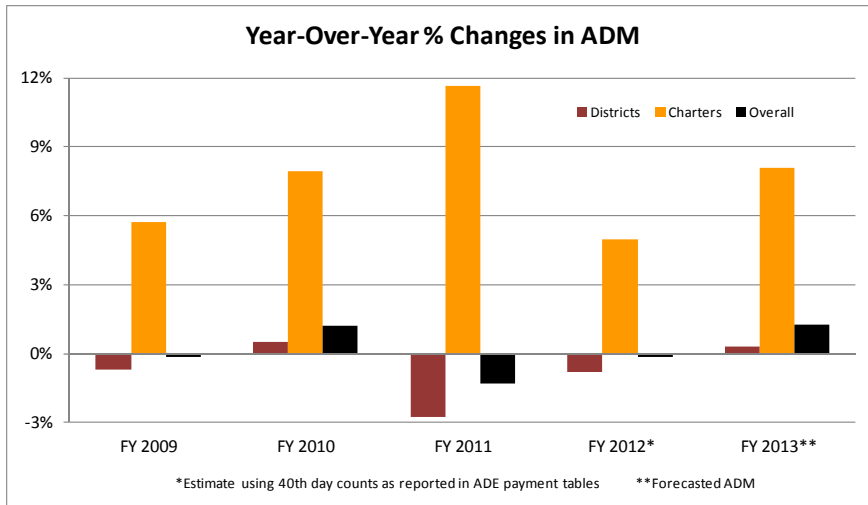
The Students FIRST legislation created the School Facilities Board (SFB) and shifted to SFB the responsibility of building and maintaining school facilities. In addition, local bonding authority was reduced to one-third the levels of the previous system – 10% of secondary assessed value for a unified school district, as compared to 30% of secondary assessed value. Subsequently, school districts have primarily supplemented, rather than supplanted, SFB new school construction funding.

In contrast to traditional schools, which receive capital funding through SFB, charter schools receive capital funding based on a per-pupil formula. This is a significant distinction in light of the recent enrollment trend for the two types of schools.

As the first chart on the next page illustrates, since FY 2008, traditional district school enrollment has declined, while charter school enrollment has increased. The Executive expects that trend to continue.

Through 2020, SFB forecasts it will need to build 3.3 million square feet of additional school space, costing the State approximately \$500 million. This new space will be awarded despite overall decreasing school district enrollment, because growth is uneven among districts. Certain districts are projected to grow even though, in many areas, excess space outside of the growing districts will remain.

This situation is a consequence of SFB's current square footage calculations for new school construction. SFB forecasts enrollment growth; if a district's projected enrollment exceeds the district's capacity, it is awarded a new school.



School District	Scheduled to Open	Awarded Funding	Awarded Funding Using 10-Mile Radius	Available Bonding Capacity (5% ESD & HS/10% USD)	Proposed Bonding Capacity (10% ESD & HS/20% USD)
Thatcher USD	FY 2012	\$ 1,330,152	\$ -	\$ 4,309,444	\$ 8,618,887
Vail USD	FY 2013	\$ 6,530,981	\$ -	\$ (900,522)	\$ 46,203,956
Benson USD	FY 2014	\$ 1,229,940	\$ -	\$ 1,099,041	\$ 9,773,082
Liberty ESD	FY 2014	\$10,234,963	\$ -	\$ 537,335	\$ 10,404,671
Laveen ESD	FY 2015	\$12,793,704	\$ -	\$ (4,860,439)	\$ 5,929,122
Litchfield ESD	FY 2015	\$ 9,441,360	\$ -	\$ (6,030,819)	\$ 26,188,362
Pima USD	FY 2015	\$ 1,937,115	\$ 1,937,115	n/a	n/a
Queen Creek USD	FY 2015	\$ 8,609,580	\$ -	\$ (11,652,683)	\$ 12,269,634
Sahuarita USD	FY 2015	\$ 7,676,222	\$ 7,676,222	n/a	n/a
		\$59,784,017	\$ 9,613,337	\$ (17,498,643)	\$ 119,387,714

(a) Class B debt only

The Executive recommends changing the minimum square footage standard to include excess space at nearby schools outside of the district, so that district boundaries do not limit the efficient use of existing school space.

Under the new plan, SFB would:

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

All schools that fall within this radius that are outside of the district are also included in the capacity calculations. If existing space is insufficient under this new methodology, a district would be awarded a school. In other words, SFB would award a school only if the sum of (a) the district's capacity plus (b) the excess capacities in the surrounding schools is not sufficient to handle projected growth.

This approach should lead to a more efficient use of existing school space and, likely, force new construction

funding decisions back to the local school board and its community.

The Executive also recommends that this new approach, which reduces the State's share of new school construction costs, be coupled with a corresponding increase in bonding capacities. The capacity rates would be only two-thirds of their pre-Students FIRST level, because the State would maintain a new construction safety net for regional- and hyper-growth situations.

The table at left shows projected new school awards, how the new approach would impact projected awards, and the available bonding capacities of the districts whose projected awards would be eliminated (available capacity equals total bonding capacity minus outstanding bonds). Note that some of the available bonding capacities are negative – a result of declining property values. Further note that the table represents the Executive's current estimates on the impact of this recommendation and is subject to SFB's detailed review. The table also shows the available bonding capacities if rates were doubled to 10% of secondary assessed value for elementary and high school districts and 20% of secondary assessed value for unified school districts.

Building Renewal. In FY 2012 the Building Renewal formula will generate, per statute, \$249.7 million. However, the State has not fully funded this formula since FY 2002; further, since FY 2009, funding for the formula has been completely eliminated.

The Building Renewal formula has a number of critical flaws, including lack of provisions for (a) linking appropriations with outcomes, (b) accounting for different climates and building materials, and (c) ensuring the most efficient use of funds.

The Executive recommends eliminating the Building Renewal formula and transitioning to an inventory-based building renewal system. Instead of simply distributing Building Renewal funds, SFB will help create and maintain a detailed database of all major school systems and replace each system according to a replacement schedule.

This approach better utilizes scarce resources. It ensures that funds are spent on the highest priority projects, and it better communicates school capital needs to State appropriators. A life-cycle replacement-schedule system has been used effectively in New Mexico and other states to accommodate school capital needs.

The Executive anticipates that it will take three years for school districts and SFB to inventory all systems with an online preventive maintenance system. To bridge the gap, the Executive recommends a three-year, \$100 million Building Renewal grant program to pay for critical projects.

Most districts have no remaining Building Renewal funds, and crucial projects are being deferred, sometimes for years. The status quo would result in greater deficiency corrections expenditures in the long-run and more hazardous conditions in the short-run. (Over the years, bonded indebtedness has been a source of funding for many districts, but depressed property values have made that a less viable option – a situation that is likely to continue until the real estate market improves.)

On an annual basis, the \$100 million represents only 55% of the average Building Renewal spending by districts from FY 2002 to FY 2009. The \$100 million will be a supplemental appropriation for FY 2012. No additional Building Renewal grant funds will be appropriated from FY 2013 through FY 2015.

In order to create and maintain the database needed for a replacement-based system, the Executive recommends

\$933,500 (\$0.96 per student) to purchase the subscription for an online preventive maintenance system for all school districts. The Executive estimates the online preventive maintenance system will cost \$0.72 per student (approximately \$693,000) in each subsequent year. To access Building Renewal grant funds, districts must use the provided preventive maintenance system and develop a five-year facilities plan.

To pay for the district-side costs to inventory all school systems, perform sufficient preventive maintenance, and help the State move to a life-cycle replacement-based Building Renewal system, the Executive recommends a \$40 million increase to the Capital Outlay Revenue Limit and charter school Additional Assistance.

Finally, in order to execute this comprehensive effort of (a) creating an inventory of all systems, (b) training districts on effective preventive maintenance, and (c) inspecting all Building Renewal grant requests, the Executive recommends \$871,400 to pay for SFB administrative costs. With the cost of the online preventive maintenance system, the ongoing operational costs of this Building Renewal grant program will be \$1.8 million. •



Maximizing Accountability and Effectiveness in Higher Education

The Executive proposes significant reforms affecting how universities and colleges are funded and how they meet the changing academic needs of their students

ARIZONA'S SYSTEM OF HIGHER EDUCATION, which encompasses the State's three universities and more than 20 community colleges, represents the fulfillment of academic ambition for more than 350,000 Arizonans, a vital resource for Arizona's private and public sectors, and a catalyst for economic development throughout the state.

Arizona's colleges and universities also represent opportunities for increased accountability and effectiveness in achieving their academic missions. Those opportunities provide the backdrop for the Executive's funding recommendations for the State's FY 2013 budget.

UNIVERSITIES

TO HELP THE UNIVERSITIES fulfill their crucial role in shaping Arizona's future, the Executive advocates reforms with respect to how the Universities are funded and how they meet the growing academic needs of their students.

Performance Funding. In June 2011 the Board of Regents adopted a series of performance metrics designed to measure University and system productivity. Included in these measures are total degrees produced, highlighting the degrees produced in high-demand fields, community college transfers, research and development expenditures, and productivity measures.

The FY 2012 budget (Laws 2011, Chapter 30) requires the Board of Regents to recommend a funding structure that includes performance- and outcome-based funding. The Universities published a formula recommendation that includes increases in degrees, credit hours and outside research and public service funding. Whatever the agreed-upon formula, performance funding should drive changes that will move the State closer to a more educated workforce.

The State must capitalize on the emphasis on performance funding so that the effort does not lose momentum. In support of that view, the Executive recommends moving to the Board of Regents \$15 million of the Universities' base funding (excluding the University of Arizona Health



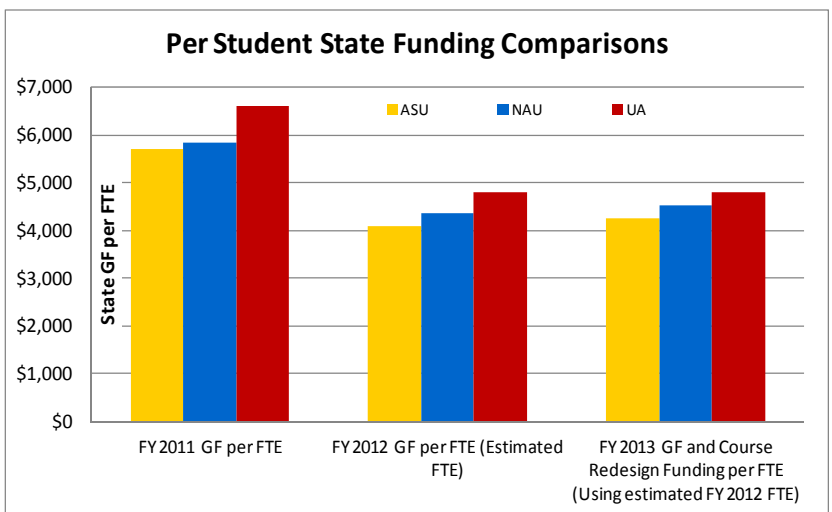
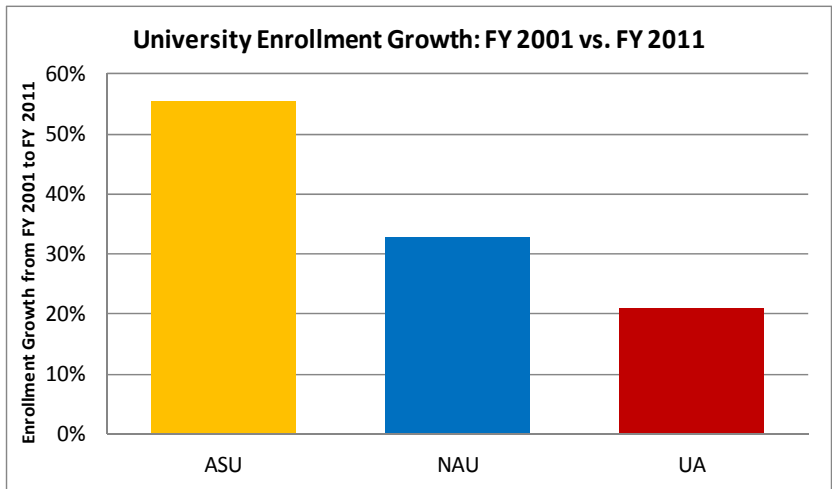
HIGHLIGHTS

- Performance- and outcome-based funding for the Universities
- Funding for innovative course redesign technologies and capital improvements at ASU and NAU
- Addressing per-student funding disparities among the three universities
- A call for funding reforms for the Community Colleges
- \$10 million for SMART scholarships to enhance employability

Sciences Center), allocated using each university's share of total General Fund support. The State will match the \$15 million, for a total of \$30 million to be allocated by the Board of Regents to the Universities based on the agreed-upon performance funding formula. The Executive will work with the Legislature and the Universities in an effort to achieve a mutually agreeable performance funding formula.

In addition to incentivizing the increased production of quality graduates and research, this performance funding formula should incentivize greater production of in-demand degrees, specifically STEM (science, technology, engineering and mathematics) degrees, expand community college and university partnership programs, and increase graduation rates.

Course Redesign Technology and Capital. Arizona's economic success is inseparable from the skills of its residents. By 2018, two out of three Arizona jobs will require



some postsecondary training beyond high school. However, today only about 26% of Arizona adults have a bachelor's degree or higher. Without increasing the education level of Arizona's citizens, Arizona will not remain competitive globally or nationally.

In response to that need, the Executive has established a series of aggressive goals for higher education. Prominent among those goals are:

- developing lower-cost higher education models, and
- doubling of the number of Arizona students receiving baccalaureate degrees by 2020.

The Universities have experienced very different levels of growth during the last 10 years. The top chart above shows that, since FY 2001, the University of Arizona's enrollment has grown by 21%, while enrollment at Arizona State University and Northern Arizona University grew by, respectively, 56% and 33%. This uneven growth has placed increased pressure on ASU and NAU to find innovative ways to decrease per-student costs while maintaining or improving learning outcomes. Most of these methods utilize

technology to reduce labor costs associated with lecturing, grading and testing. Thus, even though implementation of these technologies can reduce costs in the long run, they often require an upfront infusion of technology and capital.

To help ASU and NAU increase retention rates and degree output without sacrificing degree quality, the Executive recommends appropriating \$15.3 million to the Board of Regents for allocation to ASU (\$12 million) and NAU (\$3.3 million). The funding will be used for innovative course redesign technologies and capital improvements that will maintain or improve learning outcomes and decrease per-student costs for large enrollment and/or high-failure-rate classes. These technologies must be focused on increasing student retention by significantly changing the teaching models for large-volume courses.

Plans developed by ASU and NAU must be approved by the Board of Regents before the funds can be distributed. The Board must review the plans before October 1, 2012.

State Funding Parity. The FY 2012 budget (Laws 2011, Chapter 30) instructed the Board of Regents and the Universities to recommend a method that addresses the issue of per-student funding disparities among the three universities. The Universities published a study, using FY 2011 appropriations and FTE

counts, indicating that, after subtracting non-applicable appropriations to the UofA, there is a per-student State funding disparity of \$896 for ASU and \$758 for NAU. The Universities report concluded that an additional \$59.9 million for ASU and \$16.5 million for NAU would achieve per-student funding parity.

