The Executive Budget Recommendation

January 17, 2014

FY 2015 Executive Recommendation

- Economy/Revenues
- Budget Summary
- The Plan
  - Child Safety
  - Public Safety
  - Education
  - Infrastructure
  - Good Government
- Where We End Up
- Risks

The Economy/Revenues

Projecting slow steady improvement over the next four years

Personal Income:	3.0% to 5.0% average growth
Employment:	2.0% to 3.0% average growth

Base Revenues

Base Revenue Forecast:

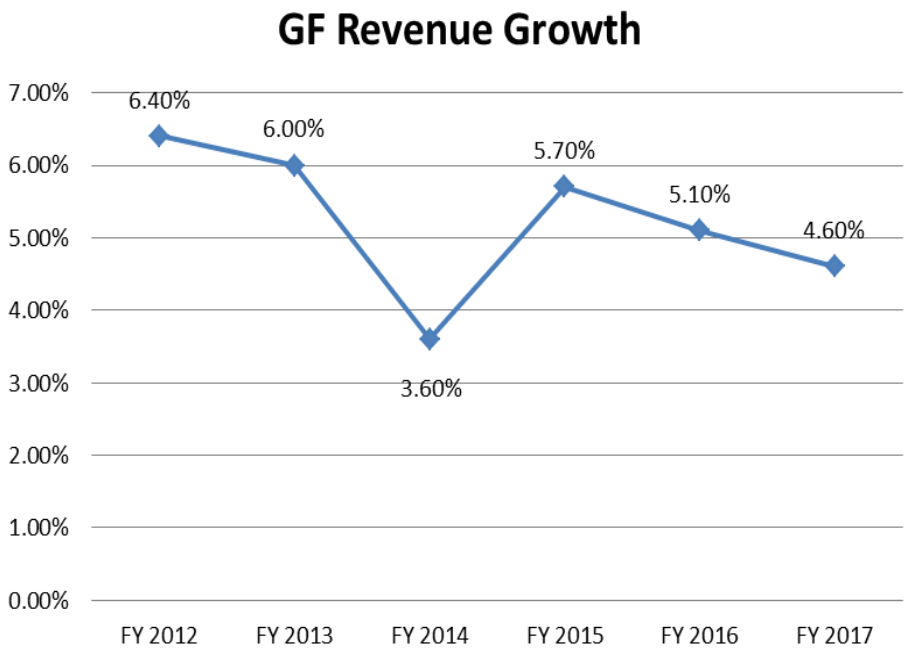
- Develop optimistic, baseline, and pessimistic
- Assumes below baseline for FY 2014 - FY 2016

  FY 2014 – 3.6%

  FY 2015 – 5.7%

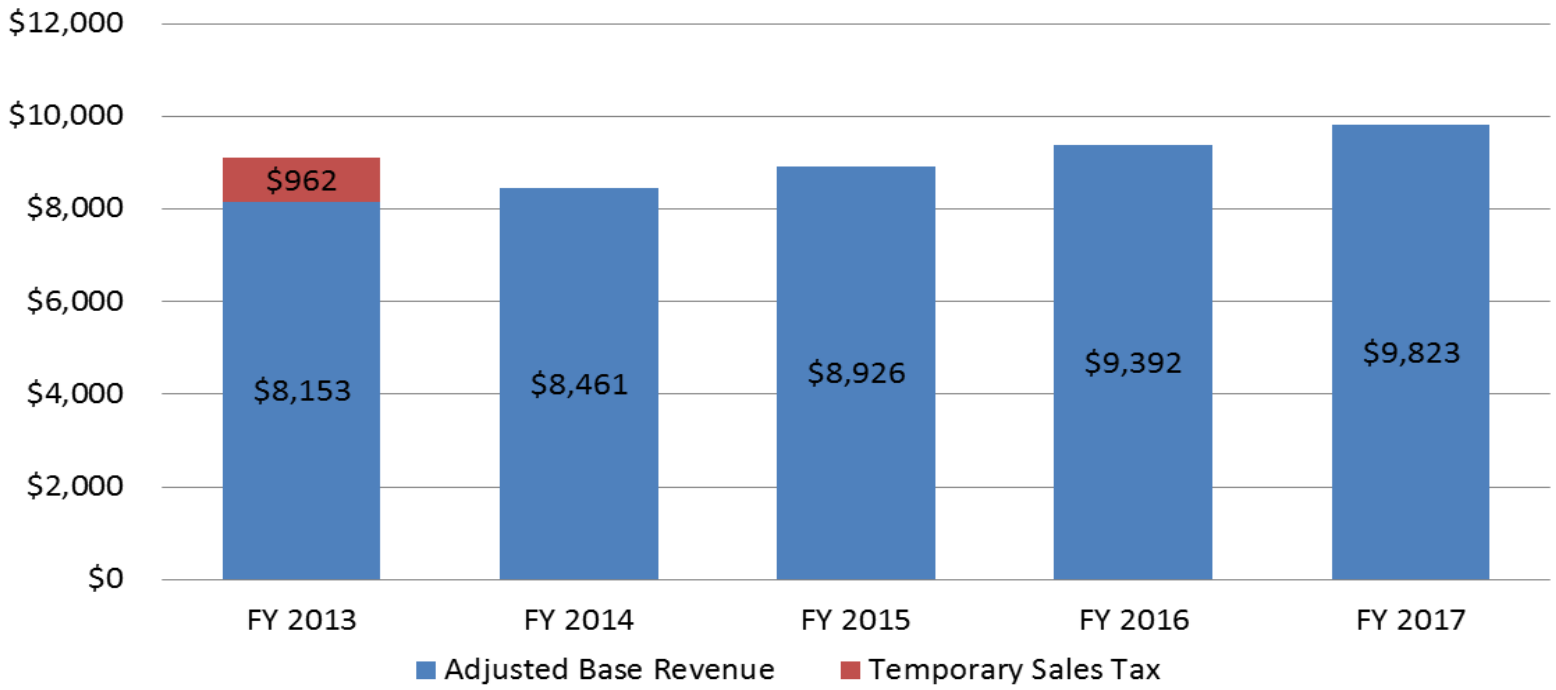
  FY 2016 – 5.1%

  FY 2017 – 4.6%



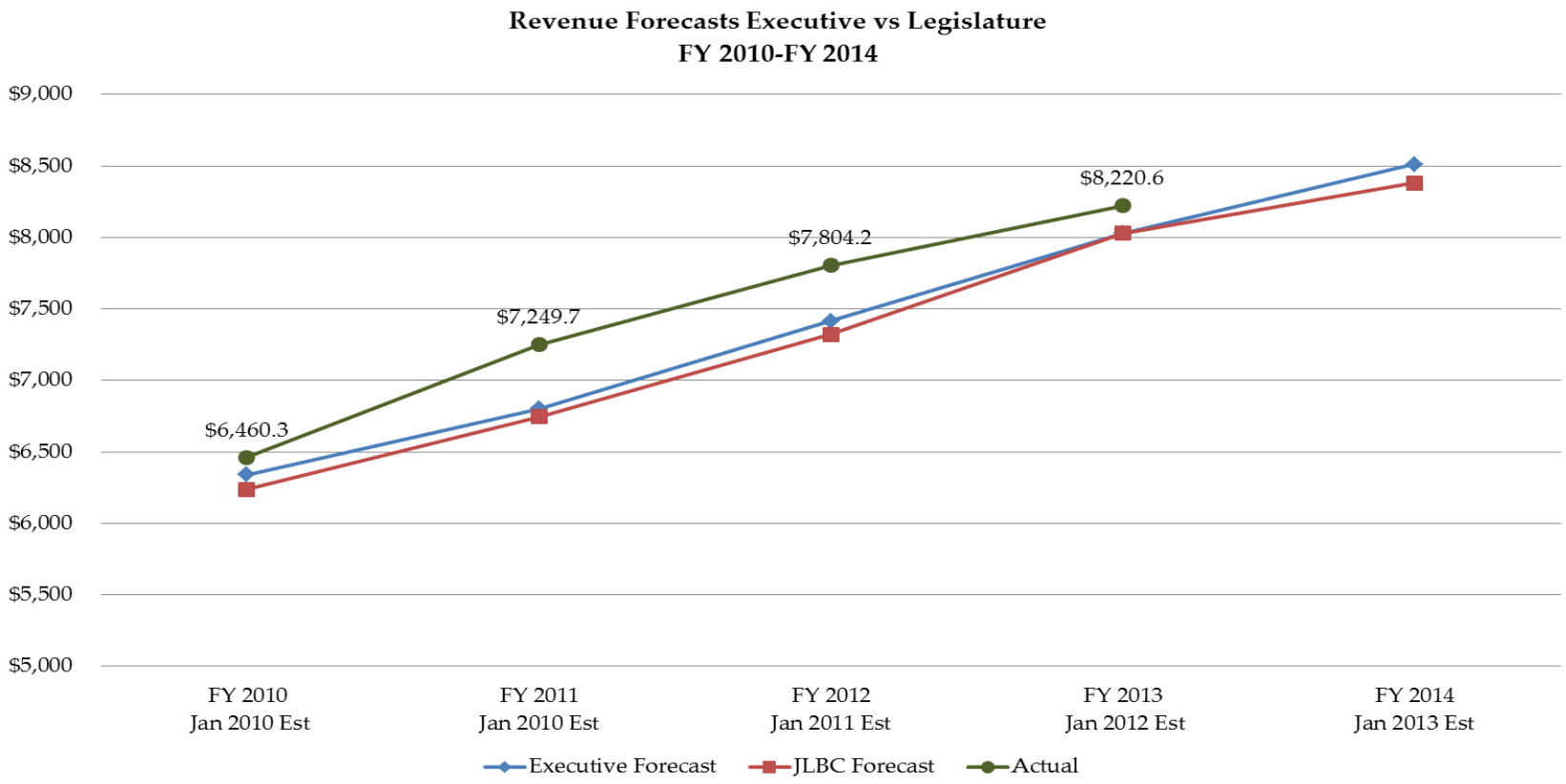
All numbers exclude the impact from revenue sharing and temporary sales tax.

