

## FY 2016-2017 State Budget

(As Signed by the Governor on May 10, 2016)

### Summary

Governor Doug Ducey signed the FY 2016-2017 budget on May 10, 2016. The budget outlines a \$9.6 billion spending plan and contains many Executive and Legislative priorities, including a \$32 million tax cut, the elimination of several rollover payments, a one-time increase in transportation funding, the consolidation of state agencies and boards, and holding K-12 harmless with one-time funding. Based on current revenue projections, the budget calls for a structural balance in FY 2017 of \$681,200 and a final ending balance of \$65,712,200.

### Major County Issues

- **Arizona Department of Juvenile Corrections (ADJC) One-Year Cost Reduction:** As session law, requires counties to transfer \$11,260,000 to ADJC. This amount reflects \$740,000 of permanent cost savings within the agency. As session law, appropriates \$8 million to the Arizona Department of Administration (ADOA) to partially reimburse counties for ADJC costs for FY 2017. After adjusting for the reimbursement, counties' total costs for ADJC for FY 2017 will be \$3,260,000. [HB 2695 Sec. 128 \(pg. 80\) subsection C](#) & [HB 2701 Sec. 22 \(pg. 16\)](#) – **(\$8.7 million savings for counties)**
- **Flexibility Language:** As session law, allows counties under 250,000 persons to use any source of county revenue to meet any county fiscal obligation up to \$1.25 million. Counties are still required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2016, whether the county used the flexibility language, and if so, the specific amount and source of revenue used. [HB 2708 Sec. 14 \(pg. 6\)](#)
- **Lottery Revenue:** As session law, appropriates \$5.5 million to the Department of Administration to distribute to the 10 counties under 200,000 persons in lieu of county lottery revenue. This language does not include Maricopa, Mohave, Pima, Pinal, or Yavapai counties. [HB 2695 Sec. 128 \(pg. 80\) subsection A](#) – **(\$2.75 million impact to counties)**
- **Supplemental Appropriation for the Presidential Preference Election (PPE):** As session law, appropriates, in FY 2016, \$6.13 million to the Office of the Secretary of State to reimburse counties for costs associated with the PPE. This appropriation is in addition to the current funding appropriated in the FY 2016 budget. The language restricts per county reimbursement to the lesser of the actual costs or the following amounts:
  - For counties with an official active voter registration total of 400,000 persons or more, \$2.50 per active registered voter.
  - For counties with an official active voter registration total between 35,000 and 400,000 persons, \$3.00 per active registered voter.
  - For counties with an official active voter registration total fewer than 35,000 persons, \$3.50 per active registered voter.

This language further prohibits reimbursement of regular pay and associated employer-related expenses for permanent employees, maintenance of infrastructure and equipment, and any expenditure that is not reimbursable as prescribed by the [State of Arizona Accounting Manual](#). [HB 2695 Sec. 125 \(pg. 78\)](#) – **(\$6.1 million savings for counties)**

- **Increased Superior Court Salaries:** Provides for a two year phase in of a 3 percent pay raise for judges. Beginning in January 2017, the first phase will provide superior court judges with a 1.5 percent pay raise. Maricopa County pays for 100 percent of superior court judges' salaries and all other counties pay for 50 percent plus ERE. Once the raise is fully implemented in FY 2018, the total cost to counties will be approximately \$691,540. [HB 2695 Sec. 60 \(pg. 47 lines 36-39\)](#) – (**\$172,885 impact to counties** in FY 2017 – **NOTE:** this estimate does not include adjustments for Judges Pro Tempore or Justices of the Peace)
- **Highway User Revenue Fund (HURF):** As session law, requires, prior to any other distributions, \$30 million in FY 2017 and \$30 million in FY 2018 in HURF monies be distributed as follows:
  - 33.231% to counties: \$9,969,300
  - 48.097% to cities: \$14,429,100
  - 5.247% to cities over 300,000 persons: \$1,574,100
  - 13.425% for counties over 800,000 persons for controlled access: \$4,027,500

The FY 2017 amount is in addition to \$30 million authorized by the FY 2016 budget, bringing the total to \$60 million in FY 2017, of which, \$19.9 million will be allocated to counties. The measure further stipulates that the allocation to each county will be made according to current statute (A.R.S. § 28-6538), governing the distributions of HURF monies. [HB 2708 Sec. 8 \(pg. 4\) & Sec. 9 \(pg. 5\)](#) – (**\$10 million increase for counties**)