The Executive contends that funding parity numbers are exaggerated because they do not take into account the FY 2012 funding changes. The lower chart at left shows the per-student funding numbers published by the Universities, estimated per-student funding for FY 2012, and FY 2013 (per FY 2012 FTE estimates) with the proposed course redesign technology and capital funding. With these changes, the funding disparities are significantly less.

Depending on how the performance funding formula is structured, the Universities will receive differing amounts. However, it is likely the formula will focus on increased degrees, which would tend to favor ASU and NAU. Thus, performance funding, over time, may decrease per-student funding disparities even further.

COMMUNITY COLLEGES

A RAPIDLY EVOLVING ECONOMY places new demands on working Arizonans to adapt their skills and knowledge to the needs of prospective employers. Arizona's Community Colleges play a growing role in helping students maximize their employment potential, and the Executive Recommendation focuses on (a) making it possible for more students to receive the benefits of a community college education, and (b) equipping the colleges to meet the growing demands of an increasingly diverse student population.

Enrollment Growth. Typically, there is an inverse relationship between community college enrollment and the health of the economy. However, as Arizona has recovered from the recent recession, community college enrollment continues to increase sharply, as adults go back to school to learn new skills.

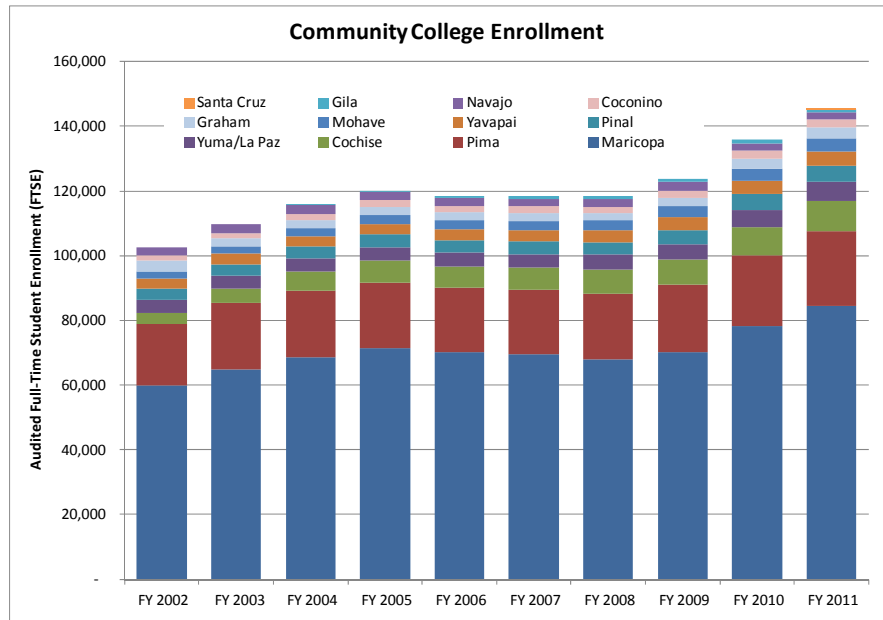
Between FY 2010 and FY 2011, community college full-time student enrollment (FTSE) increased by 7.1%, from 135,789 to 145,470 – the second-highest year-over-year increase of the last decade. The chart above illustrates overall community college FTSE counts since FY 2002.

Formula Growth. To accommodate enrollment growth, the Executive recommends applying the enrollment-based Operating State Aid formula in FY 2013, which will add approximately \$2.2 million in State support to the System.

In addition, the Executive recommends applying the Equalization State Aid formula, which is designed to compensate certain districts for an insufficient property tax base. A \$7.4 million decrease in Equalization State Aid results from the fact that property tax values for the districts that receive Equalization State Aid decreased less than the average for all rural Arizona districts.

Running the two formulas results in a net decrease of \$5.2 million to the Community College System.

Funding Reform. As important as it is for the Universities to move to performance funding, it is important to reform the formulas for Community College State Aid as well. The current formulas do not effectively allocate funds, do not inspire performance, do not help to align outputs with workforce needs, and do not incentivize greater collaboration with the Universities. The Executive calls on the Community Colleges to cooperate with State policy-makers during the coming year to decide on and implement mutually agreeable funding reforms for the Community College System.



Arizona SMART Scholarships. While the Arizona economy is recovering and creating more jobs, the job skills of thousands of Arizonans are poorly matched with the needs of potential employers. As a result, many Arizona companies are hiring workers from out-of-state while thousands of Arizonans remain unemployed or underemployed.

To help address this issue, the Executive recommends \$10 million to the Commission for Postsecondary Education for SMART scholarships for Arizona community college students. SMART (Skills Maximization and Alignment through Retraining and Transitioning) scholarships are designed to allow Arizonans with work experience to retrain and transition into needed fields by completing a program or certification at a community college.

To qualify, students must be enrolled in one of the top 20 community college programs that the Local Workforce Investment Board has determined best meet local workforce needs. In addition, students must show they have at least two years of full-time work experience and qualify for need-based financial aid. (For veterans, the need-based aid requirement is waived.) SMART scholarships pay the cost of tuition up to \$2,000 per year for up to two years.

CONCLUSION

REFORMING HOW ARIZONA'S INSTITUTIONS of higher learning are funded and how they meet the needs of their students and the state at large is a complex undertaking that will not be achieved overnight. However, the magnitude of the challenge must not deter the State's elected officials and education policymakers from pursuing it. •



Serving the Needy: What's Next for State Government?

The Executive Recommendation outlines the potential impacts of federal healthcare legislation and addresses needed reforms in behavioral health and child protection

THE HEALTH AND WELFARE area of State Government includes the Arizona Health Care Cost Containment System (AHCCCS), Department of Health Services (DHS) and Department of Economic Security (DES), along with a number of smaller agencies. Together, AHCCCS, DHS and DES account for almost a third of baseline General Fund expenditures for Fiscal Year 2012; therefore, reducing expenditures in those agencies has been an important part of the State's effort to close the General Fund shortfalls in recent years.

MEDICAID REFORM

In FY 1999, FUNDING FOR ARIZONA'S health and welfare agencies consumed 20% of the State's operating budget; since then, health and welfare spending has increased to 29% of the State's operating budget.

This increase has been largely attributable to the 2000 passage of Proposition 204, through which Arizona voters expanded AHCCCS eligibility to include all Arizonans up to 100% of the Federal Poverty Level (FPL).

The language of Proposition 204 included the following:

A "yes" vote shall have the effect of ... increasing healthcare coverage eligibility for Arizona's working poor at the federal poverty level ... using the tobacco litigation settlement money.

This expansion has resulted in a number of populations being added to the AHCCCS rolls:

- parents or families who have an income between 23% and 100% of the FPL;
- aged, blind or disabled persons receiving Social Security Income (referred to as the "SSI population") who have an income between 75% and 100% of the FPL;
- people who are otherwise ineligible but who have enough medical expenses to spend-down to 40% of the FPL; and
- adults without children in the home (referred to as childless adults), up to 100% of the FPL.

Since FY 2004, the Tobacco Settlement funds have been inadequate to fund the Proposition 204 expansion, resulting



HIGHLIGHTS

- \$3.7 million for Child Protective Services to enhance law enforcement expertise, reward exceptional employees and improve management
- \$39 million for new services for SMI adults, including case management and family and peer support
- \$27.3 million for a 3% provider rate increase for select groups
- Despite federal government rejection of some Arizona savings initiatives, the Executive addresses FY 2012 with no General Fund supplemental across the Medicaid agencies
- If the states' suit against the federal government fails, significant costs from federal health reform result in FY 2014 and FY 2015

in a General Fund subsidy that grew to almost \$600 million in FY 2011.

The Plan. In order to address the unprecedented level of structural deficit in a sustainable manner, during the 2011 session a \$524 million budget cut, along with a series of policy changes necessary to implement these cuts, was enacted. Collectively these actions are known as the *Medicaid Reform Plan*.

Among the policy changes necessary to implement the budget cuts were:

- freezing new enrollment in health coverage for childless adults;

- eliminating health coverage for people with medical expenses sufficient to spend their income down to 40% of the FPL;
- reducing AHCCCS member benefits, including limiting hospital stays to 25 days in one year and decreasing respite care hours reimbursed from 720 per year to 600; and
- reducing health provider reimbursements by an additional 5% on October 1, 2011.

While the federal government approved Arizona's request to freeze the childless adults, the State was required to continue covering as childless adults those children who "age out" of other programs. The bulk of these children are covered under the SOBRA (Sixth Omnibus Budget Reconciliation Act) children program, which mandates coverage for older children up to 100% of federal poverty level as a base (non-Proposition 204) population.

As a result, about 1,200 children per month are being added to the childless adult population, which the Executive forecasts will result in about 23,000 fewer childless adults dropping off of the Medicaid program by December 2013. The Executive estimates that these members will cost the General Fund \$7 million in FY 2012 and \$34.7 million in FY 2013.

Despite those federal government mandates and the rejection of some of the Medicaid Reform Plan policy changes, the Executive Recommendation ensures that the three Medicaid agencies will operate within their collective General Fund appropriation in FY 2012.

In tracking the savings from the Medicaid Reform Plan, the Executive Recommendation uses a revised approach to forecasting caseload growth costs.

The initial forecast, referenced as the Baseline Forecast, assumes a continuation of the previous policies as though there were no Medicaid Reform Plan. Member growth and capitation rate growth – at least the portion attributable to increased member utilization of services – are in the baseline. In order to separately account for the savings attributable to the Medicaid Reform Plan, the savings are then layered on top of the baseline growth.

Prescription Drug Rebate. The Patient Protection and Affordable Care Act of 2010 (PPACA) requires drug manufacturers to provide rebates for drugs dispensed to individuals enrolled in a Medicaid Managed Care Organization (MCO). Previously, only fee-for-service (FFS) drug purchases were eligible to participate, but Arizona's 1115 waiver exempted it from the FFS drug rebate program because of the low volume of FFS drug expenditures.

AHCCCS has contracted with a consulting firm to evaluate health plan prescription drug expenditures retroactive to March 23, 2010, the signing date of PPACA. Based on these collections and the estimated FY 2012 new collections, the Executive forecasts that there will be \$107.2 million

available to offset state match requirements in FY 2012 or later. Based on estimates for FY 2013, the Executive projects that there will be an additional \$72.5 million available to offset the state match in FY 2013 or later.

FY 2012 Savings Under the Medicaid Reform Plan. In the current year (FY 2012), despite federal rejection of several planned elements of the Medicaid Reform Plan, the Executive has achieved the goal of avoiding a General Fund Supplemental Appropriation.

The Medicaid agencies anticipate, after savings from enrollment reductions and other changes enacted as part of the Medicaid Reform Plan, an FY 2012 shortfall of \$41.6 million in DHS and \$26.4 million in AHCCCS, compared with a \$13.7 million surplus in DES.

To address the remaining shortfalls, the Executive proposes the following:

- shift the \$13.7 million from the expected DES overage to help address the DHS shortfall;
- increase the appropriation from the Prescription Rebate Fund by \$54.3 million for AHCCCS and reduce the AHCCCS General Fund appropriation by the same amount; and
- reduce the AHCCCS General Fund appropriation by \$27.9 million and increase the DHS appropriation by the same amount.

Under this proposal, a General Fund supplemental will not be necessary for the Medicaid agencies.

FY 2012 Medicaid General Fund Summary

	DHS-BHS	AHCCCS	DES DD
Initial Surplus/(Shortfall)	(41,551,300)	(26,405,200)	13,700,000
Reallocation of DES Overage	13,700,000		(13,700,000)
Prescription Drug Rebate		54,256,500	
Remaining GF Reallocation	27,851,300	(27,851,300)	
Net Change	-	-	-

Current Estimates for FY 2013. As mentioned above, for the FY 2013 budget, the Executive layers the Medicaid reform plan savings over a baseline budget forecast.

As the following table indicates, even with the savings from the Medicaid Reform Plan, significant caseload growth needs remain for the Medicaid agencies. The Executive proposes using all remaining available FY 2013 funds from the prescription drug rebate program for the shortfall in AHCCCS. Still, the Executive forecasts that there will be a need for increased General Fund appropriations for the Medicaid agencies, i.e., \$64.1 million for DHS, \$1.8 million for AHCCCS and \$2.8 million for DES.

FY 2013 Medicaid General Fund Summary

	DHS-BHS	AHCCCS	DES DD
Baseline Surplus/(Shortfall)	(138,496,100)	(526,922,300)	(16,500,000)
Medicaid Reform Plan Savings	74,393,800	444,883,700	13,700,000
Prescription Drug Rebate		80,201,500	
Overage (Shortfall)	(64,102,300)	(1,837,100)	(2,800,000)

Provider Rate Increases. Since the beginning of the recession in 2008, Arizona Medicaid providers have sustained a series of rate freezes and cuts. The Executive recommends a 3% provider rate increase for physicians, behavioral health service providers, nursing facilities, home service providers and ambulatory surgery centers for services provided after October 1, 2012. Before implementing any rate increases, AHCCCS must ensure that the increases are consistent with federal requirements, including any appropriate cost studies.

FEDERAL HEALTH CARE REFORM

DEVELOPING THE FY 2013 BUDGET and projecting for FY 2014 and beyond requires a sound understanding of the potential costs and impacts of federal health care reform (PPACA) should that law be fully implemented.

Impacts to Date. State employees have already felt the impact of two PPACA-required benefit increases in the State employee health plan: first, the mandate that health plans cover, on their parents' policies, dependent older children up to the age of 26, as long as they are not eligible to be covered under another employer-sponsored plan; and, second, the PPACA requirement that plans eliminate lifetime limits and annual limits on certain benefits.

These requirements went into effect on January 1, 2011, and have been estimated by the actuary for the Department of Administration to cost the users of the State insurance plan \$13.2 million in annual increased costs to insure employees and retirees.

FY 2013 Mandates and Costs. The more significant costs of PPACA impact the state through changes in the Medicaid program. In FY 2013, PPACA mandates that primary care physicians' reimbursement rates be increased to 100% of Medicare rates by January 1, 2013. While the federal government will pay 100% of the cost of increasing Arizona's rates from those that were in effect in July 2009, the State will receive only the regular Federal Medicaid Assistance Percentage (FMAP) of 65.68% in FY 2013 to restore the State's provider rate cuts that have been imposed on primary care physicians since July 2009.

Further, AHCCCS and DES computer systems will require modifications to manage the expected PPACA-mandated expansion and for both systems to communicate with the insurance exchange.

Impacts of ACA Primary Care Physician Issue

Total Increased Cost	67,657,600
Portion eligible for 100% FMAP	48,915,100
Portion eligible for Regular FMAP	18,742,500
State General Fund FY 2013	6,316,500
State General Fund FY 2014 est.	13,896,300

If PPACA survives the states' collective legal challenges (see "Executive Recommendation" below), those two agencies will need approximately \$15 million in FY 2013 for hardware and software purchases and to assemble a project team. The state match for this funding would be \$2.5 million, assuming an 85/15 split in the grant.