Total Base Revenues



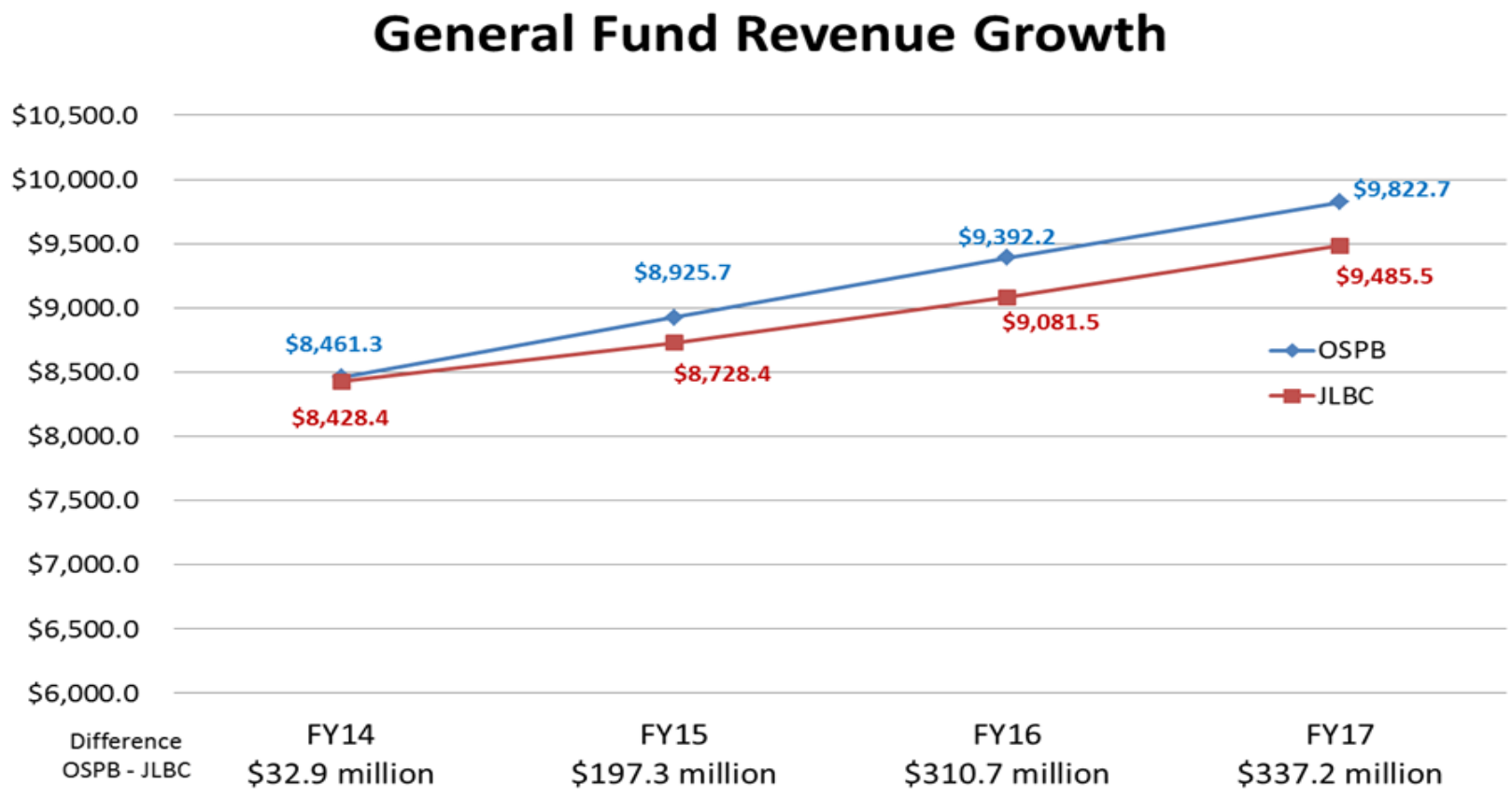
*Note:
Total revenue amounts include impact from expiration of Proposition 100 and phase in of existing tax reforms

Revenue Forecasting



Cumulative Difference: $280.7 million

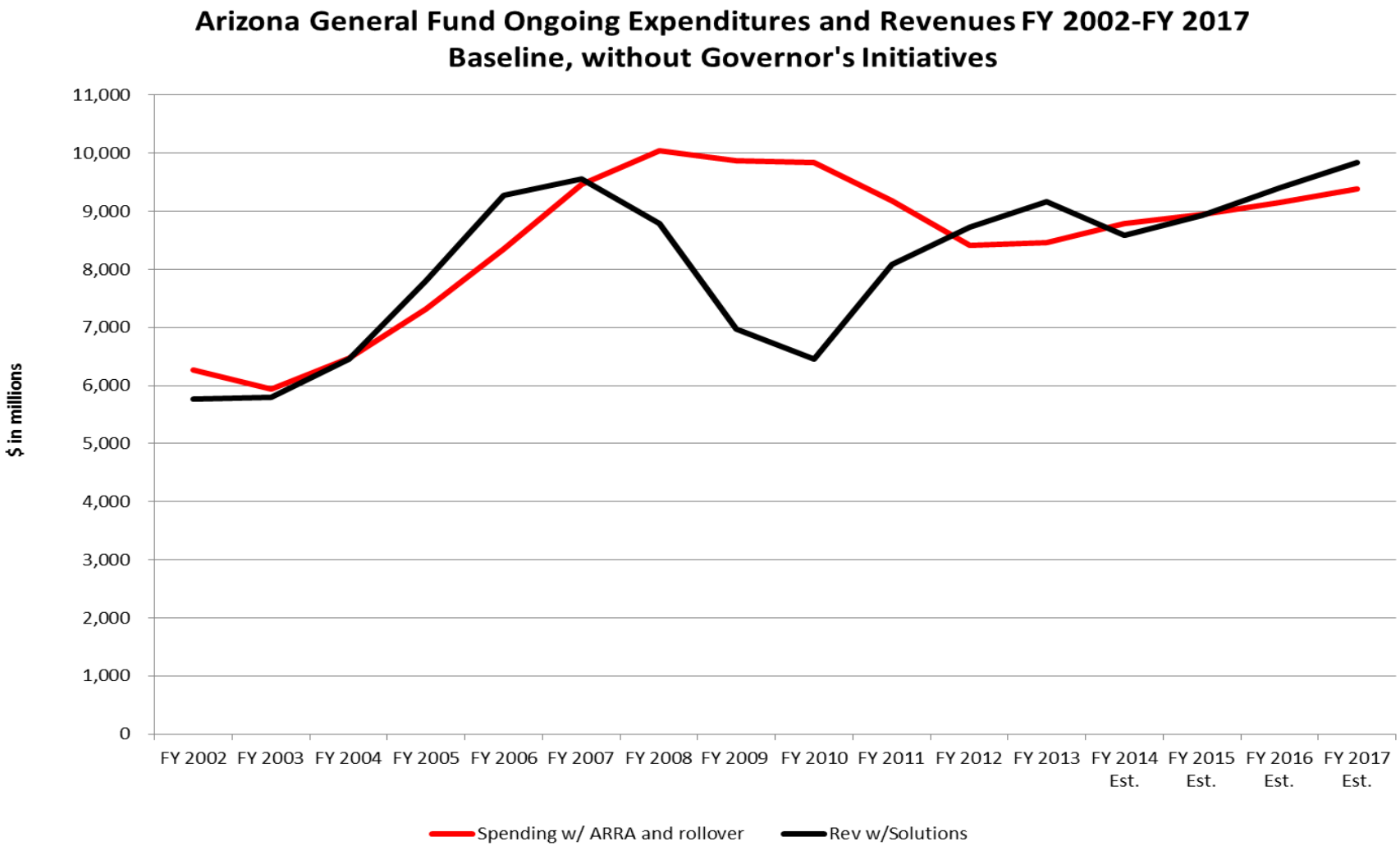
Revenue Forecasting



Cumulative four-year difference: $878 Million

General Fund includes impacts of tax cuts and excludes temporary revenue measures

