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UNITED STATES DISTRICT COURT
DISTRICT OF ARIZONA

STATE OF ARIZONA,
Plaintiff,
v.
JANET YELLEN, in her official capacity
as Secretary of the Treasury et al.;
Defendants.

No. 2:21-cv-00514-DJH

**MOTION FOR A PRELIMINARY
INJUNCTION**

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INTRODUCTION

The State of Arizona (“State”) respectfully requests a preliminary injunction against one of the most aggressive encroachments upon state sovereignty ever enacted by Congress in the history of the Republic. The challenged provision effectively seeks to replace the system of separate sovereigns that is fundamental to the Constitution, in which both the federal and state governments have independent taxing power, with one in which Congress alone sets taxing policy. Congress’s actions are patently unconstitutional: either because (1) the provision at issue is too ambiguous to impose valid conditions on the States or (2) Congress has flouted bedrock principles of federalism enshrined in the Constitution. Either way, the State is entitled to the injunction it now seeks.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (“ARPA,” or the “Act”) into law. One component of the ARPA appropriates aid money to the states. Under this provision, Section 9901 of the Act, Arizona is set to receive about \$4.7 billion. But at the same time, Congress attempted to use those moneys to impose constraints the sovereign taxing power of states that are entirely unprecedented. Specifically, the Act—assuming it is clear enough to be effective—prohibits states from reducing net tax revenues in any manner for the entire 2021-24 period. To the State’s knowledge, Congress has never previously enacted anything remotely equivalent. And for good reason: this unprecedented attempt to trample the sovereignty of states is patently unconstitutional.

The provision at issue in Section 9901 (hereinafter, the “Tax Mandate”), prohibits the States from using ARPA moneys “to either directly or indirectly offset” any reduction in net tax revenue as a result of a tax policy change. See American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 9901, 135 Stat. 4, 223-228 (adding § 602(c)(2)(A) to the Social Security Act (42 U.S.C. § 801 et seq.)). Any state that violates this provision will be required to repay the funds to the Treasury. *Id.*

1 The essential problem is that money is fungible, so any reduction of any tax
2 whatsoever could be deemed to make “indirect” use of ARPA funds to offset the
3 reduction. That notably appears to have been the intent of the chief proponent of the Tax
4 Mandate, Senator Manchin, who made clear that (in his view) “states should not be
5 cutting taxes at [this] time.” Makar Decl. Ex. M.

6 While this may have been the intent behind the Tax Mandate, its language is
7 palpably ambiguous. Its text gives no clarity on what amounts to an indirect offset or a
8 reduction in net tax revenue, or what baseline should be used to determine when a
9 reduction has taken place. Even supporters of the law cannot agree on what it does: the
10 Secretary of the Treasury has contended—seemingly in contradiction with the provision’s
11 architect, Senator Manchin—that the Tax Mandate is only meant to prohibit states from
12 using aid money to fund tax cuts.

13 Indeed, Secretary Yellen’s own testimony to Congress powerfully demonstrates
14 the hopeless ambiguities inherent in the Tax Mandate, stating that the Tax Mandate
15 creates “a host of thorny questions,” and that “given the fungibility of money, it’s a hard
16 question to answer” what the effect of the Tax Mandate will be. *See* Makar Decl. Ex. Y.
17 Moreover, in a letter to Secretary Yellen, 21 state attorneys general asked her to answer
18 whether specific examples would violate the Tax Mandate, but she declined—or was
19 unable—to do so. *See* Makar Decl. Exs. R, T.

20 This ambiguity makes the Tax Mandate unconstitutional and unenforceable.
21 Although the Spending Clause gives Congress considerable authority to spend for “the
22 general welfare,” that authority is not unlimited. *See South Dakota v. Dole*, 483 U.S.
23 203, 207-08 (1987). Among other requirements, “when Congress attaches conditions to a
24 State’s acceptance of federal funds, the conditions must be set out ‘unambiguously.’”
25 *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291, 296 (2006). With the
26 Tax Mandate, Congress has failed to speak with a sufficiently clear voice for states to
27 voluntarily or knowingly understand the scope of the purported condition.
28

Alternatively, if the Tax Mandate is the unambiguous prohibition on cutting taxes of any sort, then its constitutional violations are even more patent. In particular, the Tax Mandate is unconstitutional because (1) it is wholly unrelated to the purpose of the state aid provision—particularly where Congress itself provided extensive tax relief in the Act but forbids the States from providing any of their own, (2) attempts to collapse the federal system of dual sovereigns with independent taxing authority, and (3) commandeers state tax policy. The Supreme Court has explained that “the Constitution has never been understood to confer upon Congress the ability to require the States to govern according to Congress’ instructions.” *New York v. United States*, 505 U.S. 144, 162 (1992). This limitation is fundamental to the federal system and serves to protect individual liberty and ensure political accountability. *See Nat’l Fed’n of Indep. Bus. v. Sebelius* (“*NFIB*”), 567 U.S. 519, 577-78 (2012). The Tax Mandate, by exploiting an economic crisis to attempt to take command of state tax policy, runs roughshod over these limitations.

Because the Tax Mandate is unclear and unlawful, and the threat of recoupment hangs over Arizona’s ability to make informed decision-making about tax policy, the Court should enjoin the provision’s enforcement as it applies to Arizona.

FACTUAL BACKGROUND

The COVID-19 pandemic has produced an enormous economic recession. For a variety of reasons, including state and federal policies, deliberate caution among individuals and businesses to avoid infectious disease, and the effects of the disease itself on individuals and the public health system, national output and employment has fallen dramatically from the highs of 2020. *See, e.g.*, Makar Decl. Ex. A. Countless businesses have been forced to close, and millions of individuals have lost their jobs. In the final accounting, 2020 experienced the worst economic decline since World War II. *See, e.g.*, Makar Decl. Ex. B.

Arizona also experienced an economic decline, and the state’s budget fared accordingly. Arizona’s tax revenue for FY 2020, for example, came in over \$800 million below the estimate from last year’s budget. *Compare* Makar Decl. Ex. C *with id.* Ex. D.

1 Similarly, the trust fund covering Arizona's unemployment dropped over 90% in 2020.
2 *Id.* Ex E.

3 The economic and financial situation confronting Arizona and the rest of the
4 country led Congress to pass the Act. Among many other provisions, the Act provides for
5 a \$195.3 billion aid program, payable directly to the States. *See* ARPA § 9901 (adding
6 § 602(b)(3)(A) to the SSA). According to the sponsors of the Act, the purpose of this aid
7 provision was to enable States to address the negative economic impact of the COVID-19
8 emergency. *See* Makar Decl. Ex. F. The Act also enacts substantial federal tax relief.
9 Makar Decl. Exs. G, Z.

10 Arizona expects to receive approximately \$4.9 billion under the Act, calculated
11 based on a formula that considers a State's unemployed population from October through
12 December of 2020. ARPA § 9901 (adding § 602(b)(3) to the SSA); *see also* Makar Decl.
13 Ex. G. This figure represents approximately 9% of Arizona's total budget for fiscal year
14 2022. *See id.* Ex. H.

15 This program of state aid was a part of the original ARPA bill as passed by the
16 House. The Senate, however, quietly added a provision imposing a limit on states which
17 accept funding under the Act. That provision, the Tax Mandate, states:

18 "A State or territory shall not use the funds provided under this section or
19 transferred pursuant to section 603(c)(4) to either directly or indirectly offset a
20 reduction in the net tax revenue of such State or territory resulting from a change
21 in law, regulation, or administrative interpretation during the covered period that
22 reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a
23 credit, or otherwise) or delays the imposition of any tax or tax increase."

24 ARPA § 9901 (adding § 602(c)(2)(A) to the SSA). Nothing in the statute or the
25 Congressional legislative history lends additional clarity to the meaning of this limitation.

26 In addition to the Tax Mandate, the ARPA provides other limitations on the use of
27 the grant money. First, the Act lays out only four permissible uses of the grants:

28 "(A) to respond to the public health emergency with respect to the Coronavirus
Disease 2019 (COVID-19) or its negative economic impacts...;

"(B) to respond to workers performing essential work during the COVID-19

1 public health emergency by providing premium pay to eligible workers of the
2 State...;

3 “(C) for the provision of government services to the extent of the reduction in
4 revenue of such State, territory, or Tribal government due to the COVID–19
5 public health emergency relative to revenues collected in the most recent full fiscal
6 year of the State...; or

7 “(D) to make necessary investments in water, sewer, or broadband infrastructure.

8 *Id.* (adding § 602(c)(1) to the SSA). The statute also provides that “[n]o state or territory
9 may use funds made available under this section for deposit into any pension fund.” *Id.*
10 (adding § 602(c)(2)(B) to the SSA). These conditions or limitations are not at issue here.

11 The Act further provides that a state that violates the Tax Mandate can be
12 compelled to repay the lesser of the amount of the tax reduction or the total amount of
13 funds received. *Id.* (adding § 602(e) to the SSA). The Act does not provide the states with
14 any specific process to challenge recoupments.

15 In the wake of the passage of the Act, numerous commentators began to take note
16 of the Tax Mandate and to question its precise scope. *See, e.g.,* Makar Decl. Exs. I–J.
17 Several commentators have observed in recent weeks that the statute appears to be
18 meaningfully ambiguous, creating doubts as to the legality of potential state tax changes
19 for states accepting funds under the Act. *See, e.g., id.* Ex. K; Ex. L (“As Daniel Hemel, a
20 law professor at the University of Chicago and an expert on tax law, told me, ‘money is
21 fungible, so I’m not quite sure what it means for the funds to indirectly offset a reduction
22 in net tax revenue resulting from a tax cut.’”).

23 Congress’s intent behind the Tax Mandate remarkably appears to depend on who
24 is asked. The principal proponent of the provision, Senator Manchin—who insisted upon
25 its inclusion as a condition for his support and provided the decisive vote without which
26 the Act would not have passed—intended (and believed) that the Tax Mandate enacted a
27 blanket prohibition forbidding the States from cutting taxes in any manner whatsoever
28 through 2024. The New York Times, for example, reports that Senator Manchin
“argue[d] that states should not be cutting taxes at a time when they need more money to

1 combat the virus. He urged states to postpone their plans to cut taxes.” *Id.* Ex. M. That
 2 result appears to follow from the fungibility of money and the Tax Mandate’s broad ban
 3 on using funds “directly *or indirectly* [to] offset” tax cuts. By contrast, the Department of
 4 Treasury, a Defendant here, disagrees. The Department appears to believe that the Tax
 5 Mandate only prevents the States from using the funds provided by the Act specifically to
 6 fund tax cuts but does not prevent the States from otherwise cutting taxes as long as they
 7 do not specifically designate moneys appropriated by the Act as the funding source. A
 8 Department spokesman told the Associated Press that the “[S]tates are free to make
 9 policy decisions to cut taxes – they just cannot use the pandemic relief funds to pay for
 10 those tax cuts.” *See id.* Ex. N.

11 Arizona policymakers are currently contemplating several policy changes which
 12 could arguably affect tax revenue. For example, Governor Doug Ducey in January of
 13 2021 called for \$600 million in permanent income tax cuts. *Id.* Ex. O. Some Arizona
 14 legislators are considering changes to the tax code which would respond to a recent
 15 proposition in Arizona raising tax rates. *Id.* Ex. P. In another forthcoming policy change
 16 that may be considered a reduction in tax rates, Arizona is currently in the process of
 17 phasing out a vehicle registration fee. *Id.* Ex. Q. Under the language of the Tax Mandate
 18 and the understanding advanced by Senator Manchin, any reduction in net tax revenue
 19 resulting from these policies might be “indirectly offset” by the billions Arizona is to
 20 receive under the Act, notwithstanding their lack of any relationship to the aid in that law.

21 To help answer some of these uncertainties, on March 16, 2021, Arizona’s
 22 attorney general, joined by 20 other state attorneys general, wrote a letter to the Secretary
 23 of the Treasury asking for clarification on the scope of the Tax Mandate and providing
 24 specific examples for the Treasury to provide guidance as to whether the Tax Mandate
 25 would apply. *Id.* Ex. R. On March 17, 2020, the State of Ohio filed suit in the Southern
 26 District of Ohio challenging the Constitutionality of the Tax Mandate on similar grounds
 27 to those raised in this suit. *Id.* Ex. S. Secretary Yellen subsequently sent the state
 28 attorneys general a short response, declining to address any of the specific examples. *Id.*

Ex. T. The letter appeared to suggest that the States could cut taxes as long as they do not specifically claim that ARPA funds are the basis of the offsetting funds: “Nothing in the Act prevents States from enacting a broad variety of tax cuts.” *Id.* But at the same time, Secretary Yellen stated “the limitations of the Act [would] not [be] implicated” if States cut taxes and “*replac[e] the lost revenue through other means*,” *id.* (emphasis added)—which suggests that Treasury might insist that States replace the lost revenue with new revenue, and thus not enact any *net* change in taxation.

Because Congress lacks constitutional authority to impose such an ambiguous and potentially broad condition on this federal aid, Arizona now seeks a preliminary injunction of the Tax Mandate’s enforcement against it.

LEGAL STANDARD

The State seeks a preliminary injunction for the purpose of “preserv[ing] the relative positions of the parties until a trial on the merits can be held.” *Univ. of Tex. v. Camenisch*, 451 U.S. 390, 395 (1981). As the moving party, a plaintiff can obtain a preliminary injunction by showing that (1) it “is likely to succeed on the merits,” (2) it “is likely to suffer irreparable harm in the absence of preliminary relief,” (3) “the balance of equities tips in [its] favor,” and (4) “an injunction is in the public interest.” *Winter v. NRDC*, 555 U.S. 7, 20 (2008).

ARGUMENT

I. Plaintiffs are Likely to Prevail on the Merits of Their Claims

Congress’s authority under the spending clause is broad, but not limitless. *Dole*, 483 U.S. at 207-08. In particular, the Supreme Court has articulated four limitations on the exercise of that power. First, “the exercise of the spending power must be in pursuit of ‘the general welfare,’” as opposed to the pursuit of any local interest. *Id.* at 207. Second, any condition imposed on states for the receipt of funds must be “‘unambiguous[] ..., enabl[ing] the States to exercise their choice knowingly, cognizant of the consequences of their participation.’” *Id.* (quoting *Pennhurst State Sch. & Hosp. v. Halderman*, 451 U.S. 1, 17 (1981)). Third, conditions on federal grants must be related to

1 the federal interest in the national program. *Id.* Fourth, “other constitutional provisions
2 may provide an independent bar to the conditional grant of federal funds.” *Id.* at 208.

3 In addition to these Spending Clause limitations, Congress may not employ any of
4 its powers to coerce the State into adopting a federal regulatory program as its own. *See*
5 *NFIB*, 567 U.S. at 578 (opinion of Roberts, C.J.) (citing *New York*, 505 U.S. at 178).
6 “Congress may use its spending power to create incentives” for the States to enact certain
7 policies, but where ““pressure turns into compulsion,”” this crosses the line into
8 unconstitutional commandeering. *Id.* at 577-78.¹

9 Because the Tax Mandate independently violates *several* of these constitutional
10 requirements, any one of which is sufficient to invalidate it, Arizona is likely to prevail
11 on its challenge to the provision’s constitutionality.

12 **A. The Tax Mandate Is Unconstitutionally Ambiguous**

13 Because conditional grants under the Spending Clause are “in the nature of a
14 contract[,]” their constitutional legitimacy rests on whether a State can both “voluntarily
15 and knowingly” accept the terms. *See Pennhurst*, 451 U.S. at 17. The condition in
16 question must be viewed “from the perspective of a state official who is engaged in the
17 process of deciding whether” to accept the funds. *Arlington Central*, 548 U.S. at 296.
18 Unlike a traditional statutory interpretation case, the question under the *Pennhurst* inquiry
19 is not what the “best” reading of the statutory language is. Instead the court only need
20 determine whether the statute allows state officials to “clearly understand” the obligations
21 that go with the funds, and whether the condition furnishes “clear notice” regarding the
22 potential liability the State would face. *Id.* Absent such unambiguous clarity, Congress’s
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25 ¹ Whether “coercion” violates the spending clause because state acceptance of the
26 condition is not voluntary, or whether it is “commandeering,” is a distinction without a
27 difference for present purposes. *See, e.g., NFIB*, 567 U.S. at 677 (joint dissent).
28 (“Congress effectively engages in this impermissible compulsion [commandeering] when
state participation in a federal spending program is coerced, so that the States’ choice
whether to enact or administer a federal regulatory program is rendered illusory.”). As
long as the states have been coerced into accepting the condition, it is unconstitutional
regardless of how it is classified. *Id.*

1 attempt to impose a condition upon the States through its Spending Clause power is
2 unconstitutional. *Id.*

3 Two Supreme Court cases, *Pennhurst* and *Arlington Central*, have carefully
4 considered the question when a conditional grant is ambiguous. Both cases determined
5 that the states could not be constitutionally bound by unclear statutory language. In
6 *Pennhurst*, the Supreme Court addressed the Developmentally Disabled Assistance and
7 Bill of Rights Act of 1975. *Pennhurst*, 451 U.S. at 5 (citing 42 U.S.C. § 6000 *et seq.*
8 (1976 ed. and Supp.III)). That law was a federal-state grant program providing federal
9 funding to participating states in exchange for those states complying with the conditions
10 in the Act. *Id.* at 11. The case concerned whether the law’s bill of rights portion created
11 judicially enforceable rights for the developmentally disabled. *Id.* at 5-6. Applying the
12 principle that Congress must speak “with a clear voice” to enable states “to exercise their
13 choice knowingly” under the Spending Clause, and that Congress would not have
14 intended to impose the expansive obligations represented by the bill of rights on states
15 without clearly articulating such an obligation, the Court rejected the enforceability of the
16 bill of rights against the states. *Id.* at 17-19. In particular, the Court found it persuasive
17 that other parts of the statute clearly articulated the obligations of the states, while the bill
18 of rights portion used more ambiguous language. *Id.*

19 In *Arlington Central*, the Supreme Court addressed a provision in the Individuals
20 with Disabilities Education Act (IDEA) which provides that a court in an IDEA case
21 “‘may award reasonable attorneys’ fees as part of the costs.’” *Arlington Central*, 548 U.S.
22 at 293-94 (citation omitted). The question presented there was whether IDEA permitted
23 prevailing parents to recover expert fees as a part of “costs.” *Id.* The Court carefully
24 considered the various possible understandings of the term “costs” and concluded that the
25 statute did not impose an obligation to pay expert fees in a sufficiently unambiguous
26 manner. In so doing, the Court rejected legislative history evidence suggesting intent on
27 the part of Congress that “costs” should encompass these fees. In response to this
28 argument, the Court stated: “In a Spending Clause case, the key is not what a majority of

1 the Members of both Houses intend but what the States are clearly told regarding the
2 conditions that go along with the acceptance of those funds.” *Id.* at 304.

3 The Tax Mandate is less clear than either of the conditions at issue in *Pennhurst* or
4 *Arlington Central*. While the Supreme Court stated in *Arlington Central* that a court
5 evaluating ambiguity should “begin with the text,” *id.* at 296, the text in the Tax Mandate
6 adds little clarity to key ambiguities. Consider a few of the questions its language leaves
7 unresolved: First, the Tax Mandate does not explain the limits (if any) on when ARPA
8 funds “indirectly offset” a reduction in net tax revenue. For example, if a state uses the
9 federal funds from the Act to the supplement the pay of its essential government
10 employees, as expressly permitted by the ARPA, thereby reducing its own budgetary
11 obligations to pay such workers, and then proceeds with a pre-existing plan to cut income
12 taxes, has any tax reduction been indirectly offset? Does it matter if the money comes out
13 of a different fund than where the ARPA grant is directly utilized? Second, the Tax
14 Mandate does not explain what the baseline is for when a “reduction” in in the “net tax
15 revenue” has taken place. For example, if the State revenues were projected to increase in
16 2022 by \$500 million, and the state instituted an income tax reduction reducing this
17 revenue increase to be only \$450 million, would that be a “reduction in net tax revenue?”
18 Third, can an indirect offset be diminished or eliminated over time? If a state uses funds
19 from the Act in 2021, is it bound until 2024 from any policy change which reduces net
20 tax revenue? The text is largely silent on these questions.

21 The ambiguities in the Tax Mandate are even starker when compared with the
22 clear pronouncements elsewhere in the ARPA. For example, the prohibition on the use of
23 ARPA funds to fund pensions is far clearer than the Tax Mandate: “No State or territory
24 may use funds made available under this section for deposit into any pension fund.”
25 ARPA § 9901 (adding § 602(c)(2)(B) to the SSA). As in *Pennhurst*, this Section shows
26 that Congress knows how to create an unambiguous prohibition on the use of ARPA
27 funds. For whatever reason, however, Congress elected to use a confusing and expansive
28 construction for the Tax Mandate, rendering it fatally ambiguous.

1 The ambiguities in the language of the Tax Mandate have all-but been admitted by
2 Secretary Yellen. She has conceded that the Tax Mandate raises “a host of thorny
3 questions.” Makar Decl., Ex. Y. But unambiguous language should raise no “thorny
4 questions—let alone a full-blown “host of” them—since the answers are supposed to be
5 clear from the text itself. Similarly, Secretary Yellen’s answer to the question of what the
6 effect of the Tax Mandate is—*i.e.*, “given the fungibility of money, it’s a hard question to
7 answer”—further underscores the palpable ambiguity here. Moreover, in a letter to
8 Secretary Yellen, 21 state attorneys general asked her to answer whether specific
9 examples would violate the Tax Mandate, but she declined to do so. *Id.* Exs. R, T.

10 The ambiguity of the Tax Mandate is also apparent from the inability of even its
11 supporters to agree upon its meaning. Senator Manchin—who insisted upon the provision
12 and without whose support the Act would have never been passed—thought it instituted a
13 broad prohibition against all state tax relief. *Id.* Ex. U. Indeed, Senator Manchin was
14 likely to seeking to prohibit tax reform in his home state of West Virginia, which only a
15 broad reading of the Tax Mandate would effectuate. *Id.* Exs. U, V. But Secretary
16 Yellen—*i.e.*, Secretary of the Treasury to President Biden, without whose signature the
17 Act also would never have become law—does not read the Act nearly so broadly. If the
18 proponents of the Tax Mandate—who have strong political incentives to put the Tax
19 Mandate in the best possible light—cannot even agree on what the Tax Mandate actually
20 mandates, how are the States supposed to “knowingly and voluntarily” accept the
21 conditions it imposes?

22 The ambiguity of the Tax Mandate is also perhaps unsurprising given how it came
23 to be included in the Act. Specifically, the Act never went through committee hearings or
24 was the product of meaningful debate on the floor of either House. *Id.* Exs. W, X.
25 Instead, it was surreptitiously inserted as a “perfecting amendment” at the eleventh-hour
26 by Senator Schumer at the behest of Senator Manchin. In that posture—where almost no
27 Senators and quite possibly no Representatives at all reviewed the provision’s text pre-
28 passage—the potential ambiguities unsurprisingly went unaddressed.

1 Again, unlike a traditional statutory interpretation dispute, the Court in this case
 2 does not have to come up with the correct or best interpretation of the language in the
 3 Tax Mandate. The Tax Mandate is unconstitutional because, “from the perspective of a
 4 state official,” there are open questions which make the obligation impossible to
 5 knowingly agree to. *See Arlington Central*, 548 U.S. at 296.²

6 **B. If The Tax Mandate Unambiguously Prohibits Tax Cuts Broadly, It Is**
 7 **Unconstitutional**

8 If this Court concludes that the Tax Mandate is not unconstitutionally ambiguous,
 9 it must consider whether it satisfies the remaining constitutional requirements articulated
 10 in *Dole* and *NFIB*. The best reading of the plain language in the statute suggests that, as
 11 stated by Senator Manchin, the Tax Mandate is intended to prohibit any change in tax
 12 policy whatsoever that reduces tax revenue. Such a broad and sweeping reading of the
 13 Tax Mandate would violate the Constitution in three independent ways, however.

14 **1. The Tax Mandate Violates the Relatedness Requirement**

15 While the relatedness requirement is generally a “low-threshold” test, *see*
 16 *Mayweathers v. Newland*, 314 F.3d 1062, 1067 (9th Cir. 2002), there must still be “some
 17 relationship” between the condition imposed and “the purpose of the federal spending.”
 18 *See New York*, 505 U.S. at 167. The Tax Mandate fails this requirement for two reasons.

19 *First*, the Tax Mandate is far too sweeping. The ostensible purpose of the Act is to
 20 assist states in responding to the economic impact of the COVID-19 pandemic. But in
 21 prohibiting states from making any tax reduction, no matter the justification or causal
 22 relationship to the aid funds, possibly years after the impact of the pandemic has
 23 dissipated, even this low threshold test is stretched beyond its breaking point. Rather, the
 24 only possible purpose for such a limitation would be an ideological commitment to
 25 higher taxes—as expressed by Senator Manchin—and this cannot be said to relate to the
 26 federal spending in question, which is focused on recovery from the economic impact of

27 ² While the Department of the Treasury may someday answer the questions posed here
 28 or similar questions in a rulemaking or a guidance document, this does nothing to help
 the states determine how to make tax policy here and now. Nor could guidance from the
 Treasury Department transmute *ambiguous* statutory text into unambiguous language.

COVID-19. *See City of Philadelphia v. Sessions*, 280 F. Supp. 3d 579, 640-43 (E.D. Pa. 2017) (concluding that the interest of “enhancing local criminal justice,” which motivated the Byrne JAG grant statute, was not sufficiently related to national interest in immigration enforcement).

Second, the Tax Mandate not only lacks a rational relationship to the purpose of the State aid—it affirmatively violates the Act’s express (and actual) purposes. Notably, the Act expends a truly enormous amount of money as stimulus through *tax relief*. *See* Makar Decl., Exs. G, Z. Congress’s thus made its own determination through the Act that substantial tax relief (as well as spending) is appropriate to stimulate the U.S. economy. Barring the States from engaging in any form of stimulus through tax relief of their own is irrational when judged by Congress’s own actions. In essence, Congress’s message to the States is “Tax cuts for me, but not for thee.” But this flagrant hypocrisy does not satisfy *Dole*’s relatedness requirement.

The lack of a rational relationship is starkly demonstrated by Congress’s decision to engage in fiscal stimulus by exempting the first \$10,200 in unemployment benefits from federal income tax. *Id.* But if the States act to conform their own tax laws to provide the *very same* exemption, that would presumably violate the Tax Mandate.

2. Congress’s Attempt To Undermine The Federal Character Of Our Constitutional System Violates *Dole*

A fundamental part of the structure of the U.S. Constitution is its establishment of *separate* federal and state sovereigns: “The federal system rests on what might at first seem a counterintuitive insight, that ‘freedom is enhanced by the creation of two governments, not one.’” *Bond v. United States*, 564 U.S. 211, 220-21 (2011) (citation omitted). “For this reason, ‘the Constitution has never been understood to confer upon Congress the ability to require the States to govern according to Congress’ instructions.’ Otherwise the two-government system established by the Framers would give way to a system that vests power in one central government, and individual liberty would suffer.” *See NFIB*, 567 U.S. at 577 (quoting *New York*, 505 U.S. at 162).

1 *Dole* further provides that Congress’s Spending Clause “power may not be used to
 2 induce the States to engage in activities that would themselves be unconstitutional.” 483
 3 U.S. at 210. But the Tax Mandate (backed by the Act’s grants) attempts to do just that:
 4 offer the States enormous sums in return for vitiating the system of dual sovereignty—
 5 including dual taxing sovereigns—that is inherent in the Constitution. Indeed, one of the
 6 most important aspects of state sovereignty retained within the union is the power to tax.
 7 *See McCulloch v. Maryland*, 4 Wheat. 316, 429 (1819).

8 Under the broad reading of the Tax Mandate, a state’s decision to take funds in
 9 2021 could potentially undermine this core aspect of state sovereignty for years down the
 10 road, in areas far afield from the state’s actual use of the funds in question. The breadth
 11 of this provision takes it well beyond an ordinary conditional grant affecting some limited
 12 aspect of state taxing authority; here, Congress is inducing the states to sell the “essence
 13 of their statehood.” *See Charles C. Steward Mach. Co. v. Davis*, 301 U.S. 548, 597
 14 (1937). The attempt to buy this essential aspect of state sovereignty is unconstitutional.

15 **3. The Tax Mandate Violates The Supreme Court’s Anti- 16 Commandeering Test**

17 Congress’s enumerated powers do not include the power to issue orders to, or
 18 “commandeer,” state governments. *See Murphy v. NCAA*, 138 S. Ct. 1461, 1476 (2018).
 19 The Supreme Court has repeatedly stated that Congress lacks “the ability to require the
 20 States to govern according to Congress’s instructions.” *New York*, 505 U.S. at 162 (citing
 21 *Coyle v. Smith*, 221 U.S. 559, 565 (1911)). Accordingly, while Congress can condition
 22 the spending of certain funds, and can use its Spending Clause power to persuade the
 23 states to a certain degree, Congress cannot use its power under the Spending Clause to
 24 “coerce” the states into adopting a preferred policy. *See NFIB*, 567 U.S. at 583-85
 25 (opinion of Roberts, C.J.). “[E]conomic dragooning that leaves the States with no real
 26 option but to acquiesce” crosses the line from permissible persuasion to impermissible
 27 coercion and effectively amounts to commandeering. *Id.* at 582.

1 The ARPA provides Arizona with \$4.9 billion in a time of unparalleled economic
2 contraction. This is nearly 10% of Arizona’s projected FY2022 budget. *See* Makar Decl.
3 Ex. T. In the current economic situation, Arizona cannot turn down this ““financial
4 inducement.”” *NFIB*, 567 U.S. at 580. In *NFIB*, the Court addressed Medicaid spending
5 which “account[ed] for over 20 percent of the average State’s total budget, with federal
6 funds covering 50 to 83 percent of those costs.” *Id.* at 581. The amount of funds at stake
7 in this case is similar to that at issue in *NFIB*, leaving the states with “no real option” but
8 to take the funds, and the conditions with them. *Id.* at 582. As the Joint Dissent in *NFIB*
9 explained (largely in agreement with the Chief Justice): “Even if a State believes that the
10 federal program is ineffective and inefficient, withdrawal would likely force the State to
11 impose a huge tax increase on its residents, and this new state tax would come on top of
12 the federal taxes already paid by residents to support subsidies to participating States.” *Id.*
13 at 680 (joint dissent). In the situation presented by the COVID-19 economic crisis, it is
14 coercion to impose ancillary policy conditions to such vast funding.

15 The threat of the Tax Mandate to the constitutional balance of power is evident in
16 its irreconcilability with the justifications of anticommandeering doctrine, which serves
17 two purposes. First, anticommandeering enshrines the “structural protections of liberty”
18 inherent in the federal system. *See Printz v. United States*, 521 U.S. 898, 921 (1997). By
19 dividing power among multiple sovereigns, the Constitution reduces the risk of tyranny.
20 *See New York*, 505 U.S. at 187. Second, the anticommandeering doctrine protects lines of
21 political accountability. By preventing the federal government from ordering the state
22 governments into adopting federal policy, anticommandeering ensures that accountability
23 resides directly in the source of a particular policy, rather than allowing federal policy to
24 be concealed through a state government intermediary. *See Murphy*, 138 S. Ct. at 1477;
25 *New York*, 505 U.S. at 169.

26 The Tax Mandate, however, runs contrary to these purposes. First, it undermines
27 structural protections of liberty. The state’s independence in broad tax policy is an
28 important value. Congress is, of course, perfectly within its rights to disfavor tax cuts as a

1 matter of federal policy. However, if Congress could use coercive grants to buy the
2 state's compliance with federal tax policy, the nation would be limited to a single
3 sovereign governing overarching tax policy in both the federal and state governments. In
4 addition to threatening liberty, this would undermine the states' role as "laboratories of
5 democracy." *Cf. New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, J.,
6 dissenting) ("It is one of the happy incidents of the federal system that a single
7 courageous state may, if its citizens choose, serve as a laboratory; and try novel social
8 and economic experiments without risk to the rest of the country.").

9 Second, the Tax Mandate undermines political accountability. With the Tax
10 Mandate, the federal government takes the power to lower taxes away from state
11 governments—but not the responsibility for their tax rates. It will be state and local
12 legislators who are stuck with the tax rates the federal government has imposed on them
13 through 2024. Those officials will "bear the brunt of public disapproval" while Congress
14 "remain[s] insulated from the electoral ramifications of their decision." *New York*, 505
15 U.S. at 169. Congress cannot blur responsibility in this fashion, even by using the
16 expedience of the Spending Clause.

17 The Tax Mandate also undermines democratic accountability at the state level as
18 well. Take, for example, candidates for state legislatures that categorically oppose all tax
19 cuts. That unpopular position might easily cost them votes. But the Tax Mandate lets
20 them duck accountability and claim that their opposition to tax cuts is based on their
21 illegality under federal law. Similarly, candidates that favor tax cuts may not be able to
22 run effectively on that platform as voters may correctly recognize that electing such
23 candidates is unlikely to delivery any actual state tax relief, since the Tax Mandate may
24 simply invalidate them or make them too costly to enact.

25 Given its scope, its purpose, and the vast amount of funding being used to buy
26 these key elements of state sovereignty, the Tax Mandate is unconstitutionally coercive
27 and should be enjoined.
28

II. The Remaining Requirements For Injunctive Relief Are Satisfied Here

The violations of Arizona’s sovereignty cause clear irreparable injury. All states “have an interest, as sovereigns, in exercising ‘the power to create and enforce a legal code.’” *Alaska v. U.S. Dep’t of Transp.*, 868 F.2d 441, 443 (D.C. Cir. 1989). And “the inability to enforce its duly enacted plans clearly inflicts irreparable harm on the State.” *Abbott v. Perez*, 138 S. Ct. 2305, 2324 n.17 (2018).

As to the third and fourth *Winter* factors, “‘the balance of the equities and public interest factors merge’” because “the Government is a party.” *Doe #1 v. Trump*, 984 F.3d 848, 861-62 (9th Cir. 2020) (cleaned up). Enjoining the Tax Mandate will not harm anyone. Arizona is challenging no other provisions in the ARPA. Federal grants can still be paid, and the State can still spend those grants on the permissible uses articulated in the statute. All that will be prevented is the Treasury’s ability to recoup funds from the state of Arizona for tax policy changes undertaken during the enjoined period. This will enable Arizona to continue with its existing policy program, consistent with Arizona’s sovereign authority to set state taxes.

Furthermore, for the same reasons, an injunction is in the public interest. The Arizona public is entitled to have their policy makers not be constrained by an unconstitutional condition. As the Tax Mandate unconstitutionally inhibits elected policy makers from undertaking policy which, in their judgement, is in the best interests of their constituents, enjoining it is similarly in the public interest.

CONCLUSION

The State’s motion for a preliminary injunction should be granted.

1 RESPECTFULLY SUBMITTED this 5th day of April, 2021.

2
3 **MARK BRNOVICH**
4 **ATTORNEY GENERAL**

5 By

6 Joseph A. Kanefield (No. 15838)

7 Brunn W. Roysden III (No. 28698)

8 Drew C. Ensign (No. 25463)

9 Robert J. Makar (No. 33579)

10 *Assistant Attorneys General*

11 *Attorneys for Plaintiff Arizona*

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of April, 2021, I electronically filed the foregoing with the Clerk of the Court for the United States District Court for the District of Arizona using the CM/ECF filing system. Counsel for parties that are registered CM/ECF users will be served by the CM/ECF system pursuant to the notice of electronic filing. In addition, I have emailed a copy of the foregoing to Stephen Ehrlich and Charles Roberts at the U.S. Department of Justice, who are assigned to this case, and dispatched to them hard copies of the same via overnight Federal Express.

s/ Drew C. Ensign

Attorney for the State of Arizona

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2 **ATTORNEY GENERAL**

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Attorneys for Plaintiff State of Arizona

11 **UNITED STATES DISTRICT COURT**
12 **DISTRICT OF ARIZONA**
13

14 STATE OF ARIZONA,

15 Plaintiff,

16 v.

17 JANET YELLEN, in her official capacity
as Secretary of the Treasury et al.;

18 Defendants.
19

No. 2:21-cv-00514-DJH

**DECLARATION OF ROBERT J.
MAKAR IN SUPPORT OF STATE'S
MOTION FOR PRELIMINARY
INJUNCTION**

20 I, Robert J. Makar, declare as follows:
21

22 1. I am an attorney licensed to practice law in Arizona. I am an Assistant
23 Attorney General with the Arizona Office of the Attorney General, and counsel for the
24 State of Arizona.

25 2. Attached hereto as **Exhibit A** is a true and correct copy of an article titled
26 "Five charts that show how Covid-19 stopped the U.S. economy in its tracks," written by
27 Alex Sherman for *CNBC*. The article was published on March 11, 2021, and is publicly
28 available at <https://tinyurl.com/budhw7nz>.

1 3. Attached hereto as **Exhibit B** is a true and correct copy of an article titled
2 “2020 was the worst year for economic growth since World War II,” written by Rachel
3 Siegel, Andrew Van Dam, and Erica Werner for *The Washington Post*. The article was
4 published on March 11, 2021, and is publicly available at <https://tinyurl.com/46xka732>.

5 4. Attached hereto as **Exhibit C** is a true and correct copy of the State of
6 Arizona Executive Budget Summary for Fiscal Year 2022, dated January 2021, and is
7 publicly available at <https://tinyurl.com/mb6ad4y7>.

8 5. Attached hereto as **Exhibit D** is a true and correct copy of the State of
9 Arizona Executive Budget Summary for Fiscal Year 2021, dated January 2020, and is
10 publicly available at <https://tinyurl.com/4s6v67mj>.

11 6. Attached hereto as **Exhibit E** is a true and correct copy of an article titled
12 “Trust fund that covers Arizona employment plunged 90% this year,” written by Susan
13 Campbell for *AZFamily.com*. The article was published on December 14, 2020, and is
14 publicly available at <https://tinyurl.com/3dy5r988>.

15 7. Attached hereto as **Exhibit F** is a true and correct copy of the press release
16 issued by New York Senator Charles Schumer’s office titled “*AFTER TIRELESS*
17 *ADVOCACY, SCHUMER SECURES \$23.8 BILLION IN DIRECT AID FOR NEW*
18 *YORK’S STATE & LOCAL GOVERNMENTS*” dated March 8, 2021, and is publicly
19 available at <https://tinyurl.com/4ykh7edc>.

20 8. Attached hereto as **Exhibit G** is a true and correct copy of an article titled
21 “State Aid in American Rescue Plan Act Is 116 Times State’s Revenue Losses,” written
22 by Jared Walczak for *The Tax Foundation*. The article was published on March 3, 2021,
23 and is publicly available at <https://tinyurl.com/4yxsumr2>.

24 9. Attached hereto as **Exhibit H** is a true and correct copy of an article titled
25 “Senate’s \$1.9 Trillion Spending Bill Criticized For Blocking State Tax Relief,
26 Rewarding Bad Gubernatorial Behavior,” written by Patrick Gleason for *Forbes*. The
27 article was published on March 6, 2021, and is publicly available at
28 <https://tinyurl.com/ypecj7y9>.

1 10. Attached hereto as **Exhibit I** is a true and correct copy of an article titled
2 “Summary of American Rescue Plan Act of 2021,” published by Akin Gump. The article
3 was published on March 10, 2021, and is publicly available at
4 <https://tinyurl.com/2sbwe8zd>.

5 11. Attached hereto as **Exhibit J** is a true and correct copy of an article titled
6 “Latest COVID-19 Relief Bill Brings State Tax Policy To A Halt,” written by
7 McDermott Will & Emery for *JDSupra*. The article was published on March 17, 2021,
8 and is publicly available at <https://tinyurl.com/39ma8ame>.

9 12. Attached hereto as **Exhibit K** is a true and correct copy of an article titled
10 “Four Questions Treasury Must Answer About the State Tax Cut Prohibition in the
11 American Rescue Plan Act,” written by Jared Walczak for *The Tax Foundation*. The
12 article was published on March 17, 2021, and is publicly available at
13 <https://tinyurl.com/sw5fv>.

14 13. Attached hereto as **Exhibit L** is a true and correct copy of an article titled
15 “The new suit attacking Biden’s stimulus law, explained,” written by Ian Millhiser for
16 *Vox*. The article was published on March 19, 2021, and is publicly available at
17 <https://tinyurl.com/4f3fmccy>.

18 14. Attached hereto as **Exhibit M** is a true and correct copy of an article titled
19 “A Last-Minute Add to Stimulus Bill Could Restrict State Tax Cuts,” written by Alan
20 Rappeport for *The New York Times*. The article was published on March 12, 2021, and is
21 publicly available at <https://tinyurl.com/32ck9r5y>.

22 15. Attached hereto as **Exhibit N** is a true and correct copy of an article titled
23 “Treasury Clears States to Cut Taxes – But Not With Stimulus,” written by Laura
24 Davison for *Bloomberg*. The article was published on March 18, 2021, and is publicly
25 available at <https://tinyurl.com/5da3dns2>.

26 16. Attached hereto as **Exhibit O** is a true and correct copy of an article titled
27 “Ducey calls for \$600 million in permanent income tax cuts,” written by Jeremy Duda for
28

1 *The Arizona Mirror*. The article was published on March 18, 2021, and is publicly
2 available at <https://tinyurl.com/4w4wpr82>.

3 17. Attached hereto as **Exhibit P** is a true and correct copy of an article titled
4 “Arizona Senate bill would allow some to avoid Proposition 208 surtax,” written by Jeff
5 Gifford for *The Phoenix Business Journal*. The article was published on February 26,
6 2021, and is publicly available at <https://tinyurl.com/km4c6k7u>.

7 18. Attached hereto as **Exhibit Q** is a true and correct copy of an article titled
8 “Drivers will have to pay the \$32 Arizona car registration fee for two more years,”
9 written by Maria Polletta for *The Arizona Republic*. The article was published on June 3,
10 2019, and is publicly available at <https://tinyurl.com/kvvj2pd8>.