FY 2014 and Beyond. Two PPACA provisions that go into effect January 1, 2014, will significantly impact caseload costs of Arizona's Medicaid program:

- **Eligibility Expansion.** PPACA contains a mandatory expansion in Medicaid eligibility to 133% of the federal poverty level (FPL). Including the bill's 5% income disregard, eligibility is effectively increased to 138% of FPL.
- **Increased Federal Match.** States will receive enhanced federal match for adults under the PPACA. Coverage for all adults from 100% to 133% of FPL will be fully supported by the federal government. Additionally, childless adult populations in Arizona under 100% of FPL are scheduled to receive enhanced federal matches of 82.84% in FFY 2014 and 86.27% in FFY 2015, both well above the standard FMAPs of 67.3% in FFY 2012 and 65.68% in FFY 2013.

The Executive estimates that, in its first full year of implementation (FY 2015), PPACA will cost the State \$421 million General Fund and almost \$3 billion in federal funds to cover an additional 340,000 Arizonans.

General Fund Impacts of PPACA

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

PPACA Federal Match

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

Executive Recommendation. The State of Arizona is a party to the lawsuit asking the U.S. Supreme Court to strike down PPACA as an unconstitutional infringement on states' rights. In light of that legal action, the Executive is not recommending any additional FY 2013 State funds to pay for PPACA impacts on the State. However, if the states' lawsuit fails in the Supreme Court, to the extent that the elements of PPACA impacting Arizona are not stricken

down, additional appropriations of State funds will likely be needed in FY 2013.

COMPLIANCE WITH *ARNOLD V. SARN*

IN 1981, MARICOPA COUNTY PUBLIC FIDUCIARY Charles Arnold and others representing a class of indigent persons² in Maricopa County diagnosed as “seriously mentally ill” (SMI) filed a class action suit against the Department of Health Services (DHS) and Maricopa County seeking to enforce A.R.S. §§ 36-550 through 36-550.08, relating to community mental health residential treatment.

DHS and the County were ordered to “provide a unified and cohesive system of community mental health care” for the plaintiff class. In response, the State developed a plan to implement changes to the behavioral health system for individuals with SMI per State law (in accordance with the court’s findings). The parties negotiated criteria by which the State of Arizona and Maricopa County would eventually exit the lawsuit.

In 2010, due to the historic budget crisis, the State and plaintiffs negotiated a stay of the litigation and enforcement of existing court orders until June 30, 2012. Subsequently, for individuals with SMI who were not Medicaid-eligible, the Legislature provided funding for prescription medication and crisis services.

The stay order requires the parties to attempt to create a new court order that redefines which services the State would provide going forward in order to exit the case. That process is ongoing.

With the stay order’s expiration at the end of FY 2012, the Executive proposes providing the following services for individuals with SMI:

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

The Executive estimates the cost of these services to be \$39 million, in addition to money already budgeted for medication and crisis. Along with the funding for additional Non-Title XIX SMI services, the Executive proposes requiring DHS to provide an annual report on October 1 that

² A “class member” is now defined as someone who (i) is a resident of Maricopa County, (ii) is indigent, (iii) is seriously mentally ill, and (iv) would reasonably benefit from appropriate behavioral health treatment due to his or her mental illness.

includes the following information for the previous fiscal year:

- Basic demographic information:
 - Number of members served per year
 - Total spending (total dollars and per member/per month cost, penetration rate) broken out by age group, gender, ethnicity, income level
- Utilization and expenditures:
 - Spending and utilization (units) by service category- trended over time (3 years)
 - Total spending, per person and per person utilization (# of units) by service category
 - Counseling treatment services per 1,000
 - Crisis service utilization
 - Prescriptions per 1,000
 - Case management per 1,000
- Medical necessity oversight practices
- Tracking high cost beneficiaries:
 - Trends
 - Service utilization
 - Diagnoses
- Mortality trends
- Placement trends
- Program integrity:
 - Processes used to ensure program integrity
 - Number of suspected fraud cases reported by plans to DHS/DBHS
 - Pharmacy lockdown program utilization (number of members enrolled)
- Access to services
 - Monitoring plan for members’ access to services

CHILD PROTECTIVE SERVICES

A THOROUGH ANALYSIS of Child Protective Services (CPS), commissioned by the Governor’s Office and conducted by DES and the Arizona Child Safety Task Force, indicates that several key functions require improvement.

Some of the immediate recommendations of DES and the Task Force include increased law enforcement expertise in handling sensitive cases, process improvements to the CPS hotline, an additional promotional opportunity to retain exceptional case workers, and improved accountability measures.

The Executive Recommendation includes \$3.7 million from the General Fund to support enhancement of CPS in certain critical areas that require immediate financial resources. Apart from these enhancements, however, the Department will continue to identify ways to make improvements within the CPS system using its existing

budget, based on findings by the task force and ongoing DES internal analysis of the CPS system.

Accountability. DES has made a concerted effort to improve Department-wide accountability, particularly within areas of concern such as CPS, including the creation of a separate Office of Accountability in 2011. To reinforce accountability within CPS, the Executive recommends funding in FY 2013 for four new management positions to oversee operations in critical areas. These positions will consist of:

- a Special Advisor for Investigations to oversee all investigations involving cases of criminal conduct;
- a Manager of Intake and Hotline Operations to improve efficiency within the CPS hotline;
- a Manager of Quality Case Management to work on Division-wide process improvements and policy initiatives and managing analysis of cross-regional data; and
- a Manager for Community Partnerships to coordinate activities between CPS and partnering organizations, such as law enforcement, hospitals, faith-based organizations, and community agencies.

Investigator Retention. Employee turnover among CPS investigators has historically been high, a situation generally attributed to low compensation and little opportunity for advancement in a demanding job.

To help retain productive CPS investigators, the Executive recommends funding for the promotion of approximately 175 CPS Specialist III positions – approximately 18% of the current investigations workforce – to a newly created CPS Specialist IV position. The promoted employees will remain field investigators but will be assigned to the most complex cases, allowing supervisors to dedicate more time to training and mentoring entry-level investigators. Each CPS Specialist IV employee will also receive a corresponding salary increase.

Criminal Investigations. One of the key findings of the Arizona Child Safety Task Force was the inadequacy of CPS investigative practices in cases involving allegations of child abuse, neglect or other criminal conduct. DES reported that, of the 2,233 cases of criminal conduct in FY 2011 (including 1,300 in Maricopa County), only about one-third received intervention from one of the 19 statewide child advocacy centers.

To add a law enforcement presence to cases that exceed the advocacy centers' resources, the Executive recommends funding for 28 new investigative specialist positions. The new positions will be filled by former law enforcement

professionals who will be deployed either in the child advocacy centers or in CPS offices that demonstrate particular need for law enforcement acumen. The investigative specialists will conduct training for CPS staff related to interviewing, evidence collection, forensics and document preparation. Moreover, these new positions will (a) provide critical expertise in handling cases involving criminal conduct, (b) conduct training to other law enforcement personnel on CPS policies and procedures, and (c) travel with CPS investigators in the field when the situation may call for a law enforcement presence.

FEDERAL FUNDS BACKFILL

DUE TO THE EXPIRATION OF SEVERAL SOURCES of additional TANF funding in FY 2011 and FY 2012, the Executive recommends \$25.8 million from the General Fund to backfill these federal dollars.

Without the recommended funding, DES will be forced to make significant cuts to its operating budget in the Division of Children, Youth, and Families or, alternatively, further reduce the lifetime time limit for Cash Assistance, which was reduced to 24 months by Laws 2011, Chapter 32. Any further reductions to the lifetime time limit would mean that Arizona would have the shortest time limit of any state.

DES secured \$10 million in TANF contingency funds from the federal government for FY 2012, which mitigated some of the need to backfill federal dollars in FY 2013. However, it is unlikely that those funds will be available in FY 2013, leaving a \$10 million TANF shortfall in FY 2014.

CASELOAD GROWTH

THE EXECUTIVE RECOMMENDATION INCLUDES funding caseload growth for (a) the Title XIX population in the Developmental Disabilities Division and (b) Adoption Services. Title XIX growth has steadily risen by 4% annually since FY 2007, and growth in Adoption Services has averaged 11% during the same period.

Caseload growth for Adoption Services has been funded with enhanced Title IV-E federal grant dollars since FY 2009, but that source will be exhausted by the end of FY 2012.

Funding caseload growth in Adoption Services is critical, as adoption is generally a more beneficial situation for a child than a congregate care setting, and it is far less costly than keeping the child in such a situation. The average adoption subsidy in FY 2011 was \$689 per month, while the per-child congregate care case exceeded \$3,000 per month. •



Funding for Essential Maintenance, Preservation

The capital outlay plan emphasizes savings, increased efficiency and fewer costly emergency repairs

AS OF JUNE 30, 2011, THE STATE OF ARIZONA was responsible for 6,854 buildings and structures having a replacement value of more than \$13 billion. During the budget crisis of the past few years, the State has been unable to properly care for many of these buildings. Even in times of relative prosperity, the State's building renewal needs have often been passed over for other program spending.

The State's building inventory is comprised of three main building systems:

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

Each of these systems has extensive building renewal and capital project needs. The Executive capital outlay plan is designed to address both administrative and physical needs in the State building systems. These recommendations are also designed to improve the safety of State facilities, increase the efficiency of State operations, and help avoid costly emergency repairs.

While the State cannot resolve years (and, in some cases, decades) of deferred maintenance in one fiscal year, FY 2013 is a time for the State to reaffirm its commitment to sound stewardship.

ADOA BUILDING SYSTEM

THE ADOA BUILDING SYSTEM includes 2,337 buildings and structures that have a total area of more than 14.2 million square feet and an estimated replacement value of \$2.2 billion.

In addition to standard building renewal and capital recommendations for the ADOA system, the Executive recommendation includes extensive reforms to the Capital Outlay Stabilization Fund (COSF), related in part to the payoff of two Certificates of Participation (COPs) in FY 2012.

Certificates of Participation. The last payments on COP 2001 A&B and COP 2004 will be made during FY 2012. These COPs were used to finance the Capital Center, the Land and Revenue buildings, the Braille and Talking Book Library, the Records Retention Center, the buildings at

Tonto Natural Bridge, the purchase of the ENSCO site, several homes for the developmentally disabled, and several buildings at the Arizona State Schools for the Deaf and the Blind in Tucson.

Based on current practice, 17 of these buildings would begin paying COSF rent in FY 2013. The Polly Rosenbaum Archives Building is also scheduled to begin paying COSF next year. At current rates this large shift to COSF rent would cost the State \$3.8 million General Fund and COSF revenues would increase by \$10.1 million.

With this potential expenditure increase looming ahead, this is an opportune time to enact much-needed reforms to the COSF system to bring the State into compliance with statute, create a uniform method of charging COSF rent, and reduce the General Fund cost of the new COSF-paying buildings.

COSF Reform. State statute requires that all State-owned buildings pay COSF rent. However, only 39 buildings currently do. Of those 39 buildings, some are charged based on the market standard of rentable square feet, while many are charged on various definitions of usable square feet and other historical measurements. These inconsistencies and inequities are unfair to the agencies that are forced to pay into this system, and they create a risk that the federal government would disallow COSF charges all together, meaning that federal programs housed in State agencies would cease to pay rent.

To address these issues, the Executive recommends clarifying in statute that only buildings receiving ADOA maintenance or operation services as delineated in statute are subject to COSF rent. The Executive also recommends adjusting all rent measurements to the industry standard of rentable square feet. The cost of increasing square footage to meet this standard would be offset by the savings of not paying COSF rent on the Museum at Papago Park and on ASDB buildings that are not maintained by ADOA.

To further reduce ongoing costs to the General Fund, the Executive recommends decreasing COSF rates from \$15.08 per square foot of office space to \$14.85 per square foot, and reducing storage rates from \$5.47 per square foot to \$4.75 per square foot. The Executive is also in the process of consolidating agency space in the Executive Tower, the

Land Building, and the Juvenile Corrections Building in order to make better use of State resources and reduce costs to the General Fund.

The following table describes how rent changes in FY 2013 would impact the General Fund if current practices, measurements, and rates are left in place and how this would change under the Executive recommendation.

New COSF Rent and COSF Reform

With 18 buildings poised to begin paying COSF rent in FY 2013, COSF reform would reduce the net General Fund cost by \$3.1 million.

New General Fund COSF Rent	\$ 8,280,300
Eliminated COP payments	<u>(4,460,700)</u>
ANTICIPATED GENERAL FUND RENT INCREASE	\$ 3,819,600
COSF Reform	<u>(3,130,400)</u>
NET GENERAL FUND COST	\$ 689,200

ADOA Building Renewal. As part of reforming COSF and better managing the ADOA building system, the Executive recommends \$12 million from the Capital Outlay Stabilization Fund for general building renewal in FY 2013.

Although building renewal needs are estimated based on statutory formula, the State has fully funded the formula only twice in the past 25 years, and deferred maintenance costs have risen to nearly \$376 million for the ADOA Building System. While the Executive Recommendation covers only 45% of the formula for FY 2013, it would be the most significant investment in ADOA building renewal since FY 1999. Given that so many of the State’s building components and structural systems have exceeded their useful lives and are rusted, energy inefficient, unreliable and in danger of imminent failure, this is an investment that is long overdue.

The Executive Recommendation also includes building renewal funding for two State agencies considered to have dedicated fund sources. The Game and Fish recommendation is based on statutory formula and includes \$523,300 from the Capital Improvement Fund. Lottery requested slightly less than its formula amount. The Executive recommends funding this request of \$72,000 from the State Lottery Fund.

ADOA Capital Projects. Other than for the dedicated fund agencies, the Executive Recommendation does not include any specific capital project funding for the ADOA Building System. However, the Executive does recommend that the Department of Economic Security move forward in issuing a COP to fund a new multi-service center in Flagstaff. The lease payments on this new building would cost less than current rent payments, saving an estimated \$10 million over 30 years and providing better service to residents in the Flagstaff area.

The Executive also recommends session law to allow ADOA to use building renewal monies for the purchase of a

generator for the Arizona State Hospital if that is determined to be the highest priority for those monies. In case of power failure, the generator is critical to continuing hospital operations.

For the Game and Fish Department, the Executive recommends \$1 million from the Capital Improvement Fund for property restoration and maintenance and for dam inspection and maintenance. The Executive also recommends \$30,000 from the Game and Fish Fund for the Agency’s statewide emergency maintenance program.

For Lottery, the Executive recommends \$156,300 from the Lottery Fund to replace the Agency’s obsolete fire alarm system and complete the conversion of its fire suppression system.

DEPARTMENT OF CORRECTIONS

THE DEPARTMENT OF CORRECTIONS (DOC) has ten prison complexes located throughout Arizona. These complexes are made up of more than 1,500 structures totaling nearly eight million square feet.