Baseline Budget Picture



Structural Deficit

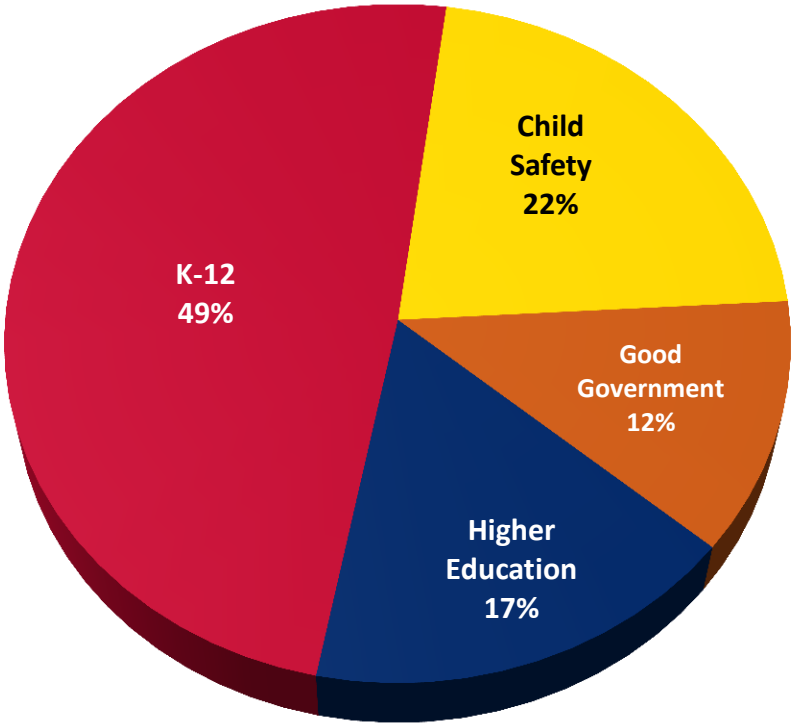
On-going Revenues vs On-going Expenditures

FY 2014	FY 2015	FY 2016	FY 2017
($303,497)	($12,121)	$240,180	$435,099

Governor's Directive: Keep FY 2016 structurally balanced.

Budget Summary – On-going Spending

Child Safety	$39.2
K-12 Education	$86.6
Higher Education	$29.3
Good Government	$20.1
Total New Spending	**$175.2**
DES Backfill	$33.7
Revenue Changes	$25.9
Total Change	**$234.8**



Budget Summary – One-time Spending

Capital	$66.7
Technology	$27.0
CSFS Transition	$25.0
TGen	$15.0
Military Install.	$5.0
Total	**$138.7**

BSF Deposit	$50.0

The Budget Plan

- **Child Safety**
- Public Safety
- Education
- Infrastructure
- Good Government

Child Safety and DES

GOVERNOR'S CORNERSTONES

3

- The Executive Budget recommendation includes the newly established Division of Child Safety and Family Services (CSFS) as part of DES's budget
- All policy decisions regarding the new CSFS will be handled by Director Flanagan
- The new CSFS will remain housed at DES until the logistical details of the division of the agencies are fully developed