11 19. Attached hereto as **Exhibit R** is a true and correct copy of the letter sent by
12 twenty one State Attorneys General on March 16, 2021 to Treasury Secretary Janet L.
13 Yellen.

14 20. Attached hereto as **Exhibit S** is a true and correct copy of the Complaint
15 filed March 17, 2021 by the State of Ohio in the Southern District of Ohio against
16 Treasury Secretary Janet L. Yellen, case number 1:21-cv-00181-DRC.

17 21. Attached hereto as **Exhibit T** is a true and correct copy of Treasury
18 Secretary Janet L. Yellen’s March 23, 2021 letter responding to the Attorneys General.

19 22. Attached hereto as **Exhibit U** is a true and correct copy of an article titled
20 “How Senator Joe Manchin’s Move To Block Tax Relief In His Own State Costs All
21 U.S. Taxpayers,” written by Patrick Gleason for *Forbes*. The article was published on
22 March 16, 2021, and is publicly available at <https://tinyurl.com/ddwj9zhv>.

23 23. Attached hereto as **Exhibit V** is a true and correct copy of an article titled
24 “Justice blames Manchin for stimulus provision limiting use for tax reform” written by
25 Steven Allen Adams. The article was published on March 9, 2021 and is publicly
26 available at <https://tinyurl.com/yuu98rk6>.

27 24. Attached hereto as **Exhibit W** is a true and correct copy of an article titled
28 “Democrats to States: No New Tax Cuts,” written the Editorial Board of *The Wall Street*

1 *Journal*. The article was published on March 9, 2021, and is publicly available at
2 <https://tinyurl.com/3hj8ycyb>.

3 25. Attached hereto as **Exhibit X** is a true and correct copy of an article titled
4 “Variety of last-minute changes made to Senate aid package,” written by Paul M.
5 Krawzak for *Roll Call*. The article was published on March 8, 2021, and is publicly
6 available at <https://tinyurl.com/fmhbkbez>.

7 26. Attached hereto as **Exhibit Y** is a true and correct copy of an article titled
8 “Yellen: Treasury faces ‘thorny questions’ about restrictions on state tax cuts,” written by
9 Toby Eckert for *Politico*. The article was published on March 24, 2021, and is publicly
10 available at <https://tinyurl.com/3frsxuby>.

11 27. Attached hereto as **Exhibit Z** is a true and correct copy of an article titled
12 “The American Rescue Plan Greatly Expands Benefits through the Tax Code in 2021,”
13 written by Garrett Watson and Erica York for *The Tax Foundation*. The article was
14 published on March 12, 2021, and is publicly available at <https://tinyurl.com/eamhbxvz>.

15 I declare under penalty of perjury that the foregoing is true and correct to the best
16 of my knowledge, and that this declaration was issued on April 5, 2021, in Phoenix,
17 Arizona.

18
19 s/ Robert J. Makar
20 Robert J. Makar
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Exhibit A

March 31, 2021

Quicken Loans Urges Homeowners To Switch To A 15-Year Fixed

American homeowners should consider the option of refinancing their homes in order to take advantage of how low rates currently are. Refinancing now could save thousands over the lifetime of a mortgage.

©2021 NMLS #3030

Quicken Loans

Select Your Mortgage Balance:

- \$50K-\$100K
- \$100K-\$150K
- \$150K-\$200K
- \$200K-\$250K
- \$250K+

RECALCULATE YOUR HOUSE PAYMENT WHEN YOU'RE READY

TECH

Five charts that show how Covid-19 stopped the U.S. economy in its tracks

PUBLISHED THU, MAR 11 2021-8:00 AM EST | UPDATED THU, MAR 11 2021-8:00 AM EST

Alex Sherman
@SHERMAN4949SHARE [f](#) [t](#) [in](#) [✉](#)

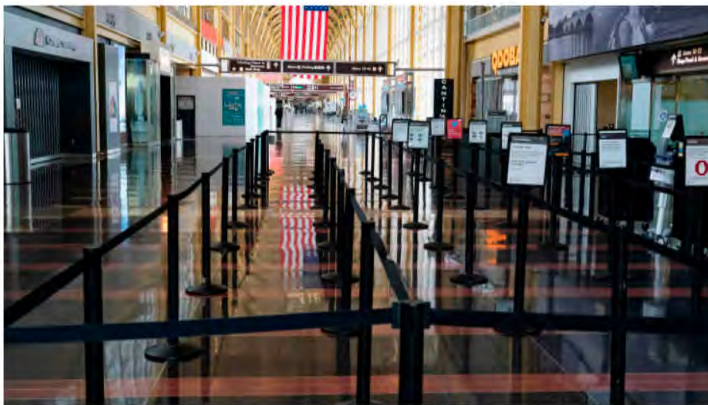
KEY POINTS

- The coronavirus pandemic swiftly shut down the U.S. economy one year ago.
- The auto industry "faced the greatest demand shock experienced in modern times."
- March 8 was a normal weekend for U.S. movie theaters. Two weeks later, the industry effectively shut down.

In this article

NFLX UNCH

ZM UNCH

A nearly empty view is seen at Ronald Reagan Washington National Airport on March 29, 2020, in Arlington, Virginia.
Alex Edelman | AFP | Getty Images

The first thing to go was transportation.

As the United States began to shut down last March to stop the spread of [Covid-19](#), before [Zoom](#) calls or restaurant shutdowns or endless [Netflix](#) binges, people simply stopped going anywhere.

In the months to come, unemployment [would rise from 4.4% in March to 14.7% in April](#). It wouldn't fall back below 10% until August. First-quarter U.S. gross domestic product [would decline 4.8%](#) -- at the time, the biggest contraction since the 2008 financial crisis. The next quarter, [it would drop 31.4% -- before rising 33.1% in the third quarter](#).

That's all hindsight now. But as President [Joe Biden](#) and Congress pass a [\\$1.9 trillion Covid relief bill](#) almost one year later, it's instructive to look back and remember how sudden and drastic the hit to the nation's economy was.

Air travel plunged

People stopped flying. The Trump administration put a European travel ban

TRENDING NOW



Microsoft wins Army contract for augmented-reality headsets, worth up to \$21.9 billion over 10 years



Delayed stimulus payments for some Social Security beneficiaries will be disbursed this weekend



How Biden's \$2 trillion infrastructure plan addresses climate change



Business world divided on whether to fight proposed corporate tax hike in Biden infrastructure plan



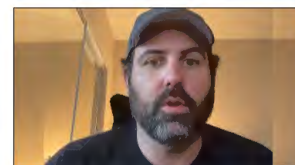
Biden is set to unveil his \$2 trillion infrastructure plan -- here are the details

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FROM THE WEB



Local Program Pays Arizona Homeowners Up To \$1,000 To Go...
[thenocostsolarprogram.leadshook.io](#)



Forget the 30yr mortgage if you owe less than \$356K. (Do this...)

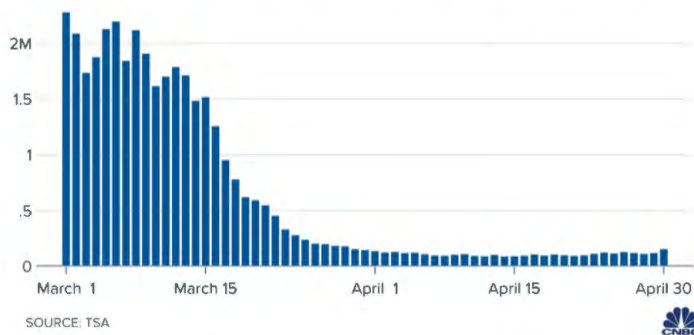
LowerMyBills NMLS#167283; 3306

[Learn More](#)

into place in mid-March, but domestic air travel plunged precipitously in the days after.

U.S. air travel

Daily travelers passing through TSA checkpoints in March and April of 2020



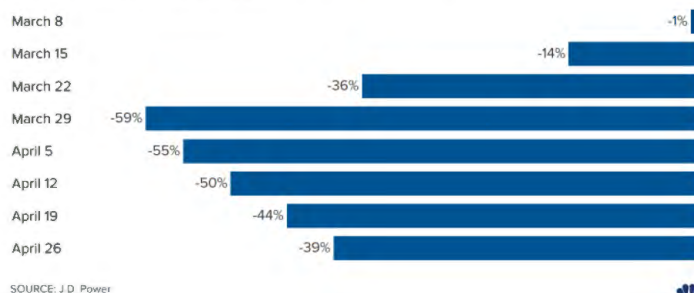
On March 12, nearly 1.8 million people passed through Transportation Security Administration (TSA) checkpoints in airports, according to [U.S. Homeland Security data](#). A week later, that number had fallen to about 620,000, a drop of 66%. A week after that, it was 203,000. By April, fewer than 100,000 people were flying on most days.

Car sales sank

Although car travel remained safe, millions stopped going to work. That drastically affected new car sales.

Weekly U.S. auto sales compared to pre-pandemic forecast

Retail sales for March and April 2020



Retail auto sales for the week ended March 8 came in just 1% under J.D. Power's forecast. The following week, sales were 14% under forecast. By the week of March 22, unit purchases were 36% below pre-virus forecast. One week later, they were 59% below forecast.

"In the three weeks following March 11, 2020, the industry faced the greatest demand shock experienced in modern times," said Tyson Jominy, vice president of data and analytics at J.D. Power. "The closest parallel is 9/11, but 10 days after that crucial day GM launched its 'Keep America Rolling' campaign that reignited sales."

Restaurants went to zero

With people home, it didn't take long for service industries to shut down.

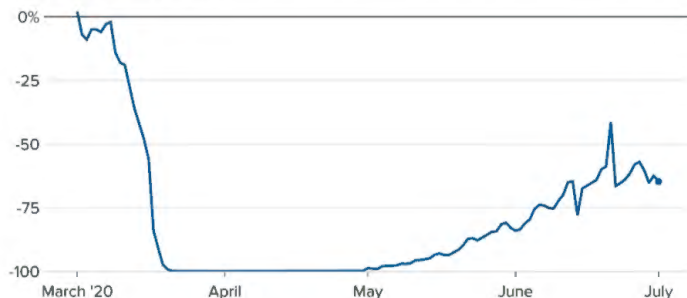
For the restaurant industry, March 9 was the first day people stopped showing up. According to data from Open Table, March 8's seated diners from online, phone and walk-in reservations were off just 1% from a year earlier. A day later, the drop was 14%, year over year.

By March 13, it was down 36%. By March 20, it was down 99.35%.

It would be June 21 before total patronage was down anything less than 50% from the equivalent day in 2019.

U.S. Restaurant bookings

Year-over-year change in seated diners at restaurants on the OpenTable network from March to July 2020



SOURCE: OpenTable. Only states or cities with 50+ restaurants in the sample are included. The drop and spike in year-over-year change in June is due to the Father's Day holiday occurring earlier in 2019.



So did movie theaters

The weekend of March 6, 2020, was a normal one at the box office, with U.S. movie theaters bringing in more than \$100 million in ticket sales. Disney's "Onward" [was the top-grossing movie](#), followed by NBCUniversal's "The Invisible Man."

in an interview published March 8, [CNN Business](#) asked Comscore senior media analyst Paul Dergarabedian if he thought coronavirus fears were keeping anybody away from theaters.

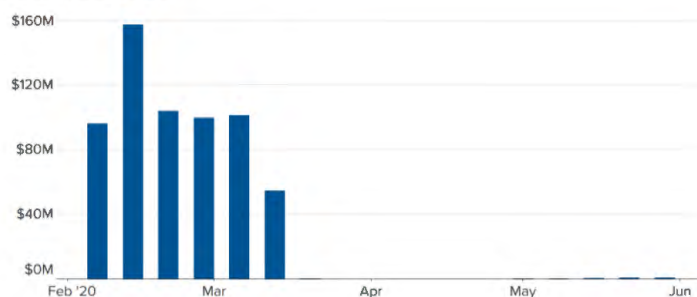
"It's too early to tell," he said.

"I think the numbers this weekend would've likely been the same even without the current disruption happening at theaters all around the world. I mean, the totals are on track with what Disney was expecting for 'Onward.'"

The next weekend, box-office revenue fell by nearly 50% to \$54 million. One week later, it was \$195,952. By April, the movie theater business had effectively stopped.

U.S. Weekend movie box office sales

February to June 2020



SOURCE: Comscore. Data covers gross sales.



A gasoline glut

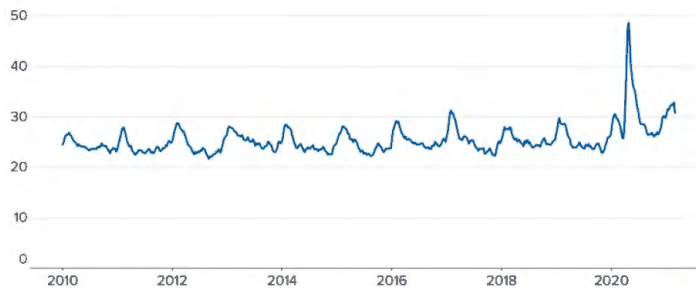
The coming weeks would bring all sorts of ripple effects, up and down the supply chain. Restaurants and stores would change their businesses to delivery-first models. Entertainment companies would accelerate shifts to streaming video.

An early lagging indicator was oil supply. As transportation stopped, U.S. refiners had to sit on unused barrels -- a statistic that didn't show itself until several weeks after the world came to a halt. The number of days of U.S. gasoline supply still looked near normal on March 20, 2020. By April 24, it had nearly doubled to 48 days.

That type of jump is unprecedented, according to U.S. Energy Information Administration data.

Days of supply of U.S. gasoline

Weekly values since 2010



SOURCE: U.S. Energy Information Administration



-- CNBC's Nate Rattner, Jeffrey Cox, Michael Wayland and Sarah Whitten provided assistance with this story.

Disclosure: NBCUniversal is the parent company of Universal Studios and CNBC.

[WATCH: House passes Biden's \\$1.9 trillion Covid relief package](#)



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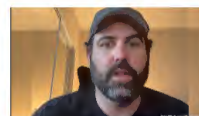
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Activision faces lawsuit over Call of Duty: Modern Warfare character

eSports

by Taboola



Exhibit B

The Washington Post

Democracy Dies in Darkness

2020 was the worst year for economic growth since World War II

New federal data offers a comprehensive snapshot of a year marred by staggering job losses, waves of small-business closures and mounting inequality

By **Rachel Siegel, Andrew Van Dam and Erica Werner**

Jan. 28, 2021 at 4:11 p.m. MST

The U.S. economy shrank by 3.5 percent in 2020 as the coronavirus pandemic ravaged factories, businesses and households, pushing U.S. economic growth to a low not seen since the United States wound down wartime spending in 1946.

Overall, the economy was surprisingly resilient in the second half of the year, given the falloff at the start of the public health crisis, according to data released Thursday from the Bureau of Economic Analysis. Yet, the 1 percent growth in the fourth quarter signaled a faltering recovery and a long road ahead, with 9.8 million jobs still missing and 23.8 million adults struggling to feed their families.

“2020 has no precedent in modern economic history,” said David Wilcox, senior fellow at the Peterson Institute for International Economics and a former director of the domestic economics division at the Federal Reserve. “The influenza of 1918 and 1919 predates our modern system of economic statistics, and since World War II, there’s never been a contraction that even remotely approached the severity and the breadth of the initial collapse in 2020.”

It's the first time the economy has contracted for the year since 2009, when gross domestic product shrank by 2.5 percent during the depths of the Great Recession. The next-worst plunge was 1946, when the economy shrank by 11.6 percent as the nation demobilized from its wartime footing.

Consumer spending in the final three months of the year slowed down in all 15 categories tracked by the BEA, as the sectors that powered third-quarter growth faltered. Americans spent less on restaurants and hotels, a sector that had been a surprising third-quarter bright spot, and the growth of spending on motor vehicles and health care slowed after a steep third-quarter acceleration.

"There has been a broad recovery but, economically speaking, we're not out of the woods yet," said Ben Herzon, executive director at IHS Markit.

Senate Majority Leader Charles E. Schumer (D-N.Y.) seized on the new GDP figures in a speech on the Senate floor, arguing that they make the case for passing a big new relief bill.

"Given these economic numbers, the need to act big and bold is urgent," Schumer said. "Given the fact that the GDP sunk by 3.5 percent last year, we need recovery and rescue quickly."

President Biden has proposed a \$1.9 trillion economic relief package with money for individual Americans and cities and states, as well as coronavirus testing and vaccines, among other provisions.

Schumer reiterated Thursday that he intends to take steps to move the package forward next week, with or without GOP support. Many Republicans say the proposal is too costly and unnecessary on top of about \$4 trillion in relief that Congress already passed, including \$900 billion in December.

Even as the economy shed jobs like never before in 2020, personal income grew significantly, BEA data shows, largely because of \$1,200 stimulus checks and enhanced unemployment benefits provided by the Cares Act. Disposable personal income grew faster for lower-income households than it did for the average household, according to an analysis published Thursday by Jason Furman, a senior fellow at the Peterson Institute and a former top economist in the Obama administration, and Wilson Powell III of the Harvard Kennedy School.

However, those gains were front-loaded and have begun to erode. Federal stimulus drove personal income to record

highs in the late spring, but the levels fell off significantly in the second half of the year as relief programs under the Cares Act wound down or expired. Congress also approved a \$900 billion stimulus package last month, which sent Americans new \$600 stimulus checks and extended unemployment benefits by as much as \$300 a week through mid-March.

“The package enacted at the end of December was completely welcome, but we’re clearly seeing that it took some time to roll out and get that aid to folks,” said Wendy Edelberg, director of the Hamilton Project at the Brookings Institution and former chief economist at the Congressional Budget Office.

This is the last GDP report from President Donald Trump’s tenure. Until the pandemic, Trump was on track for an economic record that put him near the middle of the pack among recent presidents. But the coronavirus crisis ensured that Trump oversaw the slowest economic growth of any president in the period since World War II.

Economic chaos reigned in 2020. In the second quarter, gross domestic product contracted at the fastest quarterly rate ever for the United States, as the pandemic walloped workers and businesses and kept millions from leaving their homes. Then, in the third quarter, GDP soared at a record pace as parts of the economy reopened and businesses brought workers back onto their payrolls.

The nascent economic recovery was propelled by a rebound of sales of automobiles and household goods such as furniture, and in renovations and supplies for home offices. Consumer spending — which accounts for more than two-thirds of U.S. economic activity — used to be driven by an ever-growing demand for services, including leisure and hospitality, and restaurants and bars.

But as the pandemic warped tried-and-true shopping habits, economists watched consumers move their spending from services to goods. Purchases of computers, home office equipment and fire pits quickly overtook those of hotel rooms and movie tickets.

In fact, 2020 was the best year ever for Bedford Fields Home & Garden Center in the forested hills of Bedford, a suburb of Manchester, N.H.

When the pandemic hit, “literally everybody became gardeners,” office manager Tracey Auger said. The GDP category that includes nurseries and garden-supply stores was one of the fastest-growing in 2020.

“So many people were home, and we were deemed essential and one of the few places people could go to shop,” Auger said. “They needed somewhere to go, a project to do.”

Auger, who has worked at Bedford Fields for nine years, said the shop has based its 2021 orders on the assumption that this year will be somewhere between a normal year, like 2019, and the housebound plant madness of 2020. Bedford Fields has doubled its seed order for 2021 and has secured a full order of plants; after months of shortages, growers have finally caught up to surging demand.

For every business that has thrived in the era of social distancing, though, dozens of others have continued to suffer as customers stay home and governments restrict activity at high-contact businesses such as bars, restaurants and event centers.

At a news conference Wednesday, Powell said the pace of the recovery in economic activity and employment has moderated in recent months, with service-sector workers — mainly women and people of color — struggling to regain a foothold in the workforce.

“That is really the main thing about the economy, is getting the pandemic under control, getting everyone vaccinated, getting people wearing masks and all that,” Powell said. “That’s the single most important economic growth policy that we can have.”

The businesses that have been hit hardest disproportionately employ women, people of color and workers without college educations. Americans in those groups are suffering. Economists call it a K-shaped recovery: The top end of the economy continues to improve, even as lower earners fall further behind.

Constance Hunter, chief economist at KPMG, pointed to different slices of the economy that have their own versions of the K-shaped recovery. Among corporations, tech companies such as Zoom and Netflix are soaring. Airlines, less so.

For workers, Hunter said that among Americans who can work from home, the unemployment rate is 3.9 percent. The rate is 8.5 percent for people who have to report to a job site.

“The GDP is a good indicator of the health of the economy,” Powell said. “It’s a good indicator of the health of the economy.”

Case 2:21-cv-00314-DJH Document 11-1 Filed 04/05/21 Page 16 of 152

In general, the GDP number is informative about the economy, Hunter said. But, because of this corporate K, a household K, a geographic K, we have to dig under the hood in a different way.”

In the fourth quarter of 2020, spending from state and local governments fell 2.5 percent from the same quarter the previous year, adjusted for inflation. That’s the sharpest decrease since mid-2012, and mirrored the toll from the 2008-2009 financial crisis.

In the years after the Great Recession, economists pointed to the slow return of public-sector jobs as a drag on the broader recovery. The coronavirus crisis has once again spurred many left-leaning economists and policymakers to push for continued aid to state and local governments.

“I just want us to learn the lessons from the 2008-2009 Great Recession,” said Lisa Cook, an economist at Michigan State University. “With greater funding for state and local governments, [a relief package] will stem the adverse affects of what we’re seeing with respect to the virus.”

Cristal Farrington, 48, was laid off in May after more than two decades of climbing the corporate ladder at New York City firms that buy and distribute specialty foods and restaurant equipment.

Farrington is looking for whatever work she can get but said she was not optimistic that business would pick up in 2021, because the timelines for vaccine rollout and reopening remain fuzzy. And even if things turn around, it will be years before Black women like her are welcomed back into the workforce, she said.

“People of color, we’ve always been on the edge, teetering,” Farrington said. “Because we always know we’re going to be the first ones let go and the last ones hired.”

Economists surveyed by the Wall Street Journal predict a strong rebound in 2021, with the economy growing by 4.3 percent. That would be the best year since the late 1990s, as high earners unleash the billions they have saved during the pandemic.

One bright spot in 2020 is that the personal saving rate hit the highest on record, and some businesses are betting that — combined with a vaccine rollout, the December stimulus and any future Biden administration stimulus — all that saving will power a swift rebound.

The online review site Yelp this week reported that more businesses reopened in December than in any month since June. It also augurs well for this year that, in December, interest in wedding planning soared 22 percent above its 2019 level — a sign of hope for the battered live-events industry.

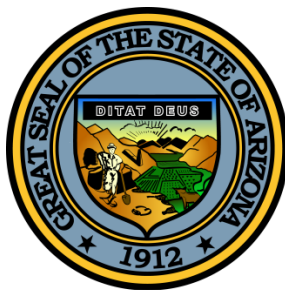
Exhibit C

State of Arizona Executive Budget

SUMMARY

FISCAL YEAR 2022

Douglas A. Ducey
GOVERNOR



JANUARY 2021

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The Budget Summary

The FY 2022 Executive Budget moves the state forward with immediate attention to addressing the health and educational effects of the COVID-19 pandemic, while looking beyond to a recovery that displays the compassion, innovation, and resilience of Arizonans.

"Despite the pain and hardships we've experienced this year, we've seen hope triumph over darkness."

Gov. Doug Ducey

Arizonans are resilient. The year 2020 began with the "Arizona Way" on full display: leading the nation in poverty reduction, with over 175,000 Arizonans pulling themselves out of poverty; ranking second in job growth, with more jobs than people to fill them; ranking fourth for average weekly wage growth; and ranking sixth in export growth.

Then came the COVID-19 pandemic, triggering unprecedented loss and economic hardship.

That shock was followed by a steady rebound. As the year progressed through an unfamiliar environment, Arizona citizens, companies, not-for-profits, and State and local governments responded with a focus on creating and seizing opportunity.

Through it all, Arizona continued to be a destination for business and families, and the state's population growth rate propelled Arizona into third place nationally.

THE ROLE OF STATE GOVERNMENT

From the standpoint of State fiscal management, the concept is simple:

- Keep taxes straightforward and low.
- Eliminate government red tape and unnecessary regulations.
- Adhere to a fiscal discipline that keeps the cost of State government in a sustainable condition.

Far ahead of most predictions, Arizona has emerged from the pandemic stronger than ever. By following common-sense public health guidance to keep people safe and employed, the state remains well positioned as a top national performer.

Since the low point of the pandemic-induced national recession in the second quarter of 2020, Arizona has achieved the third-strongest economic performance of any state, and the nation's largest quarterly gain in homeownership.

A pace-setting recovery requires a state government that simultaneously (a) recognizes its responsibility to help improve the lives of its citizens and (b) subdues its impulses to act in ways that usurp the essential role of the private sector.

The Executive's carefully calibrated financial priorities during the pandemic have reflected the appropriate role of government:

- Protect the lives and livelihoods of Arizonans from the ravages of COVID-19.
- Fulfill, ahead of schedule, the promise to restore the last Great Recession-era cut to the K-12 funding formula.
- To address the serious learning loss from COVID-19 and to help make up lost ground ahead of the 2021-2022 school year, provide significant resources for high-impact, results-oriented intervention and acceleration programming.
- Raise the level of public safety by fully funding State Trooper overtime and recruiting more individuals to join the State's police force.
- Improve prison environments and equipment that promote staff and inmate safety and offer more opportunities for inmate rehabilitation.
- Provide more resources and pursue more aggressive forest management strategies in order to fight wildfires and reduce future fire risk.
- Keep Arizona known as a beacon of low taxes and reasonable regulation to attract businesses and families fleeing oppressive, big-government states.

FY 2021 Budget Forecast

The enacted FY 2021 budget funded mainly baseline formula programs and actually resulted in a year-over-year spending decline compared to the FY 2020 budget.

The State's impressive revenue performance, along with restrained spending, has resulted in the State maintaining structural budget balance despite the most severe economic downturn in American history.

The Executive forecasts a current fiscal year structural surplus of \$881 million and an ending cash balance of \$1,174 million.

FY 2022 Executive Budget

The FY 2022 Executive Budget remains focused on areas of real need that, if properly addressed, will have a lasting, positive impact for Arizona in the areas of education, public safety, natural resources, and infrastructure.

Including the baseline changes and Executive initiatives, the Executive forecasts a structural surplus of \$141 million, resulting in an ending cash balance of \$855 million.

Average total spending growth over the last five years remains at 4.6%, compared to 11.1% in the five years leading up to the Great Recession.

Under the Executive's FY 2022 spending plan, average spending growth over the next three years is 3.6%, which is below the levels of the mid-2000s and just slightly above the 10-year average of 3.4%.

Education

The past 10 months have challenged Arizona's schools in unprecedented ways, and those challenges will not end when the massive vaccine administration is complete.

Arizona children have missed out on so much, and the State must leverage its deep bench of creative and determined educational champions to address the severe learning loss caused by COVID-19.

In FY 2021 alone, more than \$1.8 billion in federal funding has flowed into schools, bringing inflation-adjusted per-pupil funding from all sources to an all-time high of \$11,221 per student.

With the investments proposed in the FY 2022 Executive Budget, the State is on track to have invested \$9.0 billion in K-12 education since 2015.

The FY 2022 Executive Budget allocates 30% of new General Fund spending, or \$274 million, for K-12 and higher education. The Executive Budget:

- makes a significant investment in remediation programming for students disproportionately impacted by COVID-19 learning loss;
- expands early literacy education;
- takes the next step in the Arizona school choice movement; and
- strengthens the civic muscles of Arizona's future.

K-12 EDUCATION

In dealing with the COVID-19 pandemic, many states moved to solve projected budget shortfalls by cutting education spending.

In Arizona, the Executive and Legislature actually increased funding for signature education investments in FY 2021.

The FY 2022 Executive Budget:

- includes a significant supplemental investment to conduct high-impact, results-oriented intervention and acceleration programming to benefit Arizona students impacted most by the challenges of 2020-2021;
- expands transportation options for families to get their children to and from the school they choose;

- completes the final step of a \$1 billion promise to K-12 education, ahead of schedule, by fully restoring additional assistance formula funding in FY 2022;
- markets an "Open Enrollment Month" to inform parents about open-enrollment options;
- awards grants to K-12 schools to scale innovative models of schooling and instruction;
- supports professional development for educators and schools to provide personal learning opportunities for students – an educational approach designed to ensure mastery of academic content and social and emotional skills, and to foster student ownership in their own learning;
- establishes new Arizona civics programs to engage students in community service and help schools create unique and engaging ideas;
- provides a multi-pronged approach to early literacy strategies, including teacher training, student evaluation, literacy coaches, and dyslexia specialists;
- invests in schools and students in need by (a) expanding the pipeline of teachers in low-income schools; (b) knocking down barriers to graduation, college, or the workforce by supporting at-risk youth; and (c) eliminating financial hurdles for low-income students to take examinations that qualify for college credit; and
- fully funds schools' anticipated building renewal and school construction needs.

HIGHER EDUCATION

For Arizona's three public universities – the University of Arizona, Arizona State University, and Northern Arizona University – the Executive Budget enhances their capacity for graduating more students in critical areas, to help Arizona compete in the New Economy.

The Executive Budget also expands adult learners' access to quality educational opportunities that support job training, employment, and aspiration for higher education.

Public Safety

The Executive Budget makes strategic investments in law enforcement to modernize communications and physical plant infrastructure; address critical staffing shortages; and expand services to lower the recidivism rate among individuals leaving the State prisons.

LAW ENFORCEMENT

Public Safety Assets. The Executive Budget includes funding for the right tools to strengthen the Department of Public Safety's (DPS) capacity for carrying out its mission:

- Upgrades the State's public safety radio system, which allows for critical radio communications for over 12,000

users, including 12 State agencies and several local, federal, and tribal agencies.

- Purchases body camera equipment to enhance trooper safety, improve agency efficiency, and promote public transparency.

State Trooper Force Enhancement. DPS faces operational challenges aggravated by an insufficient overtime budget that forces troopers to go off duty before the end of their five-day work week. This system often results in Friday shifts being short-staffed, creating service gaps during rush hour.

The Executive Budget seeks to resolve this issue by increasing the overtime budget, which will improve trooper coverage, morale, and retention.

Additionally, the Executive Budget adds more funds to DPS's annual recruitment budget, to address a growing share of unfilled cadet trooper slots at the State Trooper Academy. Left unabated, the risks of a shrinking trooper force and sparse coverage will become a reality when the Department is unable to replace troopers who separate from State service.

CORRECTIONS

Prison Safety. To make a prudent investment in safety for correctional officers, inmates, and the general public, the Executive Budget:

- upgrades radio communication and safety vests so that prison operations and safety are not compromised;
- increases funds to complete critical fire and life safety projects at the Eyman complex;
- fully funds the Department of Corrections, Rehabilitation & Reentry (ADCRR) building renewal formula for the first time since the formula's creation; and
- vacates and deactivates the Florence prison and moves existing staff to the nearby Eyman prison complex to fill vacant positions.

The focus of this initiative is to ensure that ADCRR employees and inmates occupy an environment that is conducive to reducing the recidivism rate. The additional staff from the Florence prison will allow the Eyman complex to become fully staffed, eliminating the Correctional Officer II vacancy rate, and providing inmates with better access to educational and substance-abuse treatment programs. Safe, improved, and consistent access to programming opportunities will allow inmates to receive the support and education they need to reform and become productive members of society. Furthermore, the deactivation will allow the health care vendor to relocate its health care staff, which will reduce staffing shortages and alleviate strain on current staff, resulting in better inmate health care.

Reducing Inmate Recidivism. In addition to meeting the security staffing needs necessary to offer programs aimed at reducing recidivism, the Executive Budget increases substance-

abuse treatment capacity available to inmates by contracting with third-party organizations.

Health and Welfare

The Executive Budget remains focused on keeping Arizonans safe from COVID-19 while addressing other key needs, including:

- access to child care;
- safe placements for children in foster care;
- expanded long-term care oversight;
- more caseworkers to investigate abuse of the elderly and vulnerable adults; and
- a new infusion of resources for substance abuse disorder treatment.

COVID-19 RESPONSE

Public Health. Since the start of the COVID-19 pandemic, the Department of Health Services has spent \$587 million in response to the emergency. Major categories of expenditures include:

- testing and contact tracing;
- personal protective equipment;
- public health and public safety employees to bolster healthcare staff capacity; and
- other health initiatives, including immunizations and vaccination management programs.

COVID-19 Provider Assistance. In FY 2020 and FY 2021, to stabilize the social safety net during the pandemic, the Executive has provided nearly \$500 million in assistance, not including additional federal COVID-19 support, to a multitude of providers serving children, the elderly, and individuals with developmental disabilities. This funding supported providers as they (a) changed the way they cared for their clients to protect them from contracting COVID-19 or (b) saw a decrease in utilization due to individual isolation.

SAFE, HEALTHY CHILDREN

The Executive Budget ensures more safe and caring places for children.

This initiative includes increasing access to child care for low-income working families and foster parents by:

- sustaining the suspension of the waitlist through FY 2023, to ensure that this important workforce and early childhood developing program is available to those who need it;
- establishing a pilot program that provides child care subsidies to low-income parents pursuing degrees in nursing and education; and
- increasing the number of paid absences for which the State reimburses child care providers, which helps children who are stick to stay at home without families risking disenrollment from the program.

The Executive Budget also provides additional funding to the Department of Child Safety, to support congregate care placements for children in foster care beyond the level that the federal government will reimburse.

Finally, the Executive Budget completes a years-long effort to integrate physical and behavioral health services for children in foster care, which will improve care coordination and quality.

ADULT PROTECTION

The Executive Budget includes funding to protect vulnerable adults from neglect and abuse with:

- more staff, to address the increase in Adult Protective Services (APS) cases and to reduce the caseworker caseload, expediting the processing time for getting help to senior and vulnerable adults;
- rate increases for Aging and Adult Services, to reduce high turnover rates and enhance access for vulnerable and homebound adults and seniors; and
- doubling the long-term care facility surveyor team, which is responsible for reviewing complaints about rule violations and the quality of care at facilities throughout the state.

ENSURING ACCESS TO OPIOID TREATMENT SERVICES

The need for treatment of substance abuse disorders remains high. Since the initial deposit of \$10 million into the Substance Use Disorder Services (SUDS) Fund in FY 2018, the Arizona Health Care Cost Containment System (AHCCCS) had provided, at the time of this writing, nearly 55,000 services to 33,383 underinsured or uninsured individuals who were ineligible for Medicaid.

With SUDS resources expected to be exhausted in FY 2021, the Executive Budget adds new funding for AHCCCS to continue health care services to persons in crisis or who struggle with substance abuse.

The increased funding will allow AHCCCS to serve an estimated 18,000 individuals in need of treatment.

Natural Resources

The Executive Budget maintains formula funding to improve water quality, and it provides more resources to (a) respond effectively to the heightened threat of wildfires and (b) pursue a more aggressive fire prevention strategy.

WATER QUALITY

The Executive Budget fully funds the State's program for hazardous waste cleanups, using the statutorily required formula to fund Department of Environmental Quality (DEQ) efforts to evaluate and remediate polluted land, including serious contamination in southern Arizona.

FIRE SAFETY

Fire Suppression. As the western U.S. experiences drier, warmer climates, with federal forests that have not been adequately maintained, Arizona faces a larger number of fires at higher per-acre costs.

To address this more dangerous environment, the Executive Budget:

- repays all outstanding cost-share fire bills that the State owes federal partners in fighting prior-year fires on State land;
- increases the General Fund deposit into the Fire Suppression Fund, to reflect the State's higher costs associated with recent increases in multijurisdictional fires;
- doubles the Governor's Emergency Fund and dedicates the increase for Department of Forestry and Fire Management (DFFM) fire suppression; and
- provides the Arizona National Guard with equipment to access video from federal drone aircraft and share it with State partners.

Fire Prevention. Failure to reduce overgrown forests has caused the State to incur increased fire-suppression costs. The Executive Budget:

- adds 72 inmate crews to perform vegetation management at strategic locations statewide;
- funds mechanized contract crews for steep-slope operations; and
- expands grant funding for private partners that perform forest treatment.

Public Recreation

The Executive Budget includes investments that improve and expand access to 35 State parks and wildlife infrastructure, which play an increasingly prominent role in tourism and the economic health of rural Arizona.

Funding initiatives include:

- remediation of park wastewater treatment systems, beginning a multi-year plan;
- renovation of park structures and fish hatcheries at the end of their useful life; and
- adding new park features that enhance the visitor experience.

Government That Works

The Executive Budget strengthens the responsible stewardship of State assets, boosting internet connectivity statewide and investing in business-friendly digital infrastructure that optimizes access to State services.

Funding initiatives include the following:

- Expanding the capacity of the Arizona National Guard Cyber Response Team, which will improve statewide cyber preparedness and emergency response.
- Continued development of a Business One-Stop web portal, a single online location to help companies and individuals seamlessly plan, start, and grow Arizona businesses and relocate business from other states.
- Increased investment in rural broadband connectivity with the installation of nearly 300 miles along I-40 West, from Flagstaff to Lake Havasu City and recapitalization of the Rural Broadband Grant program.
- Investing in building renewal across the State's building system, including fire and life safety projects and targeted infrastructure repair, replacement, and renovation.

Major General Fund Budget Issues, FY 2021 and FY 2022

In Millions of Dollars

| | |
|--|----------|
| K-12: Student Focused Acceleration | \$ 389.0 |
| K-12: Baseline Enrollment Growth and Inflation | 172.9 |
| SFB: Building Renewal Grants (Incl. FY 2021 Supplemental) | 142.5 |
| K-12: Fully Restoring Additional Assistance | 135.5 |
| School Facilities Board (SFB): New Schools | 52.6 |
| Universities: New Economy Initiative | 35.0 |
| Transportation: I-40 West Broadband | 33.1 |
| K-12: Reduce Rollover | 30.0 |
| ADCRR: Eyman Fire and Life Safety Project | 25.6 |
| Child Safety: Families First Prevention Services Act | 25.1 |
| Forestry and Fire Management: Arizona Health Forest Initiative | 23.8 |
| ADCRR: Building Renewal | 22.2 |
| DES: <i>Johnson</i> Case Impact on DDD Caseload Growth | 19.8 |
| Public Safety: Body Cameras | 13.8 |
| Commerce: Rural Broadband Grant Program Expansion | 10.0 |
| Fire Safety: Fire Suppression and Federal Repayment | 8.5 |
| Public Safety: Overtime and Recruitment/Retention | 7.0 |
| K-12: Early Literacy Support | 6.9 |
| ADOA: Building Renewal | 6.2 |
| K-12: Statewide Assessments | 5.0 |
| Environment: Fully Funding WQARF Program | 5.0 |

Projected Ending Balances

| | |
|---------------|-----------|
| FY 2021 | \$ 1174.5 |
| FY 2022 | 920.9 |
| FY 2023 | 874.9 |
| FY 2024 | 859.8 |

Projected Structural Balances

| | |
|---------------|----------|
| FY 2021 | \$ 881.4 |
| FY 2022 | 155.1 |
| FY 2023 | 5.6 |
| FY 2024 | 7.0 |



Douglas A. Ducey
Governor

**Governor's Office of
Strategic Planning and Budgeting**
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Matt Gress
Director

MEMORANDUM

TO: Matt Gress, Director
FROM: Zachary Milne, Budget Analyst & Forecaster
RE: Executive Revenue Forecast (Revised), Justification
DATE: January 29, 2021

Through December of this fiscal year, the Office of Strategic Planning and Budgeting (OSPB) has observed revenue performance well above what was initially anticipated. Due to the timing of the budget cycle, OSPB does not typically revise its revenue forecasts. However, both the unprecedented nature of the present economic situation coupled with the greater availability of data has caused OSPB to revise its forecast to better align with the strong Year-To-Date (YTD) revenue performance.

In the first six months of the current fiscal year, General Fund revenues have posted an impressive 17.8% Year-Over-Year (YOY) growth, with strong performance in all four major tax categories. Specifically, the two largest General Fund revenue categories – individual income tax (IIT) and transaction privilege tax (TPT) – have posted growth rates of 26.7% and 11.4%, respectively.

In response, OSPB has substantially revised its forecast. **Table 1** reflects the Executive's upward revisions, along with the ongoing revenue forecasts in FY 2021 and beyond.

| Table 1 | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Executive Ongoing Revenue Forecast, Revised | | | | |
| | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> |
| Executive Revision | \$529.5 | \$160.2 | \$70.2 | \$84.9 |
| Total Ongoing | \$12,313.1 | \$12,373.2 | \$12,695.3 | \$13,047.5 |

STRONG REVENUE GROWTH IN FY 2021 SUPPORTS AN EXECUTIVE REVISION

Chart 1 below illustrates the original Executive and October "4-Sector" forecasts of the four largest revenue categories for the General fund. The 4-Sector forecast is derived from a consensus process that incorporates State revenue forecasts from the Joint Legislative Budget Committee (JLBC) Staff, the University of Arizona, and the Finance Advisory Committee, which is the independent advisory panel of public and private sector economists to provide guidance to the Legislature on the economy and State revenues. Chart 1 also displays the YTD performance of these four categories, which accounted for over 95% of total gross General Fund revenues in FY 2020. The unexpected performance has put FY 2021 on a path to surpass OSPB and the 4-Sector's original forecasts by a substantial margin.

OSPB contemplated relatively strong IIT and TPT growth rates in FY 2021 despite the current economic downturn, due in large part to the individual income tax deferral as well as the maturation of the remote seller/marketplace facilitator tax nexus laws. However, the degree to which these and other categories would outperform prior year revenues was largely unanticipated by both OSPB and the 4-Sector forecast. Both forecasts tell a similar story, with income tax deferrals contributing to strong YOY performance in IIT revenues, and an effective expansion of the sales tax base leading to modest TPT growth despite the

economic downturn.