Maximum-Custody Beds. The maximum-custody inmate population has grown by about 12 inmates per month over the last two years, and this trend is expected to continue. This will leave the Department of Corrections without capacity for maximum-custody inmates by March 2013. The Executive recommends a General Fund appropriation of \$50 million to ADOA for the construction of 500 maximum-custody male beds. Construction is proposed at the Lewis Prison in Buckeye and should be completed by July 2014.

DOC Building Renewal. Laws 2011 created the Department of Corrections Building Renewal Fund to be administered by Department of Administration and appropriated \$4.6 million from the Fund to be used for the Department of Corrections building renewal and preventive maintenance projects in FY 2012.

Revenues to support this appropriation were originally intended to come from fees assessed for deposits made to prisoner spendable accounts, fees for background checks for inmate visitors, and fund transfers from various other Corrections funds. However, FY 2012 revenues are now expected to total only \$2.2 million. To ensure a sufficient and consistent source of revenue to the Building Renewal Fund for the immediate future, the Executive recommends a \$4.5 million transfer from the Corrections Fund to the Building Renewal Fund in FY 2013 and again in FY 2014.

The Executive also recommends moving administration of the Department of Corrections Building Renewal Fund from the Department of Administration to the Department of Corrections and appropriating \$5 million for building renewal in FY 2013.

ADOT BUILDING SYSTEM

THE DEPARTMENT OF TRANSPORTATION (ADOT) includes an inventory of 1,251 buildings and structures that have a total area of approximately 3.3 million square feet and a replacement value estimated at \$668.7 million.

As requested by the Agency, the Executive recommends \$5.3 million from the State Highway Fund for new capital construction projects. The Executive Recommendation also includes \$1.2 million for Building Renewal and \$1.3 billion for the Highway Construction Program.

ADOT Building Construction. Provided that State Highway Fund revenue is sufficient to support both ADOT operations and capital projects, the Executive recommends proceeding with the construction of six vehicle wash systems (\$3 million) and six de-icer storage buildings (\$2.3 million). The wash systems would be built in remote locations where commercial options are unavailable and would help protect ADOT's highway maintenance vehicles and equipment from premature deterioration. Both projects would improve compliance with environmental standards, increase efficiency and decrease operating costs.

ADOT Building Renewal. The Executive Recommendation for building renewal includes \$1 million from the State Highway Fund and \$175,800 from the State Aviation Fund.

Highway Construction. As is detailed in the table above, the Executive Recommendation supports a \$1.3 billion transportation infrastructure program for FY 2013. This funding level would provide \$183.8 million for highway construction and \$219.7 million for pavement preservation maintenance. Debt service on existing ADOT

construction bonds is reported at \$354.2 million. In accordance with State statute, actual expenditure levels are determined within the scope of the Five-Year Highway Construction Program as approved by the State Transportation Board.

FY 2013 Highway Construction Program Costs

Construction	\$ 183,780,000
Urban Controlled Access ¹	502,674,000
Pavement Preservation Maintenance.....	219,695,000
Other ²	83,368,000
Debt Service ³	<u>354,219,000</u>
Total	\$ 1,343,736,000

¹Includes expenditures from the HURF for controlled access and from the Maricopa Regional Area Road Fund.

²Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

³Information provided by the department. Includes \$121,803,000 for SHF statewide construction bonds; \$34,015,000 for HURF, MAG, and PAG controlled access bonds; \$135,879,000 for Maricopa Regional Area Road Fund Bonds; and \$62,522,000 for Grant Anticipation Notes as of November 1, 2011.

BOARD OF REGENTS BUILDING SYSTEM

THE THREE STATE UNIVERSITIES supervised by the Board of Regents include an inventory of 1,740 buildings and structures that have a total area of 38 million square feet and an estimated replacement value \$9.3 billion. The Executive recommends that the Universities continue to use local funding sources to address their building renewal and capital construction needs. •



A Gradual Return to Economic Vitality

After four years of decline and stagnation, Arizona's economy is positioned to benefit from the nationwide recovery and the re-emergence of the state's traditional strengths

As 2011 drew to a close, the U.S. economy featured some welcome bright spots and opportunities, tempered by identifiable threats and risks. Overall, the nation's economy continues its modest recovery; as it rebounds, some of the dynamics that have proven to be important to Arizona's prosperity will re-emerge.

Building on the 2011 momentum that featured mild increases in job creation, business income and General Fund revenues, Arizona will likely see continuing progress through 2012, with some acceleration expected in 2013 and beyond.

NATIONAL OUTLOOK

The most recent outlook from *Global Insight* suggests a slow growth recovery period through 2012, with real GDP growth at sub-par levels – below 2% – until 2013. Sources of concern include Europe's economic health, federal fiscal gridlock and other potential negative shocks. In contrast, a minority of forecasters contend that significant growth could occur as early as mid-2012.

Employment. Job growth continued its sluggish behavior through most of 2011 before improving somewhat toward the end of the year.

Payroll statistics reported by employers continue to lag behind the number of jobs reported in household surveys, which might suggest that businesses are finally beginning to add workers. If that is the case, the unemployment rate for 2012 could drop to about 8.5%. Resistance to hiring will continue as long as (a) businesses can reap high productivity gains from existing workers and (b) growth in overall demand for products remains weak. According to consensus projections, unemployment rates are not expected to remain below 8% until 2015 at the earliest.

Consumer Spending. It is very difficult to predict consumer psychology at this point in the cycle, but consumer behavior is showing modest improvement. While consumers remain generally cautious with respect to major purchases, there are some clear signs that a significant number of consumers are taking advantage of low prices and attractive interest rates in buying automobiles and other



HIGHLIGHTS

- 2.5% net job growth predicted for Arizona in FY 2012
- Personal income expected to increase by 6%
- Keys to continued recovery include net in-migration from other states; absorption of excess housing inventory; growth in aerospace, technology and healthcare industries

durable products.

Overall, actual buying patterns have been somewhat more positive than the attitudes that consumers express in surveys; thus, it is prudent to pay more attention to what consumers do than to listen to how they feel.

Looking ahead, the most likely scenario holds that consumer confidence will maintain a slow, steady return over the next three years, but a return to pre-recession levels is not expected before 2016.

Interest Rates. Following three years of aggressive easing of interest rates, the Federal Reserve gives no indication that rates will increase in the near future. (The third phase of aggressive Treasury purchases began in the fall of 2011.)

At some point, aggressive easing will be replaced by a more normal credit policy to stay ahead of inflationary tendencies. However, it is noteworthy that most economists foresee little significant inflation risk, regardless of the forecast scenarios, as inflation is expected to remain below 2% in the near term.

Commodity prices may spike in certain areas, but no overall core inflation will occur as long as there is so much slack in the economy. This will be good for the financial

markets and for those that qualify for very low mortgage rates; conversely, retailers will be limited in pricing power for the foreseeable future, which will continue to dampen the pace of overall nominal retail sales activity.

Business Spending. Corporate profits and business investment will likely slow in comparison to 2011, but modest growth is likely to continue.

Actual performance could exceed expectations if consumer demand is more robust than anticipated, or if there is moderation in some of the economy's widely discussed risk factors.

Value of the Dollar. The value of the dollar eroded significantly in 2009 and 2010 and continued to decline against most major currencies in the spring of 2011. But turmoil in Europe and signs of slowing in some of the emerging market economies resulted in renewed interest in the dollar as a safe haven currency.

Some economists have argued that aggressive monetary policy and looming fiscal imbalances will put downward pressure on the dollar, ultimately kindling an inflationary spiral driven by higher import and commodity prices. However, that is not a consensus view.

Further deterioration in the value of the dollar is not anticipated; at the same time, in the absence of a worldwide recession, significant appreciation of the dollar seems unlikely as well.

Current Events and Risks. The overall consensus is that, nationally, growth will be slow but steady, barring any unforeseen shocks. While many indicators of the U.S. economy support that scenario, in the fall of 2011 *Global Insight* continued to place the chance of a "double dip" recession at an uncomfortably high 40% – twice as high as in the fall of 2010.

The recession scenario could be triggered by any number of factors, e.g., a geopolitical or financial shock, with the latter coming from the collapse of a major bank, municipality or developed country succumbing to pressures from real estate or some other external factor. Throughout much of 2011, the biggest risks emanated from Europe. Generally speaking, anything that threatens the re-emerging confidence of cautious consumers could push the U.S. toward another downturn.

On the flip side, it would not be unrealistic to foresee consumer confidence reverting, by itself, to more normal levels and providing a lasting boost. Such an occurrence would place growth on the high side of the range of consensus forecasts.

ARIZONA OUTLOOK

FOLLOWING THE LEAD OF THE U.S. ECONOMY, after three years of stagnation the Arizona economy has begun to display signs of growth. By historical standards, the state's recent growth is relatively mild, and only slight acceleration is seen for 2012, but, for 2013 and beyond, more robust growth is on the horizon.

This scenario assumes that (a) stability or modest growth is realized in aerospace and semiconductor manufacturing, (b) healthcare services continue to expand, (c) retail and services industries coincide with Arizona's overall growth, (d) net in-migration begins movement toward its historic growth, and (e) the excess inventory in the housing sector begins to be absorbed.

Following are discussions of key factors in assessing and predicting the health of Arizona's economy.

Employment. The good news on the employment front is that the Arizona economy, while underperforming, added net jobs in 2011 and, in recent months, was among the nation's leaders in this area.

Job growth may approach 2.5% by the end of 2012, using year-over-year comparisons. However, a return to normal 3% to 4% year-over-year employment growth will probably be delayed until 2013 or later. Construction- and real estate-related areas of employment will impede job creation, as will State and local government employment.

Personal Income. Aggregate personal income growth in Arizona, as reported by the Bureau of Economic Analysis, displayed some signs of growth in 2011. Again, the growth rate was low by historical standards but was certainly welcome after a few years of decline or stagnation. Slightly faster growth (6% or higher) is expected to return in 2012. As growth in overall income returns, consumer confidence and purchasing are likely to continue to rebound from historical low levels.

Population Growth. The pace of domestic in-migration has held the key to growth in Arizona for decades. By most accounts, 2009 and 2010 were the slowest years for new arrivals from other states in Arizona's recorded history. Impediments have included weakness in the overall economy, coupled with the inability to sell homes in key sourcing states and the massive loss of wealth that many would-be residents suffered in the last three years.

As the national economy improves, those negative impacts will ease, and some of the traditional dynamics of Arizona's magnetism – job growth, affordable housing and an attractive climate – will regain prominence. There are signs that net in-migration is returning to historical form after a few years of decline, boosted by attractive housing prices and the rapid rate of Baby Boomer retirements.

Official figures for 2011 are not yet available, but modest in-migration improvement is expected for that year and beyond. It is the pace of that resurgence that will be important for Arizona's growth trajectory.

Risks. The risks to the Arizona economy remain significant, particularly under the scenario in which the U.S. falls back into recession. A national recession will significantly delay recovery in Arizona, since it will damage our cyclically sensitive sectors while impeding the in-migration flow that has been historically responsible for considerable growth.

As was mentioned earlier, catalysts for a national downturn include another financial episode triggered by a debt crisis and/or a geopolitical shock. What remains to be seen is whether the housing sector will undergo another significant round of foreclosures and defaults – perhaps fueled by increasingly popular strategic default strategies – that will send more real estate-related shock waves through the financial system. Geopolitical shocks could threaten the hospitality and travel industry that is positioned to grow from very low recent levels.

Closer to home, substantial cuts in federal spending are a distinct possibility. Fiscal restraint in Washington would significantly enhance the nation’s long-term economic health and lighten the tax burden on future generations of Americans. At the same time, the public and private sectors of most states – including Arizona – would be forced to adjust to that new reality.

Upside Potential. A considerable share of Arizona’s economic woes has been attributable to the fragile condition of consumer confidence, especially in the purchase of durables such as automobiles and homes. This erosion is linked in part to the sharp declines in housing wealth that have occurred over the last three to four years.

If the pace of improvement in the economy accelerates, the resulting improvement in the mood of the consumer can begin to make its positive impact. As we have seen throughout much of 2011, even modest improvement in consumer spending is a catalyst for dramatic growth in the pace of retail transactions, which in turn stimulate more transactions, unfreezing of credit lines and more normal consumer behavior. This chain of events could play out at a faster or slower pace, depending on a host of factors: an acceleration or deceleration in inflation, fewer or more foreclosures, the pace of real GDP growth, slower or faster resurgence of in-migration, etc.

REVENUE FORECASTS

THE FY 2012 FORECAST IS CONSERVATIVE, showing modest growth over reported FY 2011 figures. Achieving that forecast will require relatively little economic growth in the second half of FY 2012. Revenue flows have turned positive after a few years of significant declines, and consumer confidence will need to continue on only a slightly upward trajectory, provided there are no major geopolitical or financial shocks.

The revenue forecasts are conservative in comparison to the baseline economic projections in the most recent monthly reports the Executive uses to benchmark economic forecasting. The personal income and employment growth projections provided in the baseline scenario are consistent with the consensus views of most private and public economic forecasters for the State.

There remains a relatively large range between pessimistic and optimistic revenue scenarios. Factors contributing to the range include uncertainties about the potential realization of capital gains, the pace of potential improvement in consumer confidence, and the continuing uncertainties about how corporations reassess prior liabilities and request refunds. However, it is clear that these uncertainties have mitigated somewhat over the past year, removing some of the obstacles observed in revenue flows in Fiscal Years 2010 and 2011.

THE FY 2013 FORECAST is again characterized by moderate growth rates. The baseline economic projections contained in the benchmarking reports, display growth from FY 2012 to FY 2013, and revenues respond accordingly. However, revenue growth will likely outpace economic growth because, as the economy stabilizes and improves, it will bring with it a marked improvement in consumer psychology that has dampened revenue growth in recent years.