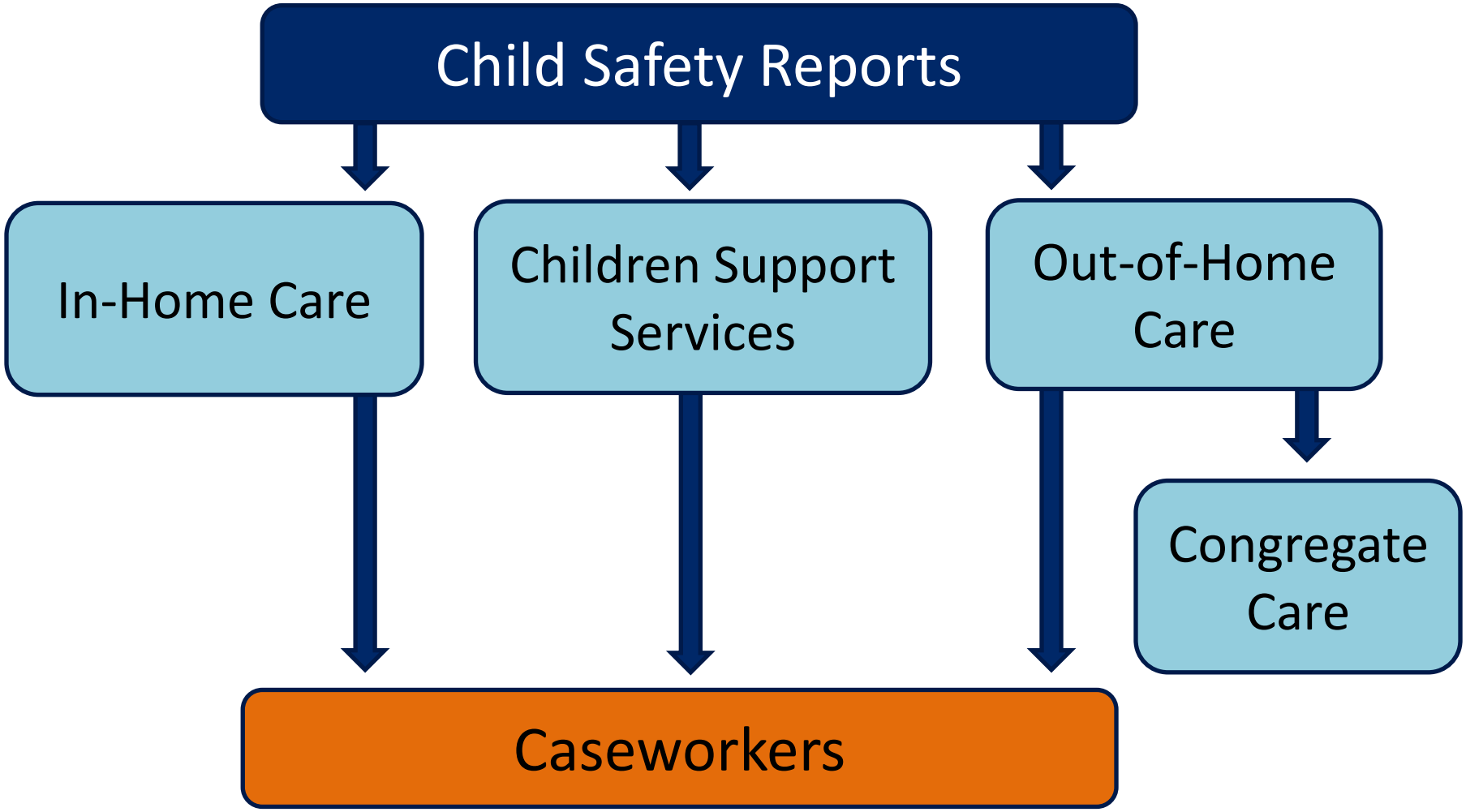
Child Safety – New Agency

GOVERNOR'S CORNERSTONES

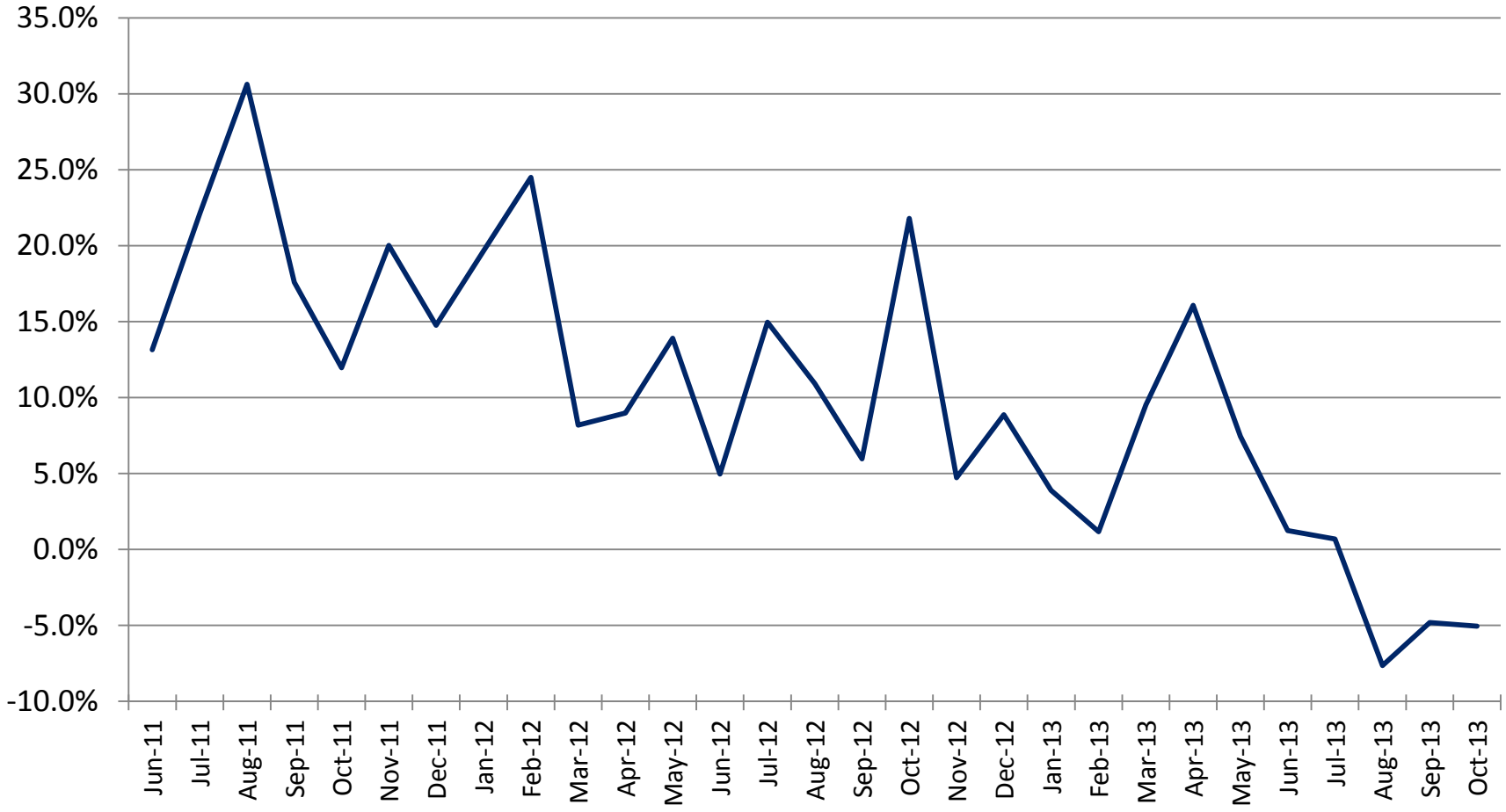
3

- Establish a $25 million transition fund
  - At DOA
  - JLBC Oversight
- Will fund all transition needs including:
  - IT
  - Capital
  - Other

Child Safety Caseload Drivers

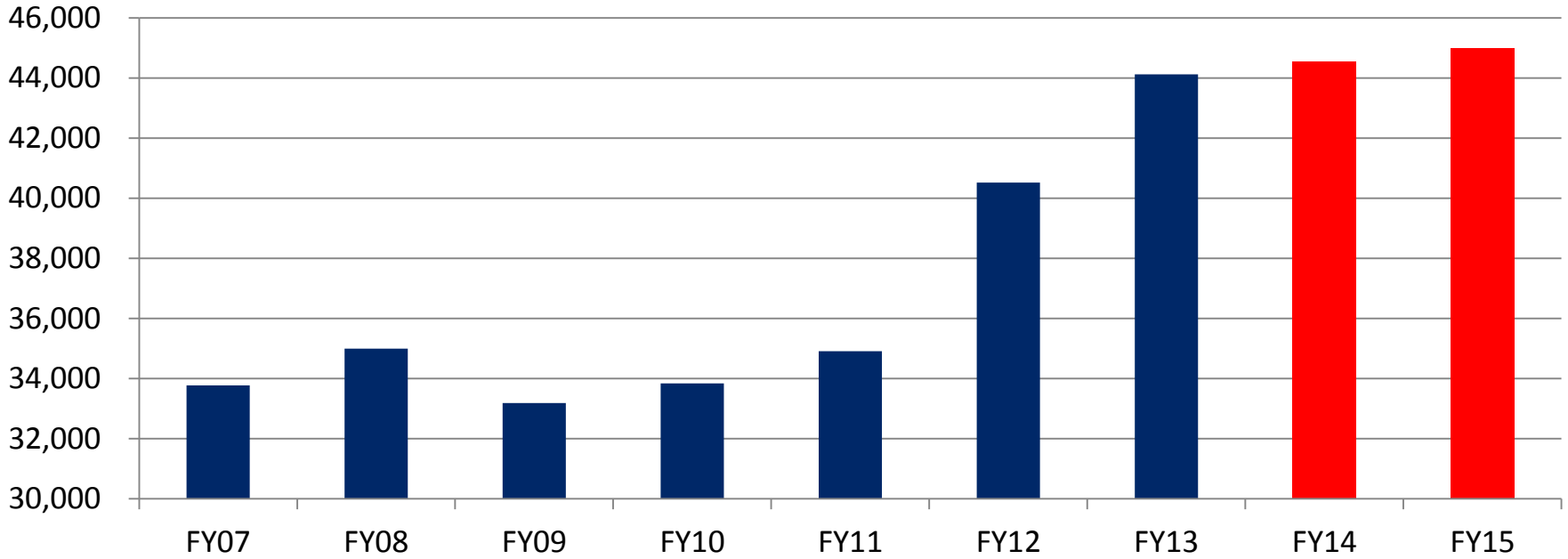


Child Safety Reports – Year over Year Growth



Child Safety Reports - Annual

Total Annual Reports



	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	FORECAST	FORECAST
Total Reports	33,767	34,989	33,186	33,839	34,904	40,517	44,119	44,560	45,006
Year over Year % Increase		3.6%	-5.2%	2.0%	3.1%	16.1%	8.9%	1.0%	1.0%

CSFS - Staff

- 10,000 + case backlog (Does not include NI cases)
- Time study on what a caseworker can accomplish

	Current	Proposed
Reports	20	13
In-home care	39	33
Out-of-home care	28	20

- Until CSFS reaches these standards, the backlog is likely to grow.

Recommendation – 212 New Caseworkers

	Current	FY 14 Increase	FY 15 Increase	Total
Caseworkers - Case Carrying	912	126	86	1,124
In Training	213	0	0	213
Hotline	70	0	0	70
Total	1,195	0	0	1,407

Approximately a 23% increase in case carrying workers.

In addition to caseworkers, the Executive recommends:

- 36 supervisors
- 6 assistant program managers
- 54 case aids
- 24 support staff

Total 120 additional staff

OCWI and Records Retention Staff

- OCWI is currently only able to investigate 17% of Child Safety reports involving allegations of criminal conduct
  - The Executive recommends $8.6M for 93 OCWI positions to investigate 100% of Child Safety reports with criminal conduct.
- Backlog of 2,000 requests for CSFS information
  - The Executive recommends $3.0M for 30 new records retention staff.