### **County Issues by Budget Bill**

#### **HB 2695 general appropriations; 2016-2017**

- **Eliminates Sweep of State Aid to Indigent Defense to the Attorney General (AG):** Eliminates an \$800,100 appropriation from the State Aid to Indigent Defense Fund to the AG for capital post-conviction prosecution. *Eliminated*
- **Out of County Tuition:** Appropriates \$1,273,800 from the State General Fund for rural county reimbursement subsidies for community colleges. Apache County receives \$699,300 and Greenlee County receives \$574,500. This is unchanged from last year. *Sec. 26 (pg. 22)*
- **County Attorneys Fund:** Continues to provide \$973,600 of Arizona Criminal Justice Commission (ACJC) grant monies to counties. *Sec. 30 (pg. 25)*
- **County Participation; Child Support Enforcement:** Appropriates \$8,740,200 for county participation of child support enforcement in the Department of Economic Security (DES). This amount is unchanged from last year. *Sec. 35 (pg. 27)*
- **State Forester; Environmental County Grants:** Continues to appropriate \$250,000 to the State Forester for county environmental projects. *Sec. 45 (pg. 38)*
- **County Tuberculosis Provider Care and Control:** Maintains a \$590,700 appropriation for county tuberculosis programs. *Sec. 51 (pg. 40)*
- **County Judicial Reimbursements:** Continues to provide \$187,900 to the Supreme Court to reimburse counties for state grand juries and capital post-conviction relief (PCR). The state grand jury reimbursement is limited to \$97,900 and the PCR reimbursement is limited to \$90,000. *Sec. 60 (pg. 44)*

- **Increased Adult Probation Funding:** Increases Adult Standard Probation funding by \$1.8 million and Adult Intensive Probation funding by \$456,900. This increased appropriation is in response to the courts indicating probation was currently underfunded. It is still unclear exactly how this money will be allocated amongst the counties. *Sec. 60 (pg. 45)*
- **Increased Superior Court Salaries:** Provides for a two-year phase-in of a 3 percent pay raise for judges. Beginning in January 2017, the first phase will provide superior court judges with a 1.5 percent pay raise. Maricopa County pays for 100 percent of superior court judges' salaries and all other counties pay for 50 percent plus ERE. Once the raise is fully implemented in FY 2018, the total cost to counties will be approximately \$691,540. *Sec. 60 (pg. 47 lines 36-37)*
- **Highway User Revenue Fund (HURF) to Department of Public Safety (DPS):** Transfers \$96,409,200 from HURF to DPS. This amount is \$403,100 less than last year. *Sec. 87 (pg. 57)*  
**NOTE:** Counties received a HURF restoration in the revenue budget reconciliation bill.
- **State Aid to Indigent Defense to DPS:** Appropriates \$700,000 from the State Aid to Indigent Defense Fund to DPS for operations. *Sec.87 (pg. 57)*
- **Justice of the Peace (JP) Salaries:** Appropriates \$1,205,100 to the State Treasurer to cover the state's share of JP salaries. This amount is unchanged from last year. *Sec. 100 (pg. 65)*
- **Law Enforcement Boating Safety Fund (LEBSF):** Appropriates \$2,183,800 to be allocated to county law enforcement agencies in counties which had a law enforcement and boating safety program in existence prior to July 1, 1990 (Apache, Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, and Yuma). *Sec. 100 (pg. 65)*
- **Supplemental Appropriation for the Presidential Preference Election (PPE):** As session law, appropriates, in FY 2016, \$6.13 million to the Office of the Secretary of State to reimburse counties for costs associated with the PPE. This appropriation is in addition to the current funding appropriated in the FY 2016 budget. The language restricts per county reimbursement to the lesser of the actual costs or the following amounts:
  - For counties with an official active voter registration total of 400,000 persons or more, \$2.50 per active registered voter.
  - For counties with an official active voter registration total between 35,000 and 400,000 persons, \$3.00 per active registered voter.
  - For counties with an official active voter registration total fewer than 35,000 persons, \$3.50 per active registered voter.