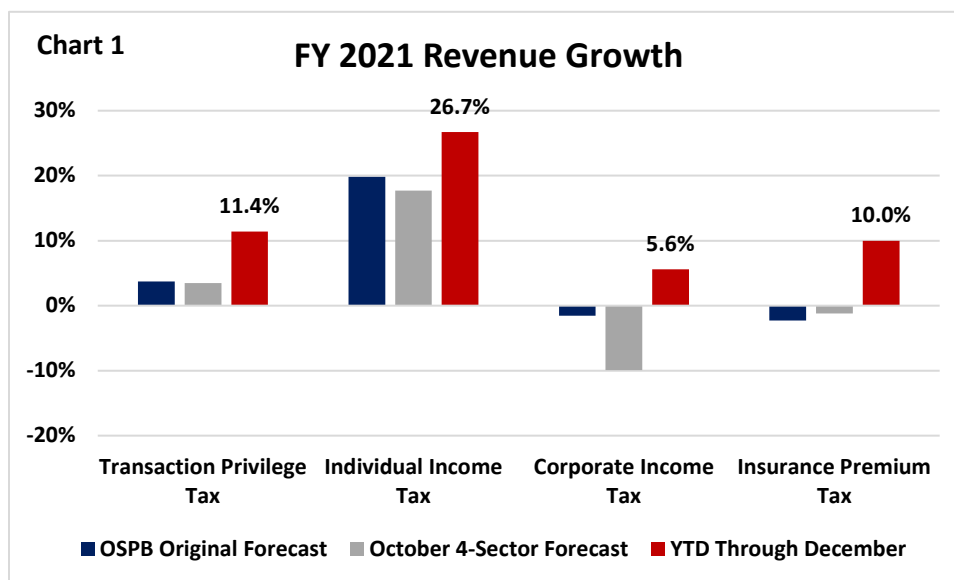
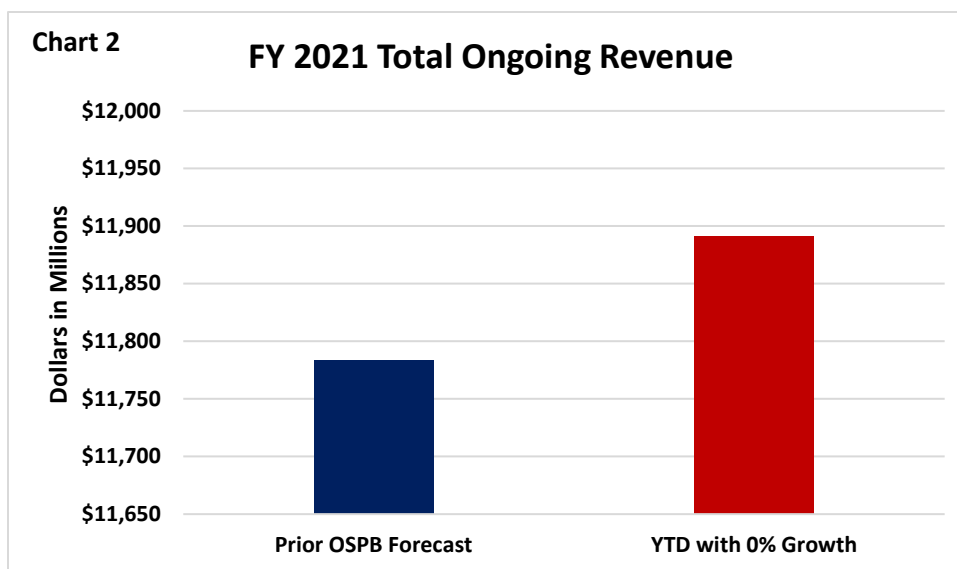


Chart 2 illustrates a comparison between OSPB's original total ongoing revenue forecast and a simulation of FY 2021 ongoing revenues assuming no growth over FY 2020 levels for the remaining months. The simulation takes into account the estimated \$600 million in income tax deferrals, adding this back in to FY 2020 actuals to garner a more apples-to-apples comparison of how revenues may be likely to finish in FY 2021. Even assuming 0% growth for the remainder of the fiscal year – a highly unlikely scenario given the continued pace of revenues thus far – FY 2021 actuals are on pace to surpass OSPB's original forecast by over \$100 million.



THE EXECUTIVE REVISION RECONCILES YTD PERFORMANCE AND ALIGNS WITH OTHER FORECASTS

The Executive revision contemplates higher overall growth in FY 2021 concurrent with YTD data, and a corresponding downward revision of growth rates in 2022 and 2023. The latter adjustments are partly attributable to the large upward revision in FY 2021. Despite reduced growth projections in fiscal years 2022 through 2023, the Executive revision still contemplates higher ongoing revenues in each year.

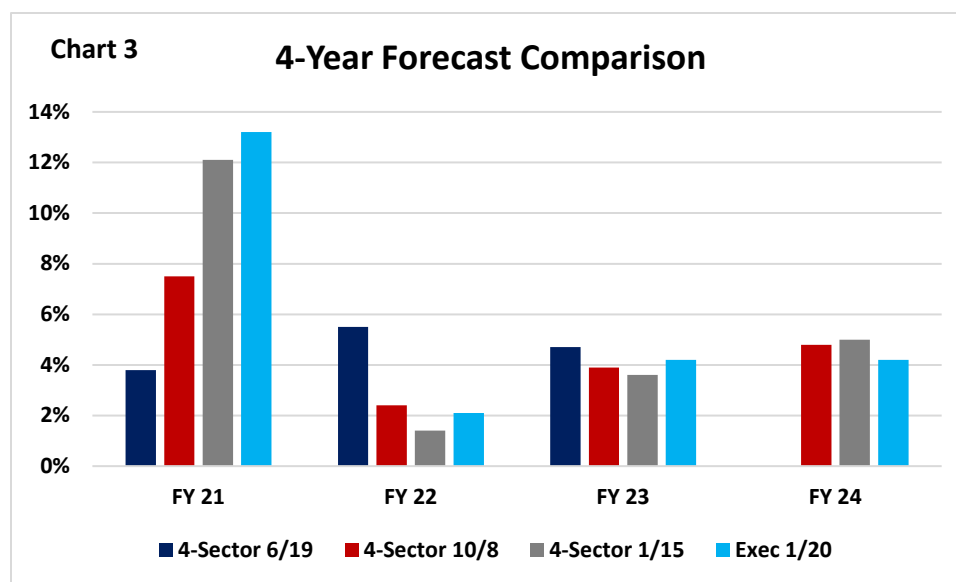
The tables below provide a detailed comparison of OSPB's original and revised projections both before and after accounting for the Executive's tax-cut proposal.

| Table 1: OSPB Pre-Tax-Cut Ongoing Revenues Forecast | | | | |
|--|-------------------------|------------------------|------------------------|------------------------|
| | 2021 | 2022 | 2023 | 2024 |
| OSPB Original | \$11,783,559.8 8.3% | \$12,413,039.8 5.3% | \$13,025,060.3 4.9% | \$13,562,576.8 4.1% |
| OSPB Revised | \$12,313,109.2 13.2% | \$12,573,238.6 2.1% | \$13,095,268.6 4.2% | \$13,647,522.2 4.2% |
| <i>Change</i> | <i>\$529,549.4</i> | <i>\$160,198.8</i> | <i>\$70,208.3</i> | <i>\$84,945.4</i> |

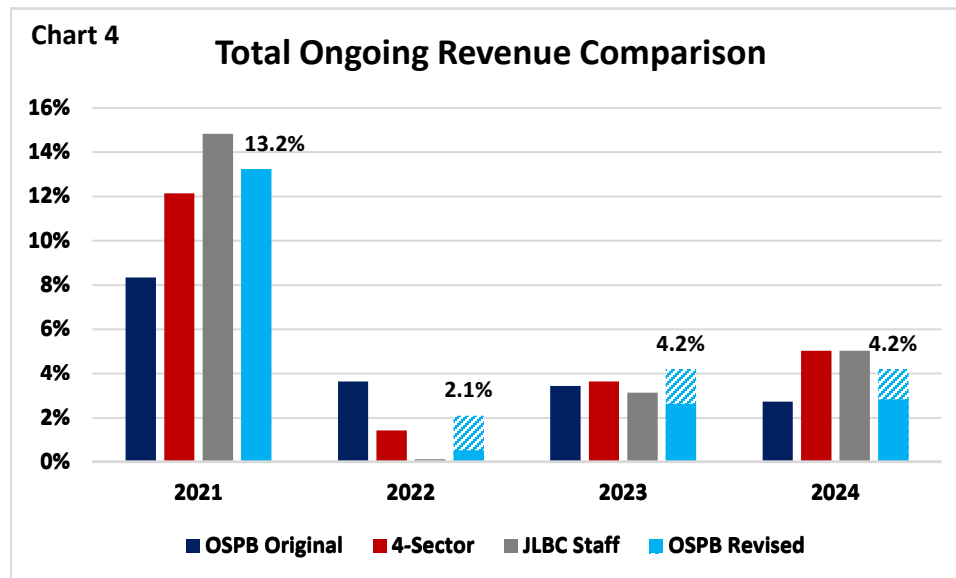
| Table 2: OSPB Post-Tax-Cut Ongoing Revenues Forecast | | | | |
|---|-------------------------|------------------------|------------------------|------------------------|
| | 2021 | 2022 | 2023 | 2024 |
| OSPB Original | \$11,783,559.8 8.3% | \$12,213,039.8 3.6% | \$12,625,060.3 3.4% | \$12,962,576.8 2.7% |
| OSPB Revised | \$12,313,109.2 13.2% | \$12,373,238.6 0.5% | \$12,695,268.6 2.6% | \$13,047,522.2 2.8% |
| <i>Change</i> | <i>\$529,549.4</i> | <i>\$160,198.8</i> | <i>\$70,208.3</i> | <i>\$84,945.4</i> |

As can be seen in **Chart 3**, the 4-Sector forecasts between June and the January release of the Joint Legislative Budget Committee Baseline Book demonstrate a trend towards increasing growth in FY 2021 with a decline in the out years. This coincides with the Executive's revision and a general narrative that early year projections contemplated the brunt of the post-COVID revenue growth to be realized after FY 2021.

Despite being inadequate for the current situation, these early projections fit recent historical data. For example, after the official end of the last recession in June of 2009 (end of FY 2009), the State did not realize revenue growth until FY 2011. Models which rely on the use of this historical data will naturally predict similar patterns, which in part explains why earlier forecasts, to include OSPB's, predicted higher growth in FY 2022 and FY 2023.



Finally, **Chart 4** compares OSPB's original and revised forecasts with the most recent 4-Sector and JLBC Staff forecasts detailed in the FY 2022 Baseline book. The solid light blue bars represent the Executive revision including the proposed tax cuts in the out years, while the hashed portion represents growth excluding the Executive's tax proposal.



While the Executive revision presents much more robust growth in FY 2021 relative to the original forecast, it still remains relatively conservative when compared to JLBC Staff's 14.8% projected growth. Additionally, OSPB contemplates more robust growth rates in 2022 and 2023 prior to revenue adjustments from the Executive's proposed tax reform.

The following sections in the FY 2022 Executive Budget have been updated accordingly:

- Executive Budget Message, Summary and Economy Sections;
- Executive Budget In-A-Flash;
- General Fund Sources and Uses; and
- General Fund Revenue Summary.

Executive Budget In-A-Flash

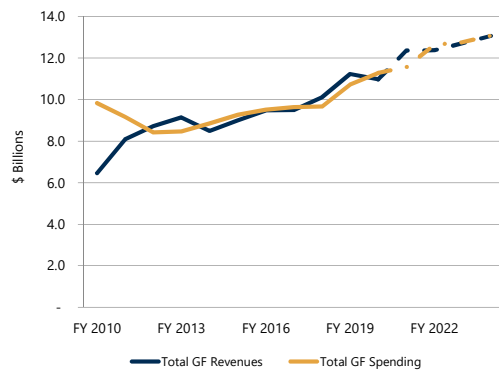
GENERAL FUND CASH FLOW

| | Prelim Actual FY 2020 | Executive Budget FY 2021 | Executive Budget FY 2022 | Executive Budget FY 2023 | Executive Budget FY 2024 | |
|-------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| Beginning Balance | \$ 957,241,000 | \$ 372,457,000 | \$ 1,174,462,704 | \$ 920,892,778 | \$ 874,856,225 | |
| Adj. Base Revenues | \$ 10,879,587,100 | \$ 12,313,109,204 | \$ 12,573,651,174 | \$ 13,095,681,228 | \$ 13,647,934,752 | |
| Revenue Changes | - | \$ (43,900,000) | \$ (230,212,600) | \$ (400,412,600) | \$ (600,412,600) | |
| One-time Revenues | \$ 90,908,000 | 97,033,600 | 36,700,000 | 16,700,000 | 16,700,000 | |
| Total Sources of Funds | \$ 11,927,736,100 | \$ 12,738,699,804 | \$ 13,554,601,278 | \$ 13,632,861,405 | \$ 13,939,078,377 | |
| Enacted Spending | \$ 11,284,172,100 | \$ 11,761,208,000 | \$ 11,761,208,000 | \$ 12,633,708,500 | \$ 12,758,005,180 | |
| Baseline Changes | | (232,241,000) | 580,129,200 | 35,551,880 | 323,055,700 | |
| Net New Initiatives | | 35,270,100 | 292,371,300 | 88,744,800 | (1,814,900) | YOY ¹ % growth |
| Total Uses of Funds | \$ 11,284,172,100 | \$ 11,564,237,100 | \$ 12,633,708,500 | \$ 12,758,005,180 | \$ 13,079,245,980 | 2.5% |
| BSF Deposit | 271,107,000 | 0 | 0 | 0 | 0 | |
| Ending Balance | \$ 372,457,000 | \$ 1,174,462,704 | \$ 920,892,778 | \$ 874,856,225 | \$ 859,832,397 | |

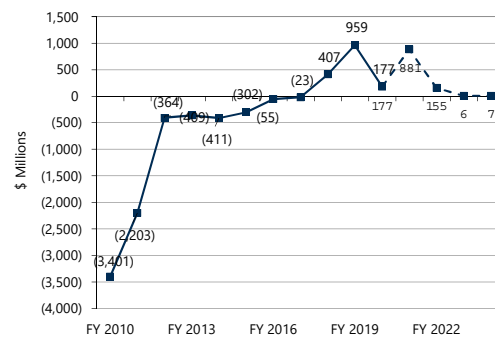
GENERAL FUND STRUCTURAL BALANCE

| | Prelim Actual FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | Forecast FY 2024 | YOY % growth |
|---------------------------|--------------------------|-------------------------|------------------------|------------------------|------------------------|-----------------|
| Ongoing Revenues | \$ 10,879,587,100 | \$ 12,313,109,204 13.2% | \$ 12,373,238,574 0.5% | \$ 12,695,268,628 2.6% | \$ 13,047,522,152 2.8% | |
| Ongoing Spending | 10,702,177,900 | 11,431,755,800 6.8% | 12,218,090,280 6.9% | 12,689,651,180 3.9% | 13,040,558,980 | |
| Structural Balance | \$ 177,409,200 | \$ 881,353,404 | \$ 155,148,294 | \$ 5,617,448 | \$ 6,963,172 | |

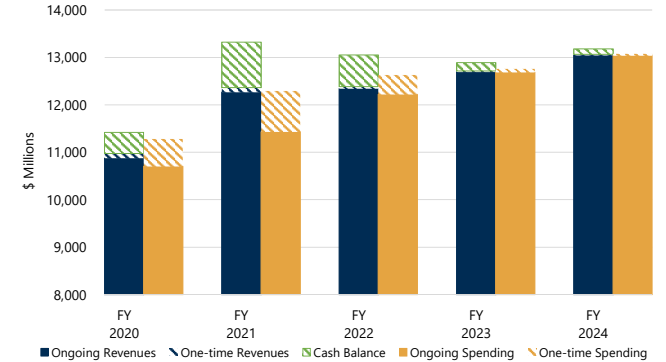
HISTORICAL REVENUES TO SPENDING



GENERAL FUND STRUCTURAL BALANCE



COMPARISON OF REVENUES TO SPENDING



¹Year-over-year growth compares total spending, including supplemental appropriations and Budget Stabilization Fund deposits, to budgeted spending during the prior year.

Over our first six years in office, this Administration has limited average spending growth to just 3.9% - while increasing K-12 Education funding by over \$1.7 billion.

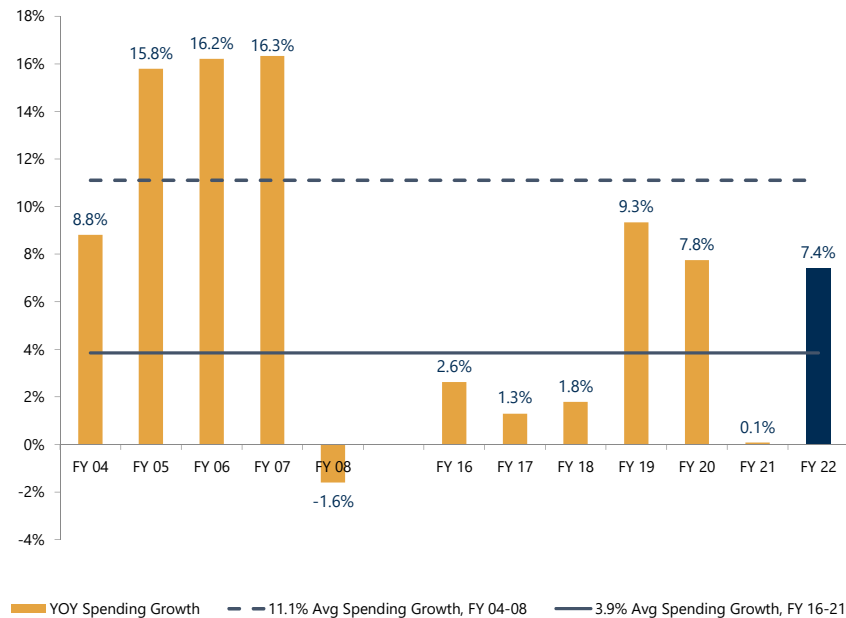
The FY 2022 Executive budget continues this conservative trend. While total spending grows by 7.4%, Executive Initiatives only account for a 2.5% increase, with the remainder attributed to formula increases in health care and education.

GENERAL FUND SPENDING

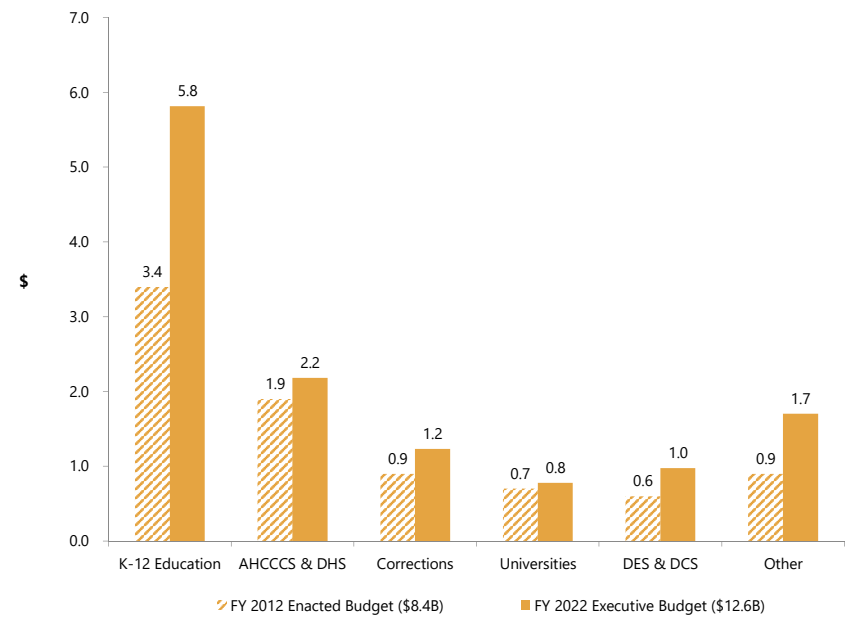
| | Prelim Actual | Executive Budget | Baseline Adjustments ³ | New Initiatives | Executive Budget | YOY % growth |
|-------------------------|-------------------------|----------------------|-----------------------------------|-------------------|----------------------|--------------|
| | FY 2020 | FY 2021 | FY 2022 | FY 2022 | FY 2022 ⁴ | |
| Education | 5,200,185 | 5,210,531 | 195,350 | 21,330 | 5,816,272 | 11.6% |
| AHCCCS | 1,760,748 | 1,951,981 | 127,568 | 3,334 | 2,082,883 | 6.7% |
| Corrections | 1,167,111 | 1,205,396 | 0 | 25,959 | 1,231,355 | 2.2% |
| Economic Security | 749,708 | 812,054 | 133,125 | 4,400 | 949,580 | 16.9% |
| Child Safety | 384,653 | 387,893 | 0 | 25,138 | 413,031 | 6.5% |
| ASU - Tempe | 341,917 | 324,717 | 0 | 18,900 | 343,617 | 5.8% |
| Public Safety | 92,350 | 91,138 | 160,709 | 21,277 | 273,124 | 199.7% |
| School Facilities Board | 325,650 | 273,995 | 22,685 | 0 | 257,920 | -5.9% |
| U of A | 215,809 | 207,722 | 0 | 9,450 | 217,172 | 4.5% |
| NAU | 117,251 | 109,805 | 0 | 6,650 | 116,455 | 6.1% |
| Other ¹ | 1,199,896 | 989,005 | (59,308) | 155,933 | 932,299 | -5.7% |
| Total | \$ 11,555,279.10 | \$ 11,564,237 | \$ 580,129 | \$ 292,371 | \$ 12,633,709 | 9.2% |

¹ Other spending includes Budget Stabilization Fund deposits, if any, as well as one-time spending offsets or other savings that do not reduce Budgeted levels.

GENERAL FUND SPENDING GROWTH RATES, FY 2004 to FY 2008 vs. FY 2016 to FY 2022



GENERAL FUND SPENDING DISTRIBUTION, FY 2012 to FY 2022 (billions)



³ The Baseline Adjustments for School Facilities Board include removal of one-time funding in FY 2020 and retired debt service on construction of new schools that occurred in the 2000s.

⁴ The amounts in the FY 2021 Executive Budget column may not equal to the sum of the FY 2020 and FY 2021 Baseline and Initiative columns because of supplementals included in FY 2020 that are considered one-time spending and not necessarily carried into FY 2021.

GENERAL FUND SPENDING BREAKDOWN**KEY HIGHLIGHTS**

- The Executive Budget protects public health & safety, with over \$500 million in Baseline and Initiative spending in these Areas.
- Additionally, the Budget invested \$464 million on various One-Time priorities, including investing in our State's capital infrastructure, expanding access to Broadband, and building and maintaining our K-

K-12 AND HIGHER EDUCATION**DEPARTMENT OF EDUCATION****\$195.3M FY 2022 Baseline**

| | |
|-----------|--|
| \$135.5M | Accelerate Additional Assistance |
| \$87.7M | Enrollment Growth |
| \$85.2M | Inflation Adjustment |
| \$30M | Reduce K-12 Rollover |
| \$5M | Arizona Industry Credential Incentive Program |
| \$0.9M | Empowerment Scholarship Account - Basic State Aid Increa |
| \$0.4M | Teacher Professional Development Pilot |
| (\$8.2M) | Increased Permanent Fund Distributions |
| (\$53.9M) | Property Taxes From New Construction |
| (\$87.3M) | Remove One-Time FY 2021 Appropriations |

\$21.3M FY 2022 Initiatives

| | |
|--------|---|
| \$6.9M | Early Literacy Support |
| \$5M | Statewide Assessments |
| \$3M | Expansion and Innovation Fund |
| \$2.5M | College Credit by Examination Incentive Program |
| \$1.3M | College Placement Exam Fee Waiver |
| \$1M | Arizona Personalized Learning Network |
| \$0.5M | Alternative Teacher Development Program Expansion |
| \$0.4M | Jobs for Arizona Graduates |
| \$0.4M | Investigations Unit Expansion |
| \$0.4M | Adult Education State Match |

SCHOOL FACILITIES BOARD**\$22.7M FY 2021 Baseline**

| | |
|------------|--|
| \$102.5M | Building Renewal Grant |
| \$58M | New School Facilities - Conceptual Approvals |
| \$11.7M | New School Facilities - In Progress |
| (\$149.6M) | Remove One-Time FY 2021 Appropriations |

UNIVERSITIES**\$35M FY 2021 Initiatives**

| | |
|---------|------------------------------------|
| \$18.9M | ASU - Workforce for New Economy |
| \$9.5M | U of A - Workforce for New Economy |
| \$6.7M | NAU - Workforce for New Economy |

COMMUNITY COLLEGES**\$1.4M FY 2021 Baseline**

| | |
|----------|------------------------|
| \$2.6M | Equalization Aid |
| (\$0.5M) | STEM and Workforce Aid |
| (\$0.7M) | Operating State Aid |

HEALTH AND WELFARE**ECONOMIC SECURITY****\$133.1M FY 2021 Baseline**

| | |
|----------|----------------------------------|
| \$113.3M | DDD Caseload & Capitation Growth |
| \$19.8M | DDD Johnson Case Impact |

\$4.4M FY 2021 Initiatives

| | |
|--------|--|
| \$2.9M | Adult Protective Services Caseload Growth |
| \$1.5M | Provider Rate Increases for Adult and Aging Services |

AHCCCS**\$127.6M FY 2021 Baseline**

| | |
|----------|--|
| \$121.1M | Traditional Formula Adjustments |
| \$9.6M | CMDP Formula Adjustments |
| \$8.2M | KidsCare Formula Adjustments |
| \$7.6M | ALTCS Formula Adjustments |
| (\$2.2M) | ACA Newly Eligible Adults Formula Adjustments |
| (\$8M) | Reversal of One-Time Childrens' BHS Fund Deposit |
| (\$8.7M) | Proposition 204 Formula Adjustments |

\$3.3M FY 2021 Initiatives

| | |
|--------|--|
| \$3M | Ongoing IT Projects |
| \$0.3M | Federal Interoperability Rule Implementation |
| \$0.1M | PMMIS Roadmap |

DEPARTMENT OF CHILD SAFETY**\$25.1M FY 2021 Initiatives**

| | |
|---------|----------------------|
| \$25.1M | FFPSA Implementation |
|---------|----------------------|

PUBLIC SAFETY**DEPARTMENT OF PUBLIC SAFETY****\$160.7M FY 2021 Baseline**

| | |
|----------|----------------------------|
| \$160.7M | Public Safety Fee Backfill |
|----------|----------------------------|

\$21.3M FY 2021 Initiatives

| | |
|---------|------------------------------------|
| \$7M | Overtime and Recruitment/Retention |
| \$13.8M | Body Cameras |
| \$0.5M | AZPOST Officer Misconduct Database |

CORRECTIONS**\$26M FY 2021 Initiatives**

| | |
|---------|---|
| \$17.9M | Bed Management Strategy |
| \$5M | Recidivism Reduction: Substance Abuse Treatment Expansion |
| \$2.8M | Staff Safety Equipment |
| \$0.3M | Braille Transcription Program Expansion |

OTHER CHANGES**(\$60.7M) FY 2021 Net Baseline**

| | |
|-----------|--|
| \$20.1M | 27th Pay Period Universities |
| \$12.8M | Unallocated Retirement Rate Adjustment |
| (\$93.5M) | All Other, Net Baseline |

\$155.9M FY 2021 Net Initiatives

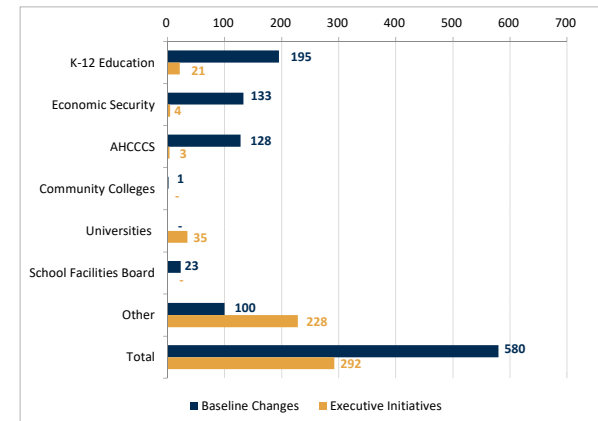
| | |
|---------|--|
| \$25.6M | Department of Corrections, Rehabilitation & Reentry- Eyman Fire & Li |
| \$18.5M | Arizona Healthy Forest Initiative |
| \$14M | HITF One-Time Adjustment |
| \$10M | Rural Broadband Grants |
| \$5M | WQARF Priority Site Cleanups |
| \$4M | Governor's Emergency Fund Cap Increase |
| \$3.6M | Convening the Independent Redistricting Commission |
| \$2.5M | Unallocated ADOT Vehicle Fee Adjustment |
| \$0.2M | Inspection and Reclamation Mine Land Programs |
| \$72.5M | All Other Initiatives |

OVERALL SPENDING**\$580.1M FY 2021 Net Baseline**

| | |
|-----------|--------------------|
| \$640.9M | Baseline Increases |
| (\$60.7M) | Baseline Decreases |

\$292.4M FY 2021 Net Initiatives

| | |
|----------|----------------------|
| \$292.5M | Initiative Increases |
| (\$0.1M) | Initiative Decreases |

\$872.5M Total New Spending**NEW GENERAL FUND SPENDING PROFILE FY 2022**

General Fund Sources and Uses of Funds

\$ in thousands

| | FY 20 Prelim Actual | FY 21 Enacted Base | FY 21 Net Changes | FY 21 Executive Budget | FY 22 Net Changes | FY 22 Executive Budget | FY 23 Net Changes | FY 23 Executive Budget | FY 24 Net Changes | FY 24 Executive Budget |
|--|------------------------|-----------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|
| SOURCES OF FUNDS | | | | | | | | | | |
| Beginning Balance | 957,241 | 372,457 | | 372,457 | | 1,174,463 | | 920,893 | | 874,856 |
| Ongoing Revenues | | | | | | | | | | |
| Base Revenues | 11,617,161 | 11,866,022 | | 13,141,602 | | 13,329,912 | | 14,026,277 | | 14,561,335 |
| <i>Urban Revenue Sharing</i> | <i>(737,574)</i> | <i>(828,493)</i> | | <i>(828,493)</i> | | <i>(756,261)</i> | | <i>(930,596)</i> | | <i>(913,401)</i> |
| Adjusted Base Revenues | 10,879,587 | 11,037,529 | | 12,313,109 | | 12,573,651 | | 13,095,681 | | 13,647,935 |
| Transfers & Newly Enacted Changes | 90,908 | 16,700 | | 53,134 | | (193,513) | | (383,713) | | (583,713) |
| PDRF Transfer | 69,000 | 16,700 | | 16,700 | | 16,700 | | 16,700 | | 16,700 |
| Wells Fargo Settlement | 20,000 | 0 | | 0 | | 0 | | 0 | | 0 |
| Water Infrastructure Repayment | 0 | 0 | | 0 | | 20,000 | | 0 | | 0 |
| Treasurer's Fund Balance Cap Increase | 0 | 0 | | 0 | | (124) | | (124) | | (124) |
| Treasurer Accountant Reclassification | 0 | 0 | | 0 | | (289) | | (289) | | (289) |
| New Fund Transfers | 0 | 0 | | 0 | | 0 | | 0 | | 0 |
| Prior Fund Transfers | 1,908 | 0 | | 0 | | 0 | | 0 | | 0 |
| CRF Transfers | 0 | 0 | | 78,861 | | 0 | | 0 | | 0 |
| Veterans' Income Tax Settlement Fund Revertment | 0 | 0 | | 1,473 | | 0 | | 0 | | 0 |
| TY 2020/21 IRC Conformity | 0 | 0 | | (43,900) | | (29,800) | | 0 | | 0 |
| Executive Tax Placeholder | 0 | 0 | | 0 | | (200,000) | | (400,000) | | (600,000) |
| Subtotal Revenues | 10,970,495 | 11,054,229 | | 12,366,243 | | 12,380,139 | | 12,711,969 | | 13,064,222 |
| TOTAL SOURCES OF FUNDS | 11,927,736 | 11,426,686 | | 12,738,700 | | 13,554,601 | | 13,632,861 | | 13,939,078 |
| USES OF FUNDS | | | | | | | | | | |
| Operating Budget Appropriations | 11,224,818 | 11,703,789 | 74,029 | 11,777,819 | 820,445 | 12,598,264 | 159,846 | 12,758,110 | 320,738 | 13,078,848 |
| Other Expenses/(Revenues) | 330,461 | 57,419 | (271,000) | (213,581) | 249,026 | 35,445 | (35,549) | (105) | 503 | 398 |
| Prior Year One-time Supplementals | 80,719 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prior Year Ongoing Supplementals/Ex-Appropriations | 46,460 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phoenix Convention Center Payment | 23,500 | 23,998 | 0 | 23,998 | 501 | 24,499 | 501 | 24,999 | 501 | 25,500 |
| Rio Nuevo District | 16,000 | 16,000 | 0 | 16,000 | 0 | 16,000 | 0 | 16,000 | 0 | 16,000 |
| Asset Sale/Lease-Back Debt Service | 77,709 | 53,702 | 0 | 53,702 | 2 | 53,704 | 2 | 53,706 | 2 | 53,708 |
| 2010B Debt Payoff | 190,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 27th Pay Period Non-University | 0 | 0 | 0 | 0 | (43,079) | (43,079) | 0 | (43,079) | 0 | (43,079) |
| 27th Pay Period Universities | 0 | 0 | 0 | 0 | 20,052 | 20,052 | (20,052) | 0 | 0 | 0 |
| Unallocated FY 2021 Health Insurance Adjustment | 0 | 1,719 | 0 | 1,719 | (1,719) | 0 | 0 | 0 | 0 | 0 |
| Unallocated FY 2020 Health Insurance Adjustment | 52 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated ADOT Vehicle Fee Adjustment | 0 | 0 | 0 | 0 | 2,506 | 2,506 | 0 | 2,506 | 0 | 2,506 |
| Prior Year Transportation Funding | 95,310 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated Retirement Rate Adjustment | 0 | 0 | 0 | 0 | 12,763 | 12,763 | 0 | 12,763 | 0 | 12,763 |
| HITF One-Time Adjustment | 0 | 0 | 0 | 0 | (8,000) | (8,000) | (14,000) | (22,000) | 0 | (22,000) |
| DES FY 2021 Caseload & FMAP Savings | 0 | 0 | (123,000) | (123,000) | 123,000 | 0 | 0 | 0 | 0 | 0 |
| AHCCCS FY 2021 Caseload & FMAP Savings | 0 | 0 | (141,000) | (141,000) | 141,000 | 0 | 0 | 0 | 0 | 0 |
| One-Time Arts Funding | 0 | 0 | 0 | 0 | 2,000 | 2,000 | (2,000) | 0 | 0 | 0 |
| Administrative Adjustments | 128,000 | 146,000 | (3,000) | 143,000 | 0 | 143,000 | 0 | 143,000 | 0 | 143,000 |
| Revertments | (598,396) | (184,000) | (4,000) | (188,000) | 0 | (188,000) | 0 | (188,000) | 0 | (188,000) |
| Transfer to Rainy Day Fund | 271,107 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL USES OF FUNDS | 11,555,279 | 11,761,208 | (196,971) | 11,564,237 | 1,069,471 | 12,633,709 | 124,297 | 12,758,005 | 321,241 | 13,079,246 |
| ENDING BALANCE | 372,457 | (334,522) | | 1,174,463 | | 920,893 | | 874,856 | | 859,832 |
| Ongoing Revenues | 10,879,587 | 11,037,529 | | 12,313,109 | | 12,373,239 | | 12,695,269 | | 13,047,522 |
| Ongoing Expenditures | 10,702,178 | 11,431,756 | | 11,431,756 | | 12,218,090 | | 12,689,651 | | 13,040,559 |
| STRUCTURAL BALANCE | 177,409 | (394,226) | | 881,353 | | 155,148 | | 5,617 | | 6,963 |

Note: FY 2021 to FY 2024 Net Changes columns include baseline and initiative issues.

The Economy

Just as before the COVID-19 pandemic, Arizona remains well positioned for continued rapid expansion. The overall pace of growth will likely be dictated by progress in containing the virus and the State's response to post-election changes in national and local economic policy.

"When the pandemic hit, Arizona's economy was booming. We had more jobs than people to fill them. In the last several months, businesses across the state had to adjust or pause operations — and many have done an incredible job of keeping employees and patrons safe. With our economy moving forward and returning stronger, we will continue to support local businesses across the state."

Gov. Doug Ducey

The national economy suffered due to the 2020 COVID-19 pandemic and brought about the sharpest quarterly real GDP decline in the nation's history, only to be followed by the fastest rebound in history as many businesses reopened.

Compared to most states, Arizona has weathered the storm particularly well. The reasons:

- a robust pre-COVID-19 economic environment,
- a competitive and pro-business tax and regulatory environment, and
- a targeted and thoughtful approach to public health measures that protects both lives and livelihoods.

The year 2020 will be remembered and studied as a period in which the overall economy was both:

- uniquely policy-driven (there can be little arguing that, however incidental the general impact of public policy on the overall economy might be, pandemic-response policy was the dominant force this year); and
- uniquely local, in that divergent policy responses to the pandemic from state to state provided a nearly real-time analysis of state-level public policy impacts on economic performance.

Even while national economic growth was whipsawed by the impacts of mitigation strategies that had serious economic effects, coupled with consumer reaction to the virus, certain segments of the economy (e.g., online sellers and some "big box" national retailers) flourished.

In contrast, industries that depend on direct personal service (e.g., hospitality and transportation) and many smaller local businesses across the industry spectrum were hit hard.

Further, since the outbreak of the pandemic, some states have performed remarkably well, while others struggled and continue to do so.

While forecasters debate prospects for economic recovery, it can be agreed that:

- the overall pace of recovery will be dictated by how quickly COVID-19's impact can be mitigated, by either an effective vaccine or other mitigation efforts; and
- Arizona's performance throughout the pandemic has exceeded all expectations, and therefore strong growth will continue over the four-year budget window.

It is important to note that, prior to the pandemic, the U.S. economy was enjoying its fastest growth rate in a decade. At this writing, multiple highly effective vaccines are being administered across the country, with more on the way, and, at whatever point COVID-19 is no longer perceived as a major threat, the pre-pandemic growth trajectory should resume, absent substantial federal policy shifts.

The Nation. As this forecast was prepared, the nation's economy was on track to finish the year approximately 5% below the level of GDP in quarter four of 2019. However, the losses occurred during the first two quarters of 2020, at a time when severe economic restrictions were temporarily imposed nearly nationwide, only to be followed by two quarters of unprecedented rapid growth.

The greater concern is for employment, which in November 2020 stood at just under ten million jobs below the high-level mark set in February. While the nation's economy generally continues to recover, job recovery has slowed following its initial summer rebound, perhaps implying a potentially permanent shift away from some types of labor-intensive commercial activity.

One of the more striking characteristics of the national 2020 economy is the disparity of performance among the states.

While U.S. real GDP fell at an annual rate of 31.4% in the second quarter, performance by state ranged from a decline of just 21.9% in Delaware to 42.2% in Hawaii. Of local interest, Arizona lost just 25.3% of its annual economic output, placing third nationally and joining Utah, Washington, and Virginia in the top five.

Similarly, while as of November 2020 the nation remained about 6% below its February pre-crisis peak employment level, job losses by state ranged from 15.2% in Hawaii (almost triple that of the U.S.) to just 0.4% in Idaho. Again, Arizona has

performed well, down by just 3.1% and ranked sixth across all states.

The sharp state-by-state contrast is unusual. During the Great Recession, some states, including Arizona, were hit harder than others, but generally all states suffered and recovered similarly. When the U.S. lost about 5% of its jobs during the Great Recession, two of the hardest-hit states – Arizona and Nevada – lost about 10% and 11% of its jobs, respectively, only about double the U.S. average.

The strong national recovery in the third quarter of 2020 is a source of encouragement. While growth since then has slowed to less extreme levels, it appears likely that GDP will shortly approach or even return to its pre-pandemic level and then resume a trend in the 2.5% to 3% annual growth range.

Two factors could slow or change those prospects:

- the continued persistence of the COVID-19 pandemic beyond spring 2021; or
- a marked change in federal tax and fiscal policy, especially as the partial expiration of the 2017 Tax Cuts and Jobs Act begins to loom in 2025, requiring cooperation between the President and Congress to extend.

Arizona. The state remains well positioned as a top national performer since the start of the pandemic and the national recession, and it has seen the third-strongest economic performance of any state since the recession's peak in the second quarter of 2020.

In a marked departure from its "slow growth" following the 2008 Great Recession, after the beginning of the pandemic Arizona led the nation in job growth between May and October 2020, recovering approximately 193,900 (66%) of the 294,600 jobs lost.

While confident about the state's economy, the Executive does acknowledge the risks presented by, for example, a persistence of the pandemic and implementation of a nearly \$1 billion state income tax surcharge mandated by Proposition 208, the largest tax increase in Arizona history.

Overall, however, the FY 2022 Executive Budget recognizes Arizona's strong economic and fiscal health, and the resulting revenue projections acknowledge the state's remarkably strong performance since the start of the pandemic.

National Outlook

There is wide variance among forecasters of U.S. real GDP growth, with virtually all agreeing that the pace will ultimately be dictated by progress or lack thereof on the pandemic, coupled with any additional stimulus measures approved by Congress and the White House.

The Blue Chip Economic Indicators forecast, issued by 50 of the nation's top business forecasters, foresees growth ranging from 2% to 6% for 2021 as of this writing.

Interestingly, most historically relevant factors for GDP growth have taken a backseat to the pandemic; economic fundamentals and investor expectations about the future are now secondary to whether an economy is "open" or "closed" by policy and investor expectations about public health today. Still, most economists point to a solid foundation in the economy beyond the current headwinds.