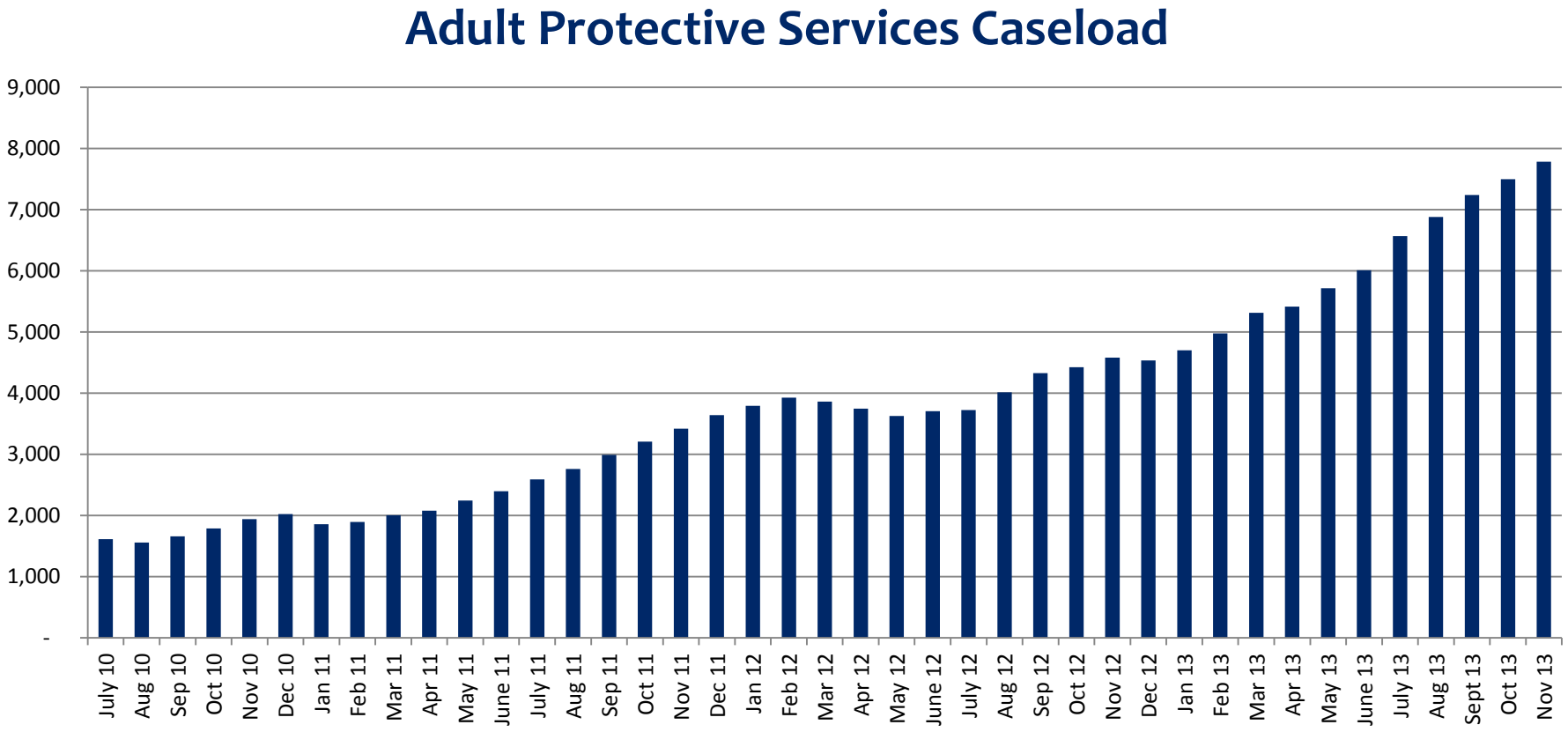
CHILDS System Replacement

- CHILDS is a software program that CSFS uses to track information about children in the Department's care.
- DES began using the CHILDS system in 1990's
  - CSFS workers can't log into the system remotely
  - CHILDS is antiquated, cumbersome, and inefficient
  - CHILDS is a burden to CSFS because the system is incompatible with systems at Departments of Justice, Education, and Health
- Executive recommends $10M to start the replacement of the CHILDS system.

CSFS Package Summary

- FY 2014 Supplemental
  - 212 New CSFS Workers (part year) $5.7 M
  - Congregate Care $4.2 M
  - Children Support Services $5.4 M
- FY 2015
  - CSFS Transition Fund $25.0 M
  - 212 New CSFS Workers (full year) $21.5 M
  - Replace CHILDS $10.0 M
  - Expand OCWI $8.6 M
  - Children Support Services $5.6 M
  - Expand records retention staff $3.0 M

Adult Protective Services



The Executive recommends a $5.2 million increase

- Adds 40 caseworkers
- Will increase total cases resolved by 5,067 to 13,482 annually

Other DES Issues

• Adoption Services Caseload	$6.0 M
• AZEIP Caseload	$1.5 M
• Protective Services Staff	$0.5 M
• DBME Eligibility Safeguards	$4.6 M
• Long-Term Care Fund Backfill	$33.7 M

The Budget Plan

- Child Safety
- **Public Safety**
- Education
- Infrastructure
- Good Government

Fire Safety

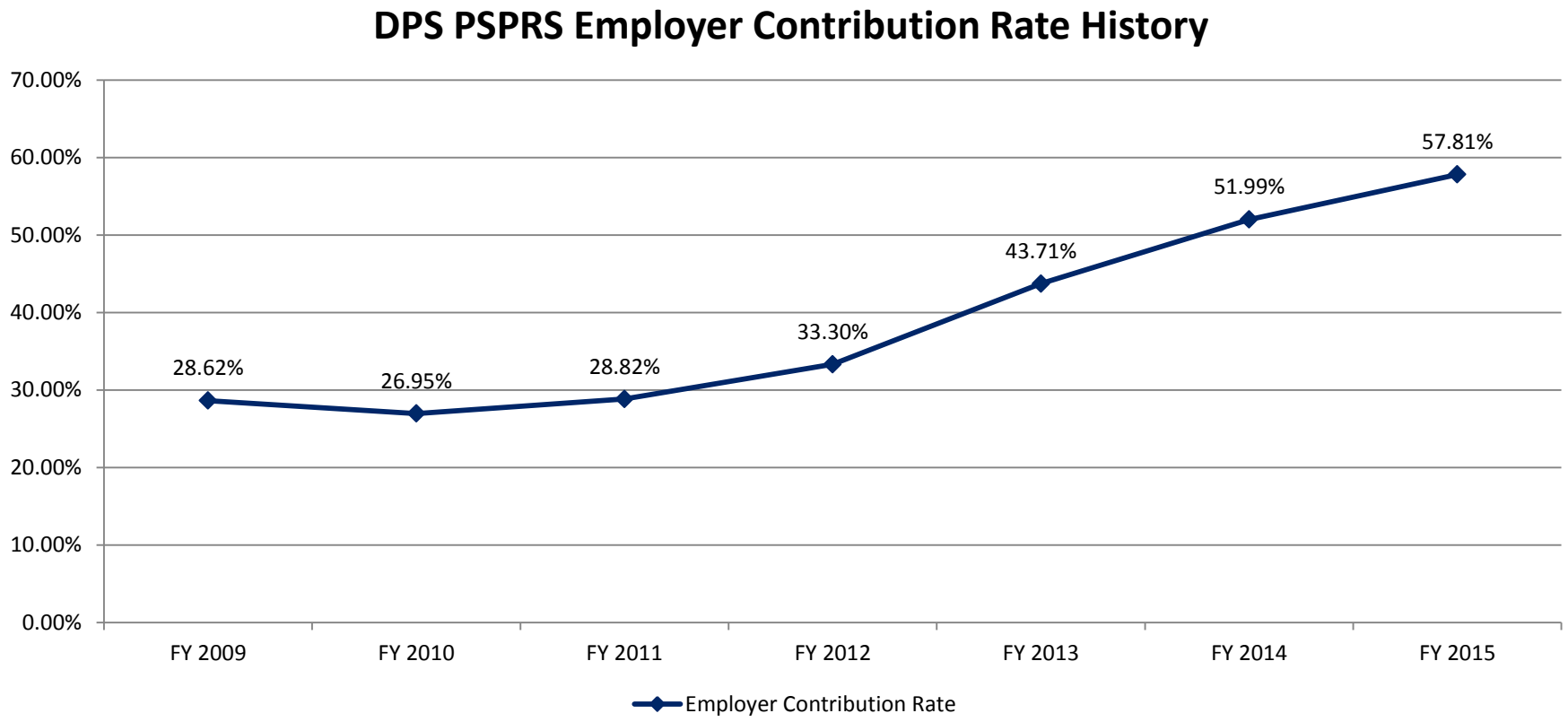
GOVERNOR'S CORNERSTONES

4

The Executive recommends $1.8 million for fire safety initiatives.

- $1.4 million for removing flammable vegetation in and around communities
- $176,700 for training of wildland firefighters and training for local landowners in firewise techniques
- $266,300 for Dispatchers at the Adobe Mountain Dispatch Center and other operational costs

DPS Retirement Adjustment



$4.5 million GF and $480,000 OF is recommended for the increase of the employer retirement contribution rate in FY 2015.

The Budget Plan

- Child Safety
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Student Success Funding

GOVERNOR'S CORNERSTONES

2

Updating Performance Funding

- To address concerns voiced by the school community and others
- Estimated cost is $40 million in FY 2015