Some of the growth will likely be fueled by a resurgence in capital gains income. As a result, modest employment, income and wealth growth in FY 2013 will be accompanied by even stronger revenue growth. However, a return to the lofty revenue levels of FYs 2006 and 2007 is still several years away. •

**STATE OF ARIZONA
GENERAL FUND
BASE REVENUE SUMMARY
FY 2011 THROUGH FY 2014
(in thousands)**

<u>TAXES</u>	Actual FY 2011	Estimate FY 2012	Estimate FY 2013	Estimate FY 2014
Corporate Income	560,235.7	610,000.0	630,000.0	661,500.0
Individual Income	2,863,525.0	3,050,500.0	3,280,000.0	3,503,040.0
Property Taxes	20,333.5	20,000.0	20,000.0	20,000.0
Sales and Use	3,466,717.4	3,650,000.0	3,900,000.0	4,134,000.0
Luxury Taxes	53,599.4	53,534.0	55,100.0	56,753.0
Insurance Premium Taxes	413,742.5	375,913.6	374,700.0	397,182.0
Estate Taxes	437.4	0.0	0.0	0.0
Other Taxes	2,667.8	3,000.0	3,000.0	3,000.0
TOTAL TAXES	7,381,258.7	7,762,947.6	8,262,800.0	8,775,475.0
 <u>OTHER REVENUES</u>				
Licenses, Fees & Permits/Misc.	143,264.3	118,090.6	122,814.3	127,726.8
Interest Earnings	4,557.5	2,100.0	2,500.0	6,000.0
Lottery	81,440.0	75,430.0	58,640.0	58,640.0
Transfers & Reimbursements	25,629.6	21,000.0	21,000.0	21,000.0
Disproportionate Share	87,578.6	78,586.0	63,977.0	63,977.0
TOTAL OTHER REVENUES	342,470.1	295,206.6	268,931.3	277,343.8
TOTAL REVENUES	7,723,728.8	8,058,154.2	8,531,731.3	9,052,818.8
 <u>ADJUSTMENTS</u>				
Urban Revenue Sharing	(474,006.5)	(424,423.4)	(513,584.0)	(549,075.0)
GRAND TOTAL REVENUES	7,249,722.3	7,633,730.8	8,018,147.2	8,503,743.8

BUDGET IN A FLASH

EXECUTIVE RECOMMENDATION SUMMARY

Major Highlights of FY 2013

\$526.9 million for AHCCCS Baseline Caseload and Inflation	\$25.8 million for DES TANF Backfill
\$200.0 million for Education Soft Capital	\$20.5 million for Retirement Adjustments
\$95.0 Million for DOA AFIS Replacement and IT modernization	\$17.0 million for DES Adoption Services
\$64.1 million for DHS Title XIX State Match	\$11.4 million for Land Risk Revolving to General Fund
\$53.7 million for Employee Pay Increase	\$10.0 million for SMART Scholarships for Community Colleges
\$50.0 million for Education Move on When Reading	\$9.3 million for DOC Correctional Officers
\$40.0 million for Education Preventative Maintenance	(\$3.8) million for DJC Catalina Mountain School Closure
\$38.7 million for DHS Non-Title XIX SMI Services	(\$7.4) million for Community Colleges Equalization State Aid
\$35.0 million for Education Jobs Backfill	(\$9.1) million for Education Career Ladder Phase Down
\$31.5 million for Commerce Authority Economic Development	(\$37.0) million for Education Homeowner's Rebate Reforms
\$30.0 million for University Performance Funding	(\$70.6) million for Education Basic State Aid
\$27.8 million for AHCCCS Provider Rate Increase	(\$525.1) million for Medicaid Reform Plan

Operating Budgets (in millions)

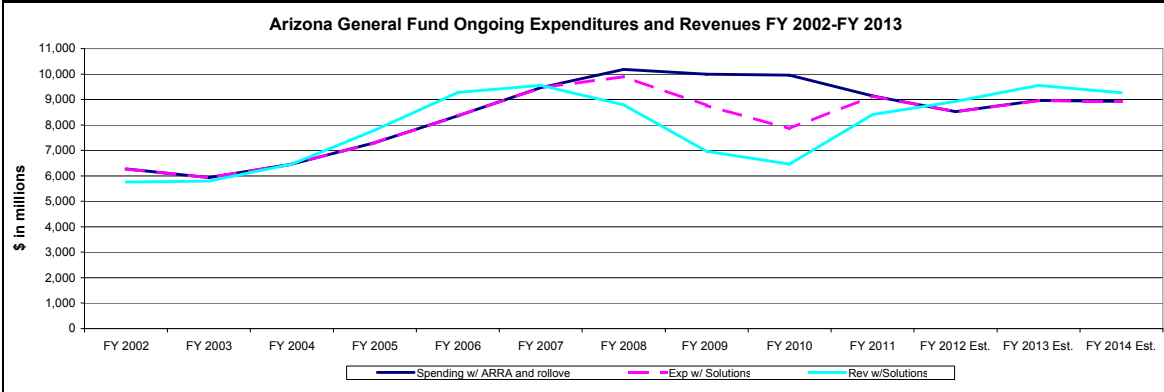
Sources and Uses FY 12 - FY 13

(\$ in millions) Agency:	FY 12	Change	FY 13	(\$ in millions)	FY 12	FY 12	FY 13
	Approp	from FY 12	Recomm.		Approp	Recomm.	Recomm.
Dept. of Economic Security	602.6	61.3	663.9	Balance Forward	(332.3)	3.2	392.0
AHCCCS	1,363.7	32.6	1,396.3	Revenue Estimate	7,375.2	7,633.7	8,018.1
Dept. of Education	3,436.5	214.0	3,650.5	DPS and MVD HURF Shift Savings	62.2	62.2	62.2
School Facilities Board	164.1	8.5	172.6	Agency Fund Transfers	256.1	242.0	124.4
Dept. of Health Services	494.3	111.5	605.8	County Transfers	38.6	38.6	0.0
Dept. of Corrections	948.2	32.7	980.9	Tax Recovery Change	22.0	12.9	0.0
Dept. of Revenue	44.1	9.5	53.6	Temporary One Cent Sales Tax	901.0	911.8	974.3
Forester	6.1	1.0	7.1	Other Adjustments	8.6	8.6	(19.7)
Arizona Pioneers' Home	1.6	(0.7)	0.9	TOTAL SOURCES OF FUNDS	8,331.4	8,913.0	9,551.3
Community Colleges	71.1	(5.3)	65.8	Operating Budgets	8,239.6	8,285.1	8,877.7
University System	682.5	24.3	706.8	27th Payroll	79.0	79.0	0.0
Dept. of Agriculture	7.9	0.3	8.2	Health Insurance Enhancements	(12.0)	(0.2)	0.0
Dept. of Racing	2.8	(1.1)	1.7	Lease Purchase Debt Service	49.1	49.1	84.1
Veterans Services	7.1	(1.8)	5.3	Continuing Approps Expenditures	0.0	40.8	0.0
Historical Society	4.2	(1.0)	3.2	Reversions of Continuing Approps	0.0	0.0	0.0
Department of Public Safety	46.5	17.1	63.6	Other Adjustments	(0.2)	(0.2)	0.0
Secretary of State	13.3	2.2	15.5	Capital	0.0	0.0	50.0
Dept. of Environmental Quality	7.0	0.0	7.0	Administrative Adjustments	73.4	69.1	66.9
Dept. of Water Resources	5.7	2.2	7.9	Reversions	(111.3)	(107.7)	(115.4)
Department of Administration	14.9	91.8	106.7	State Debt Reduction	0.0	106.0	0.0
Dept. of Land	1.2	12.7	13.9	USES OF FUNDS	8,317.6	8,521.0	8,963.3
Attorney General	16.9	8.6	25.5	ENDING BALANCE	13.8	392.0	588.0
Department of Juvenile Corrections	46.7	(2.3)	44.4				
All Others	250.6	20.0	270.6				
Total	8,239.6	638.1	8,877.7				

FY 2012 Supplemental Recommendations

(\$ in thousands)	
AHCCCS-Baseline Caseload and Inflation	485,394.6
SFB-Three-Year Building Renewal Grant Program	100,000.0
DHS-Reallocation from AHCCCS	27,851.3
DHS-Reallocation from DES	13,700.0
DOA-AFIS Replacement	10,000.0
DHS-Arizona State Hospital Fund	2,500.0
AHCCCS-AG Tobacco Litigation	1,364.3
DPS-Adjustment for ERE	777.8
Historical Society-Papago Park Rent Payment	193.7
Fire, Building and Life Safety-Health Insurance Adj	140.9
Corporation Commission-Health Insurance Allocati	75.2
DJC-Catalina Mountain School Closure	(1,600.0)
DES-Reallocation to DHS	(13,700.0)
AHCCCS-Reallocation to DHS	(27,851.3)
Education-Baseline Adjustment	(67,852.8)
AHCCCS-Medicaid Reform Plan	(485,394.6)
Total General Fund Supplementals	45,599.1

Arizona General Fund Ongoing Revenue and Expenditures FY 2002 to FY 2014



MAJOR CHANGES IN FY 2013 GENERAL FUND BUDGETS (Increases to FY 2012)

Major Highlights of FY 2013

Department of Education		Department of Economic Security	
	FY 2013		FY 2013
Soft Capital	200.0	TANF Backfill	25.8
Move on When Reading	50.0	Adoption Services	17.0
Preventative Maintenance	40.0	State Employee Pay Adjustment	7.2
Education Jobs Backfill	35.0	Child Support - Loss of SSRE	4.5
Adult Education Services	4.6	Child Protective Services Improvements	3.7
Career Ladders Phase Down	(9.1)	TXIX Developmental Disabilities	2.8
Homeowner's Rebates Reform	(37.0)	Permanent Guardianship	2.4
Basic State Aid	(70.6)	Health Insurance Rate Reduction	(2.6)
Other Adjustments	1.1	Other Adjustments	0.5
TOTAL	214.0	TOTAL	61.3
Department of Public Safety		AHCCCS	
	FY 2013		FY 2013
Adjustment for ERE	9.2	Baseline Caseload and Inflation	526.9
State Employee Pay Adjustment	6.0	Provider Rate Increase	27.8
Replacement Highway Patrol Vehicles	2.8	AG Tobacco Litigation	1.2
Other Adjustments	(0.9)	IT Network Security Solution	0.9
TOTAL	17.1	Medicaid Reform Plan	(525.1)
		Other Adjustments	0.9
		TOTAL	32.6
School Facilities Board		Department of Health Services	
	FY 2013		FY 2013
New Construction Lease-to-Own Debt Service	9.3	BHS State Match TXIX	64.1
Three-Year Building Renewal Grant Program	1.8	Non-TXIX SMI Services	38.7
Eliminate One-Time Building Renewal Grant Funding	(2.7)	Arizona State Hospital Fund	7.0
Other Adjustments	0.1	State Employee Pay Adjustment	2.3
TOTAL	8.5	Other Adjustments	(0.6)
		TOTAL	111.5
Department of Corrections		Department of Administration	
	FY 2013		FY 2013
State Employee Pay Adjustment	26.3	AFIS Replacement & IT Modernization	95.0
Correctional Officers	9.3	State Employee Pay Adjustment	0.3
Leap Year	(0.8)	Statewide Transparency Website	0.1
Other Adjustments	(2.1)	ENSCO	(1.4)
TOTAL	32.7	Rent Standard Adjustment	(2.1)
		Other Adjustments	(0.1)
		TOTAL	91.8
Department of Juvenile Corrections		Postsecondary Education	
	FY 2013		FY 2013
State Employee Pay Adjustment	1.6	SMART Scholarships for Community College Students	10.0
Catalina Mountain School Closure	(3.8)	TOTAL	10.0
Other Adjustments	(0.1)		
TOTAL	(2.3)		
Department of Racing		Board of Regents	
	FY 2013		FY 2013
Self Funding	(1.1)	University Performance Funding	30.0
TOTAL	(1.1)	Course Redesign Technology and Capital	15.3
		TOTAL	45.3
Community Colleges		Water Resources	
	FY 2013		FY 2013
Operating State Aid Formula Funding	2.1	White Mountain Apache Water Rights Settlement	2.0
Equalization State Aid Formula Funding	(7.4)	Other Adjustments	0.2
TOTAL	(5.3)	TOTAL	2.2
Department of Revenue		Real Estate	
	FY 2013		FY 2013
Refurbish Integrated Tax System	7.1	Auditing and Investigations Staff	0.2
State Employee Pay Adjustment	1.6	Other Adjustments	0.2
Other Adjustments	0.8	TOTAL	0.4
TOTAL	9.5		
Attorney General		Land Department	
	FY 2013		FY 2013
AG Pro-Rata Elimination	6.0	Funding: Risk Revolving to General Fund	11.4
Rent Standard Adjustment	1.0	Rent Standard Adjustment	0.9
Expiring Cross-Border Grant Backfill	0.7	Other Adjustments	0.4
Other Adjustments	0.9	TOTAL	12.7
TOTAL	8.6		
Secretary of State		Weights and Measures	
	FY 2013		FY 2013
Rent Standard Adjustment	1.9	Large Scale Test Truck with Crane	0.3
Persistent Digital Archives and Library Systems	0.2	Other Adjustments	0.0
Chavez Litigation Costs	(0.1)	TOTAL	0.3
Other Adjustments	0.2		
TOTAL	2.2		

FY 2013 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
State Board of Accountancy	0.0	1,924.4	0.0	1,924.4
Acupuncture Board of Examiners	0.0	131.3	0.0	131.3
Arizona Department of Administration	106,675.7	179,410.3	959,245.7	1,245,331.7
Office of Administrative Hearings	850.2	13.9	936.3	1,800.5
Arizona Department of Agriculture	8,153.5	2,927.2	14,216.4	25,297.2
Arizona Health Care Cost Containment System	1,396,325.7	193,952.5	7,428,692.7	9,018,970.9
State Board of Appraisal	0.0	777.3	0.0	777.3
Arizona Commission on the Arts	0.0	0.0	2,556.4	2,556.4
State Board of Athletic Trainers	0.0	104.3	0.0	104.3
Attorney General - Department of Law	25,460.6	34,735.4	43,163.6	103,359.6
Automobile Theft Authority	0.0	4,296.9	0.0	4,296.9
Board of Barber Examiners	0.0	333.5	0.0	333.5
Board of Behavioral Health Examiners	0.0	1,635.7	0.0	1,635.7
State Capital Post-Conviction Public Defender Office	713.8	161.0	0.0	874.8
State Board for Charter Schools	865.9	0.0	27.0	892.9
State Board of Chiropractic Examiners	0.0	463.5	0.0	463.5
Citizens' Clean Elections Commission	0.0	0.0	6,348.9	6,348.9
Commerce Authority	31,500.0	0.0	41,949.7	73,449.7
Department of Commerce	0.0	0.0	0.0	0.0
Arizona Community Colleges	65,846.0	0.0	0.0	65,846.0
Constable Ethics Standards & Training Board	0.0	0.0	245.3	245.3
Registrar of Contractors	0.0	12,095.2	10,957.1	23,052.3
Corporation Commission	597.5	25,209.0	914.4	26,720.9
Department of Corrections	980,922.9	55,249.0	58,654.6	1,094,826.6
Board of Cosmetology	0.0	1,775.9	157.1	1,933.0
Arizona Criminal Justice Commission	0.0	5,644.4	16,309.8	21,954.2
Arizona State Schools for the Deaf and the Blind	20,963.4	12,967.6	21,384.4	55,315.4
Commission for the Deaf and the Hard of Hearing	0.0	4,022.9	0.0	4,022.9
State Board of Dental Examiners	0.0	1,210.3	0.0	1,210.3
Arizona Early Childhood Development and Health Board	0.0	0.0	152,699.4	152,699.4
Department of Economic Security	663,859.8	456,287.9	3,303,789.0	4,423,936.7
Department of Education	3,650,480.0	62,198.6	1,689,960.5	5,402,639.1
Department of Emergency and Military Affairs	8,974.5	0.0	40,121.1	49,095.6
Department of Environmental Quality	7,000.0	65,769.8	279,998.7	352,768.4
Governor's Office for Equal Opportunity	190.0	0.0	68.8	258.8
State Board of Equalization	645.4	0.0	0.0	645.4
Board of Executive Clemency	868.2	0.0	0.0	868.2
Arizona Exposition & State Fair	0.0	11,281.8	0.0	11,281.8
State Department of Financial Institutions	3,025.9	1,048.8	578.2	4,652.9
Board of Fingerprinting	0.0	0.0	491.3	491.3
Department of Fire, Building and Life Safety	1,738.1	0.0	744.2	2,482.2
Arizona State Forester	7,148.6	0.0	23,472.2	30,620.8
State Board of Funeral Directors & Embalmers	0.0	354.3	0.0	354.3
Arizona Game & Fish Department	0.0	39,720.5	61,125.9	100,846.4
Department of Gaming	0.0	12,346.3	0.0	12,346.3
Arizona Geological Survey	985.4	0.0	6,599.6	7,585.1
Government Information Technology Agency	0.0	0.0	0.0	0.0
Office of the Governor	6,876.7	0.0	28,189.4	35,066.1