This language further prohibits reimbursement of regular pay and associated employer-related expenses for permanent employees, maintenance of infrastructure and equipment, and any expenditure that is not reimbursable as prescribed by the [State of Arizona Accounting Manual](#). *Sec. 125 (pg. 78)*
- **Lottery Revenue:** As session law, appropriates \$5.5 million to the Department of Administration to distribute to the 10 counties under 200,000 persons in lieu of county lottery revenue. This language does not include Maricopa, Mohave, Pima, Pinal, or Yavapai counties. *Sec. 128 (pg. 80) subsection A*

- **Graham County Assistance:** Appropriates \$500,000 from the State General Fund to ADOA for distribution to Graham County for maintenance of essential county services. *Sec. 128 (pg. 80) subsection B*
- **Arizona Department of Juvenile Corrections (ADJC) Cost Reduction:** Appropriates \$8,000,000 from the State General Fund to ADOA for a one-time distribution to counties to partially reimburse for ADJC costs. The amounts each county are to receive are detailed as follows:

<b>Apache</b>	\$89,500	<b>Mohave</b>	\$250,500
<b>Cochise</b>	\$164,400	<b>Navajo</b>	\$1,226,900
<b>Coconino</b>	\$168,300	<b>Pima</b>	\$1,226,900
<b>Gila</b>	\$67,100	<b>Pinal</b>	\$59,300
<b>Graham</b>	\$46,600	<b>Santa Cruz</b>	\$59,300
<b>Greenlee</b>	\$10,500	<b>Yavapai</b>	\$264,100
<b>La Paz</b>	\$25,700	<b>Yuma</b>	\$245,000
<b>Maricopa</b>	\$4,777,300		

*Sec. 128 (pg. 80) subsection C*

- **Court Fund Transfers:** As session law, requires the following amounts to be transferred to the State General Fund:
  - In FY 2017:
    - \$300,000 from the Alternative Dispute Resolution Fund
    - \$300,000 from the Lengthy Trial Fund
    - \$500,000 from the Court Appointed Special Advocate Fund
    - \$250,000 from the Drug Treatment and Education Fund
    - \$3,650,000 from the Juvenile Probation Services Fund
  - In FY 2018:
    - \$300,000 from the Alternative Dispute Resolution Fund
    - \$200,000 from the Lengthy Trial Fund
    - \$400,000 from the Court Appointed Special Advocate Fund
    - \$250,000 from the Drug Treatment and Education Fund
    - \$1,850,000 from the Juvenile Probation Services Fund

*Sec. 156 (pg. 91)*

#### **SB 1527 appropriations; capital outlay; 2016-2017**

- **Flagstaff Veterans' Home:** Appropriates \$10 million to the Arizona Department of Veterans Services for the construction of a Veteran's Home in Flagstaff. *Sec. 6 (pg. 3)*
- **Interstate 10 (I-10) Widening Projects:** Appropriates \$30 million to the Arizona Department of Transportation (ADOT) to be combined with federal funds to widen I-10 from Early Road to Interstate 8 and the I-10 interchange with State Route 87. *Sec. 8 (pg. 4)*
- **State Route 189 (SR-189):** Appropriates \$25 million to ADOT to accelerate the completion of the SR-189 construction project from the Mariposa port of entry to Interstate 19. *Sec. 9 (pg. 4)*

### [HB 2701 criminal justice; budget reconciliation; 2016-2017](#)

- **State Department of Corrections; Conditional Incarceration Contracts:** As session law, if a prisoner population trigger is hit, the Arizona Department of Corrections (ADC) is authorized to award a contract for 1,000 additional medium security beds. Before issuing any contracts to private third parties, ADC must first offer a contract to a county or group of counties, with a population under 200,000, for at least 250 beds, provided the county or counties meet the requirements of the request for proposals and the per diem rate is equal to or less than other competitive bidders. *Sec. 12 (pg. 14) subsection C*
- **Suspension of County Non-supplanting Funding Requirements:** Continues the suspension of county non-supplanting requirements associated with funding of probation services, criminal case processing, and alternative dispute resolution programs. *Sec. 18 (pg. 16)*
- **Arizona Department of Juvenile Corrections (ADJC) County Contributions:** As session law, requires counties to transfer \$11,260,000 to ADJC. This amount reflects \$740,000 of permanent cost savings within the agency. *Sec. 21 (pg. 16) NOTE: A one-time reduction in this amount is included in the General Appropriations Act.*