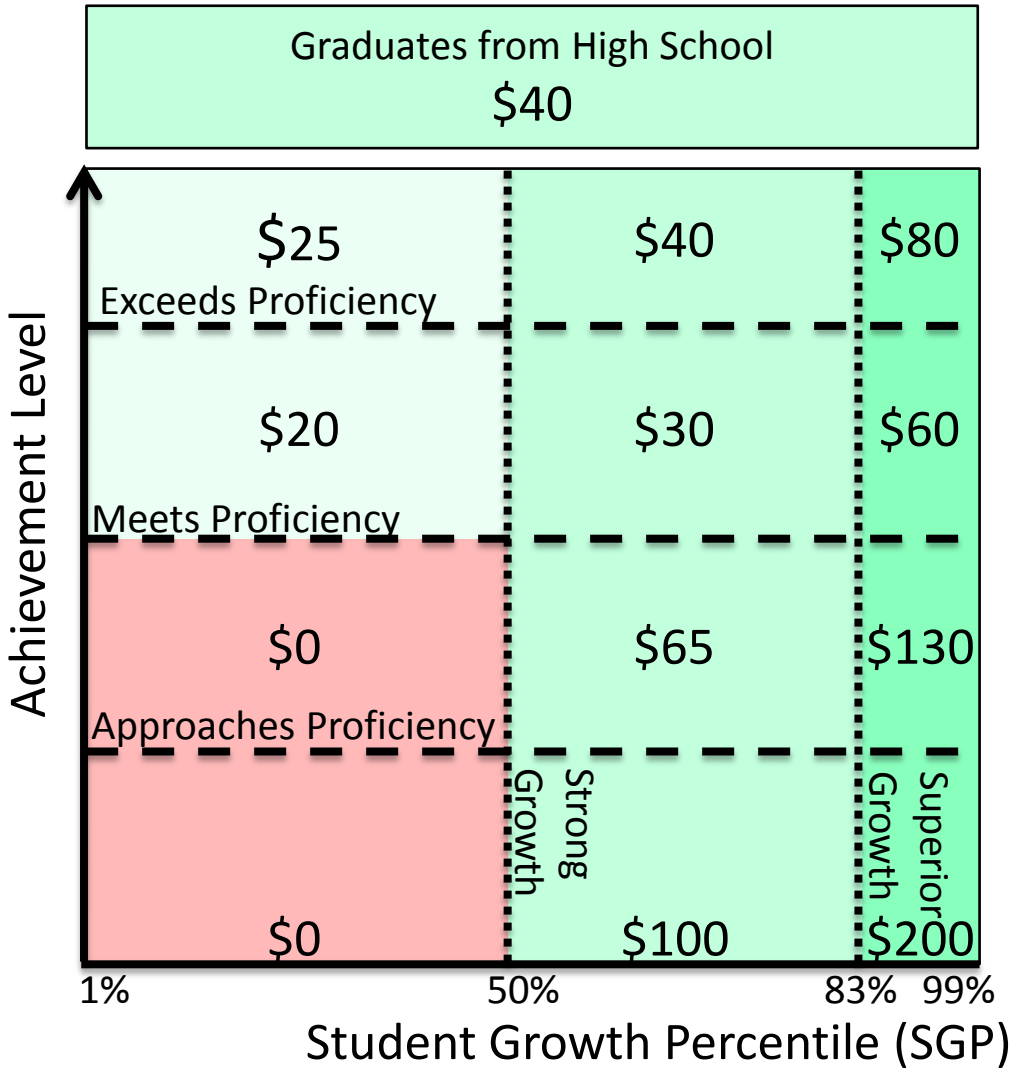
Student Success Funding

- Students are given a performance level and a student growth percentile based on their performance on the annual state assessment.
- There are four performance levels:
  - Exceeds grade level
  - Meets grade level
  - Approaches grade level
  - Falls far below grade level
- Student growth percentiles describe a student's growth compared to their academic peers.

Student Success Funding

- LEAs can earn Student Success Funding in three ways:
  - Students scoring at or above grade level
  - Students showing above-average improvement
  - Students graduating from high school
- The proposal heavily weights growth for students who begin below grade-level proficiency.

Student Success Funding



Charter School Reform

GOVERNOR'S CORNERSTONES

2

The Executive Recommendation addresses charter school issues through the following reforms:

- Eliminating small school weights for Board-sponsored charter schools
- Providing resources to the State Board for Charter Schools to support closure of underperforming charters
- Revising the charter school renewal process and authorizing a renewal application fee
- Encouraging district-sponsored charter school reform

Charter School Reform

Small School Weights

- Small school weights at charters increase the base support level up to $968 per pupil; the average increase is $600 per pupil.
- 92% of charters qualify for small school weights, which has an estimated General Fund impact of $53.5 million in FY 2014.
- The Executive Recommendation includes $31.5 million to eliminate small school weights for Board-sponsored charters and increase Additional Assistance.

Data System

GOVERNOR'S CORNERSTONES

2

- The Executive recommends $16.5 million for continued development and implementation of the Arizona Education Learning and Accountability System.
- FY 2015 Outcomes
  - Complete 80% of SAIS replacement
  - Provide SLDS dashboards to an additional 450 LEAs
  - Start mapping 170 ADE systems to new architecture
  - Stabilize IT department to ensure users have reliable access to data system

Other Education Initiatives

GOVERNOR'S CORNERSTONES

2

- $13.5 million for an assessment aligned to Arizona's standards
- $2.0 million to provide IT certification programs to high school students through a statewide contract

Higher Education - Parity

GOVERNOR'S CORNERSTONES

2

- Wrap-up of Parity - Replaces 5-year plan with one final adjustment
- Calculation is based on a ten percent discount of the $30.4 M that would be added in FY 15-17 per the 5-year Parity plan

Parity Funding	$27.4 M
ASU	$18.4 M
ASU Polytechnic	$3.1 M
NAU	$5.9 M

Higher Education Performance Funding Model

GOVERNOR'S CORNERSTONES

2

- Create a statutory PFM model this session to be funded beginning FY 2016
- New PFM should:
  - Be based solely on the growth of the university performance metrics
  - Be applied as a percentage of growth to the State's FY 2015 funding

University of Arizona

$3.5 M for Cooperative Extension

- Agricultural knowledge sharing
  - Rural business and tax education
  - Farmer's market information
  - Agricultural labor management
- 4-H Youth programming
- Supports 15 county and 5 tribal reservation program offices

University of Arizona

The Executive recommends a stable five-year funding source for TGen.

- 5-year funding provides long-term grant match
- Partnership with U of A helps transfer research to clinical trials

Entity	TGen Funding
University of Arizona	$15 M GF
ABRC-DHS	$10 M OF

Community Colleges

GOVERNOR'S CORNERSTONES

2

$4.2 M for rural workforce development

- Provides high demand workforce training
- Funds faculty, technology and equipment

College District	$	College District	$
Cochise	768,600	Navajo	259,200
Coconino	300,500	Pinal	720,300
Gila	100,500	Santa Cruz	32,200
Graham	453,300	Yavapai	561,600
Mohave	413,600	Yuma/La Paz	548,800

The Budget Plan

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Transportation – HURF Shift

In FY 2009, HURF support of the Highway Patrol increased to nearly $85 million. By FY 2012, the amount grew to the current level of $119.9 million.

The Executive is supportive of replacing HURF funds for the Highway Patrol with General Fund monies, but not at the expense of long-term budget integrity. With the loss of the temporary 1% sales tax and other key budget priorities, the Executive does not recommend a permanent change in the Highway Patrol budget in FY 2015; rather, this should be a priority in future years.

HURF Swap

- Gives local governments state transportation funds in exchange for the federal funding due to them
- Allows ADOT to shoulder the burden of meeting federal requirements on behalf of the local governments
- Funds HURF Swap for two years
- The Executive recommends appropriating $31 M from the HELP fund to ADOT

Military Installation Fund

GOVERNOR'S CORNERSTONES

#1

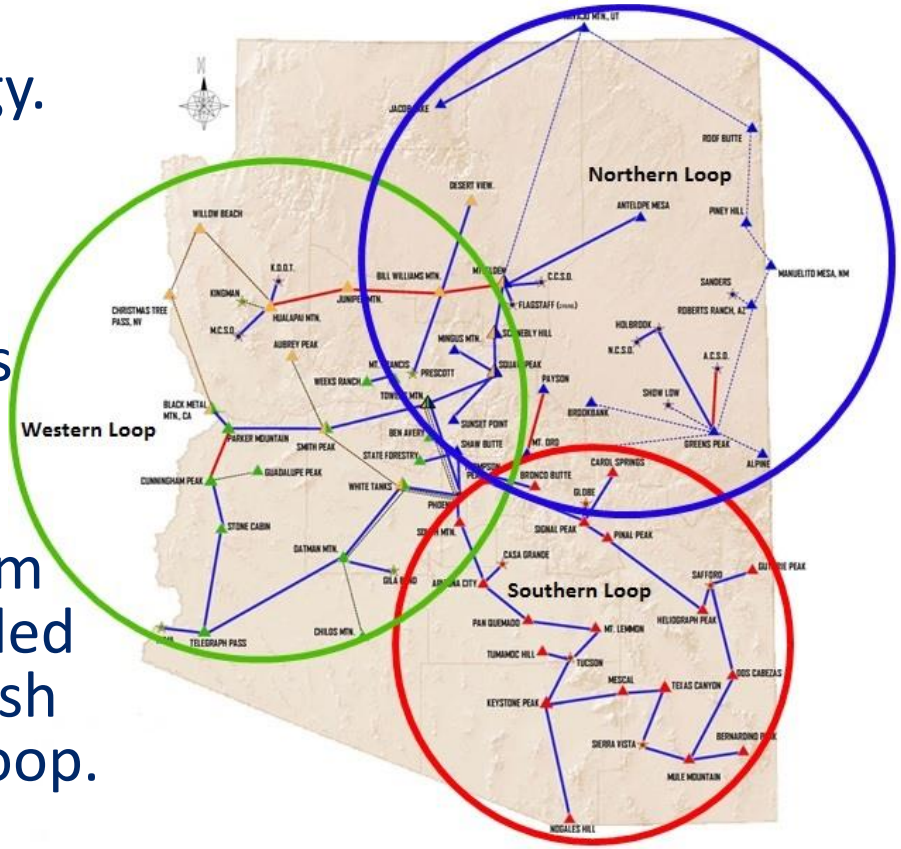
- Protects bases from encroachment and other issues without placing this burden on property owners
- Started FY 2014 with $5 M; those funds will be exhausted this year
- Recommend a one-time $5 M General Fund appropriation for the Military Installation Fund

DPS Microwave Backbone

GOVERNOR'S CORNERSTONES

1

- Department is currently engaged in a multiple-year effort to replace the analog microwave radio backbone with digital technology.
- Southern loop conversion was completed in FY 2011; western loop conversion is currently in progress; northern loop remains mostly analog.
- $2.0 million from the Highway Patrol Fund and $3.4 million from the General Fund is recommended as a capital appropriation to finish the conversion of the western loop.