While it is hard to derive many positives from the pandemic experience, at least three warrant mentioning:

- As illustrated by the March 2020 passage of the CARES Act, it is clear that, if significant fiscal policy measures are required, Congressional Democrats and Republicans can work together when a dire situation calls for compromise.
- The Federal Reserve has illustrated that it will continue to provide the necessary accommodative monetary policy to sustain the economy.
- A significant share of the labor market was able to adapt quickly to the flexible "work from home" environment that has allowed millions of American workers to maintain employment in a safe and effective manner.

Of significance will be how Congress and the Executive branch respond to economic pressures or any future shocks that arise, and how the new administration's plans for fiscal, health care, and international trade policies evolve, particularly to the extent that the administration seeks to re-impose some of the more economically damaging policies that were rolled back or relaxed over the past four years.

EMPLOYMENT

In January 2020 the national labor market was very healthy. Job creation occurred at a persistent rate over the better part of the last decade, as businesses put concerns of the Great Recession behind them. A bonus came from corporate tax rate reductions, accompanying regulatory reform, and an array of technological innovations that spurred productivity growth.

Only a few weeks later, the world changed dramatically.

By December, the U.S. economy had regained much of its strength, but net job losses continued to range between eight and 10 million, with losses concentrated largely in personal service sectors that necessitate person-to-person contact with customers. Hospitality, entertainment, and travel have been hit especially hard. Meanwhile, most other workers have, to varying degrees, weathered the storm.

Going forward, labor market conditions will likely improve dramatically as the pandemic begins to be contained and a vaccine or other preventive therapeutic is made widely available. The future will bring continued and improving conditions to those who have maintained employment, and when the economy fully reopens as expected by mid-2021, labor markets will begin to absorb the slack that exists today.

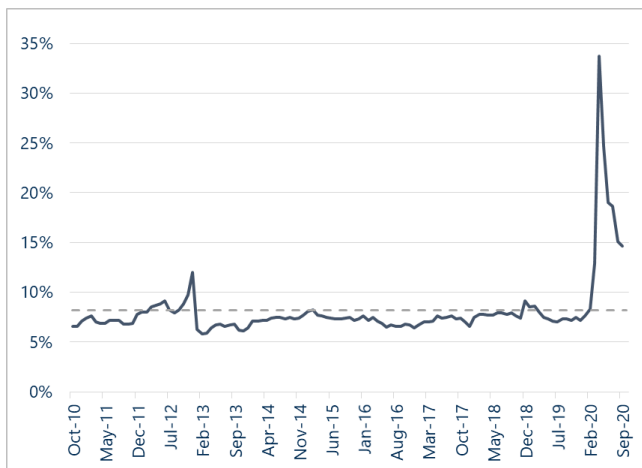
However, there is little denying the shift during this crisis toward more automated, decentralized industries and businesses – e.g., national fast-food chains and drive-throughs versus local sit-down restaurants. How permanent these changes will be along with their long-term implications remains to be seen.

CONSUMER SPENDING

Since the onset of the pandemic, many Americans' disposable incomes have surged above the pace of spending, as savings rates skyrocketed and left many consumers with large cash balances. While savings have certainly not been common to all income groups, they are real and significant, suggesting that the pace of spending in the economy will not erode from here and may indeed accelerate, as financial concerns give way to higher levels of consumer confidence.

Figure 1

10-Year Consumer Saving Rates



This sets the stage for at least moderate spending growth by spring 2021, with steady increases after that as spending spreads to areas hit the hardest by the pandemic.

This positive outlook for overall consumption should not mask the fact that some Americans will struggle to find long-term employment until pandemic fears subside. However, others will spend on durable goods, housing improvements, and ultimately travel and entertainment that have been on hiatus since spring 2020.

While causes for concern include inflated equity prices, the uncertainty of new policy initiatives coming from Washington, D.C., and no immediate resolution to international trade tensions, all concerns are overshadowed by the very real prospects of a robust recovery, with consumers awakening from the year-long COVID-19 slumber. One would expect savings rates to come down as consumer confidence grows and buyers take advantage of nonexistent inflation (except for housing) and historically low interest rates.

INTEREST RATES

The year 2020 illustrated why interest-rate forecasting is so challenging. In 2019, economists debated whether yield curve inversion (a situation in which long-term debt instruments have lower yields than short-term debt instruments of the same credit quality) was sending potential recession signals. This was especially newsworthy when a two-year Treasury note traded at rates that exceeded the 10-year Treasury; historically, such a development has been followed by recession within 12 to 18 months. However, few would suggest that the yield curve inversion could have been predicting the public health crisis or its policy responses.

Regardless, in the last year the Federal Reserve has demonstrated forcefully that it will do whatever it takes to sustain the economy through a crisis, including a massive balance sheet expansion with an unprecedented purchase of private corporate debt. It is expected that low interest rates will continue until the economy is fully healed or inflation finally begins to reveal itself.

MARKET VOLATILITY

As of January 2020, the stock market was at record highs, buoyed by persistently low interest rates despite relatively low, pandemic-induced earnings growth. Investors see future profits, and, with interest rates below 1%, the discount rate on those future profits is very low. Equities have become the only viable game in town, and equity prices continue to move higher.

Going forward, the pace of equity appreciation will be influenced by the pandemic, progress or lack thereof on trade agreements, plans for an infrastructure initiative, tax and tax-related fiscal policy, antitrust actions and tech regulation, foreign appetite for U.S. Treasuries, and concerns or lack thereof over U.S. debt levels. However, low interest rates will likely provide support for ongoing appreciation.

With respect to its impact on the General Fund, stock market volatility could dampen capital gains realizations in the next few years while fueling some of the recent revenue over-performance, since income from sales today is taxable today. This situation, coupled in Arizona with uncertainty regarding taxpayer response to the new Prop. 208 income tax surcharge, will require monitoring as discussed below in the revenue outlook.

BUSINESS SPENDING

Last year at this time it was noted that the sluggish pace of business capital investment spending was clearly a drag on overall 2019 growth. Then, the pandemic put even more pressure on business owners and decreased willingness to expand plants and equipment in the U.S. This posture is likely to continue, despite the economic recovery, to the extent that the 2020 election outcome introduces a new type of uncertainty.

Growth in business investment must be a key component of any expansion, and many economists believe that such a resurgence depends on prospects for global growth, which will require

a resolution of trade disputes and the permanent elimination of recently imposed tariffs coupled with a continuation of recent regulatory and tax changes that have favored fixed investment. How the new administration navigates this environment may play an important role in these prospects.

The Executive Budget's outlook is built on modest growth assumptions going forward. While Arizona growth and accompanying revenue collections would slow in a national downturn, it is also true that the state is far better positioned than in 2009, both economically and fiscally, to weather a national storm.

Arizona Outlook

In assessing the Arizona economy, it makes sense to recount its strength just prior to the pandemic and during it. Even as many parts of the country experienced deep and persistent economic and revenue losses, similarly dire predictions for Arizona have proved to be far too pessimistic.

Arizona's response to the pandemic and its accompanying global recession has been more sectoral than total. Where other states imposed broad, persistent, and sometimes arbitrary restrictions, Arizona's approach was more measured and targeted. As a result, Arizona's employment market and gross state product were hit less hard and rebounded more quickly, due to continued growth and expansion in sectors that were able to operate safely. That growth offsets what are likely to be lingering and persistent losses in less fortunate areas.

EMPLOYMENT

Before the large swings induced by the pandemic and its accompanying commercial restrictions, Arizona employment growth in 2018 and 2019 was near 3% per annum. The diversity of the state's economy, coupled with the robust pace of growth in the real estate sector, should allow employment growth to resume.

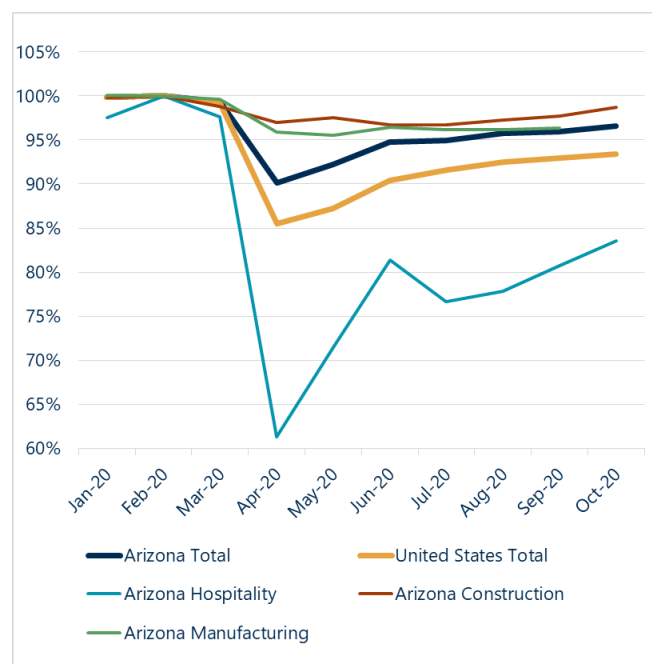
The State's Blue Chip forecasting panel predicts employment losses in 2020 to be 2% to 3%, followed by a robust recovery of 3% to 5% gains in 2021, as idled sectors of the economy continue their recovery and sectors that were able to continue operating during the pandemic continue to grow.

Arizona is well positioned to continue positive trends that were in place prior to the pandemic. Trade relations with Mexico have improved significantly in recent years, and many western states (aside from California) have witnessed significant growth as workers and businesses have migrated away from high-tax, high-regulation jurisdictions and toward places with lower costs of doing business. Arizona's economy offers considerable potential, and the economic development community remains active in responding to relocation inquiries.

Manufacturing. Arizona's manufacturing sector has fared remarkably well both prior to and through the 2020 recession. In Arizona, year-over-year growth in manufacturing employment was growing at about 5% per annum coming into 2020, thanks in

Figure 2

2020 Employment Rates Relative to Pre-Recession Peak



large part to recent state and federal regulatory and tax relief. Further, while all states lost manufacturing jobs in 2020, Arizona's losses appear to be about half the rate observed in other states, and the state continues to attract the interest of potential new manufacturers, which bodes well for resurgent growth in 2021 and beyond.

Construction. In 2019, the state's 12,000 new construction jobs ranked Arizona among the top five states in construction job growth. Even as broader employment in Arizona and nationally saw negative growth during 2020, the construction industry in Arizona held its own – a testament both to the resilience of the state's overall economy and to the Executive's early decision to designate the sector as an essential service not subject to any mandatory closure orders.

Bright prospects are in place going forward, as the construction sector will be buoyed by surging demand for residential housing, continued industrial expansion, and a robust market for home improvement projects. For context, according to *Arizona Business* magazine, the state's homeownership rate surged by nearly 8% in 2020 – the fastest such growth rate in the country and the largest annual increase ever recorded. It is difficult to explain a one-month increase of this magnitude given the lack of historical context, but a single month's data is unlikely by itself to portend the type of "bubble" risk seen, for example, in 2008.

PERSONAL INCOME

Historically, personal income growth has been a reliable indicator of economic growth in the state, and Arizona has regularly been among the nation's leaders in this measure.

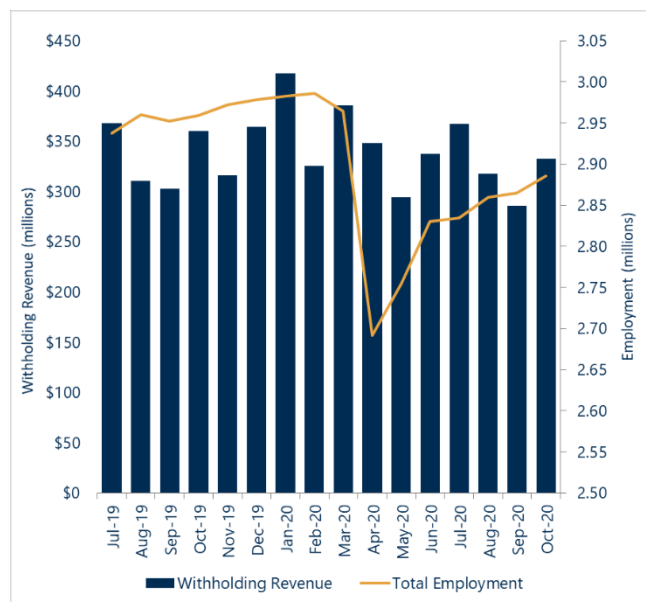
However, 2020 was an unusual year, and historical patterns have seldom held. Large federal transfer payments in the second quarter of 2020 led to personal income surging during that period by nearly 7% nationally and by 8% in Arizona, despite simultaneously soaring unemployment and the pandemic-induced recession. As one-time stimulus measures began to roll off thereafter, measured personal income growth disappeared. Neither trend is particularly informative of underlying economic activity and should be ignored.

Instead, the Executive looks to other bellwethers that were less directly impacted by one-time cash transfers, revealing a state economy that has held up well, coupled with a steady stream of withholding payments throughout the recession. Absent policy factors, it is likely that personal income growth would have been notably stable, if somewhat slowed, and in the 3% to 4% range last year. Personal income growth is expected to continue, and perhaps accelerate, from this trend over the three-year budget period.

Which outcome materializes depends in large part on behavioral responses to State tax increases locally and the sustainability of economic growth coming out of the recession.

Figure 3

Arizona Withholding Revenue & Employment Stability



IN-MIGRATION

Coming into 2020, Arizona consistently ranked among the top destinations for net domestic in-migration, based on assessments of IRS data. While this trend has been present for decades, the recent pace of migration into Arizona relative to other states has surged. The state captured about 10% of total U.S. migration in 2018 and more than 15% in 2019, despite having only about 2% of the nation's population. The level of migration reached a contemporary peak at nearly 100,000 people as well.

While direct data on migration between states in 2020 is not yet available, it is assumed based on proxy measures that movement slowed during the pandemic and the recession, even as some states, including Arizona, may have been buoyed somewhat by the state's appeal relative to more restrictive jurisdictions.

The quality and skill levels of the workers Arizona attracts and retains will continue to be dictated by the needs of Arizona employers. As advanced manufacturing and professional business service, research, and healthcare needs grow, so, too, will the need for workers with requisite skills. The Executive expects the continued growth in the state's manufacturing and technology sectors to drive additional migration from their traditional hubs – such as the Pacific coast – in the form of young professionals, instead of traditionally older retirees.

However, the Executive recognizes the negative potential impact of Prop. 208 on the state's growth prospects. Prior to its passage, taxpayers making over \$500,000 per year made up nearly 30% of Arizona's Individual Income Tax revenues. Prop. 208 jeopardizes current and prospective revenues to the General Fund from these taxpayers and small businesses, along with the jobs they create.

RISKS

A potential risk to Arizona comes from a scenario in which the nation falls back into recession due to the continued spread of the coronavirus.

While Arizona and many other states have adopted postures that simultaneously protect public health and protect the jobs and incomes that make up a state's economy, there is no guarantee that such a posture will be adopted in all states or at the national level, and Arizona is necessarily subject to national winds.

The Executive intends to continue combating the pandemic and taking necessary steps to mitigate its effects in the least disruptive manner, but much of this risk is beyond the State's direct control.

A second possible risk comes from shifts in tax and regulatory policy. The combined potential for federal policy changes and Prop. 208's tax hikes on small businesses and other high-income earners could reduce Arizona's economic competitiveness and harm economic growth.

Passage of the 2017 Tax Cuts & Jobs Act and efforts to cut red tape at the federal level over the past several years have fueled substantial growth in Arizona, particularly in the mining and manufacturing sectors. However, if the incoming federal administration makes good on some of its promises to roll back those initiatives, some of that growth could be slowed or even reversed, which could impact State revenue growth going forward.

Unfortunately, that prospect was simultaneously paired with the passage of the Prop. 208 income tax surcharge on taxpayers,

including small businesses, making more than \$250,000 per year. The immediate effect of the tax increase is to move Arizona from having the nation's sixth-lowest top marginal individual income tax rate to the ninth-highest, linking it with such high-tax states as New York, California, Minnesota, and New Jersey.

According to data available from the IRS, an outsized portion of income above \$250,000 per year comes from business activity and return on investments. Taxpayers that have that type of income are both highly mobile and critical to a state's growth prospects. It is likely that at least some investment and business activity that would have occurred in Arizona before passage of Prop. 208 will not occur or will occur elsewhere.

While acknowledging the risk posed by this tax, the Executive remains confident in the positioning of Arizona as the best place to work and do business. For the vast majority of taxpayers, the state's overall tax burden (property, sales, and corporate and individual income combined) is relatively low; government spending growth is conservative; and the state's regulatory environment is business-friendly. The Executive is committed to further improving this position in the upcoming budget cycle.

UPSIDE POTENTIAL

In recent years, economic growth has been strong in the West in general and in Arizona in particular, and that strength is likely to continue in 2021 and beyond. Access to vaccine and therapeutics in 2021 will serve only to fuel this growth.

Movement to the upside could come in several forms.

First, resolution of trade frictions may unleash capital investment that could clearly benefit all states. Arizona's business-welcoming environment positions the state to take advantage of any form of capital expansion.

Second, Arizona always benefits from the upside of a real estate cycle and the opportunities for steady growth in the sector, absent excesses, will help sustain the state's economy.

Finally, it is possible that significant new federal spending - in the form of pandemic-related stimulus, a new infrastructure bill, or other new investments - could occur. To the extent that these federal dollars follow population growth, Arizona is well positioned to take advantage of a national infrastructure investment or stimulus program. The State was quick to work with its federal partners to capture, for example, the temporary enhanced unemployment insurance benefit and looks forward to continuing to work to maximize the flow of productive federal dollars into Arizona.

Overall, given 2020's volatile performance ending with two quarters of unprecedented GDP growth, the Executive believes further upside risk thanks to the distribution of a COVID-19 vaccine and the pace of economic recovery to date must be balanced against a realistic acknowledgment of the strong performance of the State's General Fund during this recession, and that risk is managed by the Executive's conservative revenue assumptions.

The Revenue Outlook

General Fund revenue growth in FY 2020 continued to outperform expectations, despite the onset of the pandemic and its associated recession late in the fiscal year.

In contrast to June 2020 Joint Legislative Budget Committee projections that the General Fund would finish FY 2020 with a \$640 million cash shortfall, the State ultimately recorded revenue growth of about 3% (after accounting for the delayed receipt of Income Tax payments due to payment deferral) and a cash balance of \$375 million.

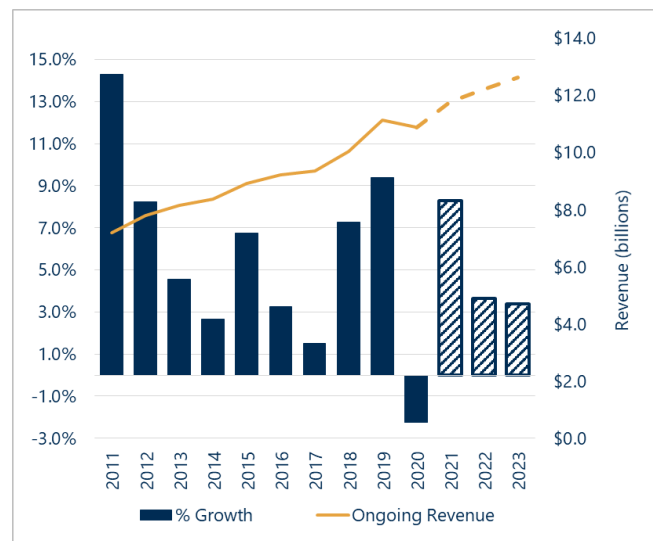
Collections in FY 2020 were buoyed by implementation of the 2019 tax omnibus, the most significant tax reform of the last 30 years. Arizona's income tax code was made simpler, flatter and more fair. The legislation also created a remote sellers tax, subjecting out-of-state sellers to the same sales taxes paid by in-state brick-and-mortar retailers. The Executive expects that the success of this reform will continue to support State revenues throughout the three-year budget window.

ACHIEVING THE FY 2021 BASELINE REVENUE FORECAST

Overall, General Fund revenue collections are on track to achieve or exceed the current Executive forecast. As of October 2020, collections are up almost 20% year-over-year and remain significantly above forecast, even after accounting for the delayed payments received in July.

The State's Transaction Privilege Tax – the largest component of General Fund revenue and a key bellwether of state economic and fiscal health – has held up well during the pandemic, due in large part to the remote sellers tax, which has allowed the State to keep up with rapidly changing consumer behavior. Fiscal year-to-date growth of more than 11% through November 2020 and more than 13% ahead of the enacted FY 2021 budget forecast further support the Executive's revenue projections.

Figure 4
State Revenue Growth



This growth is also likely to increase in the coming years following the passage of Proposition 207, which legalizes the sale of recreational marijuana and imposes a 16% excise tax that will fund various State programs. In addition to the excise tax, sales of recreational marijuana products will also be subject to the 5% Transaction Privilege Tax. The Executive projects this to increase General Fund revenues by \$2.3 million in FY 2021, followed by larger increases in the following years.

Table 1

Prop. 207 General Fund Impacts by Fiscal Year

| 2021 | 2022 | 2023 | 2024 |
|---------------|----------------|----------------|----------------|
| \$2.3 million | \$13.9 million | \$22.6 million | \$33.3 million |

The flow of individual income and corporate income taxes in the first five months of FY 2021 displayed 29% and 16% growth, respectively, over flows observed in those two revenue streams in FY 2020. That pace puts revenue flows for each component ahead of the enacted FY 2021 budget forecasts for the year by 14% and 35%, respectively.

To align with the federal income tax, Arizona acted to extend the filing date for individual income taxes from April to July for tax year 2020, leading to a roughly \$600 million transfer from what would have been revenues received in FY 2020 to FY 2021. Excluding these deferred income tax payments received in FY 2021 yields an estimated (5.9)% YOY growth rate for this category. However, the Executive Budget still contemplates an impressive 8% increase over FY 2021 budgeted values.

Table 2

Historical & Projected Revenue Growth

| | 8-Year Avg. | FY 2020 ¹ | FY 2021 ¹ |
|-----|-------------|----------------------|----------------------|
| TPT | 4.5% | 5.8% | 7.5% |
| IIT | 8.3% | 2.4% | (1.3)% |
| CIT | 0.8% | (0.5)% | 5.6% |

¹ Adjusted for the deferral of approximately \$600 million in Individual Income Tax Payments into FY 2021 from FY 2020.

Because of the volatility induced by (a) the pandemic and the associated recession, (b) the one-time federal transfer payments (some of which are taxable), and (c) the state income tax deferral to align with the federal income tax deadline in July 2020, the Executive Budget's projections for the Individual Income Tax assume that collections in FY 2021 will be significantly inflated as

compared to collections in FY 2020. Conversely, apparent growth will slow in FY 2022 before resuming in the out-years.

Overall, considering the pace of recent revenue growth and the tailwinds boosting Arizona's economy, the Executive Budget is well positioned to meet or exceed its baseline forecast of approximately 12.9% ongoing General Fund revenue growth in FY 2021 and 0.6% revenue growth in FY 2022.

Internal Revenue Code Conformity

In March 2020, passage of the federal CARES Act provided for substantial but temporary changes to the federal income tax code. Full conformity to those provisions would impose substantial one-time costs on the General Fund during Fiscal Years 2021 and 2022.

The Executive supports conforming to most changes - particularly those affecting individuals in Arizona - so as to make filing as simple as possible for taxpayers, while carefully considering the State's options to ensure the most competitive tax policy across the board.

The Executive prefers to reserve some of that General Fund capacity for needed permanent income tax relief, which would ultimately better protect small businesses and Arizona taxpayers while improving Arizona's tax competitiveness.

Income Tax Reform

Every year since taking office, Governor Ducey has signed an income tax reduction. Continuing on the promise he has made to reduce the income tax to as close to zero as possible, the Executive is proposing substantial ongoing income tax reform to ensure that Arizonans and Arizona small businesses that were hit hard by the COVID-19 pandemic, through no fault of their own, are given true and meaningful tax relief.

Taxes on income stifle economic growth by shifting incentives away from savings and investment. The Executive looks forward to partnering with the Legislature during the 2021 session on ways to substantially reform and reduce the income tax, and to signing a tax reform package that makes Arizona even more attractive to businesses, families, and individuals.

To that end, the FY 2022 Executive budget reserves \$200 million, phasing up to \$600 million by FY 2024, for meaningful income tax reform to help Arizona's hardworking taxpayers recover from the COVID-19 pandemic and pave the way for growth into the future. The Executive's position is that this tax reform will yield additional economic activity for the state, which will result in higher revenues and continued growth.

General Fund Revenue Summary

(\$ in thousands)

| | Actual | Estimate | Estimate | Estimate | Estimate |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
| TAXES | | | | | |
| Individual Income | 4,530,737.9 | 5,663,425.0 | 5,555,819.9 | 5,866,945.8 | 6,072,289.0 |
| Corporate Income | 511,882.0 | 540,545.3 | 533,518.2 | 568,196.9 | 598,311.3 |
| Sales and Use | 5,391,913.0 | 5,796,306.5 | 6,091,918.1 | 6,414,789.8 | 6,677,796.2 |
| Property Taxes | 24,140.0 | 18,800.0 | 20,050.0 | 16,430.0 | 17,070.0 |
| Luxury Taxes | 57,140.0 | 54,163.0 | 49,558.0 | 49,508.0 | 51,562.0 |
| Insurance Premium Taxes | 535,163.4 | 567,273.2 | 564,436.8 | 570,081.2 | 581,482.8 |
| Estate Taxes | - | - | - | - | - |
| Other Taxes | 14,408.0 | 14,293.0 | 14,463.0 | 14,554.0 | 14,668.0 |
| TOTAL TAXES | 11,065,384.3 | 12,654,806.0 | 12,829,764.1 | 13,500,505.7 | 14,013,179.2 |
| OTHER REVENUES | | | | | |
| Licenses, Fees & Permits/Misc. | 183,226.0 | 190,475.1 | 191,173.1 | 198,188.4 | 203,285.6 |
| Interest Earnings | 39,405.0 | 16,180.0 | 12,135.0 | 17,231.7 | 21,539.6 |
| Lottery | 103,594.7 | 100,520.0 | 131,600.0 | 140,290.0 | 149,550.0 |
| Transfers & Reimbursements | 116,450.0 | 64,981.0 | 70,240.0 | 75,061.0 | 78,781.0 |
| TOTAL REVENUES | 11,508,060.0 | 13,026,962.1 | 13,234,912.2 | 13,931,276.8 | 14,466,335.5 |
| ADJUSTMENTS | | | | | |
| Urban Revenue Sharing | (737,574.0) | (828,492.9) | (756,261.0) | (930,595.5) | (913,400.7) |
| Disproportionate Share | 84,949.1 | 91,300.0 | 95,000.0 | 95,000.0 | 95,000.0 |
| Public Safety Transfers | 23,344.0 | 23,340.0 | - | - | - |
| Temporary Transaction Privilege Tax | 808.0 | - | - | - | - |
| Scheduled Fund Transfers | 90,908.0 | 97,033.6 | 36,700.0 | 16,700.0 | 16,700.0 |
| Recommended Revenue Changes | - | (43,900.0) | (230,212.6) | (400,412.6) | (600,412.6) |
| GRAND TOTAL REVENUES | 10,970,495.1 | 12,366,242.8 | 12,380,138.6 | 12,711,968.6 | 13,064,222.2 |

Note : Projected impacts from previously enacted tax law changes are included in the forecast.

Other Fund Revenue Summary

| | (in thousands) | | |
|--------------------------------|---------------------|---------------------|---------------------|
| | Actual | Estimate | Estimate |
| | FY 2020 | FY 2021 | FY 2022 |
| TAXES | | | |
| Motor Vehicle Fuel Tax | 789,072.8 | 723,812.3 | 739,243.1 |
| Property Taxes | 13,883.8 | 12,645.4 | 12,645.4 |
| Sales and Use | 706,732.6 | 372,875.8 | 389,057.9 |
| Luxury Taxes | 314,681.6 | 301,772.4 | 300,766.2 |
| Insurance Premium Taxes | 40,849.8 | 40,648.9 | 40,786.2 |
| Motor Carrier Tax | (5,500.5) | 23,489.0 | 24,560.0 |
| Vehicle License Tax | 595,259.0 | 672,528.2 | 495,575.3 |
| Other Taxes | 1,948,459.8 | 1,402,476.7 | 1,241,137.9 |
| TOTAL TAXES | 4,403,438.9 | 3,550,248.7 | 3,243,772.0 |
| OTHER REVENUES | | | |
| Licenses, Fees & Permits/Misc. | 6,989,097.7 | 7,011,102.9 | 7,506,139.2 |
| LF & P | 942,407.7 | 1,269,722.9 | 1,501,256.2 |
| S & S | 6,046,690.0 | 5,741,380.0 | 6,004,883.0 |
| Misc | - | - | - |
| Interest Earnings | 466,661.4 | 378,957.3 | 370,597.2 |
| Lottery | 1,844,776.0 | 1,915,245.1 | 1,915,245.1 |
| Charges for Services | 4,908,867.2 | 4,587,642.7 | 4,812,507.4 |
| Miscellaneous Revenues | 1,534,011.6 | 1,473,864.1 | 1,461,930.9 |
| TOTAL OTHER REVENUES | 15,743,413.9 | 15,366,812.1 | 16,066,419.8 |
| TOTAL REVENUES | 20,146,852.8 | 18,917,060.8 | 19,310,191.8 |
| OTHER FINANCING SOURCES | | | |
| Transfers & Reimbursements | 25,795,459.8 | 26,017,823.7 | 27,781,525.1 |
| GRAND TOTAL REVENUES | 45,942,312.6 | 44,934,884.5 | 47,091,716.9 |

*Other Appropriated Funds Revenues include all revenues for funds which may only be partially subject to statutory or legislative appropriation. The expenditures shown in the "Other Funds Budget Summary" are for the appropriated portion of these funds only and may represent only a small portion of the funds' total expenditures. There are several funds where a General Fund appropriation is deposited into an "Other Appropriated Fund" and these deposits are reflected in the figures above; as such General and Other Fund Revenues may not sum to total State revenue.

Fiscal Response to the COVID-19 Pandemic

To help state governments deal with the critical financial and service delivery pressures associated with COVID-19, the federal government responded with an unprecedented level of resources.

The federal government enacted seven measures that provided relief funding directly to States and their residents. In chronological order, they were:

- The Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020;
- President Trump's national emergency declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act which provided the Federal Emergency Management Agency (FEMA) Public Assistance grants;
- The Families First Coronavirus Response Act;
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act;
- The Paycheck Protection Program and Health Care Enhancement Act;
- President Trump's authorization to use the FEMA's Disaster Relief Fund (DRF) to establish the Lost Wages Supplemental Payment Assistance program; and
- Coronavirus Response and Relief Supplemental Appropriations Act, 2021.

Arizona received a total of \$35 billion in federal funds from these measures, excluding the recently signed Coronavirus Response and Relief Supplemental Appropriations Act, 2021. Arizona taxpayers earning up to \$99,000/individually or \$198,000/jointly received \$5.82 billion in direct Economic Impact payments from the Internal Revenue Service (IRS). Arizona businesses and nonprofits received direct payments of \$12.24 billion from the three largest Small Business Administration (SBA) programs, while hospitals and healthcare facilities and providers received \$1.43 billion in direct relief fund payments. (See Figure 6, next page.)

The largest of these seven federal funding streams has been the CARES Act, which provided to the State of Arizona a little over \$2.6 billion spanning multiple agencies.

The State has prioritized the health and safety of its residents and made a commitment to ensuring that Arizonans have access to the resources needed to recover from the pandemic. Examples of those resources include the Department of Economic Security (DES) administering the CARES Act Supplemental Nutrition Assistance Program (SNAP) allocation to eligible households, and providing funding from various sources to foodbanks, municipalities, or other nonprofits.

Coronavirus Relief Fund. The CARES Act established the \$150 billion Coronavirus Relief Fund (CRF), through which the U.S.

Department of the Treasury made direct payments to states and eligible units of local government with populations that exceeded 500,000.

The CARES Act required that CRF payments be used only to cover expenses that were:

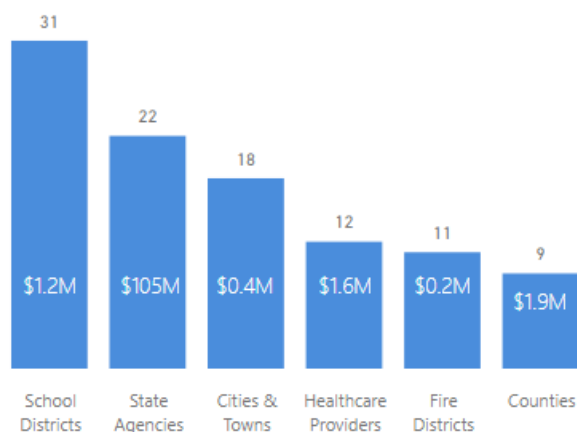
- necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government; and
- incurred during the period that began on March 1, 2020, and ended on December 30, 2020 (with the passage of the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, the end date was extended to December 31, 2021).

The amounts paid to states and eligible units of local government were based on population, with a state payment reduced by the aggregate amount of payments that were disbursed to eligible local governments within that state.

The Office of the Governor established the following grant programs in chronological order, funded by \$1.86 billion in direct financial assistance pursuant to the CRF:

- Arizona Express Pay Program (see Figure 5): \$150 million to expedite relief funding via the FEMA Public Assistance program. This funding provided assistance to a number of public and non-profit entities such as school districts, state and local governments, and hospitals for testing, contact

Figure 5
Number of Express Pay Applications and Overall Value



tracing, personal protective equipment, emergency communications, among other critical needs.

- **AZCares Fund:** \$440.75 million for immediate relief to Arizona cities, towns, and counties that did not receive a direct CRF allocation. These dollars supported local public health and public safety payroll costs and provided flexibility to local entities to reallocate their own budget resources to other needs
- **AZVoteSafe:** \$7.6 million total for Arizona counties to support safe election operations and promote voter participation during the coronavirus.
- **AZ Stay Connected Program:** \$910,000 for technology and other resources required by skilled nursing facilities to help Arizona families stay connected with loved ones confined to those facilities.
- **Enrollment Stabilization Grant Program:** \$370 million to help mitigate the pandemic's impact on Arizona schools during the 2020-2021 school year.

Also, in coordination with the Arizona Department of Health Services, \$211.95 million was expended for personal protective equipment (PPE), coronavirus tests and testing supplies, and statewide hospital staffing needs.

Finally, State agencies were provided \$436.39 million for public health and public safety personnel and employee-related expenses (EREs), and the three State universities were provided \$115 million to assist with distance learning, public health, coronavirus testing and personnel expenses.

At the time of this writing, \$135 million in available funding remained.

Education Relief. As part of the federal CARES Act, Arizona was awarded \$69.2 million for the Governor's Emergency Education Relief (GEER) Fund, which gives state governors investment flexibility in mitigating the impacts of

Figure 6

Allocation of \$35 Billion Federal Funding

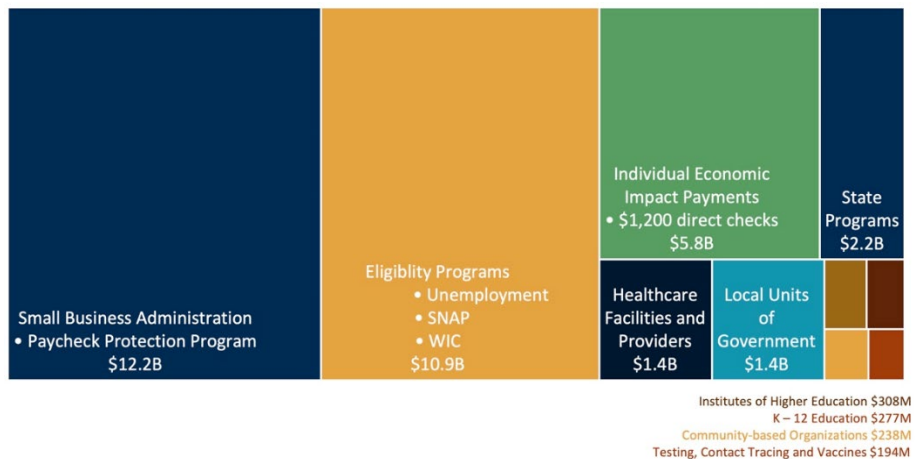


Figure 7

Allocation of CRF Direct Financial Assistance Grants

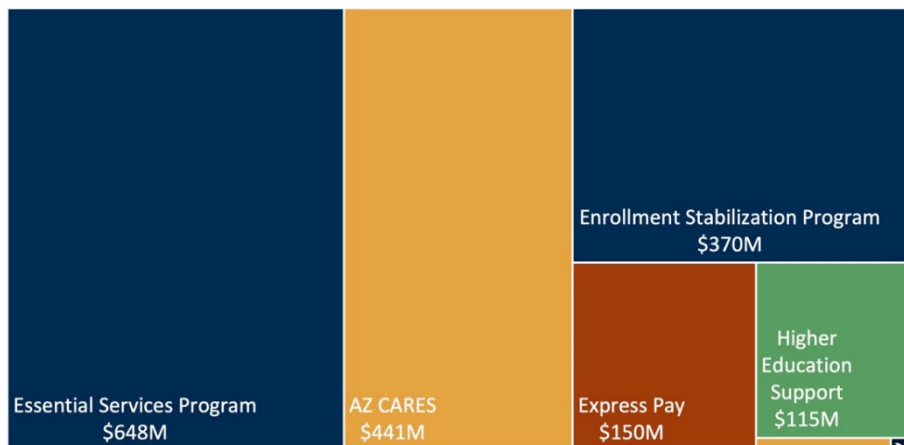


Figure 8

Allocation of the State Crisis Contingency and Safety Net Fund



COVID-19 for schools and students most in need.

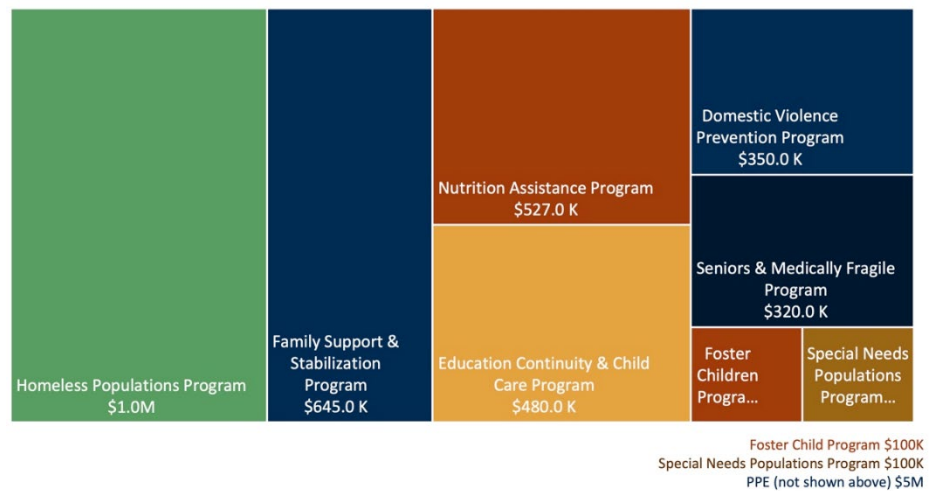
Arizona's GEER plan accelerates academic achievement for students across the state. The plan also makes a significant investment in long-term digital equity by investing in broadband infrastructure and connectivity. The State of Arizona's GEER Fund was allocated as follows:

- School Facilities Board: \$40 million to expand broadband in rural communities to bridge the digital divide confronting schools.
- Arizona Department of Education: \$19 million to make available, to high-need Arizona schools and students, math and reading specialists, teams of paraprofessionals, or other types of structure for learning and remediation.
- Arizona Board of Regents: \$6 million for the Arizona Teachers Academy.
- A for Arizona: \$1.5 million for its Expansion and Innovation Fund grant programs, which helped educators and school leaders expand their ongoing efforts and bolster effective innovation.
- Arizona State School for the Deaf and the Blind (ASDB): \$1 million for vehicles to ensure that staff have safe and reliable transportation as they travel statewide to provide critical education and services to students served by ASDB.
- Center for the Future of Arizona: \$700,000 for the virtual delivery of its executive leadership training program for school principals and leaders.
- Teach for America: \$500,000 to provide tutoring for the students most in need, in schools across Arizona most impacted by the pandemic.
- ASU Preparatory Academy: \$500,000 for the Arizona State University's Virtual Teacher Institute.

Crisis Contingency and Safety Net Fund. In March 2020, Governor Ducey signed a bipartisan State budget agreement that added \$50 million for Arizona's COVID-19 response, the Crisis

Figure 9

Allocation of CRF Direct Financial Relief Assistance



Contingency and Safety Net Fund. These resources are to be allocated by the Office of the Governor to provide direct relief to communities and aid Arizonans needing eviction assistance; struggling small businesses, nonprofits and health care providers; food banks; and the homeless population.

At the time of this writing, \$4.05 million in available funding remained.

AZ Coronavirus Relief Fund. As part of the Arizona Together Initiative, Governor Ducey established the AZ Coronavirus Relief Fund to support nonprofit organizations working to mitigate COVID-19's impact on Arizonans. The Fund is made possible by the generous financial donations of individuals and businesses. At the time of this writing, \$9.78 million had been raised, and \$1.3 million in available funding remained.

A committee of Arizona business leaders was formed to evaluate requests for support and make decisions on where funds are directed. The committee's focus has been on the following immediate needs:

- funding of Personal Protective Equipment (PPE) for front-line medical personnel;
- non-profit organizations that support the most vulnerable Arizonans through food banks, homeless shelters, domestic violence facilities, and other services; and
- efforts to provide low-income students with technology enabling them to transition to online learning.

Education

The FY 2022 Executive Budget sustains the State's robust commitment to public education, supports focused efforts to mitigate the impacts of pandemic-related learning loss, and emphasizes school choice, early literacy, and K-12 innovation at the local level.

"Across our state, students have been kept out of their classrooms for long enough. They've lost out on childhood experiences that can't be duplicated on a computer screen. In strange, difficult circumstances, parents and teachers have done their resourceful best. But it's time to get our students back where they belong."