FY 2013 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
Governor's Office of Strategic Planning and Budgeting	1,993.5	0.0	0.0	1,993.5
Department of Health Services	605,821.9	89,703.5	1,570,715.3	2,266,240.7
Governor's Office of Highway Safety	0.0	0.0	6,899.2	6,899.2
Arizona Historical Society	3,166.2	0.0	1,073.5	4,239.7
Prescott Historical Society of Arizona	667.5	0.0	1,775.2	2,442.7
Department of Homeland Security	0.0	0.0	50,889.3	50,889.3
Board of Homeopathic Medical Examiners	0.0	110.8	0.0	110.8
Arizona Department of Housing	0.0	337.8	48,942.6	49,280.4
Independent Redistricting Commission	1,707.1	0.0	0.0	1,707.1
Arizona Commission of Indian Affairs	60.1	0.0	29.1	89.2
Department of Insurance	5,364.2	0.0	8,224.3	13,588.5
Industrial Commission of Arizona	0.0	20,332.6	5,694.7	26,027.3
Judiciary	109,402.1	39,709.3	33,970.4	183,081.8
Department of Juvenile Corrections	44,356.5	3,291.1	2,043.8	49,691.3
State Land Department	13,903.2	760.0	1,832.2	16,495.4
Law Enforcement Merit System Council	71.7	0.0	0.0	71.7
Auditor General	16,350.4	0.0	2,042.8	18,393.2
House of Representatives	13,345.1	0.0	0.0	13,345.1
Joint Legislative Budget Committee	2,494.3	0.0	0.0	2,494.3
Legislative Council	4,803.7	0.0	0.0	4,803.7
Senate	8,240.1	0.0	0.0	8,240.1
Department of Liquor Licenses and Control	0.0	2,906.4	1,056.0	3,962.4
Arizona State Lottery Commission	0.0	87,501.2	895,011.2	982,512.4
Arizona Medical Board	0.0	5,947.3	0.0	5,947.3
Board of Medical Student Loans	0.0	0.0	0.0	0.0
State Mine Inspector	1,232.4	112.5	288.7	1,633.5
Mines and Mineral Resources	0.0	0.0	0.0	0.0
Naturopathic Physicians Board of Medical Examiners	0.0	611.7	0.0	611.7
Arizona Navigable Stream Adjudication Commission	208.8	0.0	0.0	208.8
State Board of Nursing	0.0	4,129.3	549.3	4,678.6
Nursing Care Ins. Admin. Examiners	0.0	448.6	0.0	448.6
Board of Occupational Therapy Examiners	0.0	166.1	0.0	166.1
State Board of Dispensing Opticians	0.0	135.7	0.0	135.7
State Board of Optometry	0.0	205.1	0.0	205.1
OSHA Review Board	0.0	0.0	0.0	0.0
Arizona Board of Osteopathic Examiners	0.0	718.2	0.0	718.2
Parents Commission on Drug Education & Prevention	0.0	0.0	4,780.4	4,780.4
State Parks Board	0.0	12,199.4	54,749.3	66,948.7
Personnel Board	0.0	374.5	0.0	374.5
Office of Pest Management	0.0	2,063.5	110.8	2,174.2
Arizona State Board of Pharmacy	0.0	2,007.9	377.6	2,385.5
Board of Physical Therapy Examiners	0.0	371.7	0.0	371.7
Arizona Pioneers' Home	949.1	5,386.1	7.1	6,342.3
State Board of Podiatry Examiners	0.0	147.3	0.0	147.3
Commission for Postsecondary Education	11,396.8	1,596.9	1,876.2	14,869.9
Power Authority	0.0	0.0	39,154.8	39,154.8
State Board for Private Postsecondary Education	0.0	338.8	100.8	439.6
State Board of Psychologist Examiners	0.0	357.2	0.0	357.2

FY 2013 Executive Recommendations

	General Fund	Other Appropriated Funds	Non-Appropriated Funds	All Funds Total
Department of Public Safety	63,575.2	171,862.4	72,167.9	307,605.5
Arizona Department of Racing	1,717.5	2,672.2	16.9	4,406.7
Radiation Regulatory Agency	1,481.7	821.3	920.4	3,223.4
Arizona Rangers' Pension	0.0	0.0	0.0	0.0
Department of Real Estate	3,022.6	0.0	156.0	3,178.6
Residential Utility Consumer Office	0.0	1,331.7	0.0	1,331.7
Board of Respiratory Care Examiners	0.0	271.3	0.0	271.3
Arizona State Retirement System	0.0	24,275.3	77,058.0	101,333.3
Department of Revenue	53,634.2	25,328.4	77,309.0	156,271.6
School Facilities Board	172,592.5	0.0	288,312.2	460,904.7
Department of State - Secretary of State	15,490.5	3,626.7	6,282.1	25,399.4
State Boards Office	0.0	231.0	0.0	231.0
State Board of Tax Appeals	263.0	0.0	0.0	263.0
State Board of Technical Registration	0.0	1,882.4	0.0	1,882.4
Arizona Office of Tourism	7,000.0	0.0	14,959.5	21,959.5
Department of Transportation	51.3	364,887.1	2,520,672.3	2,885,610.7
State Treasurer	1,115.1	4,611.1	0.0	5,726.2
Arizona Board of Regents	62,188.8	0.0	78,446.5	140,635.3
ASU - Tempe	238,718.9	453,894.3	1,060,134.2	1,752,747.4
ASU - Polytechnic	18,426.7	39,572.7	31,532.8	89,532.2
ASU - West	32,109.1	33,878.7	48,599.7	114,587.5
Northern Arizona University	99,677.9	97,738.9	309,798.7	507,215.4
University of Arizona - Main Campus	201,040.0	247,503.0	1,187,495.7	1,636,038.6
University of Arizona - Health Sciences Center	54,683.5	41,154.0	256,657.1	352,494.6
Department of Veterans' Services	5,339.0	28,274.6	2,877.6	36,491.1
State Veterinary Medical Examining Board	0.0	474.0	0.0	474.0
Department of Water Resources	7,880.4	6,933.6	7,930.3	22,744.3
Department of Weights and Measures	1,496.1	1,757.0	0.0	3,253.2
	8,877,706.5	3,023,001.8	22,967,119.3	34,867,827.6

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Executive Budget	FY 2013 Changes and Adjustments	FY 2013 Executive Budget	FY 2014 Baseline Budget
Arizona Department of Administration	17,449.8	24,858.6	91,817.1	106,675.7	13,615.3
Office of Administrative Hearings	905.1	811.1	39.1	850.2	843.5
Arizona Department of Agriculture	8,391.7	7,909.4	244.1	8,153.5	8,079.8
Arizona Health Care Cost Containment System	1,301,689.2	1,337,248.0	32,590.7	1,396,325.7	1,480,993.4
Arizona Commission on the Arts	652.5	0.0	0.0	0.0	0.0
Attorney General - Department of Law	17,237.4	16,931.5	8,529.1	25,460.6	25,365.8
State Capital Post-Conviction Public Defender Office	633.8	688.9	24.9	713.8	708.9
State Board for Charter Schools	715.3	750.6	115.3	865.9	860.5
Commerce Authority	0.0	31,500.0	0.0	31,500.0	31,500.0
Department of Commerce	3,473.1	0.0	0.0	0.0	0.0
Arizona Community Colleges	135,344.3	71,089.0	(5,243.0)	65,846.0	67,505.8
Department of Corrections	899,401.6	948,188.6	32,734.3	980,922.9	1,001,781.5
Corporation Commission	619.9	586.4	86.1	597.5	593.6
Arizona Criminal Justice Commission	0.0	0.0	0.0	0.0	0.0
Arizona State Schools for the Deaf and the Blind	21,511.2	20,686.3	277.1	20,963.4	20,730.3
Department of Economic Security	538,226.9	588,903.3	61,256.5	663,859.8	688,001.6
Department of Education	3,488,598.3	3,368,675.9	213,951.3	3,650,480.0	3,591,137.7
Department of Emergency and Military Affairs	9,079.7	8,815.3	159.2	8,974.5	8,958.5
Department of Environmental Quality	7,000.0	7,000.0	0.0	7,000.0	7,000.0
Governor's Office for Equal Opportunity	193.6	187.9	2.1	190.0	188.3
State Board of Equalization	565.3	625.8	19.6	645.4	643.9
Board of Executive Clemency	854.1	790.5	77.7	868.2	854.6
State Department of Financial Institutions	2,794.9	2,726.6	299.3	3,025.9	3,005.6
Department of Fire, Building and Life Safety	1,989.5	1,834.2	44.8	1,738.1	1,725.3
Arizona State Forester	5,822.0	6,052.0	1,096.6	7,148.6	7,125.0
Arizona Geological Survey	789.0	865.1	120.3	985.4	980.2
Government Information Technology Agency	586.7	0.0	0.0	0.0	0.0
Office of the Governor	5,657.6	6,601.9	274.8	6,876.7	6,839.6
Governor's Office of Strategic Planning and Budgeting	1,816.9	1,874.2	119.3	1,993.5	1,981.5
Department of Health Services	428,305.8	538,346.1	111,527.1	605,821.9	644,464.2
Arizona Historical Society	5,264.5	4,344.8	(984.9)	3,166.2	3,142.9
Prescott Historical Society of Arizona	618.3	652.6	14.9	667.5	660.5
Department of Homeland Security	0.0	0.0	0.0	0.0	0.0
Arizona Commission of Indian Affairs	62.3	54.3	5.8	60.1	59.9
Independent Redistricting Commission	106.2	3,000.0	(1,292.9)	1,707.1	1,830.0
Department of Insurance	5,426.0	5,184.2	180.0	5,364.2	5,320.8
Judiciary	113,033.3	108,785.2	616.9	109,402.1	109,150.0
Department of Juvenile Corrections	51,191.0	45,129.8	(2,373.3)	44,356.5	43,964.8
State Land Department	3,275.1	1,231.8	12,671.4	13,903.2	13,832.8
Law Enforcement Merit System Council	68.1	70.2	1.5	71.7	71.0
Auditor General	16,405.1	16,156.0	194.4	16,350.4	16,224.3
House of Representatives	11,470.7	12,993.7	351.4	13,345.1	13,217.4
Joint Legislative Budget Committee	450.9	2,399.9	94.4	2,494.3	2,480.1
Legislative Council	3,914.0	4,654.1	149.6	4,803.7	4,776.9
Senate	6,932.5	7,985.2	254.9	8,240.1	8,166.5
Board of Medical Student Loans	360.7	67.0	(67.0)	0.0	0.0
State Mine Inspector	1,104.6	1,185.8	46.6	1,232.4	1,225.1
Mines and Mineral Resources	1,625.1	0.0	0.0	0.0	0.0
Arizona Navigable Stream Adjudication Commission	122.6	126.9	81.9	208.8	207.9
OSHA Review Board	0.0	15.0	(15.0)	0.0	0.0
State Parks Board	20,000.0	0.0	0.0	0.0	0.0
Arizona Pioneers' Home	1,567.3	1,603.6	(654.5)	949.1	929.8
Commission for Postsecondary Education	1,220.8	1,396.8	10,000.0	11,396.8	11,396.8

General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Executive Budget	FY 2013 Changes and Adjustments	FY 2013 Executive Budget	FY 2014 Baseline Budget
Department of Public Safety	40,365.2	47,304.0	17,049.0	63,575.2	65,588.6
Arizona Department of Racing	3,754.3	2,781.6	(1,064.1)	1,717.5	1,705.0
Radiation Regulatory Agency	1,392.6	1,459.0	22.7	1,481.7	1,475.0
Arizona Rangers' Pension	8.3	0.0	0.0	0.0	0.0
Department of Real Estate	2,812.0	2,656.7	365.9	3,022.6	3,001.8
Department of Revenue	43,317.1	44,129.6	9,504.6	53,634.2	49,245.0
School Facilities Board	67,497.9	264,087.2	8,505.3	172,592.5	177,080.9
Department of State - Secretary of State	12,308.0	13,309.4	2,181.1	15,490.5	12,018.2
State Board of Tax Appeals	249.4	253.4	9.6	263.0	262.1
Arizona Office of Tourism	0.0	0.0	7,000.0	7,000.0	7,000.0
Department of Transportation	44.5	50.2	1.1	51.3	51.3
State Treasurer	1,083.1	1,115.1	0.0	1,115.1	1,115.1
Arizona Board of Regents	17,124.1	16,926.2	45,262.6	62,188.8	62,175.0
ASU - Tempe	326,352.3	247,742.9	(9,024.0)	238,718.9	234,950.2
ASU - Polytechnic	25,101.5	19,076.8	(650.1)	18,426.7	18,190.2
ASU - West	43,934.4	33,159.6	(1,050.5)	32,109.1	31,796.1
Northern Arizona University	135,089.2	101,861.8	(2,183.9)	99,677.9	99,659.0
University of Arizona - Main Campus	270,215.3	208,367.0	(7,327.0)	201,040.0	198,220.4
University of Arizona - Health Sciences Center	74,334.2	55,334.3	(650.8)	54,683.5	53,916.5
Department of Veterans' Services	5,309.9	7,050.7	(1,711.8)	5,339.0	5,304.8
Department of Water Resources	6,719.1	5,698.3	2,182.1	7,880.4	5,828.5
Department of Weights and Measures	1,194.1	1,165.0	331.1	1,496.1	1,487.5
General Fund Operating Total	8,222,730.8	8,285,112.9	638,192.5	8,877,706.5	8,882,213.1