Water Supply Needs

GOVERNOR'S CORNERSTONES

4

- Issues relating specifically to:
  - The Colorado River
  - Statewide Water Supply Planning
  - Adjudication Assistance
  - Compliance and Enforcement
- Additional planning efforts are needed to ensure an adequate water supply for Arizona's future.
- The Executive recommends an increase of $2.0 million from the General Fund for 11.0 additional positions and additional operating expenses.

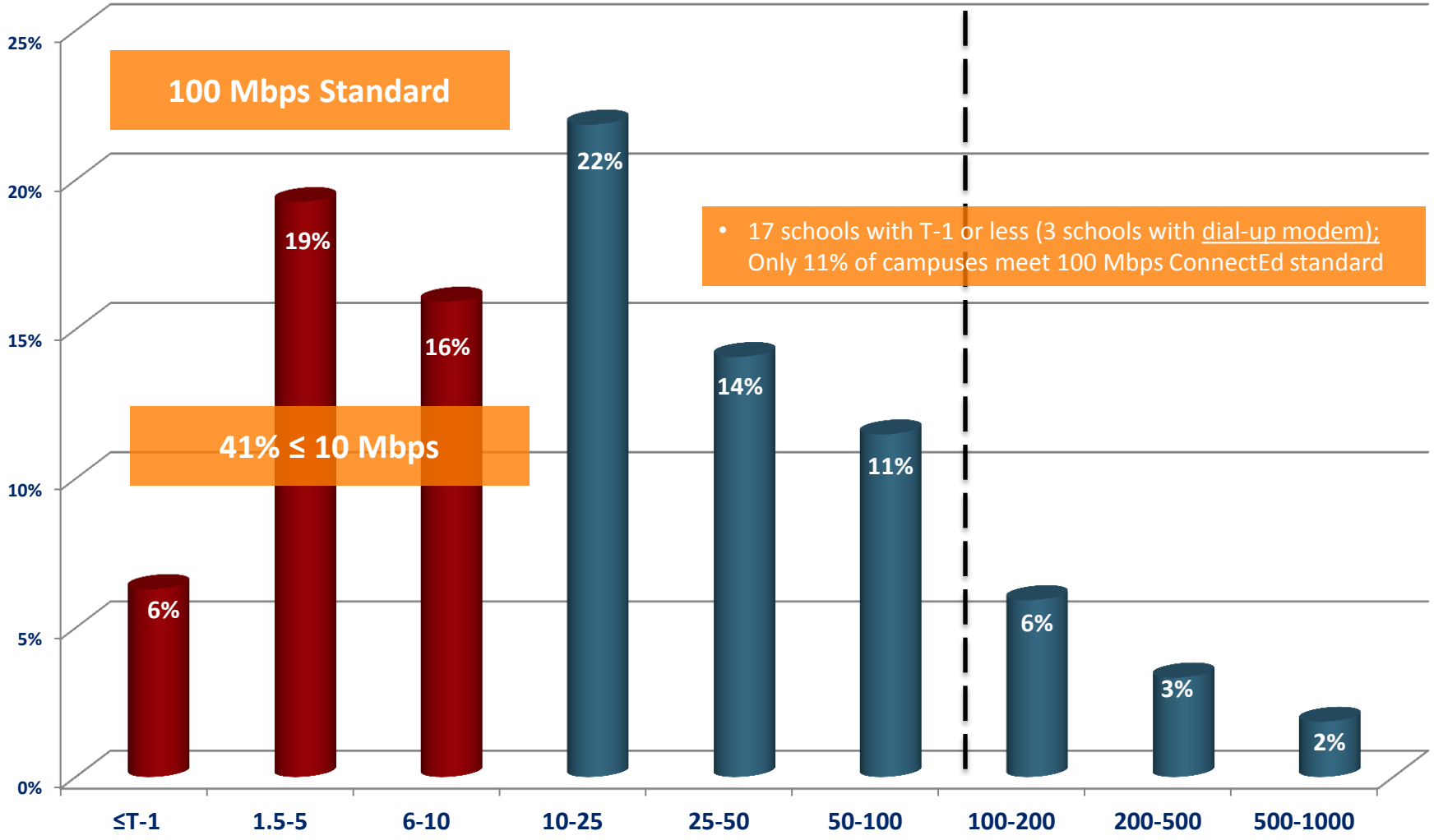
K-12 Broadband Strategy

GOVERNOR'S CORNERSTONES

2

The lack of statewide broadband infrastructure results in limited access and higher Internet costs for Arizona schools and hampers economic development.

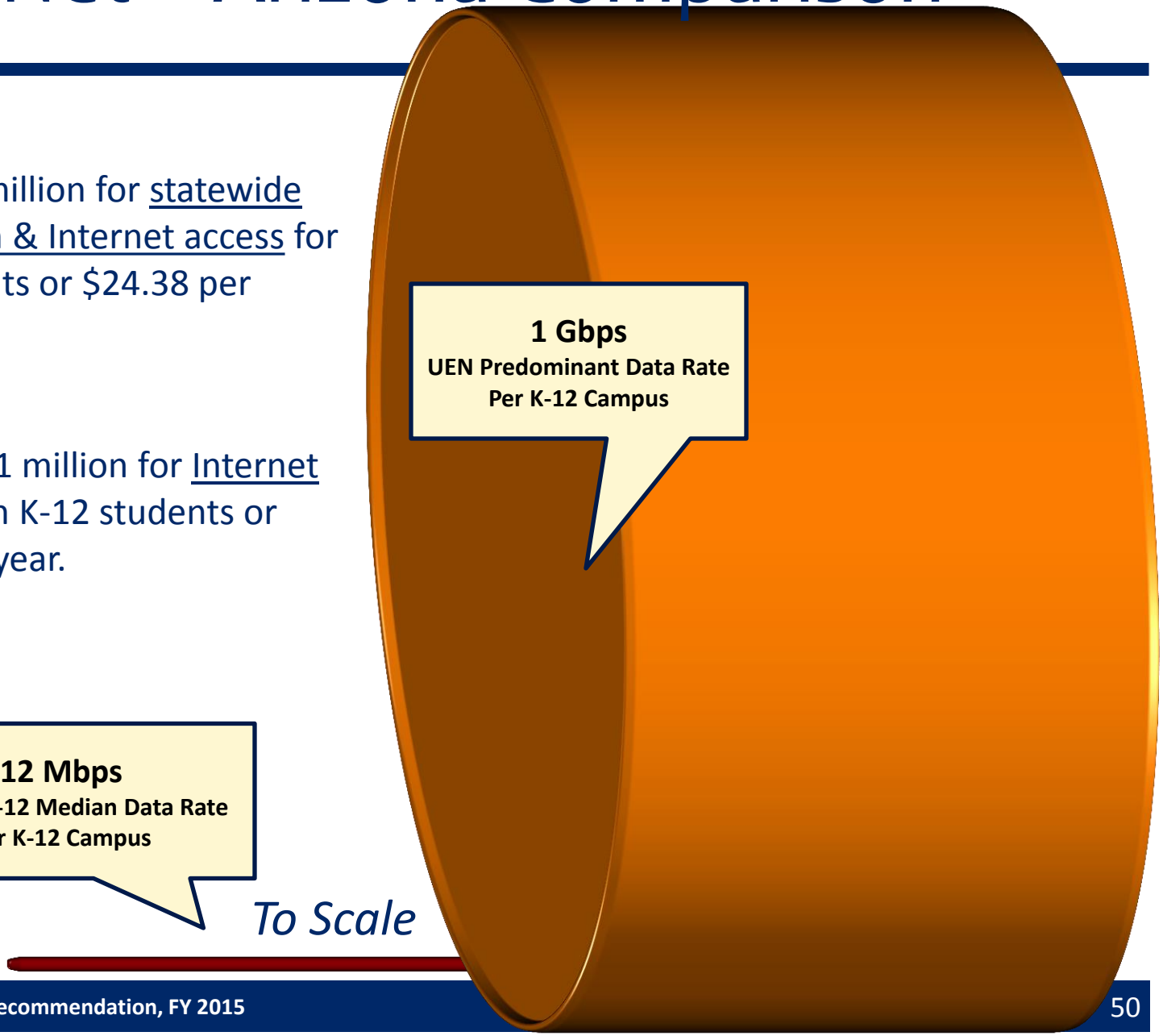
Campuses By Data Rate



Utah EdNet – Arizona Comparison

Utah spends $19.6 million for statewide transport bandwidth & Internet access for 800,000 K-20 students or $24.38 per student/year.