Gov. Doug Ducey

At the beginning of the COVID-19 pandemic in March 2020, Arizona faced massive and unprecedented uncertainty about what the rest of the school year would bring for all levels, from kindergarten through higher education.

On March 15, in the early stages of the pandemic, Governor Ducey and Superintendent Kathy Hoffman announced a statewide closure of Arizona schools. Five days later, they announced a two-week extension, which ultimately became a closure that endured for the remainder of the school year, punctuating the most damaging series of events ever to befall public education in Arizona and the nation.

As the excruciating events of last spring unfolded, the Governor worked alongside key Legislative partners to quickly enact H.B. 2910 into law, which protected Arizona teachers, prioritized students, and ensured that kids continued to receive instruction even with schools closed. This legislation also provided clarity and flexibility on statewide testing requirements and school letter grades, gave direction on make-up days, and ensured that teachers and staff saw no disruption in pay as a result of COVID-19.

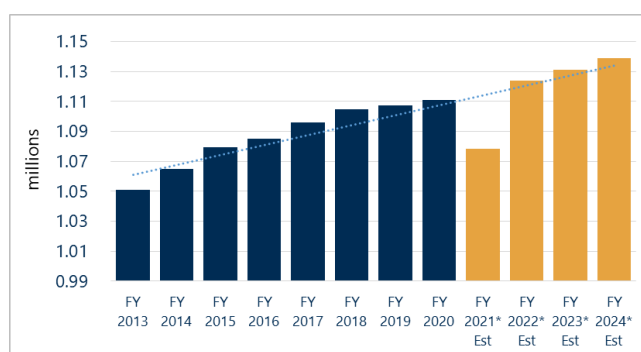
Over the summer, as the nation learned more about COVID-19, the Governor continued to listen to public health experts, including the Center for Disease Control and Prevention, and the Arizona Department of Health Services. These experts, in conjunction with school leaders from all across the state, informed the Governor's Open for Learning plan, which provides schools with flexibility, resources, and data to guide their decision making on how best to ensure their students receive a quality education during the current school year.

Recognizing the drastic learning loss that students have faced in the absence of in-person instruction, the Governor has been clear that schools should provide options that best serve the families who are counting on them, including in-person learning to the greatest extent possible.

The persistence of the COVID-19 pandemic resulted in delayed 2020-2021 school year start dates for many district and charter schools. Upon returning, many schools adopted entirely virtual learning models. During predominantly virtual instruction, public school attendance fell far short of expectations, resulting in learning loss for many Arizona students. The enrollment decrease in the early part of the school year has resulted in suppressed average daily membership (ADM), the primary metric for calculating state funding for district and charter schools.

Figure 10

Total Unweighted Average Daily Membership



Enrollment has recovered to some extent. However, lower-than-expected attendance in the beginning of the school year, coupled with statutorily required adjustments for distance learning, result in a projected formula funding decrease of \$389 million. The Executive Budget anticipates that a return to trend for unweighted ADM will accompany the full return to in-classroom instruction beginning in FY 2022.

Several allocations of federal dollars have been directed to charter and district schools to support K-12 education amid pandemic response.

The first federal stimulus bill provided \$277 million of funding to directly support Arizona public schools. Additionally, the Governor's Office allocated \$370 million of discretionary Coronavirus Relief Fund monies to charter and district schools, through the Enrollment Stabilization Grant (ESG) Program, based on the relative impact of COVID-19 on formula funding.

The second federal relief package provides an additional estimated \$1.2 billion to Arizona public schools, bringing total federal funding allocations directed to K-12 charter and district

schools since the beginning of the pandemic to more than \$1.8 billion.

In addition to financial aid provided directly to local education agencies (LEAs), the Governor's Emergency Education Relief (GEER) Fund has been directed towards strategic investments that provide direct and indirect support to Arizona's public school system. GEER investments include:

- \$40 million to expand broadband in rural communities and bridge the digital divide;
- \$19 million in additional support for high-need schools;
- \$6 million in the Arizona Teachers Academy;
- \$1.5 million in microgrants to support innovative programs to continue educating Arizona students;
- \$1 million for vehicles for the Arizona School for the Deaf and Blind;
- \$700,000 for leadership development through the Beat The Odds Leadership Academy;
- \$500,000 to the Helios Education Foundation for the Arizona State University Virtual Teacher Institute; and
- \$500,000 to Teach for America to expand the number of college students who work with schools that serve Arizona's most vulnerable student populations.

STUDENT-FOCUSED ACCELERATION AND SUPPORT

The Executive Budget includes supplemental funding in FY 2021 for a remediation grant program that supports high-impact, results-oriented intervention and programming to mitigate the severe learning loss that has occurred since the COVID-19 pandemic began in the spring of 2020. The funding provided is intended to be equivalent to the lower-than-budgeted State funding formula costs resulting from a steep decline in enrollment.

The Executive Budget addresses the educational crisis by allocating all expenditure reductions resulting from equalization formula decreases to providing for additional instruction for the students most in need.

In the 2019-2020 school year, 595,900 Arizona students were eligible for free and reduced-price meals. The Executive Budget includes funding sufficient to provide to each district or charter school that applies to extend these remediation supports to students at least \$500 per student eligible for free or reduced-price meals. The Executive estimates this cost at approximately \$298 million.

Where students need critical support to stay on track in their educational development, the remaining \$91 million will be targeted to priority grade bands as follows:

- Current K-3 students -> 1-4 grade students, August 2021
- Current 8th grade students -> High School freshmen, August 2021

- Current 11th grade students -> High School seniors, August 2021

This approach provides an additional \$327 for over 278,000 eligible students in the priority grade bands.

Table 4

Student Count in Priority Grade Bands

| High-Need Grade Band | Estimated Free-Reduced Lunch Student Count |
|----------------------|--|
| K-3 | 181,800 |
| 8 | 50,000 |
| 11 | 46,400 |
| Total | 278,200 |

The Department of Education will calculate final allocations using the Q3 surplus estimate. The Department's calculations will use a methodology that budgets for potential discrepancies between Q3 surplus estimates and the final surplus total. Participating LEAs may use only Student-Focused Acceleration and Support dollars to supplement Title I dollars eligible for summer school.

Figure 11

New Federal and State Funding vs. Formula Loss

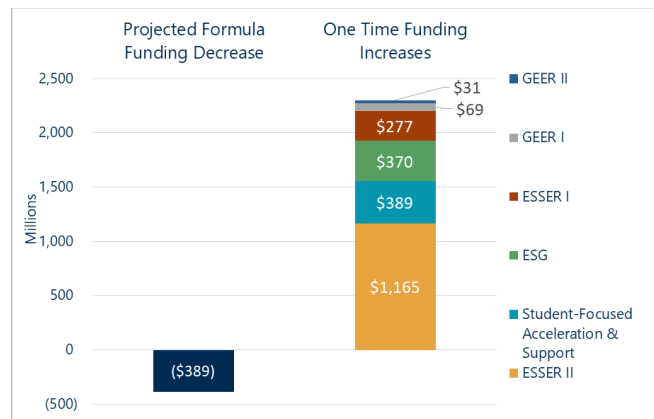
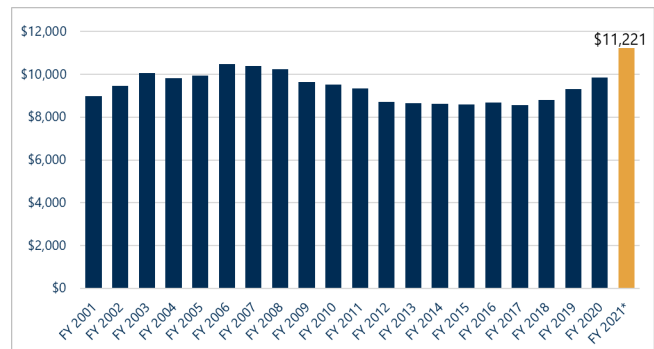


Figure 12

Fiscal Year Per-Pupil Spending

All Sources, Inflated 2012 Dollars



FULFILLING A COMMITMENT TO SCHOOLS, STUDENTS AND TEACHERS

At a time when other states are cutting education funding, Arizona sealed a commitment in the FY 2021 budget to fund the final payment of 20x2020, resulting in permanent funding for a 20% increase for average teacher pay, and continued acceleration of District Additional Assistance (DAA) and Charter Additional Assistance (CAA).

DAA and CAA are formula dollars that had been partially suspended since the Great Recession. These dollars are used for capital and operational costs.

The FY 2019 budget charted a five-year plan to restore \$371 million in cuts to DAA and CAA. The FY 2020 accelerated the restoration a year ahead of schedule, and the FY 2021 budget maintained that expedited schedule. The Executive Budget keeps the State on track to fully reverse long-standing suspensions of these two portions of the State Aid formula.

Table 5

District Additional Assistance

Millions of Dollars

| | Laws 2018, Chapter 285 | | Laws 2020, Chapter 49 | | Acceleration Needed |
|------|------------------------|-------------|-----------------------|-------------|---------------------|
| FY | Suspension | Restoration | Suspension | Restoration | |
| 2018 | 352.4 | 0 | 352.4 | 0 | |
| 2019 | 257.5 | 95.0 | 257.5 | 95.0 | |
| 2020 | 193.1 | 159.3 | 64.4 | 223.7 | |
| 2021 | 128.7 | 223.7 | 0 | 288.1 | 64.4 |
| 2022 | 64.4 | 288.1 | 0 | 352.4 | 64.4 |
| 2023 | 0 | 352.4 | 0 | 352.4 | |

Table 6

Charter Additional Assistance

Millions of Dollars

| | Laws 2018, Chapter 285 | | Laws 2020, Chapter 49 | | Acceleration Needed |
|------|------------------------|-------------|-----------------------|-------------|---------------------|
| FY | Suspension | Restoration | Suspension | Restoration | |
| 2018 | 18.7 | 0 | 18.7 | 0 | |
| 2019 | 13.6 | 5.0 | 13.6 | 3.4 | |
| 2020 | 10.2 | 8.4 | 6.8 | 11.8 | |
| 2021 | 6.8 | 11.8 | 0 | 15.2 | 3.4 |
| 2022 | 3.4 | 15.2 | 0 | 18.7 | 3.4 |
| 2023 | 0 | 18.7 | 0 | 18.7 | |

EXPANDING ACCESS TO CHOICE IN ARIZONA SCHOOLS

The Executive Budget promotes school choice by investing in the removal of barriers that families face when choosing the best school for their children.

Prominent among those barriers are transportation and transparent information about how and when parents can access additional options for their children. The Executive Budget

addresses both barriers with funding to provide transportation and school choice awareness.

Driving Equity. When choosing the best school for their family, most parents do not consider academics alone; they must also consider the logistics of getting their child to and from the school they choose.

Transportation issues often limit parents' available choices, as do varied enrollment deadlines and policies, which can often mean losing out on enrollment at their school of choice. Simply put: a choice is not a choice without a way to get there.

"Driving Equity," the Executive's transportation and school choice solution package, removes barriers to transportation and enrollment.

The Executive Budget provides \$9.5 million for transportation solution grants to support transportation innovations and efficiencies that expand access to school choice. The Executive contemplates that this program would incentivize innovative ideas to increase access to schools of choice.

Applicants would be encouraged to think creatively about how to remove the barrier of transportation, and there is no one-size-fits-all approach that would be followed. For example, these grants could be awarded for transportation co-ops organized by high-achieving schools in a shared geographic area. Or, they could be used to cover the cost of providing students with public transportation, or a private sector option. Hiring parents or grandparents within the school community to run carpools could also be an option.

Ultimately, the Executive seeks to create an opportunity for innovative ideas to flourish so that every family who wants to exercise their option to choose the school that best fits their student has the means to do so.

It is with that focus on driving equity that the grants will be awarded, and data from this pilot will be thoroughly collected to ensure that the State learns which methods are most effective and efficient in achieving the important standard of access for all.

"OPEN FOR ALL" ENROLLMENT

The Executive seeks to build upon the robust school choice environment that Arizona has developed over the last three decades by building-in supports that vastly expand opportunities for children and families.

The next step in creating an "Open for All" state is formally establishing an "Open Enrollment Month," which will provide uniform deadlines and policies to help level the playing field for families in accessing their school of choice. The Executive Budget provides \$500,000 for an Open Enrollment Month marketing campaign to inform parents about open-enrollment options.

In pursuit of greater access to the school choice options available, Open Enrollment Month will remove unreasonably short 24- and 48-hour enrollment windows or in-person requirements, and ensure that enrollment materials are accessible in both English and Spanish. Additionally, when a parent enrolls their child in

kindergarten, schools must offer students a choice and remove “default” school assignments.

INVESTING IN INNOVATION

Arizona’s education stakeholders are engaging in innovative ways to improve teaching and learning at all grade levels. The FY 2022 Executive Budget provides funding to scale these innovative approaches to benefit more students and communities across the state.

Expansion and Innovation Fund Grants. The Executive Budget includes funding to grow the Expansion and Innovation Fund, which awards grants to K-12 schools that:

- offer new ideas that require seed funding, or
- have demonstrated proven innovation and reimaged how best to serve their students.

During the 2020-2021 school year, the Expansion and Innovation Fund awarded grants totaling \$1.2 million to 17 charters and seven districts that replicated, and expanded capacity for, successful models of schooling and instruction for their total of 21,000 students.

These schools span rural, urban, and suburban campuses and serve a student population that, on average, includes 78% eligibility for free and reduced-price lunch (FRL), compared to the statewide average of 55%. Local leaders for those schools are developing creative and successful community-driven solutions to address the current challenges facing Arizona’s K-12 education system and establish new approaches to teaching and learning. The Executive Budget invests additional resources in this innovation-centered approach to learning, which is exemplified by the ingenuity of these four LEAs:

Vail School District is working to redesign what “school” looks like, with a model that is flexible and adaptable, whether operating from the home or other centers around the District to utilize small learning communities based on student and family need. “Vail HomeSchool Partnership” is a stackable public education model through which families will be able to choose which components of District support they wish to access. Further, families who opt in will be eligible to receive special services and can benefit from the targeting of three subgroups of students that are at greatest risk of falling behind.

Arizona Autism has combined lessons learned since March 2020 to develop a best-in-class schooling experience uniquely designed for students on the autism spectrum and their caregivers. Creating a package of in-person, tele-lesson, digital student portfolios, and tele-therapy options for families requires cutting edge technology and finding or creating best practices to support and train the adult caregivers at home.

The *Western School of Science & Technology (WSST)* in Phoenix is another grant recipient extending its impact beyond the school’s walls by providing access to a critical utility for learning, in and surrounding their campus community and for alumni. WSST operates “Western Plug,” which offers 24/7 Wi-Fi to a

community that lacks consistent access to a strong signal. WSST also created “Warrior Lab” for students who must learn during non-traditional hours because they are caring for younger siblings who are at home due to school closures. Warrior Lab also provides WSST students with access to a quiet space to learn and tutors at the school property in the late afternoons and evenings for in-person support.

Gowan Science Academy, a Yuma school with a long track record of excellence, received a grant to create an Outdoor Learning Hub for lessons outside the traditional classroom walls. No schools in Yuma have such a space for nontraditional learning, and this outdoor dedicated classroom is an innovative concept for their area of the state and reduces barriers to time and place for learning.

The Executive Budget increases the investment in teaching and learning innovation by expanding the availability of targeted micro grants.

LEARNER-CENTERED EDUCATION

The Arizona Personalized Learning Network supports schools that are moving to learner-centered education, focusing on the successes of every child. This educational approach is designed to ensure mastery of academic content and social and emotional skills, and to foster student ownership in their own learning. This is accomplished by providing a continuum of timely professional learning and support that is designed to help teachers and school leaders make the shift to personalized learning at the classroom, building, and district/charter network levels.

The Executive Budget invests in this personalized education model by expanding the Network, which ultimately will provide multiple entry points to meet the individual needs of learning communities. This program will couple the professional learning with focused policy support to enable and sustain the organic growth of learner-centered practices.

STRENGTHENING ARIZONA’S CIVIC MUSCLE

Civics Corps. The Executive Budget includes funding to establish the Arizona Civics Corps Pilot Program.

The program will fund an initial cohort of high school juniors and seniors who complete a required number of service hours through a list of State Board of Education-approved private and nonprofit partners.

Qualifying students will be eligible to earn a scholarship, of up to \$1,000 each semester, toward the in-state postsecondary institution of their choice. The included funding establishes the pilot program with capacity for over 450 qualifying high school juniors and seniors.

Civics Innovation Fund. The Executive Budget provides funding to establish the Civics Innovation Fund Grant Program, which will make grants available to applying schools that propose engaging ideas to inspire and educate their students on what it

means to be an American, and the unique rights and responsibilities Americans share. The program will give priority to applications from schools that are in underserved communities and exceed basic social studies academic standards.

HIGH ACHIEVEMENT FOR EVERY ARIZONA STUDENT

Dyslexia Screening. Laws 2019, Chapter 198 requires dyslexia screening for K-3 students in Arizona and requires all schools that serve K-3 students to have at least one educator on site who has completed Department of Education-approved dyslexia training. The legislation also requires the Department to designate a Dyslexia Specialist to provide public schools with support and resources necessary to assist students with dyslexia.

The Executive Budget provides \$1.3 million of dedicated funding for the Department to hire a Dyslexia Specialist, Early Literacy Specialist, and “Move On When Reading” Specialist, as well as funding for literacy education training that will enable the Department to meet the requirements outlined in statute and more effectively identify and instruct students with dyslexia and other early literacy learning difficulties.

“Swarm” Literacy Coaching. The Executive Budget includes a \$3.1 million funding increase to help close Arizona’s achievement gap among key student subgroups. The additional funding will be used to deploy 75 regional literacy coaches to the lowest-performing PreK-3 schools in order to provide intensive technical assistance to support, improve, and sustain effective teaching and literacy practices.

Substantial research points to the importance of developing strong early literacy skills. More than one in three American children start kindergarten without the skills they need to learn to read, according to the American Academy of Pediatrics (AAP). In fact, reading proficiency by the third grade is the most important predictor of high school graduation and career success.

This issue strikes at the very core of the achievement gap. The AAP also reports that approximately two in three children each year in the United States, and 80% of those living below the poverty threshold, fail to develop reading proficiency by the end of the third grade.

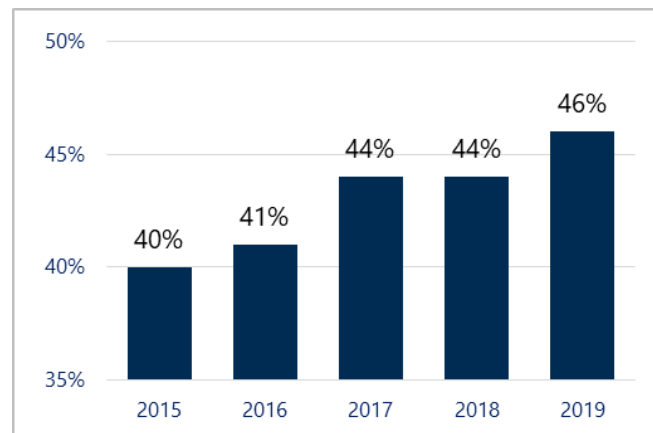
Based on this data, ensuring that all Arizona kids receive high-quality, high-efficacy literacy instruction is among the most critical elements – if not *the* most critical element – of their education.

This initiative is modeled after the incredible success that other states, particularly Mississippi, have realized thanks to a similar approach. Mississippi was number one in the country for gains in fourth-grade reading, per the most recent National Assessment of Education Progress data. The Mississippi Department of Education provided state literacy coaches to target schools for an average of two to three days per week.

As demonstrated on the third-grade Mississippi Academic Assessment Program English Language Arts Assessment, since

Figure 13

Third Grade Reading Proficiency



2016 Mississippi schools have attained major improvements in overall student reading achievement, with::

- nearly a 12-percentage-point increase in students scoring Level 3 (passing) and above;
- a 16-percentage-point increase in students scoring Level 4 and 5 (proficient and above); and
- nearly a 3-percentage-point decrease in students scoring at the lowest achievement level (Level 1).

Literacy must remain a major focus in Arizona’s pre-K through 3rd grade students to help them build the foundational reading skills needed to be successful throughout school.

Standard Kindergarten Entry Evaluation. The Executive Budget includes \$1.5 million to monitor progress of the early literacy improvement initiative with a standardized state kindergarten entry evaluation. The evaluation is to be administered to children during the first few months of their admission into kindergarten, to assess and demonstrate school readiness for young learners receiving early literacy support.

Foundations of Reading Evaluation. The Executive Budget recommends requiring newly certified elementary education teachers to pass the Foundations of Reading evaluation, ensuring that all new elementary educators are equipped to implement effective literacy education strategies. The Executive Budget includes \$1 million to fully fund the anticipated cost associated with the assessment requirement.

College Placement Exam Fee Waiver. The Executive Budget includes increased funding to waive test fees for low-income students who take examinations that qualify for college credit.

In FY 2022, Arizona students qualifying for free and reduced-price lunch are expected to take 19,044 college placement exams and, after receiving other rebates and State support, paid out-of-pocket an average of \$54 per test.

The Executive Budget provides funding to eliminate this financial hurdle and enable qualifying students to take college placement exams free of charge.

College Credit by Examination Incentive Program. The Executive Budget includes an increase in funding for the College Credit by Examination Incentive Program (CCEIP).

Established in FY 2018, CCEIP has awarded \$4.2 million for 13,388 passing exams. In FY 2020, the number of passing exams increased to 23,432. That increase generated demand for \$7.5 million in incentive payments, or \$2.5 million in excess of the \$5 million appropriation. Awards were prorated to account for excess demand in FY 2020.

The Executive Budget provides funding to meet the excess program demand.

INVESTING IN PROGRAMS WITH A PROVEN TRACK RECORD

During this time of greater-than-normal budget uncertainty, it is especially prudent to invest State funds in programs that have a proven track record of success. Consistent with that view, the Executive Budget provides an increase in funding for programs that have demonstrated successful outcomes for Arizona students.

Jobs for Arizona Graduates. The Executive Budget includes a funding increase to expand Jobs for Arizona's Graduates (JAG).

JAG is a non-profit organization that partners with school districts, the business community, the public sector, and other non-profits to support its mission to help young people stay in school and acquire the academic, personal, leadership, and vocational skills they need in order to succeed after graduation. JAG currently serves more than 1,300 young people in 29 programs in Arizona schools and communities. JAG participants saw increases in GPA for 75% and improved attendance for 79% of participants.

The Executive Budget increases the State's contribution from \$100,000 to \$500,000. The Executive estimates that this \$400,000 increase will fund an additional 500 students and create new JAG programs across the State.

Developing New Teachers. Established in FY 2007 and authorized by A.R.S. § 15-552, the Alternative Teacher Development Program accelerates the process of identifying, training, and placing highly qualified individuals into low-income schools.

The Executive Budget doubles the State's investment in this program.

Historically, the State Board of Education has awarded program funding to the Teach for America - Phoenix (TFA) program, which has demonstrated success in improving student achievement. TFA reports that 71% of its first- and second-year teachers improved student academic growth by one to one-and-a-half grade levels.

To receive the funding, TFA matched the State grant allocation with an equal or greater amount of private-sector funding. The Executive intends that TFA will match the additional investment.

TFA attracts diverse teachers that more accurately reflect Arizona's student population, and it keeps teachers in the classroom longer. Over 92% of TFA teachers are retained after two years of teaching, compared to 78% of all new Arizona teachers. TFA has 136 corps members in 59 Arizona district and charter schools that serve 10,200 students. The average percentage of students eligible for free and reduced-price lunch (FRL) in TFA schools is 82% (compared to the state average of 55%). In addition, TFA is meeting head-on the need to address learning losses resulting from the ongoing public health crisis.

In fall 2020, the Executive provided TFA with \$500,000 from the Governor's Emergency Education Relief (GEER) Fund to launch the IGNITE Tutoring Fellowship. IGNITE focuses on third-grade reading and eighth-grade math. Its cohort of 39 tutoring fellows has provided daily tutoring support for over 200 low-income students in Title I schools, and has delivered much-needed reinforcement to Arizona's teachers. This program will continue to grow by welcoming its second cohort in spring 2021.

Adult Education

Arizona's adult education program offers access to quality educational opportunities that support job training, employment, and aspiration for higher education.

Since FY 2015, the average increase in the federal allocation for adult education has been 4.5%, yet the General Fund appropriation for adult education has remained flat. Historically, the State appropriation was sufficient to meet the federal match requirement; however, the shortfall is projected to increase in FY 2022.

The Executive Budget includes an increase of \$364,100 to enable the Arizona Department of Education to continue to meet State match requirements for federal dollars that support adult education. The Executive Budget also includes funding to meet non-federal match requirements and avoid a shortfall that may have resulted in a reduction of federal funding.

Building Renewal and New School Construction

BUILDING RENEWAL GRANTS

The Executive Budget includes an increase of \$102.5 million for one-time building renewal funding. When combined with the ongoing budget of \$16.7 million, the FY 2022 increased funding will make available to the School Facilities Board a total of \$119 million for building renewal grants, a 11.2% increase over the \$107.5 million appropriated in FY 2021.

Building renewal grant application data from the past five years was used to project application growth for FY 2022.

The Executive Budget includes supplemental funding of \$38.7 million for the Building Renewal Grant fund. Demand for renewal projects has exceeded previous expectations, with projected construction costs associated with projects in design exceeding

the current funding and potentially depleting all funds as early as March 2021.

NEW SCHOOL CONSTRUCTION

The Executive Budget includes funding of \$52.6 million in new school construction.

Laws 2019, Chapter 265 requires new school capital funding if projections indicate that a school or additional space will be needed within two years.

The Executive projects that five new schools will reach capacity in FY 2023 and has included funding that reflects the 2.76% inflation adjustment adopted by the Joint Legislative Budget Committee at its December 2020 meeting. Additionally, the Executive Budget includes the second installment of funding for two schools that were funded beginning in FY 2021.

Table 7

New School Construction – FY 2022 Approvals

| School District | Fiscal Year at Capacity | FY 2022 Funding Using Inflation of 2.76% |
|----------------------|-------------------------|--|
| Queen Creek Unified | 2023 | \$ 12,425,108 |
| Liberty Elementary | 2023 | 6,599,208 |
| Sahuarita Unified | 2023 | 5,715,808 |
| Vail Unified | 2023 | 5,502,819 |
| Tanque Verde Unified | 2023 | 1,428,894 |
| Site Conditions | 2023 | 9,460,000 |
| Total | | \$ 41,131,837 |

Table 8

New Schools Under Construction

| School District | Fiscal Year at Capacity | FY 2022 Funding Using Inflation of 2.76% |
|----------------------|-------------------------|--|
| Chandler | 2022 | \$ 8,789,500 |
| Tanque Verde Unified | 2022 | 2,941,400 |
| Total | | \$ 11,730,900 |

Higher Education

The Executive Budget makes permanent investments in the State's public universities to expand their capacity for graduating students prepared for the New Economy.

Workforce Development for the New Economy. The FY 2021 Executive Budget sought to make an ongoing \$35 million General Fund investment to advance the university system's ability to operate. This investment will:

- Boost post-secondary attainment;
- Increase the number of graduates in critical high-demand industries such as coding, artificial intelligence, and entrepreneurship; and
- Reduce the time required to obtain a degree by modernizing curriculums and programs.

The FY 2022 Executive Budget honors that commitment with an ongoing \$35 million General Fund increase for FY 2022 and beyond.

Coronavirus-Related Funding. In recognition of the important role that Arizona's three public universities have played in the state's ongoing efforts to contain COVID-19, the Executive Budget provides \$115 million:

- \$46 million for Arizona State University,
- \$46 million for the University of Arizona, and
- \$23 million for Northern Arizona University.

This funding, which comes from the federal Coronavirus Relief Fund, will help cover some of the universities' costs that were directly COVID-related, including testing and mitigation efforts, increased distance learning, student outreach, furlough prevention, and more.

Teachers Academy Update. The Arizona Teachers Academy continues to see sustainable growth in the participation of prospective Arizona teachers. FY 2021 participation increased by over 61% from the prior year, with 3,173 students participating in the fall 2020 semester. Fall 2020 also saw the largest year-over-year participation increase of Teachers Academy inductions to date, with 745 new participants committed to educating Arizona students.

Table 9

Total Enrollment in Teachers Academies

| | | 2017- 2018 | 2018- 2019 | 2019- 2020 | Fall 2020 |
|------------------------------|------------|---------------|---------------|---------------|--------------|
| ASU | Sophomore | 2 | 3 | 15 | 12 |
| | Junior | 24 | 87 | 376 | 321 |
| | Senior | 71 | 109 | 436 | 616 |
| | Graduate | 66 | 90 | 149 | 191 |
| | Induction | | | | 408 |
| | Non-Degree | 2 | 1 | 9 | |
| NAU | Freshman | 4 | 10 | 128 | 139 |
| | Sophomore | 11 | 31 | 151 | 138 |
| | Junior | 40 | 68 | 222 | 186 |
| | Senior | 4 | 52 | 311 | 238 |
| | Graduate | | | 88 | 111 |
| UA | Freshman | | | | 1 |
| | Sophomore | | | 9 | 5 |
| | Junior | | | 38 | 41 |
| | Senior | | | 52 | 80 |
| | Graduate | 15 | 28 | 55 | 93 |
| | Induction | | | | 93 |
| Maricopa Comm. Colleges | Non-Degree | | | 200 | 241 |
| | | | | | |
| Pima Community Colleges | Non-Degree | | | 127 | 95 |
| National Board Certification | | | | 340 | 164 |
| Totals | | 239 | 479 | 2,707 | 3,173 |

Community Colleges

IMPACT OF PROPOSITION 207 ON THE COMMUNITY COLLEGE SYSTEM

Proposition 207 legalizes the sale of recreational marijuana for adults 21 and older and imposes a 16% excise tax on recreational marijuana and marijuana products.

Community Colleges will receive 33% of all monies that are included in the 16% excise tax, with funding intended for investment in workforce development programs, job training, career and technical education, and Science, Technology, Engineering, and Math (STEM) programs.

The by-district distribution is detailed in Table 10, which illustrates the projected breakdown of Prop. 207 funding based on projections from the Department of Revenue.

Table 10

Community College Proposition 207 Distribution

| District | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|--------------|---------------------|----------------------|----------------------|----------------------|
| Cochise | \$90,765 | \$1,104,658 | \$1,861,466 | \$2,788,701 |
| Coconino | \$44,476 | \$541,296 | \$912,142 | \$1,366,499 |
| Gila | \$11,420 | \$138,992 | \$246,393 | \$350,885 |
| Graham | \$49,993 | \$608,438 | \$1,025,283 | \$1,535,997 |
| Maricopa | \$812,780 | \$9,891,926 | \$16,668,953 | \$24,972,104 |
| Mohave | \$50,251 | \$611,574 | \$1,030,568 | \$1,543,915 |
| Navajo | \$41,794 | \$508,652 | \$857,133 | \$1,284,089 |
| Pima | \$184,995 | \$2,251,480 | \$3,793,985 | \$5,683,847 |
| Pinal | \$62,690 | \$762,963 | \$1,285,674 | \$1,926,095 |
| Santa Cruz | \$5,412 | \$65,864 | \$123,163 | \$166,272 |
| Yavapai | \$63,720 | \$775,508 | \$1,306,813 | \$1,957,764 |
| Yuma/La Paz | \$81,114 | \$987,196 | \$1,663,530 | \$2,492,169 |
| Total | \$ 1,499,410 | \$ 18,248,547 | \$ 30,775,104 | \$ 46,068,339 |

Health and Welfare

State Government's fundamental purposes include providing critical services and support for the health and wellness of all Arizonans.

"Since the start of the pandemic, we have worked closely with community partners, health care leaders and medical professionals to take every step necessary to protect Arizonans, especially vulnerable individuals. With the arrival of COVID-19 vaccine doses, there is light at the end of the tunnel. But we need to remain vigilant and continue to follow health precautions to protect one another and limit the spread of COVID-19."

Gov. Doug Ducey

The State of Arizona is transforming the way business is done in state government — emphasizing customer service and putting real people first in the areas of public health, child safety and foster care, veterans' care, and assistance for low-income individuals and families.

The FY 2022 Executive Budget addresses issues related to long-term care, specific public health initiatives, expanded housing and other services for veterans, access to child care, substance use disorder treatment, and responding to caseload growth for vulnerable adults and the developmentally disabled.

Health Services

LONG-TERM CARE

Long-term care facility surveyors are responsible for reviewing complaints about rule violations and the quality of care at 159 long-term care facilities in Arizona. The Facility Surveyor Division currently employs 23 long-term care surveyors who investigate approximately 2,480 cases per year.

A 2019 study by the Auditor General found that due to the high caseload assigned to each surveyor, only 54% of cases open at the beginning of the study had been resolved during the nine-month study period.

The FY 2022 Executive Budget includes an increase in funding for the payroll and operating costs of five team leads and 27 long-term care facility surveyors at the Department of Health Services (DHS) Facility Surveyor Division.

By expanding the number of surveyors, the Executive Budget will reduce the expected annual caseload from 108 per surveyor to 45, which will in turn enhance the Division's ability to respond to complaints in an efficient and timely manner and protect the safety and welfare of a vulnerable segment of Arizona's population.

PROPOSITION 207 PUBLIC HEALTH INITIATIVES

Voter approval of Proposition 207 in November 2020 created two new ADHS funds – the Smart and Safe Arizona Fund and the Justice Reinvestment Fund – to support statewide public health initiatives. The Executive Budget provides the following uses of the new ADHS funds:

1. Address the Structural Deficit in the Emergency Medical Services Operating Fund. The Emergency Medical Services (EMS) Operating Fund has historically operated at a structural deficit, due in part to the Fund's support of two programs:

- the High-Risk Perinatal Program, which provides home visits and transportation to families with newborns determined to be high-risk after birth; and
- the State Loan Repayment Program, which provides student loan repayment for medical professionals who work in rural and medically underserved parts of the State.

The Executive Budget shifts ADHS support of local emergency services councils from the EMS Operating Fund to the Smart and Safe Arizona Fund in FY 2022, and permanently shifts this special line item to the Justice Reinvestment Fund in FY 2023. Permanently shifting these programs from the EMS Operating Fund will eliminate the Fund's structural deficit and enhance ADHS's capacity to provide statewide emergency services.

2. Implement a Suicide Mortality Review Team. Laws 2020, Chapter 4, require ADHS to implement a Suicide Mortality Review Team to collect and analyze data on each suicide that occurs in Arizona; identify suicide and self-harm hot spots and trends; and inform policy decisions intended to improve mental health outcomes. The Executive Budget supports the Team from the Smart and Safe Arizona Fund in FY 2022 and FY 2023, shifting permanently to the Justice Reinvestment Fund in FY 2024.

3. Expand the Child Fatality Review Team. The Child Fatality Review Team collects and analyzes data on each child fatality that occurs in Arizona, to better inform policy decisions made to improve child mortality statewide. Additional funding will help the Team address increased reporting requirements that have resulted from changes in federal guidance, increased complexities in child fatality cases, and new COVID-19 investigative processes.

The Executive Budget adds 2.0 FTE to engage stakeholders, develop statewide reports, and present recommendations to the

Legislature. The additional funding will also support local review teams.

4. Expand the High-Risk Perinatal Program. The High-Risk Perinatal Program (HRPP) provides home visitation services to families of newborns who have spent time in the Newborn Intensive Care Unit or are at higher risk of developmental complications.

The U.S. Department of Health and Human Services recommends that newborns enrolled in the HRPP receive at least four home visits in their first year, to monitor their health and identify signs that may indicate the need for early intervention services. HRPP is not meeting the four-visit benchmark; in FY 2020, enrolled families received an average of two home visits in the first year.

The Executive Budget calls for the HRPP to be supported by the Justice Reinvestment Fund beginning in FY 2022, covering the cost of 1,000 additional visits each year, or one additional visit per year for one-third of enrolled families.

PUBLIC HEALTH EMERGENCY FUND

Since the start of the COVID-19 pandemic, DHS has received \$587 million in response to the emergency. Resources used in the response include the Public Health Emergency Fund, federal CARES Act funding, transfers of Coronavirus Relief Funds to the Department from the Governor's Office, and Express Pay monies used to expedite reimbursement on funds that are eligible for reimbursement through the FEMA Public Assistance Program.

In March 2020, the State Legislature authorized an emergency appropriation of \$55.5 million to the DHS Public Health Emergency Fund to support the Department's response to COVID-19. To date, it has spent \$36.2 million from the Public Health Emergency Fund on the following:

- \$18.1 million for testing and tracing efforts;
- \$10.7 million for additional medical support to hospitals and warm sites;
- \$7.2 million for PPE and equipment costs; and
- \$246,500 for support services.

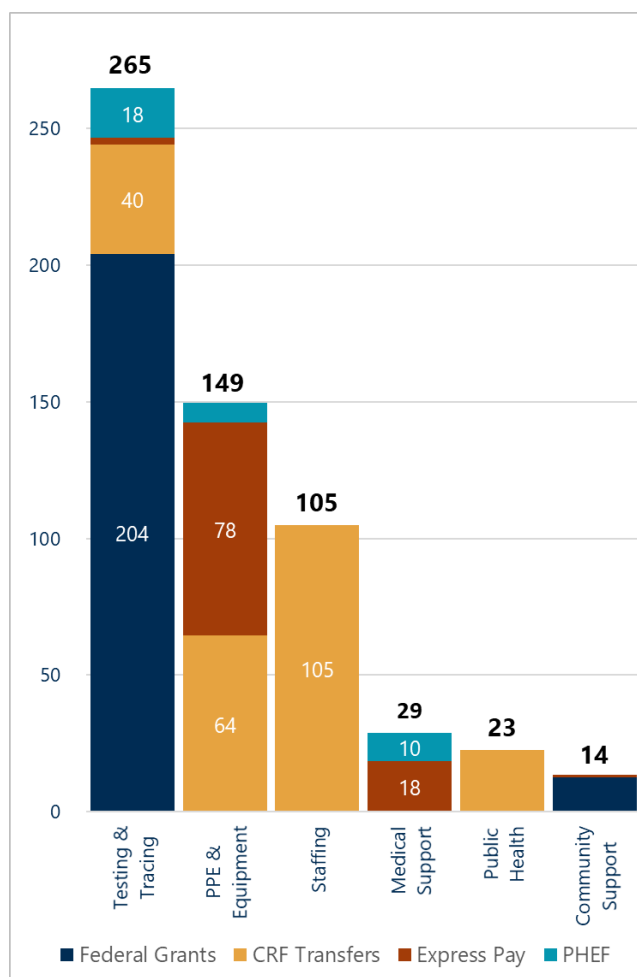
The table below breaks out expenditures, by source, since the emergency was declared in March. Expenditures total \$587 million and include:

- \$252.2 million for testing and contact tracing. This includes any activity related to expanding capacity to perform tests, studying the epidemiology of the virus, controlling the spread, providing contact tracing services to inform individuals if they may have been exposed, and vaccination management.
- \$149.2 million for personal protective equipment (PPE), including the provision of masks, face shields, and ventilators.

- \$105 million for staffing support for public health and safety employees. This consists of payroll offsets at DHS and at hospitals statewide to bolster spending capacity.
- \$36 million for public health expenses. This additional fiscal support went to various programs statewide whose scope of work was affected by COVID-19, including immunization and vaccination management programs for children, recreation for children, education, violence prevention services, and support to individuals with HIV/AIDS.
- \$29.2 million for medical expenses, including warm beds and post-acute beds, and funding to hire additional nursing and medical staff, establish alternate care sites, and provide palliative care to patients.
- \$2.8 million for administrative expenses, including warehousing costs associated with storing PPE and other equipment and IT, legal, and other administrative expenses.

Figure 14

Sources of Funding



VETERANS' HOMES

The Executive Budget includes several initiatives that support expansion and enhancement of services for the State's veterans' homes, which provide nursing and rehabilitative care for geriatric and chronically ill veterans and their dependent or surviving spouses.

The Department of Veterans' Services operates two homes in Tucson and Phoenix, and two homes are under construction in Flagstaff and Yuma. Construction of the Flagstaff and Yuma homes began in June 2019 and is currently ahead of schedule for completion by June 2021.

The Executive Budget includes an increase for the operating costs of the two new homes, which will help the homes complete the U.S. Department of Veterans Affairs' six-month process to certification. The Executive Budget also includes funding that will allow the current homes to serve more veterans and to offer rehabilitative services, such as physical, speech, and occupational therapy, to more veterans.

Assistance to Children, Families, and At-Risk Adults

The Department of Economic Security (DES) and other State agencies provide temporary assistance to persons in need, protect Arizona's most vulnerable citizens, and help low-income working families and persons with disabilities achieve independence. The Executive Budget supports that mission.

INCREASING ACCESS TO CHILD CARE

The Child Care and Development Fund (CCDF) provides subsidies that help low-income working families and foster parents afford child care. The child care subsidy program administered by the Department of Economic Security (DES) is available to:

- low-income parents who are working;
- teen parents in high school or general education development (GED) classes; and
- residents of homeless or domestic violence shelters.

Both the March 2020 federal CARES Act and the December 2020 Consolidated Appropriations Act appropriated additional supplemental CCDF discretionary funding to help states prevent, prepare for, and respond to COVID-19, and expand flexibility in providing child care assistance to families and children.

Because of these federal appropriations, the Executive Budget includes \$92.7 million in supplemental funding for FY 2021 due to COVID-19 relief programs for child care providers. At the time of this writing the Executive is developing additional proposals for the new CCDF funds that were included as part of the latest federal COVID-19 relief bill.

The Executive Budget places a premium on access to this critical workforce program by sustaining the elimination of the wait-list, so that every eligible working parent can access the child care subsidy program for their children, resulting in an additional 3,000 children per month in quality child care in FY 2022.

Another improvement to this program is increasing the number of paid absences for which the State reimburses child care providers. That increase is consistent with CCDF federal guidelines; ensures that more providers will enroll more families that receive CCDF support; and helps children who are sick to stay at home without families risking disenrollment from the program.