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>State Board of Accountancy</u>					
Accountancy Board Fund	1,434.8	1,887.8	1,887.8	1,924.4	36.6
<u>Acupuncture Board of Examiners</u>					
Acupuncture Board of Examiners Fund	116.4	125.3	125.3	131.3	6.0
<u>Arizona Department of Administration</u>					
Personnel Division Fund	13,865.0	14,564.8	14,564.8	14,207.3	(357.5)
Capital Outlay Stabilization Fund	15,843.7	17,903.8	17,903.8	17,872.1	(31.7)
Corrections Fund	442.2	552.5	552.5	569.4	16.9
Information Technology Fund	0.0	3,120.5	3,120.5	4,714.6	1,594.1
Air Quality Fund	598.2	714.1	714.1	714.1	0.0
State Web Portal Fund	0.0	250.0	250.0	5,850.0	5,600.0
Special Employee Health Fund	3,897.4	5,108.3	5,108.3	5,206.8	98.5
Motor Pool Revolving Fund	8,639.8	10,038.9	10,038.9	10,077.9	39.0
Special Services Fund				0.0	
State Surplus Property Fund	2,070.2	2,378.8	2,378.8	2,423.8	45.0
Admin - Surplus Property/Federal Fund	96.4	451.4	451.4	452.6	1.2
Risk Management Fund	71,682.8	90,321.8	100,721.8	92,054.0	1,732.2
Automation Operations Fund	17,414.7	18,672.4	18,672.4	23,351.4	4,679.0
Telecommunications Fund	1,624.4	1,817.2	1,817.2	1,916.2	99.0
Agency Total	136,174.8	165,894.5	176,294.5	179,410.3	13,515.8
<u>Office of Administrative Hearings</u>					
Healthcare Group Fund	14.5	14.5	14.5	13.9	(0.6)
<u>Arizona Department of Agriculture</u>					
Agriculture Commercial Feed Fund	298.2	293.4	293.4	301.3	7.9
Egg and Egg Product Control Fund	795.6	896.6	896.6	925.3	28.7
Pesticide Fund	347.0	489.1	489.1	502.3	13.2
Agriculture Dangerous Plants Fund	100.0	125.5	125.5	126.9	1.4
Agriculture Seed Law Fund	53.8	52.2	52.2	53.1	0.9
Livestock Custody Fund	69.1	120.0	120.0	120.0	0.0
Fertilizer Materials Fund	302.7	294.9	294.9	304.4	9.5
Citrus, Fruit, and Vegetable Revolving Fund	354.8	480.4	480.4	493.7	13.3
Aquaculture Fund	9.2	9.2	9.2	9.2	0.0
AZ Protected Native Plant Fund	120.2	90.0	90.0	91.1	1.1
Agency Total	2,450.6	2,851.3	2,851.3	2,927.2	75.9
<u>Arizona Health Care Cost Containment System</u>					
Tobacco Tax and Health Care Fund	38,295.8	38,295.8	41,700.9	47,632.7	9,336.9
Tobacco Products Tax Fund	19,222.9	19,222.9	21,225.6	24,158.2	4,935.3
Children's Health Insurance Program Fund	46,276.2	30,176.4	30,176.4	15,076.5	(15,099.9)
Budget Neutrality Compliance Fund	2,338.0	3,161.1	3,161.1	3,161.1	0.0
Healthcare Group Fund	1,773.7	3,496.3	3,496.3	3,603.0	106.7
Prescription Drug Rebate Fund	10,000.0	20,114.5	79,346.6	100,321.0	80,206.5
Agency Total	117,906.4	114,467.0	179,106.9	193,952.5	79,485.5

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>State Board of Appraisal</u>					
Board of Appraisal Fund	605.7	755.5	755.5	777.3	21.8
<u>State Board of Athletic Trainers</u>					
Athletic Training Fund	95.9	101.2	101.2	104.3	3.1
<u>Attorney General - Department of Law</u>					
Consumer Protection/Fraud Revolving Fund	2,020.5	3,439.8	3,439.8	3,494.2	54.4
Attorney General Antitrust Revolving Fund	146.6	241.2	241.2	135.5	(105.7)
Attorney General Collection Enforcement Fund	3,297.5	5,291.9	5,291.9	5,404.2	112.3
Attorney General Agency Services Fund	11,953.4	13,004.0	13,004.0	13,004.0	0.0
Victims Rights Fund	3,151.8	3,238.7	3,238.7	3,253.4	14.7
Risk Management Fund	7,622.2	8,765.9	8,765.9	9,444.1	678.2
Attorney General Legal Services Cost Allocation Fund	5,447.8	5,397.1	5,397.1	0.0	(5,397.1)
Agency Total	33,639.8	39,378.6	39,378.6	34,735.4	(4,643.2)
<u>Automobile Theft Authority</u>					
Automobile Theft Authority Fund	4,270.4	4,273.6	4,273.6	4,296.9	23.3
<u>Board of Barber Examiners</u>					
Barber Examiners Board Fund	250.5	320.7	320.7	333.5	12.8
<u>Board of Behavioral Health Examiners</u>					
Behavioral Health Examiners Fund	1,203.1	1,458.7	1,458.7	1,635.7	177.0
<u>State Capital Post-Conviction Public Defender Office</u>					
Capital Postconviction Public Defender Office Fund	93.0	161.0	161.0	161.0	0.0
<u>State Board of Chiropractic Examiners</u>					
Chiropractic Examiners Board Fund	390.0	449.3	449.3	463.5	14.2
<u>Department of Commerce</u>					
Lottery Fund	180.9	0.0	0.0	0.0	0.0
Commerce and Economic Development Fund	3,223.0	0.0	0.0	0.0	0.0
Agency Total	3,403.9	0.0	0.0	0.0	0.0
<u>Registrar of Contractors</u>					
Registrar of Contractors Fund	7,904.2	12,002.7	12,002.7	12,095.2	92.5
<u>Corporation Commission</u>					
Utility Regulation Revolving Fund	12,682.1	12,597.6	12,597.6	14,089.2	1,491.6
Security Regulatory and Enforcement Fund	4,235.9	4,217.4	4,192.4	4,376.1	158.7
Public Access Fund	5,479.0	5,817.1	5,767.1	5,989.6	172.5
Securities Investment Management Fund	694.0	678.7	678.7	703.2	24.5
Arizona Arts Trust Fund	51.0	49.9	49.9	50.9	1.0
Agency Total	23,142.0	23,360.7	23,285.7	25,209.0	1,848.3

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Department of Corrections</u>					
Corrections Fund	23,010.7	27,517.6	27,517.6	32,017.6	4,500.0
State Education Fund for Correctional Education Fund	413.9	503.5	503.5	524.5	21.0
DOC - Alcohol Abuse Treatment Fund	0.0	554.4	554.4	554.4	0.0
Transition Program Fund	180.0	930.0	930.0	3,485.0	2,555.0
Transition Services Fund	555.0	2,555.0	2,555.0	828.9	(1,726.1)
Prison Construction and Operations Fund	7,499.4	13,249.4	13,249.4	11,499.4	(1,750.0)
DOC Building Renewal & Preventive Maintenance	0.0	0.0	0.0	5,000.0	5,000.0
Penitentiary Land Earnings Fund	0.0	1,979.2	1,979.2	979.2	(1,000.0)
State Charitable, Penal & Reformatory Land Earnings Fund	0.0	3,360.0	3,360.0	360.0	(3,000.0)
Agency Total	31,659.1	50,649.1	50,649.1	55,249.0	4,599.9
<u>Board of Cosmetology</u>					
Cosmetology Board Fund	1,678.2	1,742.1	1,742.1	1,775.9	33.8
<u>Arizona Criminal Justice Commission</u>					
Criminal Justice Enhancement Fund	590.9	624.7	624.7	640.7	16.0
Victim Compensation and Assistance Fund	3,093.5	3,792.5	3,792.5	3,792.5	0.0
Drug and Gang Prevention Resource Center Fund	128.5	234.7	234.7	237.6	2.9
State Aid to County Attorneys Fund	973.6	973.6	973.6	973.6	0.0
State Aid to Indigent Defense Fund	700.3	0.0	0.0	0.0	0.0
Agency Total	5,486.8	5,625.5	5,625.5	5,644.4	18.9
<u>Arizona State Schools for the Deaf and the Blind</u>					
Schools for the Deaf and Blind Fund	12,349.9	12,725.5	12,725.5	12,967.6	242.1
<u>Commission for the Deaf and the Hard of Hearing</u>					
Telecom for the Deaf Fund	3,243.2	3,745.7	3,745.7	4,022.9	277.2
<u>State Board of Dental Examiners</u>					
Dental Board Fund	1,004.1	1,183.8	1,183.8	1,210.3	26.5
<u>Department of Economic Security</u>					
Workforce Investment Grant Fund	47,190.5	56,029.8	56,029.8	56,062.2	32.4
Temporary Assistance for Needy Families (TANF) Fund	235,736.7	239,304.4	239,304.4	213,655.5	(25,648.9)
Child Care and Development Fund	112,440.9	130,567.5	130,567.5	130,884.2	316.7
Special Administration Fund	9.2	1,129.9	1,129.9	1,129.9	0.0
Child Support Enforcement Administration Fund	10,327.0	16,534.9	16,534.9	16,832.8	297.9
Domestic Violence Shelter Fund	2,220.0	2,220.0	2,220.0	2,220.0	0.0
Child Abuse Prevention Fund	0.0	1,459.1	1,459.1	1,459.1	0.0
Children and Family Services Training Program Fund	32.1	205.3	205.3	212.7	7.4
Public Assistance Collections Fund	90.2	423.9	423.9	436.5	12.6
Department Long-Term Care System Fund	22,416.9	30,518.4	30,518.4	30,520.5	2.1
Spinal and Head Injuries Trust Fund	1,615.9	1,864.7	1,864.7	1,874.5	9.8
Indirect Cost Recovery Fund	0.0	1,000.0	1,000.0	1,000.0	0.0
Agency Total	432,079.4	481,257.9	481,257.9	456,287.9	(24,970.0)

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Department of Education</u>					
School Accountability Fund Prop 301 Fund	4,132.2	7,000.0	7,000.0	7,062.7	62.7
Teacher Certification Fund	2,300.6	2,283.8	2,283.8	2,348.2	64.4
Arizona Structured English Immersion Fund	(2,859.3)	0.0	0.0	0.0	0.0
Education Learning and Accountability	0.0	1,200.0	1,200.0	6,312.3	5,112.3
Public Institution Permanent School Earnings Fund	32,497.1	46,475.5	46,475.5	46,475.5	0.0
Agency Total	36,070.6	56,959.3	56,959.3	62,198.6	5,239.3
<u>Department of Emergency and Military Affairs</u>					
Emergency Response Fund	7.4	132.7	0.0	0.0	(132.7)
<u>Department of Environmental Quality</u>					
DEQ Emissions Inspection Fund	24,039.7	25,518.3	25,518.3	25,560.9	42.6
Hazardous Waste Management Fund	942.6	1,706.9	1,706.9	986.2	(720.7)
Air Quality Fund	2,735.4	5,366.0	5,366.0	5,429.8	63.8
Clean Water Revolving Fund	4,162.5	0.0	0.0	0.0	0.0
Underground Storage Tank Revolving Fund	0.0	22.0	22.0	22.0	0.0
Recycling Fund	0.0	0.0	0.0	1,527.2	1,527.2
Permit Administration Fund	4,962.8	6,989.2	6,989.2	7,101.8	112.6
Solid Waste Fee Fund	1,147.0	1,907.4	1,907.4	1,175.8	(731.6)
Used Oil Fund	13.1	138.9	138.9	138.9	0.0
Water Quality Fee Fund	4,388.9	10,316.7	10,316.7	10,546.7	230.0
Indirect Cost Fund	11,705.5	12,961.3	12,961.3	13,280.4	319.1
Agency Total	54,097.4	64,926.7	64,926.7	65,769.8	843.1
<u>Arizona Exposition & State Fair</u>					
Coliseum and Expo Center Fund	9,445.5	11,096.2	11,096.2	11,281.8	185.6
<u>State Department of Financial Institutions</u>					
Financial Services Fund	412.2	733.3	733.3	1,048.8	315.5
<u>State Board of Funeral Directors & Embalmers</u>					
Funeral Directors and Embalmers Fund	284.7	339.6	339.6	354.3	14.7
<u>Arizona Game & Fish Department</u>					
Game and Fish Fund	29,700.7	32,980.4	32,980.4	33,997.3	1,016.9
Watercraft Licensing Fund	3,152.4	4,646.4	4,646.4	4,314.9	(331.5)
Game/Non-game Fund	227.6	334.7	334.7	348.9	14.2
Capital Improvement Fund	1,885.6	1,000.0	1,000.0	1,000.0	0.0
Waterfowl Conservation Fund	19.1	43.4	43.4	43.4	0.0
Wildlife Endowment Fund	0.0	16.0	16.0	16.0	0.0
Agency Total	34,985.5	39,020.9	39,020.9	39,720.5	699.6
<u>Department of Gaming</u>					
Lottery Fund	300.0	300.0	300.0	300.0	0.0
Permanent Tribal-State Compact Fund	1,592.7	1,998.3	1,998.3	2,063.4	65.1
Arizona Benefits Fund	9,664.7	9,575.9	9,575.9	9,983.0	407.1
Agency Total	11,557.4	11,874.2	11,874.2	12,346.3	472.1

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Government Information Technology Agency</u>					
Information Technology Fund	2,487.6	0.0	0.0	0.0	0.0
State Web Portal Fund	250.5	0.0	0.0	0.0	0.0
Agency Total	2,738.1	0.0	0.0	0.0	0.0
<u>Office of the Governor</u>					
Oil Overcharge Fund	0.0	186.7	186.7	0.0	(186.7)
<u>Department of Health Services</u>					
Service Fees Increase Fund	52.3	0.0	0.0	0.0	0.0
Tobacco Tax and Health Care Fund	34,575.8	35,167.0	42,268.8	43,342.3	8,175.3
Capital Outlay Stabilization Fund	1,587.1	1,245.5	1,245.5	1,363.5	118.0
Health Services Licenses Fund	7,623.6	8,260.3	8,260.3	8,000.0	(260.3)
Child Care and Development Fund	820.7	827.8	827.8	845.6	17.8
Health Research Fund	0.0	1,500.0	1,500.0	1,500.0	0.0
Emergency Medical Services Operating Fund	3,991.7	5,024.3	5,024.3	5,090.2	65.9
Newborn Screening Program Fund	4,950.5	6,680.1	6,680.1	6,723.4	43.3
Substance Abuse Services Fund	2,250.0	2,250.0	2,250.0	2,250.0	0.0
Nursing Care Institution Protection Fund	0.0	438.0	438.0	439.1	1.1
Environmental Lab License Revolving Fund	650.0	907.2	907.2	920.2	13.0
Child Fatality Review Fund	95.1	92.7	92.7	95.3	2.6
Vital Records Electronic Systems Fund	166.8	3,586.0	3,586.0	3,637.5	51.5
Hearing and Speech Professionals Fund	309.7	308.1	308.1	313.9	5.8
The Arizona State Hospital Fund	8,088.3	13,807.3	13,807.3	6,884.3	(6,923.0)
DHS State Hospital Land Earnings Fund	169.1	1,150.0	1,150.0	650.0	(500.0)
DHS - Indirect Cost Fund	7,830.2	7,509.0	7,509.0	7,648.1	139.1
Agency Total	73,160.9	88,753.3	95,855.1	89,703.5	950.2
<u>Arizona Historical Society</u>					
Capital Outlay Stabilization Fund	430.8	0.0	0.0	0.0	0.0
<u>Prescott Historical Society of Arizona</u>					
<u>Board of Homeopathic Medical Examiners</u>					
Homeopathic Medical Examiners Fund	100.7	105.3	105.3	110.8	5.5
<u>Arizona Department of Housing</u>					
Housing Trust Fund	895.3	916.9	916.9	337.8	(579.1)
<u>Industrial Commission of Arizona</u>					
Industrial Commission Admin Fund	15,461.6	19,550.4	19,550.4	20,332.6	782.2