Arizona spends $22.1 million for Internet Access for 1.1 million K-12 students or $19.42 per student/year.



K-12 Broadband Strategy

GOVERNOR'S CORNERSTONES

2

The Executive recommends that DOA require the upcoming Internet service provider contracts to include fiber network development and a performance standard.

- In FY 2015, school districts and charters will receive approximately $70 per pupil for inflation.
- The Executive recommends charging school districts and charters $15 per pupil for statewide management and broadband infrastructure development.
- Fee will allow Arizona to leverage federal and private dollars to build out the network.

The Budget Plan

- Child Safety
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ASET Automation Projects

GOVERNOR'S CORNERSTONES

3

A statewide IT management plan was implemented in FY13 which:

- Specified IT projects be consolidated with centralized oversight and project management provided by ASET
- Stipulated that funding for several new and continuing technology projects come through the Automation Projects Fund
- The Executive recommends that this oversight model be continued with additional projects added to the Automation Projects Fund for FY15.

ASET Automation Projects

The Executive recommends funding for the following projects be transferred to the Automation Projects Fund for FY15:

Agency	Project	Fund	Amount
ADE	AELAS	General Fund/Other	$14.3 M
DES	CHILDS	General Fund	$10.0 M
DES	DES Data Center	General Fund	$8.8 M
DOC	AIMS	Various Other Fund	$8.0 M
DEQ	DEQ E-Licensing	VEI Fund	$6.8 M
Other	Various	General Fund/Other	$3.1 M

ASET Automation Projects

Long-Term Data Plan

- The Executive recommends that a cloud-based strategy be adopted by ADOA's ASET division.
  - The state data center will reach its capacity to house data in the near future.
  - Decisions to continue to invest in the aging data center infrastructure or begin shifting data storage to a cloud-based system must be made.
  - Moving the DES Data Center to private leased space will be the first step in this process.

One-Time Capital

To fund the more urgent capital needs in the DOA (includes DOC) and ABOR building systems, the Executive recommends a one-time $54M capital appropriation from the General Fund for urgent Statewide projects.

Category of Work	General Fund Amount
Fire Alarms - Statewide repair, replace, upgrade	$18.9 M
Mechanical - HVAC, Plumbing, Major Systems	$17.8 M
Roofs - Statewide repair, replace existing roofs	$8.3 M
Infrastructure – Exterior utilities, roads, water	$3.7 M
Locks – DOC System-wide lock replacement	$3.5 M
Electrical - Capital Mall	$1.2 M
Other Fire Life Safety	$600,000
One-Time Capital Projects TOTAL	**$54.0 M***

*One-time capital funding includes $30M for ADOA, $14M for DOC and $10M for ABOR

Veteran Home Construction

- The Executive recommends an appropriation of $9.2 million for the construction of a new Arizona Veterans' Home in Yuma, AZ— the expenditure of which is contingent on the successful acquisition of land and the award of the VA federal grant which pays 65% of construction costs.
- Arizona Veteran Homes are self-sufficient after the first year of operations.
- Construction timeline: begin October 2015 and finish October 2017 (6 months for planning and design and 18 months for construction)

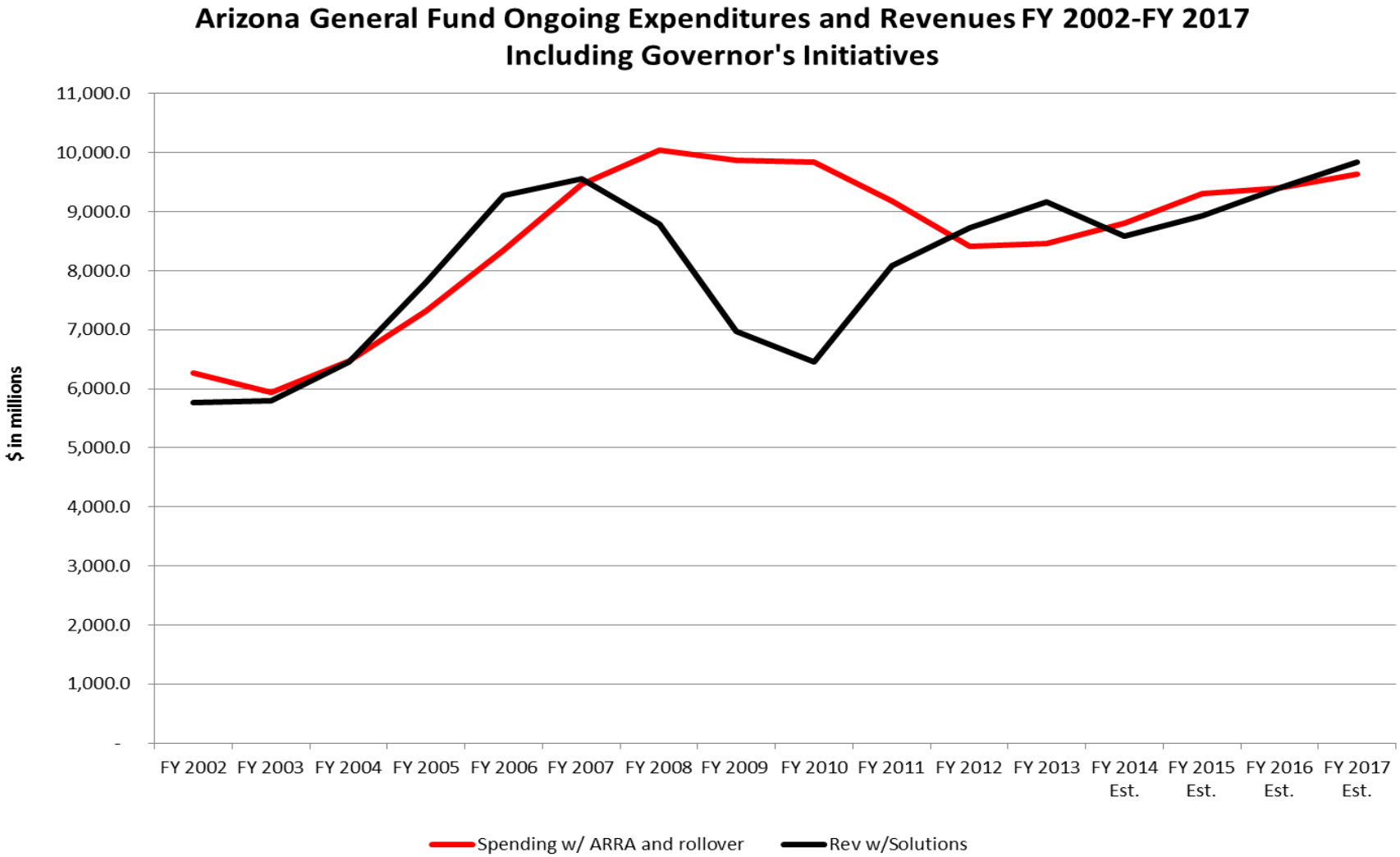
Statewide Capital Summary FY15

Agency	Building Renewal	One-Time Capital
ADOA	$12.0 M	$30.0 M
DOC	$5.0 M	$14.0 M
ABOR	$0	$10.0 M
ADOT	$3.0 M	$0
DPS Microwave	$0	$5.4 M
Veteran's Home	$0	$9.2 M
TOTAL	**$20.0 Million**	**$68.6 Million**

Other Good Government

- **Transaction Privilege Tax reform:** $1.2 million to fund 19 additional revenue auditors and audit processing personnel to facilitate the development and implementation of TPT reform.
- **Tobacco settlement compliance:** $1.4 million for the Department to obtain an automated tobacco tax processing and revenue accounting system and to hire six additional staff to comply with the Tobacco settlement.
- **Detection of fraudulent claims for Individual Income Tax refunds**: $2.6 million to obtain services from LexisNexis for fraud detection to prevent an estimated $8 million to $12 million worth of fraud.
- **Tourism Funding:** $2 million for additional tourism funding.
- **Alzheimer's Funding:** $1.25 million to expand Arizona's support for Alzheimer's research.

Where We End Up



Where We End Up

	FY 2014	FY 2015	FY 2016	FY 2017
Beginning Balance	$895.5	$676.1	$243.9	$236.4
Revenues	$8,588.2	$8,928.4	$9,391.3	$9,822.5
Expenditures	$8,807.6	$9,360.5	$9,398.9	$9,638.3
Ending Balance	$676.1	$244.0	$236.4	$420.6
Structural Balance	$(299.1)	$(243.2)	$7.4	$199.1
Rainy Day Fund Balance	$455.2	$508.4	$511.5	$514.6

(Dollars in Millions)

Risks

The Executive Budget Recommendation leaves both a Rainy Day fund and a cash balance at the end of FY 2017. These funds will be available to address potential budget risks including:

- Federal action
- Lawsuits
- Economic disruptions