Targeted Child Care Pilot Program. Many parents who are seeking to increase skills to move toward greater self-sufficiency and higher-income jobs are unable to pursue advanced education and training due to a lack of safe, affordable, quality child care.

By working with public universities and community colleges, grants up to 165% of the federal poverty level will be awarded for child care to students of nursing or early childhood education. This will empower parents to work toward greater self-sufficiency while also meeting needs in Arizona for jobs in Arizona.

The pilot program will last for 12 months and be evaluated at the conclusion.

APS CASELOAD GROWTH

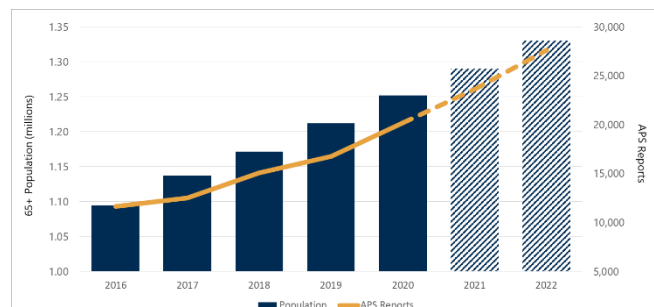
DES reports a 20% increase in Adult Protective Services (APS) cases in 2020 and projects the growth to continue at 17% for 2021 (3,500 cases) and 2022 (4,000 cases). COVID-19 cases and other baseline growth have contributed to the increase in the number of vulnerable adults, and the agency is falling short of the national standard for caseload management.

The National Adult Protective Services Association (NASPSA) recommends that, to achieve "adequate attention" to each case, state agencies should maintain an average caseload of 25 cases per caseworker. Arizona's average caseload is 33.

The Executive Budget includes \$2.9 million to add 36 investigators and 10 support staff (five managers and five case aides) at Adult Protective Services (APS). The additional staff, combined with planned improvements in investigative efficiency, will help meet the growing caseload and bring APS's average caseload in

Figure 15

Population Growth and APS Reports



line with the NASPA benchmark. Moreover, the staffing enhancement will help expedite the processing time for APS cases, so that seniors and vulnerable adults receive needed help sooner.

In addition to this funding, the Executive Budget includes an increase of \$1.5 million to raise rates for Aging and Adult Services providers, to reduce high turnover rates and enhance access by vulnerable and homebound adults to consistent quality care.

COVID-19 ASSISTANCE

During FY 2020 and FY 2021, the Executive made funding available to a range of providers, with the objective of stabilizing the social safety net during the pandemic. This funding supported providers as they (a) changed the way they cared for their clients to protect them from contracting COVID-19 or (b) saw a decrease in utilization due to individual isolation.

Funding included:

- \$35.4 million General Fund (\$139.5 million Total Funds) for DES to provide a temporary rate increase, incentive payments, and COVID-positive rates to 527 providers in the Division of Developmental Disabilities (DDD).
- \$130 million from the Child Care Development Fund for DES to provide enrichment center stabilization for essential care workers, to give grants and additional support to providers who are open during the pandemic, and to suspend the child care waitlist.
- \$5.7 million General Fund (\$37.1 million Total Funds) for the Arizona Health Care Cost Containment System (AHCCCS) to provide a temporary rate increase for nursing facilities, alternative living facilities, and Home and Community Based Services providers for the elderly and physically disabled.
- \$44.5 million General Fund (\$187 million Total Funds) for DDD, as providers and members have been affected by COVID-19. Assistance was provided through incentive payments, general rate increases, and COVID-19 rate increases. This assistance gave providers stability as they changed the way they cared for DD members.

THE JOHNSON CASE

In June 2020, the Arizona Court of Appeals ordered DES to comply with its ruling in *Johnson v. Arizona Department of Economic Security*. The agency was required to adjust its rules to require that:

- a disability be manifested rather than diagnosed before a claimant turns 18; and
- a claimant prove only a cognitive disability, regardless of the origin of impairment.

The Executive Budget includes funding in anticipation of adjustments to affected populations served by DES, including an increase of 1,000 members to the Arizona Long Term Care System (ALTCs) FY 2022. Any impacts in FY 2021 are covered by

the enhanced Federal Medical Assistance Percentages (FMAP) rates.

CAPITATION RATE ADJUSTMENTS

The Executive Budget reflects capitation rate adjustments in FY 2021. Rates for ALTCs capitation payments increased by 11.25% compared to FY 2020 rates.

The large increase is attributed to increased utilization and the additional costs that providers have incurred to safely respond to COVID-19. Future growth is expected to normalize and increase based mainly on growth in population.

FEDERAL ASSISTANCE FOR MEDICAID PROGRAMS

Public Health Emergency Declaration. The Families First Coronavirus Response Act (FFCRA) provided states with a temporary 6.2% increase in the regular FMAP in effect from January 1, 2020, through the last day of the calendar quarter in which the public health emergency terminates.

On October 2, 2020, the U.S. Department of Health and Human Services renewed its public health emergency declaration, effective October 23, 2020, extending the emergency through January 20, 2021. Therefore, the enhanced FMAP will exist until at least March 31, 2021.

Due to the FFCRA's maintenance of effort (MOE) requirements, AHCCCS must maintain coverage for all members during the current public health emergency, regardless of any regular eligibility status loss. Becoming ineligible because of a rise in income, for example, would not remove a member from a Medicaid-supported program until the end of the emergency.

The MOE requirement has caused significant growth in the AHCCCS caseload since April 2020. In preparing the FY 2022 Executive Budget, the Executive had estimated that, after the MOE requirement expires, AHCCCS would need at least six months, from February 2021 to July 2021, to gradually remove the MOE populations who become ineligible under the standard eligibility requirement.

The Executive is revisiting these assumptions as a result of the extension of the federal public health emergency declaration.

AHCCCS FMAP Savings. Based on the current public health emergency period and the projection of caseload expenditures, the temporary FMAP increase would offset the expenditures growth caused by the MOE requirements.

After accounting for an estimated typical year General Fund reversion from AHCCCS of \$50 million and reimbursing \$23 million in provider COVID-19 vaccine administration costs in FY 2021, the Executive Budget anticipates that an additional \$141 million in FMAP savings will accrue to the General Fund. (That estimate is subject to any extensions of the public health emergency declaration.)

DES FMAP Savings. The savings projection will be reevaluated if as January 20, 2021 approaches, the U.S. Department of Health and Human Services announces another public health emergency extension, which would likely lead to substantial General Fund savings.

Caseload growth is expected to return to the regular trend line at the end of FY 2021 and continue at a stable rate in FY 2022.

Table 11

AHCCCS Caseload and FMAP Savings

Savings Are Shown in Millions

| | Caseload Growth, 10/19 to 10/20 | Est. MOE Contribution to Growth | Enhanced FMAP | Associated GF Savings by FY 2021 Pop. |
|-------------------------------|---------------------------------|---------------------------------|---------------|---------------------------------------|
| Traditional Medicaid Service | 76,133 | 86,344 | 76.21% | \$ 144.7 |
| Prop. 204 Service | 54,540 | 43,838 | 76.21% | \$2.0 |
| ALTCS | -2,141 | -3,238 | 76.21% | \$60.4 |
| ACA Adult Expansion | 39,207 | 35,247 | 90% | |
| Kids Care | 8,119 | 7,352 | 83.35% | |
| Comp. Medical and Dental Plan | 329 | | 76.21% | \$7.9 |

AHCCCS OPIOID TREATMENT

In 2018, Governor Ducey signed, with unanimous Legislative support, the Arizona Opioid Epidemic Act following a special session of the Arizona Legislature (Laws 2018, 1st Special Session, Chapter 1). The Act established the Substance Use Disorder Services (SUDS) Fund and made a one-time \$10 million General Fund deposit into the Fund.

Per Table 12, from FY 2018 through October 2020, AHCCCS used the funding to provide nearly 55,000 substance use disorder treatment services (such as copays, doctor visits, lab tests, and methadone administration) to 33,329 underinsured or uninsured individuals who are not eligible for Medicaid.

Table 12

Individuals Served by SUDS Fund

| TRBHA/RBHA | Area Served | Individuals Served |
|--------------------------|------------------|--------------------|
| Mercy Care | Central Arizona | 14,832 |
| Steward Health Choice AZ | Northern Arizona | 13,706 |
| Ariz. Complete Health | Southern Arizona | 4,372 |
| Gila River Health Care | - | 256 |
| Pascua Yaqui Tribe | - | 163 |
| Total | | 33,329 |

The FY 2022 Executive Budget includes a one-time transfer of \$6 million, from the Prescription Drug Rebate Fund to the SUDS Fund, to continue providing access to opioid treatment services for eligible Arizonans. This \$6 million will allow for continued

Figure 16

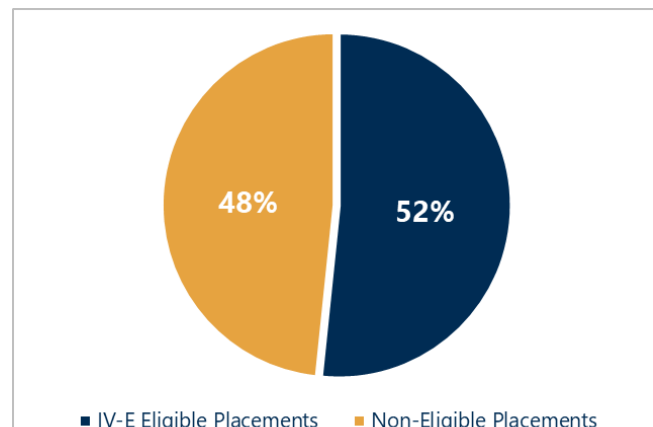
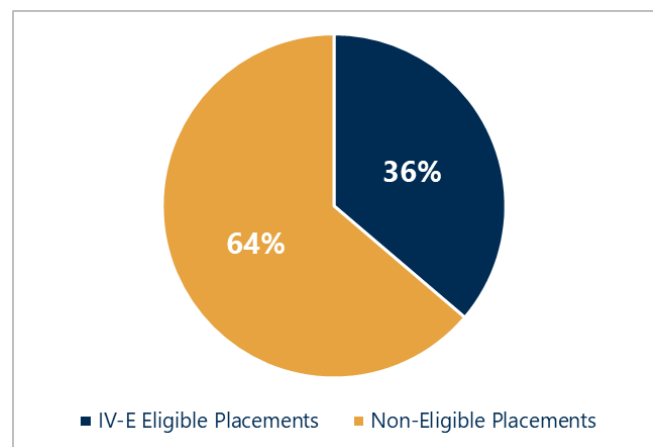
Current Title IV-E Funding for Group Home Placements

Figure 17

FFPSA Title IV-E Funding for Group Home Placements

opioid treatment services as intended in the Opioid Epidemic Act for an additional 18,000 individuals.

CHILD SAFETY AND FFPSA IMPLEMENTATION

The Department of Child Safety (DCS) continues to prepare for the October 1, 2021, implementation of the Family First Prevention Services Act (FFPSA) as required by the federal Bipartisan Budget Act of 2018.

The Department's preparation efforts include placement array development, development of Qualified Residential Treatment Programs (Q RTP), and qualifying prevention services for reasonable candidates.

In addition, DCS has been working to improve support for kinship placements, foster families, and youth transition from the extended foster care program to adulthood.

FFPSA emphasizes the importance of raising children in families and helps ensure that, when out-of-home placement is necessary, children are placed in the least restrictive, most family-like setting appropriate for their needs. The law also seeks to

improve the well-being of children already in foster care by altering Federal Title IV-E reimbursement requirements for children placed in congregate care settings.

The Executive Budget includes an increase in funding to support FFPSA implementation and to address revenue needs for congregate care placements resulting from the Federal Title IV-E reimbursement changes enacted by FFPSA.

FOSTER CARE

Pursuant to Laws 2019, Chapter 305, on April 1, 2021, DCS will implement integration of behavioral health services for foster children with the Department's Comprehensive Medical and Dental Program. The integrated program will become known as the Comprehensive Health Plan (CHP).

As part of the AHCCCS Complete Care plans, CHP will allow DCS caseworkers and other staff to have close proximity and real-time access to the child's information and provide higher quality, more timely medical, dental, and behavioral health services to foster children and families.

The Executive Budget proposes a new appropriation structure to support CHP implementation and provide further transparency and oversight of the program. Currently, DCS is required to submit all line-item transfers to the Joint Legislative Budget Committee (JLBC) for review. The Executive Budget specifically omits this requirement for the four new special line items, as health plans are dynamic in nature and require more flexibility.

Public Safety

The FY 2022 Executive Budget provides the resources necessary to deliver on the promise of secure communities and public safety throughout Arizona by addressing essential needs in law enforcement and Arizona's corrections, rehabilitation and reentry system.

"The safety and protection of all Arizona communities remains top of mind. We will continue to work with public safety leaders and support the men and women who protect others. My sincere thanks to the police officers, firefighters, EMTs, Arizona National Guard members and all heroes who work incredibly hard to ensure Arizonans keep Arizonans safe and ensure they have the resources they need."

Gov. Doug Ducey

In fulfilling the State's core function of protecting the public, the Executive Budget makes strategic law enforcement investments to modernize police communications infrastructure, resolve overtime pay issues for Department of Public Safety (DPS) State Troopers, and boost DPS recruitment efforts.

The Executive Budget also addresses critical building renewal and capital needs for Arizona's system of corrections, rehabilitation and reentry, including the deactivation of the Florence prison, modernizing correctional officers' communication and safety equipment, and continuing efforts to reduce the rate of recidivism.

Law Enforcement

MODERNIZING COMMUNICATION INFRASTRUCTURE

The Executive Budget advance-appropriates \$16.2 million in FY 2022, \$16 million in FY 2023, and \$16 million in FY 2024 from the Arizona Highway Patrol Fund to complete upgrades to the microwave radio communications system backbone. The appropriations will lapse after two years, consistent with capital appropriations.

DPS owns, operates, and maintains a statewide microwave network that provides critical radio communications for over 12,000 users, including 12 State agencies and a number of local, federal, and tribal agencies.

The State's microwave radio system is divided into three components, known as "loops": southern, western, and northern. Upgrades to the southern and western loops were completed in FY 2011 and FY 2018, respectively. The FY 2019 budget included \$1.3 million from the Public Safety Equipment Fund to help fund an estimated \$13.7 million of upgrades to the northern loop.

The existing network consists of 80 analog sites and 34 digital sites, the majority of which are in southern Arizona.

The microwave equipment used to support this network is aging and has not been supported by the private sector for approximately 20 years. As a result, DPS has found it difficult to find replacement parts for system repairs, and the risk of critical system failure has grown.

The immediate concern is the age of the existing analog microwave radio equipment. The soonest possible replacement should be attempted to avoid catastrophic failure of the analog network, which would render a large portion of the state without emergency communications for first responders to call for help or to be dispatched to help the general public.

Another significant concern is Federal Communications Commission (FCC) frequency retention and availability. The North Loop Design Project included securing microwave licenses with the FCC, but rights to the frequencies are guaranteed for only the first year. After the first approval period has ended without the frequency being reported in active use, other network owners can petition the FCC to claim the frequency.

Land availability on mountaintop sites is another time-sensitive consideration. Land use can be both physically limited and radio frequency limited. Some mountaintops may have little physical spaces that work for a line-of-site microwave link to adjacent DPS sites. If another entity were to secure permissions to use that specific land, a different tower configuration may be required, or, in extreme cases, a site may become unusable. As radio traffic increases at some sites and interference issues become more prevalent, obtaining frequency approvals for land mobile radio and system expansion will become more difficult.

This funding will pay for the remaining necessary upgrades to the radio backbone and the construction of 10 new microwave sites that will improve signal quality. The microwave backbone upgrade project is anticipated to be completed in FY 2024 at a total cost of \$49.2 million. Of that cost, \$150,000 is expected to be ongoing for additional land lease purposes and \$355,600 is expected to be ongoing for FTE positions.

FUNDING BODY CAMERAS FOR TROOPERS

The Executive Budget includes an increase in funding for the purchase of body camera equipment and for expenses associated with staffing, software licenses, and other increased costs associated with operating the program.

In order to enhance trooper safety, improve efficiency, and promote public transparency, the appropriation will fund the purchase of 2,400 body cameras for the Department's sworn

personnel and other agency personnel assigned to DPS task forces. This equates to two cameras per employee, so that one camera is always available during uploading of video to the cloud.

This issue also includes 29.0 additional FTE positions:

- 4.0 FTE supervisors to oversee training, contract, equipment, policy, procedures, video review, and other aspects of the program;
- 5.0 FTE IT engineers and support;
- 15.0 FTE video management positions; and
- 1.0 FTE project administrative assistant.

The additional FTE total also accommodates training and administration, which will produce a cost burden equivalent to 4.0 full-time FTE positions.

DPS will establish best practices and training policies for the use of body cameras in the field.

FUNDING OVERTIME AT DPS

DPS troopers are often required to extend their shifts when responding to collisions, protests, rallies, storms, and other emergencies, and when completing investigations.

To compensate troopers for overtime hours worked, current practice is for them to “adjust out” their week by taking a corresponding amount of time off or by taking off the overtime hours as compensatory time. This system often results in Friday shifts being short-staffed, creating service gaps during rush hour.

In FY 2020, DPS allocated 1.7% of its overall Personal Services budget for overtime expenses, but that budgeted amount was insufficient to cover the Department’s actual overtime expenses. Additionally, an analysis of some municipalities’ overtime budgets revealed that their overtime as a percentage of salaries and wages was at 4.9%.

As of September 29, 2020, DPS had spent its full budgeted amount in overtime for FY 2021. Due to civil unrest, employees could not adjust-out their week.

“Adjusting out” means that if a trooper has reached the number of hours they can work, they normally do not go in to work for the rest of the week. This policy reduces, but does not eliminate, the use of overtime. For example, if a trooper normally works four 10-hour days and works a 12-hour day on their third day, they will work just eight hours on their fourth day to reach 40 hours. If this same trooper works 12 hours on their fourth day, they will get two hours of overtime. DPS estimates that, for calendar year 2020, approximately 87,004 hours were adjusted out. That total equates to about 41.8 FTE positions.

The Executive Budget provides \$6.6 million to fund DPS overtime expenses, including compensatory time, eliminating the need for officers to adjust out, and improving employee morale and retention. The dedicated funding will alleviate service gaps and other issues associated with short staffing, reduce the Department’s reliance on vacancy savings in order to meet its

overtime needs, make its overtime more competitive with local entities, and cover the cost of increased overtime hours.

BOOSTING DPS RECRUITING EFFORTS

In past years, DPS has been unable to fill allocated cadet trooper slots at the State Trooper Academy (see graph below). In each of the two most recent classes, DPS could fill only 26 of 52 Cadet State Trooper slots at the Academy.

In CY 2017, DPS converted from mixed-agency classes, with Basic and Advanced sections, to the 29-week State Trooper Academy comprised of only DPS Cadet State Troopers. Before FY 2017, there was not a set number of seats that DPS had to fill.

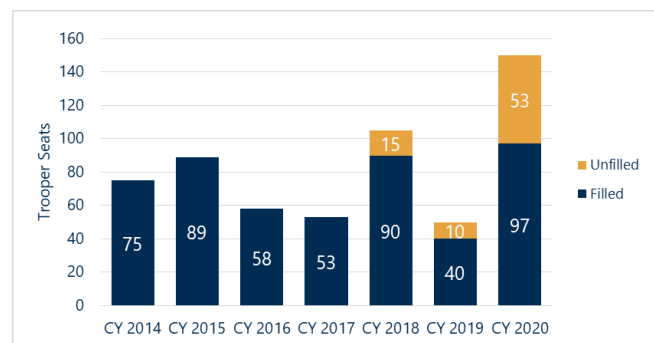
DPS currently operates with a \$50,000 annual recruitment budget, which funds registration fees, travel expenses, and overtime to attend in-state and out-of-state recruiting events. The Executive Budget adds \$426,600 to aid DPS in recruiting additional cadets for the academy.

DPS will use its enhanced recruitment budget of \$476,600 to pay for outside services for ad tracking, engagement, and purchases. DPS also plans to hire an advertising tracking and engagement consultant within 90 days after funding is authorized.

In addition, the Recruitment Unit plans to attend 10 events (such as job fairs and recruitment events). FY 2022 funding for this initiative will expand recruitment to three events per month, at least two of which will be out of state, at large military base Transition Assistance Programs offices. Funding will also provide attendance fees for at least one law enforcement job fair per month. In addition, DPS plans to recruit at historically black colleges and universities to ensure that State Troopers accurately represent the community they serve and protect.

Figure 18

Trooper Academy Attendance by Year



Corrections, Rehabilitation and Reentry

PRISON SAFETY

Sound management and stewardship of the State's adult corrections, rehabilitation and reentry system is a prudent investment in safety for Correctional Officers, inmates, and the general public. Effective prison administration also benefits inmates and the public by reducing the rate of recidivism.

The FY 2022 Executive Budget includes \$79.7 million in new funding for the Department of Corrections, Rehabilitation and Reentry (ADCRR):

- \$53.7 million in building renewal and capital management funding;
- \$17.9 million for bed management;
- \$5 million for recidivism reduction initiatives
- \$2.8 million for staff safety equipment; and
- \$250,000 for Other Projects.

BED MANAGEMENT STRATEGY

In an effort to address staffing shortages and enhance overall officer safety, the Executive has evaluated the current situation at the Florence and Eyman prison complexes and recommends the following changes:

- vacating and deactivating ASPC-Florence (with the exception of the Globe unit), which will eliminate 3,702 State-operated beds;
- moving existing staff from the Florence prison to the Eyman prison to fill vacant positions; and
- partnering with a third party that will manage and operate 2,706 beds for the State.

The deactivation of the Florence prison complex will not require termination of any current ADCRR employees. The Eyman prison complex, also located in Florence, will be able to absorb the majority of employees who work at the Florence complex. In particular, the Executive intends that Florence complex Correctional Officers will be transferred to the Eyman complex, helping to eliminate the latter facility's high Correctional Officer vacancy rate, which poses safety and security risks to staff and inmates.

The focus of this initiative is to ensure that ADCRR employees and inmates occupy an environment that is conducive to reducing the recidivism rate. Additionally, the closure of the Florence prison will remove \$168.3 million in known building-renewal needs at the aged facility, allowing ADCRR to prioritize building renewal projects at other complexes.

Using a different cost-benefit analysis (the Department of Administration's Facilities Condition Index), the Florence prison would fall into the "Complete Replacement" category. The index is calculated by dividing the amount of Deferred Maintenance needed by the Full Replacement Value. For Florence, this calculation is 71.7% (\$168,300,000 divided by \$234,600,000). Per the

Facilities Condition Index, any building beyond the 60% threshold warrants full replacement. Estimated costs from similarly-sized prisons in other states have reached \$800 million.

The additional staff from the Florence prison will allow the Eyman complex to become fully staffed, eliminating the Correctional Officer II vacancy rate and providing inmates with better access to programs and other services in a safe environment. Safe, improved, and consistent access to programming opportunities will allow inmates to receive the support and education they need to reform and become productive members of society. Furthermore, the deactivation will allow the health care vendor to relocate its health care staff to reduce staffing shortages and alleviate strain on current staff. This will result in better inmate health care.

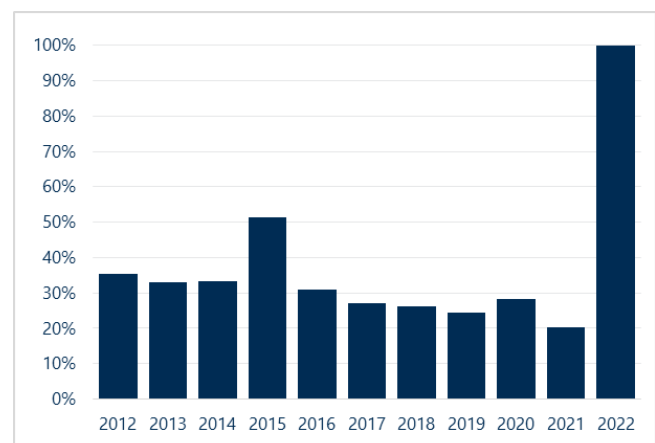
For inmates who cannot be transferred within the existing ADCRR system, a third-party partner will be chosen to provide additional bed management capacity for the Department. The partner will be carefully selected to ensure that the level of safety, care, and services remain consistent, to continue the progress of inmate rehabilitation. ADCRR will verify that the services offered by the partner are comparable to those provided to inmates in ADCRR's own facilities (e.g., medical, dental, visitation, mental health, education, programming, substance abuse, etc.) and meet all federal, state, and ADCRR standards.

The Executive's expectation is that the Department will begin diverting inmates to other prison complexes in the ADCRR system to gradually phase down the number of inmates at Florence. Physical plant issues, if left unremediated, can cause significant staff and inmate safety issues.

This proposal was contemplated before the onset of the COVID-19 pandemic. Due to the increased uncertainty that the pandemic has created – including staffing challenges, bed space concerns, quarantine of inmates, and the temporary reduction of inmate intake due to slowed judicial proceedings – the Executive will continue to monitor the situation and will make adjustments

Figure 19

% Building Renewal Formula Appropriated



as needed, which will either speed up or slow down the deactivation plan.

BUILDING RENEWAL

To further address the safety and security of staff and inmates, the Executive Budget includes \$53.7 million to fully fund the Department of Administration's building renewal formula and the completion of fire and life safety projects at the Eyman prison.

The building renewal formula, approved by the Legislature, is the Sherman-Dergis Formula developed in 1981 at the University of Michigan. In simple terms, the Sherman-Dergis Formula estimates the funding requirements for major maintenance over time. This investment will mark the first time the ADCRR's Building Renewal Formula has been fully funded.

ADCRR maintains 1,524 structures with a total area of 8.8 million square feet and a replacement value estimated at \$2.1 billion.

Each year the aging infrastructure needs critical repairs. On average, the Department has received \$5.7 million per year to address maintenance and building renewal needs. Due to persistent underfunding of the formula, Arizona prisons' building renewal needs total \$529 million (\$360.7 million once the Florence complex is deactivated).

Full funding of the building renewal formula in FY 2022 will allow ADCRR to address numerous deferred maintenance projects, with priority given to fire and life safety projects such as replacement of fire systems and locks. The funding will also allow for the completion of necessary repairs at the Eyman prison – including doors, locks, fire systems, floors, and plumbing – that will enhance prison security.

RECIDIVISM REDUCTION

To expand substance abuse treatment programs available to inmates, the Executive Budget includes a funding increase of \$5 million to increase treatment capacity.

This funding will be used to expand ADCRR's substance abuse treatment capacity from 19.5% to 36.1% and allow an additional 2,527 inmates to receive treatment prior to release. To ensure that each dollar invested results in more inmate treatment, ADCRR plans to contract with private organizations that specialize in such efforts. In FY 2020, 34% of warrants issued by community corrections officers cited drug/alcohol related violations. Increased treatment capacity will lead to more successful reentry and lower recidivism rates.

STAFF SAFETY EQUIPMENT

Radio communication and safety equipment are critical to prison operations. To enhance the safety and security of staff and inmates and reduce operational strain, the Executive Budget includes \$2.8 million to replace obsolete radios and increase the inventory levels of safety vests, which are required for cell extractions, searches, inmate movement, etc.

Funding will replace all of the radios that are 10-plus years old, as the vendor has discontinued parts and service, and ensure that the Department's inventory is replenished to their needed level so that operations and safety are not compromised.

SUPERIOR COURT PROBATION OFFICER RAISES

As part of the Executive's coordinated ongoing efforts to reduce recidivism, the Executive budget seeks to fully fund Probation as a viable alternative to incarceration.

Per A.R.S. § 12-252, counties have the authority to set the salaries of probation officers. Due to the State funding a portion of the salaries and ERE for adult probation and juvenile probation officers, the Executive Budget increases appropriations for Probation special line items to meet the new county-approved salary levels.

The Executive Budget includes funding for adult and juvenile probation officer salary increases and employee related expenses (ERE) from FY 2019, FY 2020, and FY 2021, as enacted by county boards of supervisors.

Natural Resources

Thoughtful and effective stewardship of Arizona's precious natural resources requires deliberate planning and strategic investments.

"Arizona is the most beautiful state in the nation, and we are committed to protecting our land, wildlife and natural resources. Every year, we are heavily focused on reducing the risk of wildfires to protect people, pets and property — and that focus remains a priority this year. From protecting groundwater quality to maintaining our State Parks, we will continue to protect our naturally diverse state."

Gov. Doug Ducey

The FY 2022 Executive Budget places a strong emphasis on fighting and reducing the risk of wildfires, addressing threats to groundwater quality, improving mine safety, expanding fish hatchery capacity, and enhancing the visitor experience at State parks.

Devastating property losses and damage to State and private lands, combined with the growing cost of fire suppression throughout the western states, have made increased fire-suppression funding and heightened investment in healthy forests a major priority.

Fire Suppression

A prolonged drought, combined with population growth and poorly managed federal lands, has resulted in increased State spending on wildfires.

From 2014 to 2018, the State's fire-suppression costs increased from \$115 per acre to \$353. Similarly, at the federal level, from 2015 to 2018 fire-suppression costs increased from \$210 per acre to \$359.

The additional State spending has not correlated with a proportional increase in the Fire Suppression Fund (FSF) budget for the Department of Forestry and Fire Management (DFFM). FSF funding is inadequate, and DFFM operates at a deficit. As Figure 20 illustrates, the State's fire-suppression costs for the last five years (excluding FY 2017, which was an outlier) have averaged \$6.4 million, far in excess of the FSF's \$4 million annual appropriation.

FIRE SUPPRESSION COSTS

From a budget perspective, the State's fire suppression activities encompass three types of fires:

- fires that threaten federal land, resulting in reimbursable costs;

- fires that threaten State and some private land, resulting in non-reimbursable costs; and
- cost-share fires, which occur on State and federal land.

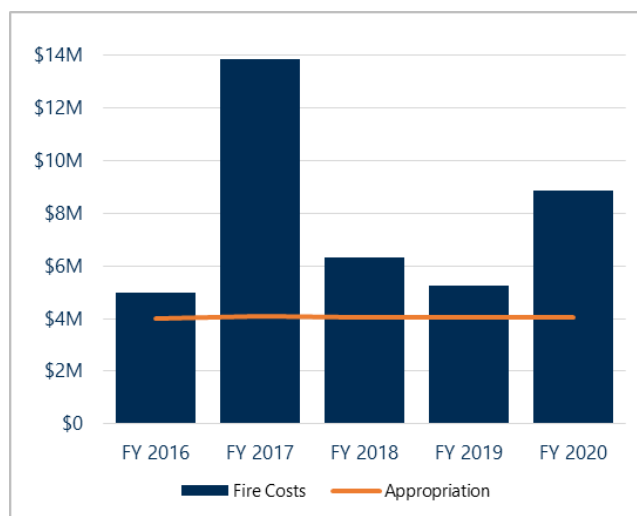
Reimbursable. A.R.S. § 35-144 authorizes the Department of Forestry and Fire Management (DFFM) to use up to \$20 million per year from the Budget Stabilization Fund (BSF) for reimbursable costs. DFFM uses the BSF to pay local fire districts and then repays the BSF from federal reimbursements. Because of this cooperative agreement structure, there is no mechanism for local districts to seek federal reimbursement without going through DFFM.

Non-Reimbursable. The federal government does not reimburse the State for the costs of fire suppression on State-owned or unincorporated private lands. Each fiscal year, DFFM is allotted \$4 million from the Fire Suppression Fund to pay for non-reimbursable fire suppression costs incurred on those lands.

Cost-Share Fires. The costs of suppressing fires that occur on both State and federal land are partially reimbursed to the State pursuant to a cost-share agreement with the federal government. The objective of a cost-share agreement is to establish and document the cost sharing and basic organizational structure in response to multijurisdictional incidents, i.e., fires burning on or threatening lands for which the State and one or more cooperating federal agencies are responsible and for which a decision is made to share costs. Factors that impact cost-share situations

Figure 20

State Fire Suppression Costs



include the mission, jurisdictions involved, location of resources, values at risk, suppression difficulty, and location of fire-control features.

FUNDING INCREASE

The Executive Budget increases the FSF appropriation to align with actual fire-suppression expenditures.

For the past five fiscal years, the \$4 million allotted to the FSF has been insufficient to pay for fires occurring on State-owned and unincorporated lands. To address that issue, the Executive Budget includes a permanent increase of \$2.4 million in funding above the enacted FY 2021 appropriation to account for higher fire-suppression costs incurred by the State.

Also, an abnormally high concentration of fires on State land and an increase in complex fires pushed suppression costs beyond available funding in prior years. For context, suppression costs from the FY 2016 to FY 2020 fire seasons exceeded available funding. Appropriated funding for FY2016 to FY 2020 was only \$20.3 million, while actual fire costs reached \$39.3 million.

The Executive has identified available fund sources to cover that shortfall and to manage cash flow in the near term. However, a \$2.2 million shortfall remains in State costs owed to federal partners. The Executive Budget increases funding to address that issue.

Increased funding for non-reimbursable and cost-share fires is essential to the more than 200 cooperative agreements that the State maintains with local cooperators statewide that deploy crews to fight fires. Cooperators are often small rural fire districts that depend on timely payment from the State to maintain positive cash flow. While the BSF provides enough capacity to quickly reimburse local cooperators in response to federal fire needs, the State lacks adequate resources to ensure timely payment when these same cooperators respond to help requested by the State. This initiative is critical to ensuring that local cooperators continue to partner with the State.

GOVERNOR'S EMERGENCY FUND CAP INCREASE

In addition to permanently increasing DFFM's FSF appropriation, the Executive adds additional fire resources to the Governor's Emergency Fund.

In the past, the Governor's Emergency Fund has been used to help cover part of the shortfall, but that practice has reduced available funding for other disasters.

The Executive Budget includes footnote language increasing, from \$4 million to \$8 million, the aggregate liability cap incurred under a declaration of disaster (A.R.S. § 35-192). Of the \$8 million, \$4 million will be used exclusively for DFFM for fire suppression. Any unobligated funds remaining at the end of the fiscal year will revert to the General Fund.

ARIZONA HEALTHY FOREST INITIATIVE

Landscapes in Arizona and throughout the west have become overgrown and prone to wildfires, and the pace of forest treatment projects to reduce the wildfire risk has been too slow.

Failure to reduce fire-causing fuel loads has been felt by the State in a growing financial burden for fire suppression, as mentioned above. Responsibility for paying fire-suppression costs (regardless of whether those costs are incurred by federal or local assets) is borne by the agency responsible for the assets that are being protected. Because the State is responsible for protecting 22 million acres of State and private land in unincorporated areas, the high costs of protecting private property at the interface of urban areas and forested areas fall to the State, even where the fire is on federal land.

The Executive Budget includes an increase in funding to reduce the wildfire threat to Arizona, with a focus on removing the overgrown vegetation creating high fire risk in the wildland-urban interface. The State will implement a five-fold increase, to over 20,000 acres per year, in the amount of this land treated through in-house capacity and partner grants. While still working alongside federal partners to reduce wildfire risk on federal lands, this critical public safety initiative reflects a shift in strategy to one where the State takes a much larger role in reducing wildfire risk to Arizona communities and their assets.

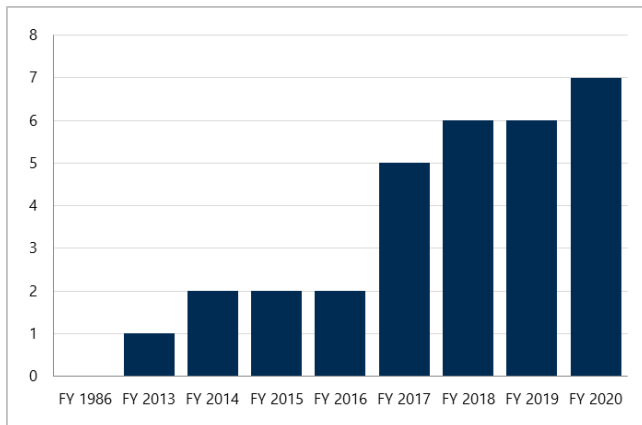
To meet that challenge, over a two-year period 72 additional Department of Corrections, Rehabilitation and Reentry (ADCRR) crews will be deployed in four geographically strategic locations. The new capacity will be phased in, with 50% in place in FY 2022 and 100% in place in FY 2023. Additionally, DFFM typically receives grant requests from partner organizations around the state to reduce fuel loading creating wildfire risks. In recent years, DFFM has funded approximately \$500,000 of those projects, resulting in approximately 500 acres of treatment per year. The increase in grant funding, to \$5 million, provides a ten-fold increase in partner capacity to 5,000 acres per year.

Water Quality

The City of Tucson's central water production wellfield is threatened by perfluoroalkyl and polyfluoroalkyl substance (PFAS) contamination. Studies have shown that high levels of PFAS can cause reproductive, developmental, liver, kidney, and immunological effects in laboratory animals.

The contaminated plume has led to the shutdown of 18 municipal drinking water supply wells. If left unmitigated, the contamination could affect safe drinking water supplies for 60,000 Tucson residents. The Executive plans to leverage the Water Quality Assurance Revolving Fund (WQARF) program and prioritize funding in FY 2022 to mitigate this threat. WQARF will fund testing, monitoring, and remediation actions related to mitigating the PFAS plume.

Figure 21
Cumulative Number of WQARF Sites Closed



Administered by the Department of Environmental Quality (DEQ), WQARF is Arizona's approach to remediation of contaminated hazardous waste sites. Through WQARF, the State maintains control over determining financial and other responsibility for site remediation. After completing remediation on seven WQARF sites over the past seven years, 35 sites remain on the WQARF program registry.

The Executive Budget continues to fully fund the WQARF program from the Corporate Income Tax (CIT), per the WQARF formula specified in A.R.S. § 49-282(B).

Mine Safety

Between 2017 and 2020, mining-related employment in Arizona increased by approximately 22%, without any change in the Mine Inspector's Office inspection capacity.

The Executive Budget includes funding for additional personnel in the Inspection and Reclamation Mine Land Program, to help the agency perform mandatory annual mine inspections and other essential operations that ensure the protection of miners' lives, health and safety.

State Parks

The Executive Budget also provides funding within the Arizona State Parks and Trails (ASPT) system for targeted capital improvements that reflect sound stewardship and will enhance park visitors' experience.

WASTEWATER TREATMENT SYSTEMS

In recognizing the need to provide permanent remediation to the wastewater issues at six state parks, the Executive Budget includes \$560,000 to perform assessments and offset current mitigation efforts. The former will provide options for permanent remediation for the State to consider in FY 2023, and the latter will allow ASPT to address unexpected mitigation needs in FY 2022.

The Executive intends for ASPT to secure an additional \$560,000 in grant funding provided by the Land Water Conservation Fund through the Great American Outdoors Act.

PARK-SPECIFIC INVESTMENT

Rockin' River Ranch State Park. In consultation with the Executive, ASPT's new leadership has put forward a plan to construct Rockin' River Ranch in Camp Verde. Proposed by the Executive and funded by the Legislature in the enacted FY 2018 budget, Rockin' River will be a primitive day-use park featuring unique trails and access to the Verde River.

The Executive Budget includes \$750,000 to develop roads, parking areas, and trails; demolish dilapidated structures; and install vault toilets. The Executive intends for ASPT to secure an additional \$750,000 in grant funding provided by the Land Water Conservation Fund through the Great American Outdoors Act. The new park is scheduled to be open in early summer 2023.

Red Rock State Park. One of Arizona's most popular parks, Red Rock State Park offers visitors a unique experience in the beauty of Sedona's Red Rock Country. To preserve and perpetuate the park's unique character and heighten the visitor experience, the Executive Budget includes funding to replace a 30-year-old fire-suppression system and replace a dilapidated 40-year-old maintenance building.

Dead Horse State Park. The Executive Budget includes \$150,000 to construct an amphitheater at Dead Horse State Park. The Executive intends for ASPT to secure an additional \$150,000 in grant funding provided by the Land Water Conservation Fund through the Great American Outdoors Act.

The amphitheater will provide an immense benefit to the visitors and organizations that utilize the park for numerous popular events, including the Verde Valley Birding & Nature Festival.

Kartchner Caverns State Park. The centerpiece of the State Parks in southern Arizona and an increasingly popular national attraction, Kartchner Caverns provides visitors a stunning cavern-exploration experience.

To ensure that the park continues to meet visitors' high expectations, the Executive Budget includes \$450,000 to replace the 20-year-old roof on the Discovery Center, which serves as the visitor center and houses vital IT infrastructure for the park.

BUILDING RENEWAL

ASPT maintains 1,475 structures with a total area of 794,400 square feet and a replacement value estimated at \$136 million. The Executive Budget includes \$2.4 million to replace or repair infrastructure and major building systems.

Hatchery Renovation

The Game and Fish Department has projected, as of December 2020, a shortfall of 110,000 pounds of trout and 230,000

pounds of warm-water sports fish in Arizona. To enhance recreational opportunities in the state, the Executive Budget includes an increase in funding to conduct major renovation activities and address the most critical infrastructure projects at the Bubbling Ponds, Silver Creek, and Tonto Creek hatcheries.

Completion of major maintenance and renovation projects will help to maintain current levels of fish production and prevent losses associated with infrastructure failure.

Government That Works

The Executive Budget invests in secure data protection, robust economic development, critical infrastructure, and prudent stewardship of capital assets.

"With remote working by many state employees, we also have the chance to further limit the size, cost and footprint of government. Let's truly 'shrink' government, by eliminating unnecessary state buildings and saving taxpayer dollars. Rather than spending money on maintaining unneeded buildings, let's prioritize areas of need, like educating our kids, taking care of our sick, and keeping our neighborhoods safe."

Gov. Doug Ducey

The FY 2022 Executive Budget leverages the excellent progress since 2015 that has made government work better for Arizonans through smart policies on cybersecurity, fleet management, capital investment, and innovative workforce solutions.