### [HB 2704; budget reconciliation; health; 2016-2017](#)

- **Arizona Long Term Care System (ALTCS):** FY 2017 contributions total \$249,980,000 for all 15 counties into the Long Term Care System Fund. This is an increase of \$1,117,100 over the JLBC Baseline and is due to the restoration of ALTCS dental care. *Sec. 15 (pg. 15)*
- **Sexually Violent Persons (SVP) Payments:** Continues to require counties to reimburse the Department of Health Services (DHS) for 31 percent of the cost associated with housing SVPs at the Arizona State Hospital (ASH) for FY 2017. Includes flexibility language allowing counties to pay for this program with any source of county revenue and excludes any payments from the county expenditure limitation *Sec. 16 (pg. 15)*
- **Restoration to Competency (RTC) Payments:** Continues to require counties to reimburse DHS for 100 percent of the cost associated with competency restoration treatment at the ASH. Includes “flexibility language” allowing counties to pay for this program with any source of county revenue and excludes any payments from the county expenditure limitation. *Sec. 17 (pg. 16)*
- **Acute Care Contributions:** Sets county Acute Care contributions at \$47,233,500 for all 15 counties. This amount is unchanged from the JLBC Baseline and includes a deflator for the Maricopa County contribution *Sec. 20 (pg. 19)*
- **Disproportionate Uncompensated Care Pool (DUC Pool):** Requires the collection of \$2,646,200 in DUC Pool contributions from counties other than Maricopa County. This amount is unchanged from last year. *Sec. 21 (pg. 20)*

### [HB 2708 budget reconciliation; revenue; 2016-2017](#)

- **Elderly Assistance Fund (EAF) Restrictions:** As permanent law, requires the board of supervisors to spend any monies remaining in the EAF from and after December 31, 2015, solely on the elderly assistance program. *Sec. 4 (pg. 3)*

- **Highway User Revenue Fund (HURF):** As session law, requires that prior to any other distributions, \$30 million in FY 2017 and \$30 million in FY 2018 in HURF monies be distributed as follows:
  - 33.231% to counties: \$9,969,300
  - 48.097% to cities: \$14,429,100
  - 5.247% to cities over 300,000 persons: \$1,574,100
  - 13.425% for counties over 800,000 persons for controlled access: \$4,027,500

The FY 2017 amount is in addition to \$30 million authorized in the FY 2016 budget, bringing the total to \$60 million in FY 2017, of which, \$19.9 million will be allocated to counties. The measure further stipulates that the allocation to each county will be made according to current statute (A.R.S. § 28-6538), governing the distributions of HURF monies. *Sec. 8 (pg. 4) & Sec. 9 (pg. 5)*

- **County Flexibility:** As session law, allows counties under 250,000 persons to use any source of county revenue to meet any county fiscal obligation up to \$1.25 million. Counties are still required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2016, whether the county used the flexibility language, and if so, the specific amount and source of revenue used. *Sec. 14 (pg. 6)*
- **La Paz Expenditure Limitation Waiver:** As session law, waives the penalty for exceeding the county expenditure limit for Fiscal Years 2014, 2015, and 2016 for any amount related to the contract with Los Angeles County to import and dispose of incinerator ash. *Sec. 16 (pg. 7)*
- **Arizona Department of Revenue (ADOR) Cost Shift:** As session law, sets the amount the Arizona Department of Revenue is to collect from local government at \$20,755,835 and lays out a framework for calculating each jurisdiction's share.

The aggregate county share of the fee is determined through the following procedure:

- 1) Calculate the aggregate amount distributed to counties from:
  - a) A.R.S. § 42-5029 (TPT distribution base)
  - b) A.R.S. § 42-6103 (county general fund excise tax)
  - c) A.R.S. § 42-6107 (county transportation excise tax for roads)
  - d) A.R.S. § 42-6108 & 42-6108.01 (tax on hotels – Pima only)
  - e) A.R.S. § 42-6109 & 42-6109.01 (jail facility excise tax – Maricopa only)
  - f) A.R.S. § 42-6110 (use tax on electricity)
  - g) A.R.S. § 42-6111 (county capital projects)
  - h) A.R.S. § 42-6112 (county excise tax for county judgment bonds – La Paz only)
- 2) Calculate the aggregate amount distributed to counties, cities and towns, MAG, and PAG from:
  - a) All taxes listed under step one
  - b) A.R.S. § 42-6001 (city excise taxes)
  - c) A.R.S. § 43-206 (urban revenue sharing)
  - d) A.R.S. § 42-6105 (MAG transportation tax)
  - e) A.R.S. § 42-6106 (PAG transportation tax)
- 3) Calculate what percentage the aggregate amount calculated under step 1 is of the aggregate amount calculated under step 2 and apply this percentage to the \$20.8 million.

The county share of the \$20.8 million will be approximately \$6.7 million. The session law further stipulates that the aggregate county share shall be proportionally collected from each county, based on population. *Sec. 18 (pg. 10)*