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Judiciary</u>					
Supreme Court CJEF Disbursements Fund	6,350.9	9,891.6	9,891.6	9,894.6	3.0
Judicial Collection - Enhancement Fund	16,223.0	18,816.8	18,816.8	18,796.1	(20.7)
Defensive Driving Fund	1,954.1	4,120.2	4,120.2	4,138.5	18.3
Court Appointed Special Advocate Fund	1,860.7	2,923.8	2,923.8	2,939.3	15.5
Confidential Intermediary Fund	309.6	478.8	478.8	494.9	16.1
Drug Treatment and Education Fund	500.0	500.0	500.0	500.0	0.0
Photo Enforcement Fund	2,688.5	0.0	0.0	0.0	0.0
State Aid to Courts Fund	2,649.6	2,944.5	2,944.5	2,945.8	1.3
Agency Total	32,536.4	39,675.7	39,675.7	39,709.3	33.6
<u>Department of Juvenile Corrections</u>					
Juvenile Corrections CJEF Dist Fund	527.7	528.4	528.4	528.4	0.0
State Education Fund for Committed Youth Fund	2,128.2	2,233.2	2,233.2	1,664.1	(569.1)
Endowments/Land Earnings Fund	1,098.6	1,098.6	1,098.6	1,098.6	0.0
Agency Total	3,754.5	3,860.2	3,860.2	3,291.1	(569.1)
<u>State Land Department</u>					
Environmental Special Plate Fund	172.5	260.0	260.0	260.0	0.0
AZ Parks Board Heritage Fund	(3.1)	0.0	0.0	0.0	0.0
Due Diligence Fund	0.0	500.0	500.0	500.0	0.0
Trust Land Management Fund	8,247.1	13,357.6	13,357.6	0.0	(13,357.6)
Risk Management Revolving Fund	0.0	9,888.4	9,888.4	0.0	(9,888.4)
Agency Total	8,416.5	24,006.0	24,006.0	760.0	(23,246.0)
<u>Department of Liquor Licenses and Control</u>					
Liquor Licenses Fund	2,381.9	2,815.6	2,815.6	2,906.4	90.8
<u>Arizona State Lottery Commission</u>					
Lottery Fund	77,656.6	86,848.8	86,579.1	87,501.2	652.4
<u>Arizona Medical Board</u>					
Medical Examiners Board Fund	4,786.6	5,799.2	5,799.2	5,947.3	148.1
<u>Board of Medical Student Loans</u>					
Med Student Loan Fund	0.0	20.2	20.2	0.0	(20.2)
<u>State Mine Inspector</u>					
Aggregate Mining Reclamation Fund	24.4	112.5	112.5	112.5	0.0
<u>Naturopathic Physicians Board of Medical Examiners</u>					
Naturopathic Board Fund	589.2	586.0	586.0	611.7	25.7
<u>Arizona Navigable Stream Adjudication Commission</u>					
Risk Management Fund	0.0	80.0	80.0	0.0	(80.0)
<u>State Board of Nursing</u>					
Nursing Board Fund	4,187.2	4,034.3	4,034.3	4,129.3	95.0
<u>Nursing Care Ins. Admin. Examiners</u>					
Nursing Care Institution Admin/ACHMC Fund	328.8	361.7	361.7	448.6	86.9
<u>Board of Occupational Therapy Examiners</u>					
Occupational Therapy Fund	362.3	161.6	161.6	166.1	4.5

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>State Board of Dispensing Opticians</u>					
Dispensing Opticians Board Fund	127.1	131.1	131.1	135.7	4.6
<u>State Board of Optometry</u>					
Board of Optometry Fund	192.0	197.3	197.3	205.1	7.8
<u>Arizona Board of Osteopathic Examiners</u>					
Osteopathic Examiners Board Fund	640.7	698.3	698.3	718.2	19.9
<u>State Parks Board</u>					
Reservation Surcharge Revolving Fund	381.3	203.8	203.8	208.5	4.7
Boating Safety Fund	3,611.2	2,183.8	2,183.8	30.9	(2,152.9)
State Parks Enhancement Fund	8,949.2	8,886.6	8,886.6	11,960.0	3,073.4
Land Conservation Fund	17.5	0.0	0.0	0.0	0.0
Agency Total	12,959.2	11,274.2	11,274.2	12,199.4	925.2
<u>Personnel Board</u>					
Personnel Division Fund	337.6	365.2	365.2	374.5	9.3
<u>Office of Pest Management</u>					
Structural Pest Control Fund	1,656.8	2,700.4	2,000.4	2,063.5	(636.9)
<u>Arizona State Board of Pharmacy</u>					
Pharmacy Board Fund	1,649.9	1,918.1	1,918.1	2,007.9	89.8
<u>Board of Physical Therapy Examiners</u>					
Physical Therapy Fund	331.6	364.1	364.1	371.7	7.6
<u>Arizona Pioneers' Home</u>					
Pioneers' Home State Charitable Earnings Fund	1,890.6	2,825.9	2,825.9	3,863.0	1,037.1
Pioneers' Home Miners' Hospital Fund	2,526.1	1,743.2	1,743.2	1,523.1	(220.1)
Agency Total	4,416.7	4,569.1	4,569.1	5,386.1	817.0
<u>State Board of Podiatry Examiners</u>					
Podiatry Examiners Board Fund	118.2	142.6	142.6	147.3	4.7
<u>Commission for Postsecondary Education</u>					
Postsecondary Education Fund	2,876.4	3,841.1	1,640.8	1,596.9	(2,244.2)
<u>State Board for Private Postsecondary Education</u>					
Private Postsecondary Education Fund	318.4	326.6	326.6	338.8	12.2
<u>State Board of Psychologist Examiners</u>					
Psychologist Examiners Board Fund	315.8	344.0	344.0	357.2	13.2

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Department of Public Safety</u>					
State Highway Fund	41,521.2	0.0	0.0	0.0	0.0
Arizona Highway Patrol Fund	17,785.9	18,522.3	18,522.3	19,024.4	502.1
Safety Enforcement and Transportation Infrastructure Fund	1,518.8	1,509.1	1,509.1	1,559.1	50.0
Crime Laboratory Assessment Fund	664.1	868.0	868.0	880.0	12.0
Auto Fingerprint Identification Fund	2,699.3	3,008.6	3,008.6	3,011.0	2.4
DNA Identification System Fund	3,981.7	3,944.6	3,944.6	5,550.9	1,606.3
Photo Enforcement Fund	3,761.0	0.0	0.0	0.0	0.0
Public Safety Equipment Fund	0.0	2,390.0	2,390.0	2,390.0	0.0
Crime Laboratory Operations	10,098.6	11,030.5	11,030.5	11,302.6	272.1
Gang and Immigraton Intelligence Team Enforcement Mission Fund	0.0	2,090.3	2,090.3	2,090.3	0.0
Motorcycle Safety Fund	20.4	205.0	205.0	205.0	0.0
Parity Compensation Fund	1,485.3	1,817.9	1,817.9	1,879.8	61.9
Highway User Revenue Fund	79,215.7	119,961.0	119,961.0	119,541.7	(419.3)
DPS Criminal Justice Enhancement Fund	2,886.5	2,859.3	2,859.3	2,926.4	67.1
Risk Management Fund	291.4	1,446.3	1,446.3	1,501.3	55.0
Agency Total	165,929.9	169,652.9	169,652.9	171,862.4	2,209.5
<u>Arizona Department of Racing</u>					
Racing Regulation Fund (Appropriated)	0.0	1,434.3	1,434.3	2,672.2	1,237.9
<u>Radiation Regulatory Agency</u>					
State Radiologic Technologist Certification Fund	240.7	264.6	264.6	260.6	(4.0)
Radiation Regulatory Fee Fund	0.0	496.7	496.7	560.7	64.0
Agency Total	240.7	761.3	761.3	821.3	60.0
<u>Residential Utility Consumer Office</u>					
Residential Utility Consumer Office Revolving Fund	1,049.3	1,289.0	1,289.0	1,331.7	42.7
<u>Board of Respiratory Care Examiners</u>					
Board of Respiratory Care Examiners Fund	281.3	306.2	306.2	271.3	(34.9)
<u>Arizona State Retirement System</u>					
Retirement System Appropriated Fund	19,925.6	21,773.5	21,773.5	21,475.3	(298.2)
LTD Trust Fund	2,672.2	2,800.0	2,800.0	2,800.0	0.0
Agency Total	22,597.8	24,573.5	24,573.5	24,275.3	(298.2)
<u>Department of Revenue</u>					
Tobacco Tax and Health Care Fund	673.1	665.4	665.4	680.5	15.1
Department of Revenue Administrative Fund	22,488.5	22,532.6	22,532.6	23,563.5	1,030.9
DOR Liability Setoff Fund	284.0	383.8	383.8	1,084.5	700.7
Agency Total	23,445.6	23,581.8	23,581.8	25,328.4	1,746.6
<u>Department of State - Secretary of State</u>					
Election Systems Improvement Fund	1,610.0	2,934.2	2,934.2	2,935.6	1.4
Records Services Fund	446.9	568.8	568.8	691.1	122.3
Agency Total	2,056.9	3,503.0	3,503.0	3,626.7	123.7

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>State Boards Office</u>					
Special Services Fund	205.8	211.6	211.6	231.0	19.4
<u>State Board of Technical Registration</u>					
Technical Registration Board Fund	1,537.2	1,834.9	1,834.9	1,882.4	47.5
<u>Department of Transportation</u>					
State Aviation Fund	1,585.4	1,577.8	1,577.8	1,608.7	30.9
State Highway Fund	325,527.1	239,494.2	239,494.2	242,858.3	3,364.1
Transportation Department Equipment Fund	18,933.1	27,416.9	27,416.9	27,119.9	(297.0)
Safety Enforcement and Transportation Infrastructure Fund	1,647.8	1,866.0	1,866.0	1,898.4	32.4
Air Quality Fund	28.3	72.2	72.2	74.9	2.7
Vehicle Inspection and Title Enforcement Fund	867.4	1,434.4	1,434.4	1,476.0	41.6
Motor Vehicle Liability Insurance Enforcement Fund	835.4	1,052.6	1,052.6	1,088.1	35.5
Driving Under Influence Abatement Fund	148.1	146.9	146.9	153.4	6.5
Highway User Revenue Fund	512.3	86,880.4	86,880.4	88,609.4	1,729.0
Agency Total	350,084.9	359,941.4	359,941.4	364,887.1	4,945.7
<u>State Treasurer</u>					
Arizona State Retirement System-Non Appropriated Fund	0.0	50.0	50.0	0.0	(50.0)
Boating Safety Fund	0.0	0.0	0.0	1,800.0	1,800.0
State Treasurer's Operating Fund	2,436.7	2,493.5	2,493.5	2,609.0	115.5
State Treasurer's Management Fund	44.7	87.3	87.3	202.1	114.8
Public Safety Personnel Retirement System	0.0	50.0	50.0	0.0	(50.0)
Agency Total	2,481.4	2,680.8	2,680.8	4,611.1	1,930.3
<u>ASU - Tempe</u>					
ASU Collections - Appropriated Fund	351,541.8	453,894.3	453,894.3	453,894.3	0.0
<u>ASU - Polytechnic</u>					
ASU Collections - Appropriated Fund	33,513.4	37,572.7	37,572.7	37,572.7	0.0
Technology and Research Initiative Fund	2,000.0	2,000.0	2,000.0	2,000.0	0.0
Agency Total	35,513.4	39,572.7	39,572.7	39,572.7	0.0
<u>ASU - West</u>					
ASU Collections - Appropriated Fund	29,421.1	32,278.7	32,278.7	32,278.7	0.0
Technology and Research Initiative Fund	1,600.0	1,600.0	1,600.0	1,600.0	0.0
Agency Total	31,021.1	33,878.7	33,878.7	33,878.7	0.0
<u>Northern Arizona University</u>					
NAU Collections - Appropriated Fund	81,510.1	97,738.9	97,738.9	97,738.9	0.0
<u>University of Arizona - Main Campus</u>					
U of A Main Campus - Collections - Appropriated Fund	251,280.3	247,503.0	247,503.0	247,503.0	0.0
<u>University of Arizona - Health Sciences Center</u>					
U of A Main Campus - Collections - Appropriated Fund	24,846.5	41,154.0	41,154.0	41,154.0	0.0

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2011 Expenditures	FY 2012 Appropriation	FY 2012 Executive Budget	FY 2013 Executive Budget	FY 2013 Changes and Adjustments
<u>Department of Veterans' Services</u>					
Veterans' Conservatorship Fund	607.6	882.3	882.3	907.4	25.1
State Home for Veterans Trust Fund	15,298.9	19,742.8	19,742.8	27,367.2	7,624.4
Agency Total	15,906.5	20,625.1	20,625.1	28,274.6	7,649.5
<u>State Veterinary Medical Examining Board</u>					
Veterinary Medical Examiners Board Fund	448.6	455.3	455.3	474.0	18.7
<u>Department of Water Resources</u>					
Water Resources Fund	0.0	6,400.2	6,400.2	6,658.9	258.7
Assured and Adequate Water Supply Administration Fund	274.4	265.3	265.3	274.7	9.4
Agency Total	274.4	6,665.5	6,665.5	6,933.6	268.1
<u>Department of Weights and Measures</u>					
Air Quality Fund	1,286.3	1,413.9	1,413.9	1,433.8	19.9
Motor Vehicle Liability Insurance Enforcement Fund	322.3	317.5	317.5	323.2	5.7
Agency Total	1,608.6	1,731.4	1,731.4	1,757.0	25.6
Other Appropriated Funds Operating Total	2,585,071.6	2,947,251.0	3,026,015.0	3,023,001.8	75,750.8



The following resources are available at www.azospb.gov

BUDGET

- FY 2013 Executive Budget - Summary
- FY 2013 Executive Budget – State Agency Budgets
- FY 2013 Executive Budget - Appendix
- Statement of Federal Funds for Fiscal Years 2008 through 2010
- Calculation of the Appropriation Limit for Fiscal Years 2009 through 2011
- State Budget Reduction Impacts FY 2008 through FY 2011.

STRATEGIC PLANNING

- Master List of State Government Programs for Fiscal Years 2009 through 2011
- Five-Year Strategic Plans for Annual Budget Units
- Managing for Results, 1998 Strategic Planning and Performance Measurement Handbook (recognized by the Council of State Governments as an Exemplary State Management Program)

HISTORICAL PERSPECTIVE

- Revenue Data since 1971
- Expenditure Data since 1979
- Historical Enrollment Data for Major Populations such as Students, Medicaid Clients, Prisoners, and Unemployment

MONTHLY UPDATES

- New Caseload Enrollment Data, updated on the 15th of each month
- Year-to-Date Revenue Collections
- Agency Cash Flow Statements and Projections for Every Fund

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