Data Protection

National Guard Cyber Response Team. The Executive Budget includes \$495,200 to expand the capacity of the Arizona National Guard Cyber Response Team, which will improve statewide cyber preparedness and emergency response. The team will complement the preventive work of the Statewide Information Security and Privacy Office (SISPO) by identifying gaps in cyber defenses through vulnerability assessments and penetration testing. The team can be deployed to provide the initial emergency response, serving as a crucial bridge between incident detection and full activation of the State's response and recovery resources.

Arizona National Guard citizen soldiers and airmen who are trained to serve in cybersecurity missions are valuable yet underutilized resources. Many of those soldiers and airmen are engaged in full-time information technology careers in the private sector and possess expert-level skills and knowledge.

The Executive Budget provides funding to allow the Department of Emergency and Military Affairs to maintain four full-time team members who will deploy on one-year rotations, allowing them to serve the State in that capacity while retaining the option to return to their professional careers.

Arizona Is Open for Business

Sustaining the state's thriving business climate requires investments in business-focused infrastructure. Investments included in the FY 2022 Executive Budget support economic

development that will continue to bring high-paying jobs to Arizona.

Business One-Stop. The Executive Budget includes \$7.8 million for continued development of a Business One-Stop web portal – a single online location to help companies and individuals seamlessly plan, start, and grow Arizona businesses and relocate business from other states.

The project is an ongoing partnership among the Department of Administration, Arizona Commerce Authority, Arizona Corporation Commission, Department of Revenue, and Secretary of State.

Efforts in FY 2022 will give Arizona entrepreneurs a single website to quickly and efficiently complete all State Government processes required to start a business, accelerating business creation, and reducing delays at State agencies.

Connecting Arizona

ARIZONA COMMERCE AUTHORITY

Rural Broadband Internet Development. High-speed internet is essential for accelerating economic development, enhancing education, expanding access to healthcare, improving public safety, and modernizing government services. The COVID-19 pandemic has demonstrated that expanding broadband services is more important than ever.

To date, the Executive has:

- established a statewide broadband office within the Arizona Commerce Authority (ACA) to centrally coordinate broadband planning;
- reduced regulatory hurdles for broadband infrastructure development at the State Land Department; and
- awarded \$3 million in broadband grants to accelerate design or construction of critical projects in strategic locations across Arizona.

In June 2020, the Executive announced a major investment of federal CARES Act funding to bridge the "digital divide" in response to the thousands of Arizona students who transitioned to online learning. The plan includes \$40 million to install broadband conduit and fiber on Interstate 17 from Anthem to Flagstaff, and on Interstate 19 from Tucson to Nogales.

This collaborative effort between the State and the state's three public universities holds great promise for advancing digital equity in Arizona. The Executive Budget continues the momentum to expand and enhance broadband connectivity throughout

the state, with an additional infusion of \$10 million to build upon the successful program that provides matching grant funding to underserved rural communities. The ACA will award the funds to local partnerships or ventures that demonstrate clear and achievable plans to improve broadband services in one or more communities.

The \$10 million in funding will include broadband infrastructure development and community broadband planning. ACA will evaluate applications based on multiple criteria, including the number of community anchor institutions and people served, available matching funds, demonstrated local support, and expected economic impact.

DEPARTMENT OF TRANSPORTATION

Interstate 40 West Broadband Corridor. The Executive Budget also includes \$33.1 million to fund a major expansion of the broadband corridor from Flagstaff to the California border along Interstate 40. This expansion will add approximately 195 miles of broadband conduit and fiber optic cable. The broadband corridor provides the backbone to broadband services and serves as a catalyst for connecting communities to high-speed internet.

Interstate 17: Lane Additions. The Executive Budget includes \$45 million for the third year of the three-year project to construct a third highway lane in each direction on I-17 between Anthem and Black Canyon City and add a flex lane from Black Canyon City to Sunset Point. This project will reduce congestion on a popular route, improve highway safety, and support commerce through this corridor.

Stewardship of Capital Assets

DEPARTMENT OF ADMINISTRATION (ADOA)

The ADOA building renewal system includes an inventory of 4,557 structures with an aggregate area of 23.9 million gross square feet and an estimated replacement value of \$5.2 billion. Effective stewardship of those valuable assets is a priority reflected in the Executive Budget.

System-Wide Building Renewal Investments. The Executive Budget includes \$24.2 million in one-time funding (including \$6.2 million from the General Fund) for building renewal across the ADOA building system, including fire and life safety projects and targeted infrastructure repair, replacement, and renovation. Additional focus in FY 2022 will be given to building renewal projects that target consolidation of building space. This will ensure that State-owned buildings are able to support new remote work initiatives, and it will help address buildings that are beyond repair and pose a liability to the State.

The majority of the funding for this issue is derived from rental charges paid by State agencies that occupy State buildings.

The Executive Budget also includes \$32.9 million to fully fund the building renewal formula for certain agencies, including:

- \$28 million at the Department of Corrections, Rehabilitation and Reentry (ADCRR), including \$22.2 million from the General Fund (ADCRR facilities represent the largest component within the ADOA building system, with 1,518 structures with a total area of 8.7 million square feet);
- \$1 million at Arizona Exposition and State Fair (AESF) for necessary repairs and renovations of fairground facilities (due to financial challenges at AESF resulting from not holding the annual State Fair in 2020, the Executive Budget includes General Fund resources as opposed to using the agency's own funds);
- \$1.2 million at the Game and Fish Department for building renewal and additional maintenance and repair of dams and hatcheries;
- \$2.4 million at Arizona State Parks and Trails for building renewal and maintenance; and
- \$353,100 at the Pioneers' Home for targeted repairs and replacement of infrastructure and equipment.

Arizona's Connected Workforce (ACW). In 1993, an Executive Order established Arizona's first official remote work program. In 2003, the goal was to have 20% participation in the remote work program for State employees in Maricopa County.

Beginning in March 2020, an increased number of State employees have been working remotely in response to COVID-19. The State created Arizona's Connected Workforce program (ACW) in July. The ACW is a task force working to drive a sustainable statewide remote work transformation that focuses on best practices for managing and coaching a modern workforce.

One method for modernizing Arizona's workforce is to establish enterprise-wide "hoteling," defined as "using a temporary, unassigned workspace at a State building as needed." The hoteling space would primarily serve employees working remotely most of the time. This project would lead to financial savings related to rent and facility management while also serving State employees and Arizonans at the speed of business.

Historic State Capitol Comprehensive Building Renewal. The Executive Budget includes \$2.9 million (including \$2.5 million from the General Fund) to address serious infrastructure, building shell, and building services deficiencies at the historic State Capitol Building.

Critical repairs are needed on the masonry exterior and copper dome. Additional repairs will include renovations to the building's plumbing, water supply, sanitary waste line, service entrances, and electrical panels. This project will improve building safety and help to maintain historic State artifacts housed within the Capitol complex.

Building Demolition and Physical Plant Conversion. As a part of a space consolidation initiative, the Executive Budget includes \$2 million to demolish two buildings, at 1601 W. Jefferson St. and 1645 W. Jefferson St. in Phoenix. The two buildings are beyond repair.

Originally built in 1973, 1645 W. Jefferson has over \$13 million in deferred maintenance and a Facilities Condition Index of 63%, warranting full replacement. This index is calculated based on Deferred Maintenance Needed divided by Full Replacement Value.

The 1601 W. Jefferson office building was built in 1971 and has over \$10 million in deferred maintenance costs. It has a Facilities Condition Index of 51%, indicating the need for major building renovation or total replacement if deferred maintenance continues. Due to the building's condition and connection to other facilities in this project, ADOA will demolish this building along with 1645 W. Jefferson. ADOA will work with the Department of Corrections, Rehabilitation and Reentry to identify suitable space in other facilities.

An additional \$800,000 is included to retrofit a physical plant, at 1535 W. Jefferson St., that serves these two buildings as well as a third building in the area. The physical plant will be converted to service a single facility at 1535 W. Washington St.

Exposition and State Fair. The Executive Budget includes \$1 million for Arizona Exposition and State Fair (AESF) to replace the fire alarm system at the Arizona Veterans Memorial Coliseum. The current fire alarm system is over 20 years old and, due to age and scarcity of parts, is difficult to repair. This replacement will allow AESF to comply with State fire code regulations, enhancing building safety for visitors and staff.

Due to financial challenges at AESF resulting from not holding the annual State Fair in 2020, the Executive Budget includes General Fund resources as opposed to using the agency's own funds.

DEPARTMENT OF CORRECTIONS, REHABILITATION & REENTRY (ADCRR)

The Executive Budget includes \$25.6 million for ADCRR to complete critical fire and life safety projects at the Eyman complex. The Department has identified fire alarm and suppression systems that require replacement, doors and locks that require refurbishment, and showers that require reconstruction. This project will enhance the prison complex's safety and security.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

The Executive Budget includes \$1.2 million for the Department of Emergency and Military Affairs (DEMA) to upgrade fire suppression systems that do not comply with fire code at several readiness centers around the state. DEMA will leverage the State funding to draw down \$2.2 million in matching federal funding.

DEPARTMENT OF JUVENILE CORRECTIONS

The Executive Budget includes \$2.5 million for the Department of Juvenile Corrections (DJC) to upgrade doors in four units at Adobe Mountain School. Replacing doors is a necessary investment in security infrastructure to maintain a safe environment for committed youth and the Youth Correctional Officers.

DEPARTMENT OF TRANSPORTATION (ADOT)

Highway Maintenance. In FY 2020 and FY 2021, ADOT added over 115 urban and 130 rural lane-miles to the State highway system. The Executive Budget includes \$3.3 million for ongoing maintenance of the new lane-miles, which will include roadside and shoulder maintenance, landscaping, surface treatments, and traffic signals.

Building Renewal. In addition to managing the State's highways, ADOT maintains an independent building system that includes 1,475 structures with a total area of 3.6 million square feet and a replacement value estimated at \$852 million. The Executive Budget includes \$15.7 million for ADOT to replace or repair infrastructure and major building systems.

Fleet Operations Modernization. The Executive Budget provides for a substantial modernization of the management operations of the State motor vehicle fleet (State fleet). The process involves:

- transferring ownership of the State fleet to ADOT from the Arizona Department of Administration (ADOA); and
- establishing two new ADOT funds: the State Motor Vehicle Fleet Operations (SMVFO) Fund and the State Motor Vehicle Fleet Recapitalization (SMVFR) Fund.

The SMVFO Fund will pay for maintenance and management of the State fleet, while the SMVFR Fund will pay for replacement of vehicles within the State fleet. Each agency within the State fleet will have a sub-account in the SMVFR Fund. A new fee schedule instituted by ADOT and assessed to agencies within the State fleet will provide the funding source for both funds. The Executive Budget includes funding, as Statewide Adjustments, for any increased cost to agencies within the State Fleet due to the new fee schedule.

Benefits to the State from this modernization include maximizing State fleet utilization, ensuring proper maintenance, fully leveraging procurement, and streamlining fleet operations.

Highway De-icing. ADOT uses liquid brine to de-ice highways. The Executive Budget includes \$2 million for ADOT to construct new storage tanks at four locations around the state. Strategic placement of the new tanks will allow ADOT to avoid excessive highway closures due to unsafe icy conditions.

Vehicle Fueling Facilities. The ADOT fueling network supports a majority of the agency's day-to-day operations. Sixteen stations rely on equipment that is beyond the expected useful service life, and the Executive Budget includes \$1.8 million to replace equipment at three of those stations.

Other Funding Initiatives

State Employee Health Insurance (HITF). The HITF supports the State's self-insured medical, pharmacy, and dental insurance for State employees. The Executive Budget includes a one-time increase in premiums paid into the HITF by State agencies on behalf of their employees. The increased premiums are

expected to generate an additional \$36.8 million in total HITF revenue, with \$11.2 million originating from the General Fund.

Although the State has recently experienced slower growth in medical and pharmacy costs, expenditures continue to outpace revenues, leading to a declining fund balance. The one-time increase allows the State to continue to offer excellent health insurance benefits to employees while ADOA implements the new health insurance contracts that took effect in January 2021.

FY 2022 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|---|-----------------|-----------------------|----------------------|--------------------|
| Board of Accountancy | 0.0 | 2,098.5 | 0.0 | 2,098.5 |
| Acupuncture Board of Examiners | 0.0 | 180.7 | 0.0 | 180.7 |
| Department of Administration | 8,209.9 | 198,463.9 | 1,018,284.9 | 1,224,958.7 |
| Office of Administrative Hearings | 921.5 | 0.0 | 794.0 | 1,715.5 |
| African-American Affairs | 133.2 | 0.0 | 20.0 | 153.2 |
| Department of Agriculture | 10,492.2 | 1,779.6 | 25,565.4 | 37,837.2 |
| Arizona Health Care Cost Containment System | 2,082,883.1 | 340,993.7 | 16,408,600.3 | 18,832,477.1 |
| Statewide and Large Automation Projects | 614.1 | 22,366.8 | 0.0 | 22,980.9 |
| Commission on the Arts | 2,000.0 | 0.0 | 1,809.7 | 3,809.7 |
| Board of Athletic Training | 0.0 | 130.5 | 0.0 | 130.5 |
| Attorney General - Department of Law | 25,411.0 | 55,021.0 | 67,274.0 | 147,706.0 |
| Board of Barbers | 0.0 | 419.2 | 0.0 | 419.2 |
| Board of Behavioral Health Examiners | 0.0 | 1,818.2 | 0.0 | 1,818.2 |
| Board for Charter Schools | 2,152.1 | 0.0 | 85.0 | 2,237.1 |
| Department of Child Safety | 413,031.2 | 835,541.7 | 0.0 | 1,248,572.9 |
| Board of Chiropractic Examiners | 0.0 | 450.6 | 0.0 | 450.6 |
| Citizens' Clean Elections Commission | 0.0 | 0.0 | 4,878.8 | 4,878.8 |
| Commerce Authority | 26,175.0 | 0.0 | 28,820.5 | 54,995.5 |
| Community Colleges | 66,317.4 | 0.0 | 0.0 | 66,317.4 |
| Constable Ethics Standards & Training Board | 0.0 | 0.0 | 583.3 | 583.3 |
| Registrar of Contractors | 0.0 | 12,690.0 | 4,666.8 | 17,356.8 |
| Corporation Commission | 843.1 | 27,993.0 | 2,341.4 | 31,177.5 |
| Department of Corrections, Rehabilitation and Reentry | 1,231,355.4 | 53,344.6 | 62,492.2 | 1,347,192.2 |
| Board of Cosmetology | 0.0 | 1,904.2 | 0.0 | 1,904.2 |
| Criminal Justice Commission | 0.0 | 6,496.3 | 23,557.4 | 30,053.7 |
| Schools for the Deaf and the Blind | 23,865.5 | 13,388.3 | 21,943.7 | 59,197.5 |
| Commission for the Deaf and the Hard of Hearing | 0.0 | 4,685.9 | 0.0 | 4,685.9 |
| Board of Dental Examiners | 0.0 | 1,438.6 | 0.0 | 1,438.6 |
| Early Childhood Development and Health Board | 0.0 | 0.0 | 151,691.6 | 151,691.6 |
| Department of Economic Security | 949,579.6 | 383,777.2 | 4,468,823.1 | 5,802,179.9 |
| State Board of Education | 11,334.3 | 0.0 | 0.0 | 11,334.3 |
| Department of Education | 5,816,271.5 | 321,235.3 | 2,186,688.3 | 8,324,195.1 |
| Department of Emergency and Military Affairs | 17,088.7 | 1,506.1 | 75,868.2 | 94,463.0 |
| Department of Environmental Quality | 15,000.0 | 72,111.9 | 83,818.7 | 170,930.6 |
| Office of Economic Opportunity | 485.5 | 0.0 | 114,531.0 | 115,016.5 |
| Governor's Office for Equal Opportunity | 0.0 | 197.7 | 0.0 | 197.7 |
| Board of Equalization | 673.2 | 0.0 | 0.0 | 673.2 |
| Board of Executive Clemency | 1,184.5 | 0.0 | 30.1 | 1,214.6 |
| Exposition & State Fair | 2,000.0 | 13,523.7 | 0.0 | 15,523.7 |
| Board of Fingerprinting | 0.0 | 0.0 | 690.6 | 690.6 |
| Department of Forestry and Fire Management | 36,022.3 | 0.0 | 40,200.3 | 76,222.6 |
| Board of Funeral Directors & Embalmers | 0.0 | 410.7 | 0.0 | 410.7 |
| Game and Fish Department | 0.0 | 46,070.4 | 86,508.7 | 132,579.1 |
| Department of Gaming | 2,509.5 | 16,038.3 | 443.9 | 18,991.7 |
| Office of the Governor | 10,924.8 | 0.0 | 44,085.6 | 55,010.4 |
| Governor's Office of Strategic Planning and Budgeting | 2,765.1 | 0.0 | 0.0 | 2,765.1 |
| Department of Health Services | 99,189.8 | 62,140.5 | 375,350.4 | 536,680.7 |

FY 2022 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|--|-------------------------|-------------------------------|------------------------------|----------------------------|
| Governor's Office of Highway Safety | 0.0 | 0.0 | 12,229.5 | 12,229.5 |
| Arizona Historical Society | 3,195.6 | 0.0 | 1,131.2 | 4,326.8 |
| Prescott Historical Society of Arizona | 867.7 | 0.0 | 548.1 | 1,415.8 |
| Department of Homeland Security | 0.0 | 0.0 | 25,138.2 | 25,138.2 |
| Board of Homeopathic Medical Examiners | 0.0 | 46.6 | 0.0 | 46.6 |
| Department of Housing | 0.0 | 332.5 | 94,839.8 | 95,172.3 |
| Independent Redistricting Commission | 4,100.0 | 0.0 | 0.0 | 4,100.0 |
| Industrial Commission of Arizona | 0.0 | 20,593.1 | 18,744.8 | 39,337.9 |
| Department of Insurance and Financial Institutions | 7,840.7 | 9,971.4 | 4,305.7 | 22,117.8 |
| Court of Appeals | 17,179.6 | 0.0 | 0.0 | 17,179.6 |
| Superior Court | 100,689.7 | 11,994.4 | 6,062.4 | 118,746.5 |
| Supreme Court | 21,897.5 | 31,560.8 | 25,109.5 | 78,567.8 |
| Department of Juvenile Corrections | 30,707.4 | 15,000.1 | 1,210.0 | 46,917.5 |
| Land Department | 12,563.8 | 8,080.7 | 1,252.8 | 21,897.3 |
| Auditor General | 20,991.5 | 0.0 | 1,310.3 | 22,301.8 |
| House of Representatives | 16,830.0 | 0.0 | 0.0 | 16,830.0 |
| Joint Legislative Budget Committee | 2,934.7 | 0.0 | 0.0 | 2,934.7 |
| Legislative Council | 9,026.6 | 0.0 | 0.0 | 9,026.6 |
| Senate | 13,253.9 | 0.0 | 0.0 | 13,253.9 |
| Department of Liquor Licenses and Control | 0.0 | 3,498.2 | 1,002.8 | 4,501.0 |
| Local Government | 10,650.7 | 0.0 | 0.0 | 10,650.7 |
| Lottery Commission | 0.0 | 163,081.0 | 1,589,528.0 | 1,752,609.0 |
| Massage Therapy | 0.0 | 486.1 | 0.0 | 486.1 |
| Medical Board | 0.0 | 7,677.7 | 0.0 | 7,677.7 |
| Mine Inspector | 1,515.6 | 112.9 | 456.7 | 2,085.2 |
| Naturopathic Physicians Board of Medical Examiners | 0.0 | 197.6 | 0.0 | 197.6 |
| Navigable Stream Adjudication Commission | 133.0 | 200.0 | 0.0 | 333.0 |
| Board of Nursing | 0.0 | 5,283.9 | 414.7 | 5,698.6 |
| Nursing Care Ins. Admin. Examiners | 0.0 | 503.1 | 0.0 | 503.1 |
| Board of Occupational Therapy Examiners | 0.0 | 204.7 | 0.0 | 204.7 |
| Board of Dispensing Opticians | 0.0 | 166.2 | 0.0 | 166.2 |
| Board of Optometry | 0.0 | 248.2 | 0.0 | 248.2 |
| Board of Osteopathic Examiners | 0.0 | 1,091.4 | 0.0 | 1,091.4 |
| Arizona State Parks | 0.0 | 19,883.4 | 18,564.5 | 38,447.9 |
| Personnel Board | 0.0 | 332.5 | 0.0 | 332.5 |
| Board of Pharmacy | 0.0 | 3,135.0 | 2,487.1 | 5,622.1 |
| Board of Physical Therapy Examiners | 0.0 | 513.9 | 0.0 | 513.9 |
| Pioneers' Home | 0.0 | 7,227.0 | 0.0 | 7,227.0 |
| Board of Podiatry Examiners | 0.0 | 171.6 | 0.0 | 171.6 |
| Commission for Postsecondary Education | 1,680.9 | 1,543.7 | 683.2 | 3,907.8 |
| Power Authority | 0.0 | 0.0 | 22,503.7 | 22,503.7 |
| Board for Private Postsecondary Education | 0.0 | 436.3 | 170.0 | 606.3 |
| Board of Psychologist Examiners | 0.0 | 563.0 | 0.0 | 563.0 |
| Department of Public Safety | 273,124.2 | 106,259.7 | 117,579.4 | 496,963.3 |
| Public Safety Personnel Retirement System | 6,000.0 | 0.0 | 24,424.0 | 30,424.0 |
| Department of Real Estate | 2,997.6 | 0.0 | 207.8 | 3,205.4 |
| Residential Utility Consumer Office | 0.0 | 1,388.9 | 0.0 | 1,388.9 |

FY 2022 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|--|-------------------------|-------------------------------|------------------------------|----------------------------|
| Board of Respiratory Care Examiners | 0.0 | 333.3 | 0.0 | 333.3 |
| Arizona State Retirement System | 0.0 | 24,920.8 | 109,753.2 | 134,674.0 |
| Department of Revenue | 31,799.5 | 48,983.2 | 1,434.8 | 82,217.5 |
| School Facilities Board | 240,735.2 | 0.0 | 261,645.3 | 502,380.5 |
| Department of State - Secretary of State | 13,163.6 | 1,479.3 | 5,304.5 | 19,947.4 |
| Board of Tax Appeals | 292.2 | 0.0 | 0.0 | 292.2 |
| Board of Technical Registration | 0.0 | 2,263.1 | 0.0 | 2,263.1 |
| Office of Tourism | 8,335.1 | 0.0 | 17,011.3 | 25,346.4 |
| Department of Transportation | 4,097.5 | 471,304.3 | 20,890.5 | 496,292.3 |
| Treasurer | 1,548.8 | 6,053.4 | 0.0 | 7,602.2 |
| Governor's Office on Tribal Relations | 64.7 | 0.0 | 20.2 | 84.9 |
| Board of Regents | 22,480.0 | 0.0 | 197,695.4 | 220,175.4 |
| Arizona State University | 340,817.4 | 607,175.9 | 2,829,786.8 | 3,777,780.1 |
| Northern Arizona University | 117,504.6 | 156,298.7 | 407,663.3 | 681,466.6 |
| University of Arizona - Main Campus | 218,922.2 | 240,586.5 | 1,268,579.5 | 1,728,088.2 |
| University of Arizona - Health Sciences Center | 76,897.7 | 56,863.4 | 478,198.7 | 611,959.8 |
| Department of Veterans' Services | 8,399.9 | 51,278.2 | 9,294.4 | 68,972.5 |
| Veterinary Medical Examining Board | 0.0 | 618.3 | 0.0 | 618.3 |
| Department of Water Resources | 14,731.6 | 2,466.8 | 22,406.2 | 39,604.6 |
| | 12,517,404.2 | 4,590,627.9 | 32,900,036.2 | 50,008,068.3 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

General Fund Operating Budgets Summary

| | (Dollars in Thousands) | | | | |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
| Department of Administration | 7,322.0 | 8,209.9 | 8,209.9 | 8,209.9 | 0.0 |
| Office of Administrative Hearings | 889.9 | 921.5 | 921.5 | 921.5 | 0.0 |
| African-American Affairs | 127.4 | 133.2 | 133.2 | 133.2 | 0.0 |
| Department of Agriculture | 10,163.2 | 10,492.2 | 10,492.2 | 10,492.2 | 0.0 |
| Arizona Health Care Cost Containment System | 1,705,047.3 | 1,951,981.1 | 1,951,981.1 | 2,082,883.1 | 130,902.0 |
| Commission on the Arts | 200.0 | 0.0 | 0.0 | 2,000.0 | 2,000.0 |
| Attorney General - Department of Law | 24,844.8 | 25,411.0 | 25,411.0 | 25,411.0 | 0.0 |
| Board for Charter Schools | 1,511.0 | 2,152.1 | 2,152.1 | 2,152.1 | 0.0 |
| Department of Child Safety | 342,279.2 | 387,893.0 | 387,893.0 | 413,031.2 | 25,138.2 |
| Commerce Authority | 19,275.0 | 16,175.0 | 16,175.0 | 26,175.0 | 10,000.0 |
| Community Colleges | 97,431.8 | 64,895.4 | 64,895.4 | 66,317.4 | 1,422.0 |
| Corporation Commission | 621.2 | 647.1 | 647.1 | 843.1 | 196.0 |
| Department of Corrections, Rehabilitation and Reentry | 873,034.8 | 1,205,396.2 | 1,205,396.2 | 1,231,355.4 | 25,959.2 |
| Schools for the Deaf and the Blind | 22,892.0 | 23,865.5 | 23,865.5 | 23,865.5 | 0.0 |
| Department of Economic Security | 749,708.2 | 812,054.3 | 812,054.3 | 949,579.6 | 137,525.3 |
| State Board of Education | 1,037.9 | 1,334.3 | 390,395.3 | 11,334.3 | 10,000.0 |
| Department of Education | 5,192,914.2 | 5,599,591.9 | 5,210,530.9 | 5,816,271.5 | 216,679.6 |
| Department of Emergency and Military Affairs | 9,935.1 | 12,373.0 | 12,373.0 | 17,088.7 | 4,715.7 |
| Department of Environmental Quality | 200.0 | 15,000.0 | 15,000.0 | 15,000.0 | 0.0 |
| Office of Economic Opportunity | 465.8 | 485.5 | 485.5 | 485.5 | 0.0 |
| Board of Equalization | 477.9 | 673.2 | 673.2 | 673.2 | 0.0 |
| Board of Executive Clemency | 1,079.2 | 1,184.5 | 1,184.5 | 1,184.5 | 0.0 |
| Exposition & State Fair | 0.0 | 0.0 | 0.0 | 2,000.0 | 2,000.0 |
| Department of Forestry and Fire Management | 14,314.1 | 13,399.6 | 15,569.7 | 36,022.3 | 22,622.7 |
| Department of Gaming | 2,509.5 | 2,509.5 | 2,509.5 | 2,509.5 | 0.0 |
| Office of the Governor | 6,941.0 | 8,924.8 | 8,924.8 | 10,924.8 | 2,000.0 |
| Governor's Office of Strategic Planning and Budgeting | 2,163.5 | 2,765.1 | 2,765.1 | 2,765.1 | 0.0 |
| Department of Health Services | 81,186.7 | 95,897.9 | 95,897.9 | 99,189.8 | 3,269.3 |
| Arizona Historical Society | 3,107.7 | 3,195.6 | 3,195.6 | 3,195.6 | 0.0 |
| Prescott Historical Society of Arizona | 808.1 | 867.7 | 867.7 | 867.7 | 0.0 |
| Department of Housing | 15,000.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Independent Redistricting Commission | 0.0 | 500.0 | 500.0 | 4,100.0 | 3,600.0 |
| Department of Insurance and Financial Institutions | 6,697.5 | 8,090.7 | 8,090.7 | 7,840.7 | (250.0) |
| Court of Appeals | 16,709.4 | 17,179.6 | 17,179.6 | 17,179.6 | 0.0 |
| Superior Court | 92,009.2 | 98,194.3 | 98,194.3 | 100,689.7 | 2,495.4 |
| Supreme Court | 20,874.0 | 21,399.3 | 21,399.3 | 21,897.5 | 498.2 |
| Department of Juvenile Corrections | 25,763.2 | 30,616.2 | 30,616.2 | 30,707.4 | 91.2 |
| Land Department | 11,655.4 | 12,563.8 | 12,563.8 | 12,563.8 | 0.0 |
| Auditor General | 20,629.3 | 20,991.5 | 20,991.5 | 20,991.5 | 0.0 |
| House of Representatives | 15,579.2 | 16,830.0 | 16,830.0 | 16,830.0 | 0.0 |
| Joint Legislative Budget Committee | 2,303.2 | 2,934.7 | 2,934.7 | 2,934.7 | 0.0 |
| Legislative Council | 6,307.5 | 9,026.6 | 9,026.6 | 9,026.6 | 0.0 |
| Senate | 10,560.3 | 13,253.9 | 13,253.9 | 13,253.9 | 0.0 |
| Local Government | 10,650.7 | 10,650.7 | 10,650.7 | 10,650.7 | 0.0 |

General Fund Operating Budgets Summary

| (Dollars in Thousands) | | | | | |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
| Mine Inspector | 1,079.1 | 1,301.9 | 1,301.9 | 1,515.6 | 213.7 |
| Navigable Stream Adjudication Commission | 121.0 | 133.0 | 133.0 | 133.0 | 0.0 |
| Commission for Postsecondary Education | 1,680.0 | 1,680.9 | 1,680.9 | 1,680.9 | 0.0 |
| Department of Public Safety | 81,724.2 | 91,138.0 | 91,138.0 | 273,124.2 | 181,986.2 |
| Public Safety Personnel Retirement System | 6,000.0 | 6,000.0 | 6,000.0 | 6,000.0 | 0.0 |
| Department of Real Estate | 2,467.8 | 2,997.6 | 2,997.6 | 2,997.6 | 0.0 |
| Department of Revenue | 27,358.3 | 31,799.5 | 31,799.5 | 31,799.5 | 0.0 |
| School Facilities Board | 353,509.2 | 235,235.7 | 273,994.7 | 240,735.2 | 5,499.5 |
| Department of State - Secretary of State | 19,167.6 | 17,263.6 | 17,263.6 | 13,163.6 | (4,100.0) |
| Board of Tax Appeals | 278.9 | 292.2 | 292.2 | 292.2 | 0.0 |
| Office of Tourism | 7,964.0 | 8,335.1 | 8,335.1 | 8,335.1 | 0.0 |
| Department of Transportation | 29,563.0 | 0.0 | 0.0 | 4,097.5 | 4,097.5 |
| Treasurer | 823.4 | 1,548.8 | 1,548.8 | 1,548.8 | 0.0 |
| Governor's Office on Tribal Relations | 59.7 | 64.7 | 64.7 | 64.7 | 0.0 |
| Board of Regents | 22,395.1 | 22,480.0 | 22,480.0 | 22,480.0 | 0.0 |
| Arizona State University | 334,270.6 | 324,717.4 | 343,617.4 | 340,817.4 | 16,100.0 |
| Northern Arizona University | 126,855.3 | 109,804.6 | 116,454.6 | 117,504.6 | 7,700.0 |
| University of Arizona - Main Campus | 217,350.0 | 207,722.2 | 217,172.2 | 218,922.2 | 11,200.0 |
| University of Arizona - Health Sciences Center | 76,897.7 | 76,897.7 | 76,897.7 | 76,897.7 | 0.0 |
| Department of Veterans' Services | 5,774.0 | 7,983.5 | 7,983.5 | 8,399.9 | 416.4 |
| Department of Water Resources | 66,688.9 | 14,731.6 | 14,731.6 | 14,731.6 | 0.0 |
| General Fund Operating Total | 10,809,255.1 | 11,692,789.4 | 11,768,718.5 | 12,516,790.1 | 823,978.1 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Board of Accountancy</u> | | | | | |
| Accountancy Board Fund | 1,839.9 | 2,098.5 | 2,098.5 | 2,098.5 | 0.0 |
| <u>Acupuncture Board of Examiners</u> | | | | | |
| Acupuncture Board of Examiners Fund | 169.8 | 180.7 | 180.7 | 180.7 | 0.0 |
| <u>Department of Administration</u> | | | | | |
| Capital Outlay Stabilization Fund | 15,142.2 | 18,749.8 | 18,749.8 | 18,749.8 | 0.0 |
| Personnel Division Fund | 11,016.9 | 13,056.8 | 13,056.8 | 13,056.8 | 0.0 |
| Information Technology Fund | 7,037.1 | 8,566.4 | 8,566.4 | 8,566.4 | 0.0 |
| Air Quality Fund | 453.9 | 927.3 | 927.3 | 927.3 | 0.0 |
| State Web Portal Fund | 6,146.8 | 6,705.1 | 6,705.1 | 6,705.1 | 0.0 |
| Special Employee Health Fund | 4,918.6 | 5,449.1 | 5,449.1 | 5,449.1 | 0.0 |
| Capitol Mall Consolidation Fund | 0.0 | 0.0 | 0.0 | 375.9 | 375.9 |
| Motor Pool Revolving Fund | 7,068.2 | 10,199.7 | 10,199.7 | 0.0 | (10,199.7) |
| Admin - Special Services Fund | 662.5 | 1,172.8 | 1,172.8 | 1,172.8 | 0.0 |
| State Surplus Materials Revolving Fund | 2,542.5 | 3,003.2 | 3,003.2 | 3,003.2 | 0.0 |
| Federal Surplus Materials Revolving Fund | 30.1 | 467.4 | 467.4 | 467.4 | 0.0 |
| Risk Management Fund | 82,722.4 | 94,772.9 | 97,574.4 | 96,879.0 | 2,106.1 |
| Arizona Financial Information System Collections Fund | 8,585.4 | 9,549.1 | 9,549.1 | 9,549.1 | 0.0 |
| Automation Operations Fund | 26,216.1 | 31,275.4 | 31,275.4 | 31,275.4 | 0.0 |
| Telecommunications Fund | 1,368.3 | 1,693.6 | 1,693.6 | 1,693.6 | 0.0 |
| Corrections Fund | 573.7 | 593.0 | 593.0 | 593.0 | 0.0 |
| Agency Total | 174,484.7 | 206,181.6 | 208,983.1 | 198,463.9 | (7,717.7) |
| <u>Department of Agriculture</u> | | | | | |
| Nuclear Emergency Management Fund | 252.4 | 280.5 | 280.5 | 280.5 | 0.0 |
| Air Quality Fund | 1,391.5 | 1,499.1 | 1,499.1 | 1,499.1 | 0.0 |
| Agency Total | 1,643.9 | 1,779.6 | 1,779.6 | 1,779.6 | 0.0 |
| <u>Arizona Health Care Cost Containment System</u> | | | | | |
| Tobacco Tax and Health Care Fund MNA | 66,861.8 | 65,627.2 | 65,627.2 | 65,627.2 | 0.0 |
| TPTF Emergency Health Services Account | 16,216.3 | 16,216.3 | 16,216.3 | 16,216.3 | 0.0 |
| Substance Abuse Services Fund | 1,350.2 | 2,250.2 | 2,250.2 | 2,250.2 | 0.0 |
| KidsCare - Federal Revenue and Expenditures Fund | 80,961.3 | 81,348.2 | 81,348.2 | 98,403.0 | 17,054.8 |
| Budget Neutrality Compliance Fund | 3,906.4 | 4,037.4 | 4,037.4 | 4,037.4 | 0.0 |
| Prescription Drug Rebate Fund | 149,574.5 | 148,459.6 | 148,459.6 | 154,459.6 | 6,000.0 |
| Agency Total | 318,870.5 | 317,938.9 | 317,938.9 | 340,993.7 | 23,054.8 |
| <u>Board of Athletic Training</u> | | | | | |
| Athletic Training Fund | 112.7 | 130.5 | 130.5 | 130.5 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Attorney General - Department of Law</u> | | | | | |
| Risk Management Fund | 0.0 | 0.0 | 0.0 | 500.0 | 500.0 |
| Interagency Service Agreements Fund | 14,870.0 | 16,980.5 | 16,980.5 | 16,980.5 | 0.0 |
| Collection Enforcement Revolving Fund - Operating | 6,464.3 | 7,132.7 | 7,132.7 | 7,132.7 | 0.0 |
| Internet Crimes Against Children Enforcement Fund | 0.0 | 900.0 | 900.0 | 900.0 | 0.0 |
| Risk Management Fund | 9,008.2 | 9,927.3 | 9,927.3 | 9,927.3 | 0.0 |
| Attorney General Legal Services Cost Allocation Fund | 1,544.1 | 2,166.6 | 2,166.6 | 2,166.6 | 0.0 |
| Consumer Protection - Consumer Fraud Revolving Fund | 10,235.2 | 10,889.3 | 10,889.3 | 13,478.1 | 2,588.8 |
| Antitrust Enforcement Revolving Fund | 109.5 | 152.5 | 152.5 | 152.5 | 0.0 |
| Victims Rights Fund | 2,495.0 | 3,783.3 | 3,783.3 | 3,783.3 | 0.0 |
| Agency Total | 44,726.3 | 51,932.2 | 51,932.2 | 55,021.0 | 3,088.8 |
| <u>Board of Barbers</u> | | | | | |
| Board of Barbers Fund | 387.3 | 419.2 | 419.2 | 419.2 | 0.0 |
| <u>Board of Behavioral Health Examiners</u> | | | | | |
| Behavioral Health Examiner Fund | 1,564.8 | 1,818.2 | 1,818.2 | 1,818.2 | 0.0 |
| <u>Department of Child Safety</u> | | | | | |
| Temporary Assistance for Needy Families (TANF) Fund | 152,802.0 | 159,091.1 | 159,091.1 | 159,091.1 | 0.0 |
| Child Care and Development Fund | 28,980.2 | 35,400.0 | 35,400.0 | 40,516.0 | 5,116.0 |
| DCS Expenditure Authority Fund | 318,141.9 | 438,965.3 | 505,288.4 | 634,258.3 | 195,293.0 |
| Child Abuse Prevention Fund | 449.4 | 1,459.3 | 1,459.3 | 1,459.3 | 0.0 |
| Children and Family Services Training Program Fund | 0.0 | 217.0 | 217.0 | 217.0 | 0.0 |
| Risk Management Revolving Fund | 0.0 | 2,602.0 | 2,602.0 | 0.0 | (2,602.0) |
| Agency Total | 500,373.5 | 637,734.7 | 704,057.8 | 835,541.7 | 197,807.0 |
| <u>Board of Chiropractic Examiners</u> | | | | | |
| Chiropractic Examiners Board Fund | 390.1 | 450.6 | 450.6 | 450.6 | 0.0 |
| <u>Commerce Authority</u> | | | | | |
| State Web Portal Fund | 2,250.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <u>Registrar of Contractors</u> | | | | | |
| Registrar of Contractors Fund | 10,611.1 | 12,690.0 | 12,690.0 | 12,690.0 | 0.0 |
| <u>Corporation Commission</u> | | | | | |
| Utility Regulation Revolving | 14,437.3 | 14,932.6 | 14,932.6 | 14,932.6 | 0.0 |
| Securities Regulatory & Enforcement | 5,060.9 | 5,286.1 | 5,286.1 | 5,286.1 | 0.0 |
| Public Access Fund | 6,546.9 | 6,976.2 | 6,976.2 | 6,976.2 | 0.0 |
| Securities Investment Management Fund | 713.3 | 745.5 | 745.5 | 745.5 | 0.0 |
| Arizona Arts Trust Fund | 50.7 | 52.6 | 52.6 | 52.6 | 0.0 |
| Agency Total | 26,809.1 | 27,993.0 | 27,993.0 | 27,993.0 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Corrections</u> | | | | | |
| Corrections Fund | 30,312.2 | 30,312.3 | 30,312.3 | 30,312.3 | 0.0 |
| State Education Fund for Correctional Education Fund | 729.0 | 769.6 | 769.6 | 769.6 | 0.0 |
| DOC - Alcohol Abuse Treatment Fund | 274.0 | 555.5 | 555.5 | 555.5 | 0.0 |
| Transition Program Fund | 592.2 | 2,400.1 | 2,400.1 | 2,400.1 | 0.0 |
| Prison Construction and Operations Fund | 2,499.8 | 12,500.0 | 12,500.0 | 12,500.0 | 0.0 |
| Inmate Store Proceeds Fund | 926.7 | 1,341.3 | 1,341.3 | 1,341.3 | 0.0 |
| Penitentiary Land Earnings Fund | 2,487.5 | 2,804.0 | 2,804.0 | 2,804.0 | 0.0 |
| State Charitable, Penal & Reformatory Land Earnings Fund | 2,661.5 | 2,661.8 | 2,661.8 | 2,661.8 | 0.0 |
| Agency Total | 40,483.1 | 53,344.6 | 53,344.6 | 53,344.6 | 0.0 |
| <u>Board of Cosmetology</u> | | | | | |
| Board of Cosmetology Fund | 1,776.1 | 1,897.4 | 1,897.4 | 1,904.2 | 6.8 |
| <u>Criminal Justice Commission</u> | | | | | |
| Criminal Justice Enhancement Fund | 439.3 | 668.5 | 668.5 | 668.5 | 0.0 |
| Victim Compensation and Assistance Fund | 3,978.6 | 4,229.9 | 4,229.9 | 4,229.9 | 0.0 |
| Resource Center Fund | 582.5 | 624.2 | 624.2 | 624.2 | 0.0 |
| Transition Program Fund | 742.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fingerprint Clearance Card Fund | 89.8 | 600.0 | 600.0 | 0.0 | (600.0) |
| State Aid to County Attorneys Fund | 716.3 | 973.7 | 973.7 | 973.7 | 0.0 |
| Agency Total | 6,549.0 | 7,096.3 | 7,096.3 | 6,496.3 | (600.0) |
| <u>Schools for the Deaf and the Blind</u> | | | | | |
| Schools for the Deaf and the Blind Fund | 13,066.7 | 13,388.3 | 13,388.3 | 13,388.3 | 0.0 |
| <u>Commission for the Deaf and the Hard of Hearing</u> | | | | | |
| Telecommunication for the Deaf Fund | 4,470.4 | 4,685.9 | 4,685.9 | 4,685.9 | 0.0 |
| <u>Board of Dental Examiners</u> | | | | | |
| Dental Board Fund | 1,142.9 | 1,261.2 | 1,261.2 | 1,438.6 | 177.4 |
| <u>Department of Economic Security</u> | | | | | |
| Statewide Cost Allocation Plan Fund | 0.0 | 1,000.0 | 1,000.0 | 1,000.0 | 0.0 |
| Temporary Assistance for Needy Families (TANF) Fund | 65,395.9 | 65,839.8 | 65,839.8 | 65,839.8 | 0.0 |
| Child Care and Development Fund | 188,120.6 | 181,557.8 | 274,270.1 | 199,543.0 | 17,985.2 |
| Workforce Investment Grant Fund | 72,176.2 | 56,085.5 | 56,085.5 | 56,085.5 | 0.0 |
| Special Administration Fund | 4,511.2 | 4,550.0 | 4,550.0 | 4,550.0 | 0.0 |
| Child Support Enforcement Administration Fund | 8,880.9 | 17,531.3 | 17,531.3 | 17,531.3 | 0.0 |
| Domestic Violence Services Fund | 3,071.0 | 4,000.0 | 4,000.0 | 4,000.0 | 0.0 |
| Public Assistance Collections Fund | 0.0 | 423.6 | 423.6 | 423.6 | 0.0 |
| Department Long-Term Care System Fund | 26,559.6 | 26,563.8 | 30,563.8 | 32,463.8 | 5,900.0 |
| Spinal and Head Injuries Trust Fund | 2,326.8 | 2,340.2 | 2,340.2 | 2,340.2 | 0.0 |
| Agency Total | 371,042.2 | 359,892.0 | 456,604.3 | 383,777.2 | 23,885.2 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Education</u> | | | | | |
| School Accountability - Prop 301 Fund | 0.0 | 7,000.0 | 7,000.0 | 7,000.0 | 0.0 |
| Teacher Certification Fund | 1,956.2 | 2,420.7 | 2,420.7 | 2,420.7 | 0.0 |
| Empowerment Scholarship Account Fund | 1,283.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Department of Education Professional Development Revolving Fund | 42.7 | 2,700.0 | 2,700.0 | 2,700.0 | 0.0 |
| Tribal College Dual Enrollment Program Fund | 250.0 | 250.0 | 250.0 | 325.0 | 75.0 |
| Permanent State School Fund | 290,489.1 | 300,612.6 | 300,612.6 | 308,789.6 | 8,177.0 |
| Agency Total | 294,021.4 | 312,983.3 | 312,983.3 | 321,235.3 | 8,252.0 |
| <u>Department of Emergency and Military Affairs</u> | | | | | |
| Nuclear Emergency Management Fund | 1,430.3 | 1,506.1 | 1,506.1 | 1,506.1 | 0.0 |
| Emergency Management Assistance Compact Revolving Fund | (97.8) | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 1,332.5 | 1,506.1 | 1,506.1 | 1,506.1 | 0.0 |
| <u>Department of Environmental Quality</u> | | | | | |
| DEQ Emissions Inspection Fund | 27,438.4 | 26,665.8 | 26,665.8 | 26,665.8 | 0.0 |
| Hazardous Waste Management Fund | 1,607.3 | 1,785.0 | 1,785.0 | 1,785.0 | 0.0 |
| Air Quality Fund | 5,479.0 | 5,472.4 | 5,472.4 | 5,472.4 | 0.0 |
| Underground Storage Tank Revolving | 0.0 | 160.8 | 160.8 | 160.8 | 0.0 |
| Recycling Fund | 1,033.7 | 1,396.8 | 1,396.8 | 1,396.8 | 0.0 |
| Permit Administration Fund | 4,124.1 | 7,327.1 | 7,327.1 | 7,327.1 | 0.0 |
| Emergency Response Fund | 132.7 | 132.8 | 132.8 | 132.8 | 0.0 |
| Solid Waste Fee Fund | 1,146.5 | 1,280.7 | 1,280.7 | 1,884.7 | 604.0 |
| Water Quality Fee Fund | 7,452.0 | 10,806.3 | 10,806.3 | 11,006.3 | 200.0 |
| Safe Drinking Water Program Fund | 1,661.7 | 1,854.7 | 1,854.7 | 2,254.7 | 400.0 |
| Indirect Cost Recovery Fund | 13,510.1 | 14,025.5 | 14,025.5 | 14,025.5 | 0.0 |
| Agency Total | 63,585.5 | 70,907.9 | 70,907.9 | 72,111.9 | 1,204.0 |
| <u>Governor's Office for Equal Opportunity</u> | | | | | |
| Personnel Division Fund | 122.3 | 197.7 | 197.7 | 197.7 | 0.0 |
| <u>Exposition & State Fair</u> | | | | | |
| Arizona Exposition and State Fair Fund | 13,060.8 | 13,523.7 | 13,523.7 | 13,523.7 | 0.0 |
| <u>Board of Funeral Directors & Embalmers</u> | | | | | |
| Funeral Directors & Embalmers Fund | 361.2 | 401.1 | 401.1 | 410.7 | 9.6 |
| <u>Game and Fish Department</u> | | | | | |
| Game and Fish Fund | 32,749.5 | 39,703.7 | 39,703.7 | 39,703.7 | 0.0 |
| Watercraft Licensing Fund | 3,129.5 | 4,991.4 | 4,991.4 | 4,991.4 | 0.0 |
| Game, Non-Game, Fish and Endangered Species Fund | 170.4 | 357.9 | 357.9 | 357.9 | 0.0 |
| Capital Improvement Fund | 1,047.3 | 1,001.2 | 1,001.2 | 1,001.2 | 0.0 |
| Wildlife Endowment Fund | 0.0 | 16.2 | 16.2 | 16.2 | 0.0 |
| Agency Total | 37,096.7 | 46,070.4 | 46,070.4 | 46,070.4 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Gaming</u> | | | | | |
| State Lottery Fund | 300.0 | 300.0 | 300.0 | 300.0 | 0.0 |
| Permanent Tribal-State Compact Fund | 2,093.5 | 2,176.5 | 2,176.5 | 2,176.5 | 0.0 |
| Arizona Benefits Fund - NEW | 9,468.3 | 11,243.5 | 11,243.5 | 11,243.5 | 0.0 |
| Racing Regulation Fund | 1,742.5 | 2,466.0 | 2,466.0 | 2,216.0 | (250.0) |
| Racing Regulaions Fund - Unarmed Combat Subaccount | 99.9 | 102.3 | 102.3 | 102.3 | 0.0 |
| Agency Total | 13,704.2 | 16,288.3 | 16,288.3 | 16,038.3 | (250.0) |
| <u>Department of Health Services</u> | | | | | |
| Capital Outlay Stabilization Fund | 32.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tobacco Tax Hlth Care Fund MNMI Account | 603.5 | 700.0 | 700.0 | 700.0 | 0.0 |
| Health Services Licenses Fund | 14,396.0 | 16,241.3 | 16,241.3 | 15,931.3 | (310.0) |
| Child Care and Development Fund | 916.8 | 911.5 | 911.5 | 911.5 | 0.0 |
| Disease Control Research Fund | 1,022.2 | 1,000.0 | 1,000.0 | 1,000.0 | 0.0 |
| Health Research Fund | 4,117.3 | 3,000.0 | 3,000.0 | 3,000.0 | 0.0 |
| Nuclear Emergency Management Fund | 523.5 | 789.7 | 789.7 | 789.7 | 0.0 |
| Emergency Medical Operating Services Fund | 4,932.6 | 5,841.9 | 5,841.9 | 3,912.6 | (1,929.3) |
| Newborn Screening Program Fund | 7,007.6 | 7,741.2 | 7,741.2 | 8,837.9 | 1,096.7 |
| Nursing Care Institution Resident Protection Revolving Fund | 64.9 | 138.2 | 138.2 | 138.2 | 0.0 |
| Prescription Drug Rebate Fund | 0.0 | 0.0 | 0.0 | 4,000.0 | 4,000.0 |
| Environmental Laboratory Licensure Revolving Fund | 709.7 | 952.0 | 952.0 | 952.0 | 0.0 |
| Child Fatality Review Fund | 94.7 | 99.2 | 99.2 | 199.2 | 100.0 |
| Vital Records Electronic Systems Fund | 3,111.0 | 3,701.7 | 3,701.7 | 3,701.7 | 0.0 |
| The Arizona State Hospital Fund | 2,789.3 | 2,573.4 | 2,573.4 | 2,883.4 | 310.0 |
| DHS State Hospital Land Earnings Fund | 575.1 | 650.0 | 650.0 | 650.0 | 0.0 |
| Health Services Lottery Fund | 86.0 | 100.0 | 100.0 | 100.0 | 0.0 |
| Indirect Cost Fund | 8,812.4 | 10,678.6 | 10,678.6 | 11,353.1 | 674.5 |
| Justice Reinvestment Fund - NEW | 0.0 | 0.0 | 0.0 | 1,737.3 | 1,737.3 |
| Smart and Safe Arizona Fund - NEW | 0.0 | 0.0 | 0.0 | 1,342.6 | 1,342.6 |
| Agency Total | 49,794.9 | 55,118.7 | 55,118.7 | 62,140.5 | 7,021.8 |
| <u>Board of Homeopathic Medical Examiners</u> | | | | | |
| Homeopathic Medical Examiners Fund | 40.5 | 46.6 | 46.6 | 46.6 | 0.0 |
| <u>Department of Housing</u> | | | | | |
| Housing Trust Fund | 322.2 | 332.5 | 332.5 | 332.5 | 0.0 |
| <u>Industrial Commission of Arizona</u> | | | | | |
| Industrial Commission Administration Fund - NEW | 19,552.0 | 20,593.1 | 20,593.1 | 20,593.1 | 0.0 |
| <u>Department of Insurance and Financial Institutions</u> | | | | | |
| Financial Services Fund | 3,676.4 | 4,157.4 | 4,157.4 | 4,157.4 | 0.0 |
| Automobile Theft Authority Fund | 5,230.9 | 5,330.0 | 5,330.0 | 5,763.7 | 433.7 |
| Banking Department Revolving Fund | 1.9 | 50.3 | 50.3 | 50.3 | 0.0 |
| Agency Total | 8,909.2 | 9,537.7 | 9,537.7 | 9,971.4 | 433.7 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Superior Court</u> | | | | | |
| Supreme Court CJEF Disbursements Fund | 2,142.3 | 5,475.8 | 5,475.8 | 5,475.8 | 0.0 |
| Judicial Collection Enhancement Fund | 4,459.2 | 6,015.7 | 6,015.7 | 6,015.7 | 0.0 |
| Drug Treatment and Education Fund | 499.9 | 502.9 | 502.9 | 502.9 | 0.0 |
| Agency Total | 7,101.4 | 11,994.4 | 11,994.4 | 11,994.4 | 0.0 |
| <u>Supreme Court</u> | | | | | |
| Supreme Court CJEF Disbursements Fund | 3,322.0 | 4,497.1 | 4,497.1 | 4,497.1 | 0.0 |
| Judicial Collection Enhancement Fund | 12,582.4 | 15,198.7 | 15,198.7 | 15,198.7 | 0.0 |
| Defensive Driving Fund | 3,312.7 | 4,316.9 | 4,316.9 | 4,316.9 | 0.0 |
| Court Appointed Special Advocate Fund | 3,523.5 | 3,627.5 | 3,627.5 | 4,092.4 | 464.9 |
| Confidential Intermediary and Fiduciary Fund | 311.8 | 509.4 | 509.4 | 509.4 | 0.0 |
| State Aid to Courts Fund | 1,928.4 | 2,946.3 | 2,946.3 | 2,946.3 | 0.0 |
| Agency Total | 24,980.8 | 31,095.9 | 31,095.9 | 31,560.8 | 464.9 |
| <u>Department of Juvenile Corrections</u> | | | | | |
| Juvenile Corrections CJEF Distribution Fund | 131.2 | 546.2 | 546.2 | 546.2 | 0.0 |
| Juvenile Education Fund | 1,299.8 | 1,986.0 | 1,986.0 | 1,986.0 | 0.0 |
| Local Cost Sharing Fund | 0.0 | 8,450.9 | 8,450.9 | 8,450.9 | 0.0 |
| State Charitable, Penal and Reformatory Land Fund | 2,491.2 | 4,017.0 | 4,017.0 | 4,017.0 | 0.0 |
| Agency Total | 3,922.2 | 15,000.1 | 15,000.1 | 15,000.1 | 0.0 |
| <u>Land Department</u> | | | | | |
| Environmental Special Plate Fund | 150.7 | 260.6 | 260.6 | 260.6 | 0.0 |
| Due Diligence Fund | 135.5 | 500.0 | 500.0 | 500.0 | 0.0 |
| Trust Land Management Fund | 6,519.3 | 7,320.1 | 7,320.1 | 7,320.1 | 0.0 |
| Agency Total | 6,805.5 | 8,080.7 | 8,080.7 | 8,080.7 | 0.0 |
| <u>Department of Liquor Licenses and Control</u> | | | | | |
| Liquor Licenses Fund | 3,280.9 | 3,498.2 | 3,498.2 | 3,498.2 | 0.0 |
| <u>Local Government</u> | | | | | |
| State Charitable, Penal & Reformatory Land Earnings Fund | 500.0 | 500.0 | 500.0 | 0.0 | (500.0) |
| <u>Lottery Commission</u> | | | | | |
| Lottery Fund | 125,661.5 | 148,164.9 | 148,164.9 | 163,081.0 | 14,916.1 |
| <u>Massage Therapy</u> | | | | | |
| Massage Therapy Board Fund | 465.9 | 486.1 | 486.1 | 486.1 | 0.0 |
| <u>Medical Board</u> | | | | | |
| Medical Examiners Board Fund | 6,691.3 | 7,227.7 | 7,227.7 | 7,677.7 | 450.0 |
| <u>Mine Inspector</u> | | | | | |
| Aggregate Mining Reclamation Fund | 22.8 | 112.9 | 112.9 | 112.9 | 0.0 |
| <u>Naturopathic Physicians Board of Medical Examiners</u> | | | | | |
| Naturopathic Board Fund | 154.3 | 197.6 | 197.6 | 197.6 | 0.0 |
| <u>Navigable Stream Adjudication Commission</u> | | | | | |
| Arizona Water Banking Fund | 47.2 | 200.0 | 200.0 | 200.0 | 0.0 |
| <u>Board of Nursing</u> | | | | | |
| Nursing Board Fund | 4,630.3 | 4,927.5 | 4,927.5 | 5,283.9 | 356.4 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Nursing Care Ins. Admin. Examiners</u> | | | | | |
| Nursing Care Institution Administrators/ACHMC Fund | 428.0 | 470.4 | 470.4 | 503.1 | 32.7 |
| <u>Board of Occupational Therapy Examiners</u> | | | | | |
| Occupational Therapy Fund | 173.8 | 204.7 | 204.7 | 204.7 | 0.0 |
| <u>Board of Dispensing Opticians</u> | | | | | |
| Dispensing Opticians Board Fund | 140.0 | 159.7 | 159.7 | 166.2 | 6.5 |
| <u>Board of Optometry</u> | | | | | |
| Board of Optometry Fund | 224.9 | 248.2 | 248.2 | 248.2 | 0.0 |
| <u>Board of Osteopathic Examiners</u> | | | | | |
| Osteopathic Examiners Board Fund | 930.3 | 1,038.0 | 1,038.0 | 1,091.4 | 53.4 |
| <u>Arizona State Parks</u> | | | | | |
| State Lake Improvement Fund | 225.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Parks Revenue Fund | 15,450.6 | 16,472.8 | 16,619.9 | 18,883.4 | 2,410.6 |
| Park Store Fund - NEW | 0.0 | 0.0 | 0.0 | 1,000.0 | 1,000.0 |
| Agency Total | 15,675.6 | 16,472.8 | 16,619.9 | 19,883.4 | 3,410.6 |
| <u>Personnel Board</u> | | | | | |
| Personnel Division Fund | 138.6 | 332.5 | 332.5 | 332.5 | 0.0 |
| <u>Board of Pharmacy</u> | | | | | |
| Pharmacy Board Fund | 2,477.4 | 2,689.6 | 2,689.6 | 3,135.0 | 445.4 |
| <u>Board of Physical Therapy Examiners</u> | | | | | |
| Physical Therapy Fund | 438.3 | 513.9 | 513.9 | 513.9 | 0.0 |
| <u>Pioneers' Home</u> | | | | | |
| Pioneers' Home State Charitable Earnings Fund | 4,467.7 | 4,658.5 | 5,058.5 | 5,089.5 | 431.0 |
| Pioneers' Home Miners' Hospital Fund | 3,056.9 | 2,137.5 | 2,137.5 | 2,137.5 | 0.0 |
| Agency Total | 7,524.6 | 6,796.0 | 7,196.0 | 7,227.0 | 431.0 |
| <u>Board of Podiatry Examiners</u> | | | | | |
| Podiatry Examiners Board Fund | 140.6 | 171.6 | 171.6 | 171.6 | 0.0 |
| <u>Commission for Postsecondary Education</u> | | | | | |
| Postsecondary Education Fund | 1,268.5 | 1,543.7 | 1,543.7 | 1,543.7 | 0.0 |
| <u>Board for Private Postsecondary Education</u> | | | | | |
| Private Postsecondary Education Fund | 394.3 | 436.3 | 436.3 | 436.3 | 0.0 |
| <u>Board of Psychologist Examiners</u> | | | | | |
| Psychologist Examiners Board Fund - NEW | 488.3 | 529.9 | 529.9 | 563.0 | 33.1 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Public Safety</u> | | | | | |
| State Highway Fund | 318.2 | 318.2 | 318.2 | 8,169.1 | 7,850.9 |
| Arizona Highway Patrol Fund | 194,725.9 | 200,822.7 | 200,822.7 | 54,286.8 | (146,535.9) |
| Safety Enforcement and Transportation Infrastructure Fund | 825.5 | 1,715.1 | 1,715.1 | 0.0 | (1,715.1) |
| Motor Vehicle Liability Insurance Enforcement Fund | 1,250.9 | 1,302.7 | 1,302.7 | 1,302.7 | 0.0 |
| DPS Forensics Fund | 16,889.9 | 23,235.6 | 23,235.6 | 23,235.6 | 0.0 |
| Public Safety Equipment Fund | 2,852.1 | 2,893.7 | 2,893.7 | 2,893.7 | 0.0 |
| Gang and Immigration Intelligence Team Enforcement Mission Fund | 2,074.8 | 2,411.6 | 2,411.6 | 2,411.6 | 0.0 |
| Fingerprint Clearance Card Fund | 1,334.5 | 1,596.1 | 1,596.1 | 1,596.1 | 0.0 |
| State Aid to Indigent Defense Fund | 634.2 | 700.0 | 700.0 | 700.0 | 0.0 |
| Motorcycle Safety Fund | 205.0 | 205.0 | 205.0 | 205.0 | 0.0 |
| Parity Compensation Fund | 3,990.5 | 4,175.5 | 4,175.5 | 4,175.5 | 0.0 |
| Concealed Weapons Permit Fund | 2,666.4 | 2,831.2 | 2,831.2 | 2,875.3 | 44.1 |
| Peace Officer Training Equipment Fund | 593.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| DPS Criminal Justice Enhancement Fund | 1,535.6 | 2,999.7 | 2,999.7 | 2,999.7 | 0.0 |
| Risk Management Revolving Fund | 1,349.3 | 1,408.6 | 1,408.6 | 1,408.6 | 0.0 |
| Agency Total | 231,246.1 | 246,615.7 | 246,615.7 | 106,259.7 | (140,356.0) |
| <u>Residential Utility Consumer Office</u> | | | | | |
| Residential Utility Consumer Office Revolving Fund | 951.8 | 1,388.9 | 1,388.9 | 1,388.9 | 0.0 |
| <u>Board of Respiratory Care Examiners</u> | | | | | |
| Board of Respiratory Care Examiners Fund | 298.8 | 333.3 | 333.3 | 333.3 | 0.0 |
| <u>Arizona State Retirement System</u> | | | | | |
| Retirement System Appropriated Fund - NEW | 19,812.6 | 23,120.8 | 23,120.8 | 23,120.8 | 0.0 |
| LTD Trust Fund | 1,303.3 | 1,800.0 | 1,800.0 | 1,800.0 | 0.0 |
| Agency Total | 21,115.9 | 24,920.8 | 24,920.8 | 24,920.8 | 0.0 |
| <u>Department of Revenue</u> | | | | | |
| Tobacco Tax and Health Care Fund | 508.0 | 694.7 | 694.7 | 694.7 | 0.0 |
| DOR Liability Setoff Fund | 733.6 | 815.5 | 815.5 | 815.5 | 0.0 |
| Department of Revenue Administrative Fund | 45,481.2 | 47,473.0 | 47,473.0 | 47,473.0 | 0.0 |
| Agency Total | 46,722.7 | 48,983.2 | 48,983.2 | 48,983.2 | 0.0 |
| <u>Department of State - Secretary of State</u> | | | | | |
| Election Systems Improvement Fund | 308.7 | 0.0 | 0.0 | 192.5 | 192.5 |
| Records Services Fund | 684.6 | 744.8 | 1,239.3 | 1,286.8 | 542.0 |
| Agency Total | 993.3 | 744.8 | 1,239.3 | 1,479.3 | 734.5 |
| <u>Board of Technical Registration</u> | | | | | |
| Technical Registration Board Fund - NEW | 1,862.0 | 2,263.1 | 2,263.1 | 2,263.1 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Transportation</u> | | | | | |
| Consumer Protection - Consumer Fraud Revolving Fund | 0.0 | 0.0 | 0.0 | 156.3 | 156.3 |
| State Aviation Fund | 1,793.0 | 2,064.8 | 2,064.8 | 2,064.8 | 0.0 |
| State Highway Fund | 346,971.2 | 406,793.9 | 406,793.9 | 418,630.2 | 11,836.3 |
| Highway Damage Recovery Account Fund | 8,000.0 | 8,000.0 | 8,000.0 | 8,000.0 | 0.0 |
| Transportation Department Equipment Fund | 17,540.9 | 19,167.8 | 19,167.8 | 19,167.8 | 0.0 |
| Safety Enforcement and Transportation Infrastructure Fund | 756.7 | 896.0 | 896.0 | 0.0 | (896.0) |
| Ignition Interlock Device Fund | 315.3 | 332.8 | 332.8 | 332.8 | 0.0 |
| Air Quality Fund | 281.0 | 326.0 | 326.0 | 326.0 | 0.0 |
| Vehicle Inspection and Certificate of Title Enforcement Fund | 1,488.9 | 2,143.2 | 2,143.2 | 2,143.2 | 0.0 |
| Motor Vehicle Liability Insurance Enforcement Fund | 2,039.6 | 1,781.8 | 1,781.8 | 1,781.8 | 0.0 |
| Highway User Revenue Fund | 540.9 | 679.9 | 679.9 | 679.9 | 0.0 |
| SMVFR Fund Subaccount - Department of Forestry and Fire Management - NEW | 0.0 | 0.0 | 0.0 | 3,910.0 | 3,910.0 |
| SMVFR Fund Subaccount - Attorney General's Office - NEW | 0.0 | 0.0 | 0.0 | 156.3 | 156.3 |
| SMVFR Fund Subaccount - Superior Court - NEW | 0.0 | 0.0 | 0.0 | 187.5 | 187.5 |
| State Motor Vehicle Fleet Operations Fund - NEW | 0.0 | 0.0 | 0.0 | 13,767.7 | 13,767.7 |
| Agency Total | 379,727.5 | 442,186.2 | 442,186.2 | 471,304.3 | 29,118.1 |
| <u>Treasurer</u> | | | | | |
| Boating Safety Fund | 0.0 | 2,183.8 | 2,183.8 | 2,183.8 | 0.0 |
| Treasurer Empowerment Scholarship Account Fund | 304.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Treasurer's Operating Fund | 3,059.5 | 3,457.0 | 3,457.0 | 3,869.6 | 412.6 |
| Agency Total | 3,363.9 | 5,640.8 | 5,640.8 | 6,053.4 | 412.6 |
| <u>Arizona State University</u> | | | | | |
| ASU Collections Fund Tuition and Fees | 655,430.2 | 603,575.9 | 603,575.9 | 603,575.9 | 0.0 |
| Technology and Research Initiative Fund | 3,472.4 | 3,600.0 | 3,600.0 | 3,600.0 | 0.0 |
| Agency Total | 658,902.6 | 607,175.9 | 607,175.9 | 607,175.9 | 0.0 |
| <u>Northern Arizona University</u> | | | | | |
| NAU Collections - Appropriated Fund | 156,154.5 | 156,298.7 | 156,298.7 | 156,298.7 | 0.0 |
| <u>University of Arizona - Main Campus</u> | | | | | |
| U of A Main Campus - Collections - Appropriated Fund | 432,107.7 | 240,586.5 | 240,586.5 | 240,586.5 | 0.0 |
| <u>University of Arizona - Health Sciences Center</u> | | | | | |
| U of A Main Campus - Collections - Appropriated Fund | 48,436.8 | 56,863.4 | 56,863.4 | 56,863.4 | 0.0 |
| <u>Department of Veterans' Services</u> | | | | | |
| State Home for Veterans Trust Fund | 35,157.9 | 39,887.1 | 40,187.6 | 51,278.2 | 11,391.1 |
| <u>Veterinary Medical Examining Board</u> | | | | | |
| Veterinary Medical Examiners Board Fund | 452.6 | 618.3 | 618.3 | 618.3 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2020 Expenditures | FY 2021 Appropriation | FY 2021 Executive Budget | FY 2022 Executive Budget | FY 2022 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Water Resources</u> | | | | | |
| Arizona Water Banking Fund | 839.1 | 1,212.4 | 1,212.4 | 1,212.4 | 0.0 |
| Water Resources Fund | 574.5 | 977.7 | 977.7 | 977.7 | 0.0 |
| Assured and Adequate Water Supply Administration Fund | 266.7 | 276.7 | 276.7 | 276.7 | 0.0 |
| Agency Total | 1,680.3 | 2,466.8 | 2,466.8 | 2,466.8 | 0.0 |
| Other Appropriated Funds Operating Total | 4,258,549.3 | 4,390,487.3 | 4,557,666.3 | 4,568,261.1 | 177,773.8 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Resources

Governor's Office of Strategic Planning and Budgeting

[Website](#)

[Executive Budgets for FY 2020 and Previous Years](#)

[Statement of Federal Funds](#)

[Master List of State Government Programs](#)

[Constitutional Appropriation Limit Calculation](#)

State Agency Technical Resources

[Agency Budget Development Software and Training Resources](#)

[Managing for Results](#), Arizona's Strategic Planning Handbook

Other Helpful Links

[Arizona's Official Website](#)

[Governor's Website](#)

[State Agencies' Websites](#)

[Governor's Fundamentals Map](#)

[Openbooks](#), a searchable database of the State Accounting System

[Arizona Labor Market Statistics](#)

[Arizona Population Statistics](#)

[FY 2021 Appropriations Report](#)

Acknowledgement

Governor Ducey gratefully acknowledges the skilled and dedicated efforts of the staff of the Governor's Office of Strategic Planning and Budgeting.

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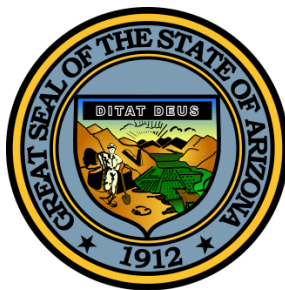
Exhibit D

State of Arizona Executive Budget

SUMMARY

FISCAL YEAR 2021

Douglas A. Ducey
GOVERNOR



JANUARY 2020

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The Budget Summary

True to a discipline in governing that is becoming known nationally as the “Arizona Way,” the FY 2021 Executive Budget leverages smart policy to develop and retain talent in Arizona’s workforce, ensure that the state’s regulatory climate is reasonable and competitive, and perpetuate Arizona’s economic momentum.

“There are no new grand entitlements in our plan – we’re not going to saddle future generations with ever-growing bills that will be increasingly difficult to pay. The investments we’re proposing are targeted and focused on areas of real need – like public education – not frivolous fads of the moment. And they’re sustainable.”

Gov. Doug Ducey

Arizona is winning in the game of states. In a typical day, more than 300 Americans vote with their feet and – recognizing our state’s boundless opportunity, exceptional quality of life, affordability, and business-friendly climate – choose to make Arizona their new home.

With over 350,000 jobs added since 2015, rising paychecks, and the strongest manufacturing growth in 30 years, the state’s robust economy is a compelling attraction for businesses and families seeking a better future.

In promoting economic opportunity for all, the “Arizona Way” under Governor Ducey carries a clear mandate: Government should run at the “speed of business” – to *decide* faster, *respond* faster, and *resolve* faster; to, add more services online that make interactions with State Government a satisfying experience; and to keep tax burdens at a minimum. This is the proven way to develop and retain talent in Arizona’s workforce, ensure that the state’s regulatory climate is reasonable and competitive, and perpetuate Arizona’s economic momentum.

Underpinning Arizona’s success is a commitment to smart policy that manifests itself in many vital ways:

- Fulfilling, ahead of schedule, a \$1 billion promise to Arizona’s K-12 teachers and schools.
- Expanding the scope and reach of the Arizona Teachers Academy.
- Enhancing the State’s investment in school capital.
- Raising the level of public safety by tackling wrong-way and impaired driving.
- Improving prison environments so that a genuine “second chance” is possible for individuals who have served their time.

- Addressing the staffing shortages at the Department of Corrections and the Department of Child Safety.
- Meeting the needs of children in the State’s care, the elderly, and individuals with physical or mental disabilities.
- Bolstering the State’s cybersecurity protection.
- Strengthening the judicial system through competitive staff and jurist pay.
- Fostering a business-friendly tax and regulatory climate and a thriving startup ecosystem.

These policies vividly illustrate State Government’s abiding commitment to Arizona’s standing as a desirable destination for families and businesses. The Executive strives to produce a government that promotes economic prosperity and uses taxpayer dollars responsibly – not to fund a bigger government, but to help Arizonans keep more of what they earn for investment in their families and futures.

FY 2020 Budget Forecast

For the third consecutive year, the State of Arizona has maintained a structural budget balance that is expected to continue for years to come. The Executive forecasts a current fiscal year structural surplus of \$763 million and an ending cash balance of \$671 million.

FY 2021 Executive Budget

The FY 2021 Executive Budget is faithful to the “Arizona Way”: fiscally conservative, balanced, and supportive of the State’s bedrock priorities – K-12 education, child safety, public safety, infrastructure, and workforce development.

Including the baseline changes and Executive initiatives, the Executive forecasts a structural surplus of \$250 million, resulting in an ending cash balance of \$165 million.

Average ongoing spending growth over the past five years remains at 5.2%, compared to 11.1% in the five years leading up to the Great Recession. Under the Executive’s FY 2021 spending plan, average spending growth over the next three years is 2.1%, which is below the levels of the mid-2000s and the 10-year average of 4.0%.

Education

The Arizona Way is paved with the success and strength of the state's education system in meeting student needs and offering them a pathway to a bright and productive future.

Since 2015, the State has made year-by-year progress in significantly boosting public education funding by cumulatively spending over \$4.5 billion. With the investments proposed in the FY 2021 Executive Budget, that figure grows to \$6.6 billion. Together, the Executive and Legislature have restored school funding that was cut in previous budgets and resolved Recession-era gimmicks and school finance lawsuits through smart, sustainable decisions.

The FY 2021 Executive Budget allocates 58% of new discretionary spending, or \$447 million, for K-12 and higher education. When counting General Fund baseline and Executive initiatives, the Executive Budget includes \$456 million, or 64% of the total spending increase.

The Executive Budget advances education by accelerating signature education investments, expanding the school safety program, incentivizing academic improvement and excellence, and preparing students for tomorrow's "New Economy" workforce.

K-12 EDUCATION

K-12 education is a box that the Executive will never check as "complete." The ongoing pursuit of improving the quality and expanding the quantity of Arizona's excellent public schools is fundamental. In support of that effort, the FY 2021 Executive Budget:

- fulfills a \$1 billion promise to K-12 education, ahead of schedule;
- fully restores additional assistance formula funding in FY 2021, instead of FY 2023 as originally planned;
- implements the final piece to the "20x2020" plan that funds a permanent 20% teacher pay raise by school year 2020-2021;
- increases funding for daily operations pursuant to Proposition 123;
- includes more high-performing schools in the Results Based Funding formula and incentivizes more schools to prepare more students to pass college credit exams, enabling Arizona students to save on tuition dollars and potentially graduate sooner;
- invests in schools and students in need by (a) providing additional funding to close the achievement gap at struggling schools; (b) expanding the pipeline of teachers in low-income schools; (c) knocking down barriers to graduation, college, or the workforce by supporting at-risk youth; and (d) eliminating financial hurdles for low-income

students to take examinations that qualify for college credit;

- doubles the amount of funding available for the School Safety Grant Program;
- supports parents who use the Empowerment Scholarship Account program;
- introduces a new incentive program for schools to offer programs in high-demand industries, in recognition of the importance of equipping students with hands-on skills needed to succeed in the workforce and postsecondary education; and
- fully funds schools' anticipated building renewal needs and significantly enhances the square-footage calculations for new construction.

HIGHER EDUCATION

For Arizona's three public universities – the University of Arizona, Arizona State University, and Northern Arizona University – and the State's community colleges, the Executive Budget:

- continues to tackle teacher shortage through the Arizona Teachers Academy and funds an even more robust marketing, outreach, and recruitment program to attract more talent and the next generation of Arizona teachers;
- enhances the universities' capacity for graduating more students in critical areas, to help Arizona compete in the New Economy;
- continues support of university operating and capital investments initially funded in the FY 2020 budget;
- expands adult learners' access to quality educational opportunities that support job training, employment, and aspiration for higher education;
- fully funds the Community College STEM and Workforce formula for *all* colleges for the first time since its creation in 2013; and
- expands educational opportunities in Arizona's rural communities with flexible operating funding, plus targeted support for advanced technology development at colleges that primarily serve rural Arizona.

Public Safety

The Executive Budget makes strategic investments to enhance and modernize public safety statewide; provides competitive pay for targeted personnel; and equips public safety workers with the tools they need to fulfill their mission.

LAW ENFORCEMENT

Wrong-Way and Impaired Driving. Strategic law-enforcement investments focused on wrong-way and impaired drivers will make Arizona highways safer.

The Executive Budget:

- expands the “Night Watch” shift by adding six Department of Public Safety (DPS) troopers to patrol State highways in Maricopa County between 8:00 PM and 6:00 AM, when impaired driving and safety threats to motorists are highest;
- fully funds DPS overtime expenses for troopers who are required to respond to emergencies, including incidents of impaired driving;
- establishes a Driving Under the Influence (DUI) Investigative Task Force at the Department of Liquor Licenses and Control to increase the Department’s prevention, investigative, and corrective actions for liquor-licensed establishments;
- over the next three fiscal years, increases DUI checkpoint and enforcement activities administered by local police departments; and
- to detect wrong-way driving, installs 76 thermal cameras along I-40, I-17, and I-19.

Public Safety Assets. The Executive Budget includes funding for the right tools to strengthen DPS’s capacity for carrying out its mission:

- replaces DPS’s aging helicopters, to strengthen the Department’s air rescue capabilities in supporting local law enforcement;
- adopts a new funding standard to maintain and replace DPS vehicles at regular intervals, to help ensure the safety of troopers and the public; and
- upgrades the State’s public safety radio system and a portion of DPS radios, which allow for critical radio communications for over 12,000 users, including 12 State agencies and number of local, federal, and tribal agencies.

TRAVEL DOCUMENTATION

The Executive Budget provides supplemental and FY 2021 funding to increase staffing at Motor Vehicle Division (MVD) locations, to accommodate the anticipated surge of Arizonans needing to acquire a federally compliant license for domestic air travel and admittance into federal buildings.

CORRECTIONS

Investments in Correctional Officers. The Executive Budget includes \$42.5 million to provide salary increases to key positions at the Department of Corrections (ADC) and Department of Juvenile Corrections (ADJC), with a primary focus on security personnel, which are difficult to recruit and retain. In keeping with that initiative, the Executive Budget:

- adds funding to complete the phase-in of a 15% raise for security personnel that began in FY 2020;
- establishes a new Corporal position that provides leadership opportunities for senior Correctional Officer II (COII) positions in addition to becoming a Sergeant (in turn,

Sergeants will have more time to develop, coach, train, and engage COIIs, which is imperative to improving workplace culture);

- addresses salary compression issues for correctional supervisors; and
- provides funding to maintain salary parity for several positions across ADJC that align with comparable ADC positions receiving pay raises.

Prison Safety. To address the safety and security of staff and inmates, the Executive Budget:

- increases funding to complete critical infrastructure improvement to locks, fire alarm and suppression systems, and HVAC units at the Lewis and Yuma prison complexes;
- fully funds the ADC building renewal formula for the first time since the formula’s creation;
- closes the Florence prison and moves existing staff to the nearby Eyman prison complex to fill vacant positions at that facility;
- allows for partnering with county jails and other third-party facilities that will manage and operate temporary replacement beds for Florence and increase general bed management capacity.

The focus of this bed-management initiative is to ensure that ADC employees and inmates occupy an environment that is conducive to reducing the rate of recidivism. By eliminating the COII vacancy rate, inmates will receive better access to educational and substance-abuse treatment programs. Safe, improved, and consistent access to programming opportunities will help inmates receive the support they need to get a genuine “Second Chance” upon serving their sentences and rejoining society.

Reducing Inmate Recidivism. “Second Chance” is an operating principle at ADC. The Department’s ultimate goal is to reduce the State’s prison population by offering inmates additional pathways to employment and post-release success in life.

In addition to meeting the security staffing needs necessary to offer programs aimed at reducing recidivism, the Executive Budget continues to expand educational opportunities by funding more personnel to address the current waiting list of inmates in need of mandatory literacy or special education classes. The Executive Budget also invests in the prison braille transcription program to allow more inmates to participate, and to increase the number of textbooks for the visually impaired.

The Executive Budget also supports appropriating the Medical Marijuana Fund to:

- expand substance abuse treatment programming within ADC;
- establish a student loan repayment program for substance abuse counselors providing services in a correctional setting;

- add an employment specialists to work with inmates who were convicted of drug possession and who have successfully completed substance abuse treatment; and
- offer Medicaid “reach-in” programs for inmates convicted of drug possession nearing the end of their sentences, to ensure that medical providers are identified and scheduled prior to an inmate’s release from prison.

Health and Welfare

The Executive Budget helps vulnerable Arizonans, with an emphasis on children who are in foster care or are victims of abuse; the elderly; individuals struggling with opioid addiction or at risk of suicide; and providers of services for the developmentally disabled.

SAFE, HEALTHY CHILDREN

In providing protections for at-risk children, the Executive Budget:

- improves access to child care for low-income working families and foster parents by (a) providing incentive bonuses to quality child-care facilities ranked by First Things First; (b) helping unranked facilities achieve certification as quality child-care centers; (c) sustaining the suspension of the waitlist, to ensure that this important workforce and early childhood development program is available to those who need it; and (d) providing up to \$200 to cover the one-time cost of child care enrollment fees for kinship families.
- continues targeted salary adjustments for mission-critical staff at the Department of Child Safety (DCS) to support strides in investigating child welfare cases, enhancing in-home preventive services, and reducing the number of out-of-home child placements;
- establishes adoption incentives to encourage adoption of sibling groups and children with significant developmental disabilities;
- doubles the “Grandmother Stipend” for family members who, in the absence of parents, serve as caregivers for children;
- modifies the Arizona Newborn Screening Program to improve screening-fee collection rates and adding two screens recommended by the Arizona Newborn Screening Committee and the U.S. Department of Health and Human Services;
- invests in the Child and Family Advocacy Center program to improve victim advocacy, case management, and counseling services to primary and secondary victims of child abuse, domestic violence, sexual assault, elder abuse and homicide; and

- expands the Dependency Alternative Program (DAP) statewide to address the needs of children and families involved in dependency court proceedings and to resolve cases more quickly and in a manner that results in less costly and more sustainable and stable outcomes for children.

ADULT PROTECTION

Suicide Prevention. The Executive responds to the October 2019 Arizona Suicide Prevention Action Plan, released by the Department of Health Services (DHS) and the Arizona Health Care Cost Containment System (AHCCCS). The plan recommends that, among other strategies, the State enhance crisis-response teams, expand suicide-prevention resources, initiate a campaign to address social isolation, and establish a Suicide Mortality Review Team.

The purpose of the Suicide Mortality Review Team is to identify gaps in current suicide reporting and help DHS improve suicide prevention. The Executive contemplates that DHS and AHCCCS will identify existing resources, particularly federal grants, to support other recommendations contained in the action plan.

Protecting Vulnerable Adults and the Elderly. The Executive Budget consistently strives to make Arizona safer for at-risk individuals by addressing funding needs identified through stakeholder engagement and known utilization trends.

The Executive Budget includes:

- targeted rate increases for providers of therapy and respite and habilitation care;
- rate increases for Aging and Adult Services to reduce high turnover rates and enhance access by vulnerable and homebound adults and seniors; and
- support for using the Medical Marijuana Fund to provide health care services to uninsured or underinsured Arizonans who struggle with substance abuse.

Government That Works

The Executive Budget continues to pursue excellence in public asset management, agency operations, customer service, and business creation and relocation, including:

- a cybersecurity package that improves State Government’s cyber preparedness by (a) establishing a new Statewide Cybersecurity Risk Management Program to cover financial losses from cyber incidents and help the State execute response and recovery efforts; (b) increasing staffing at the Statewide Information Security and Privacy Office, to focus on agency cybersecurity preparedness; and (c) expanding the Arizona National Guard Cyber Response Team;
- funding for agencies to migrate to internet-based or “cloud” computing services, which will improve operational

efficiency, reduce IT infrastructure complexity, enhance data security, and reduce equipment costs;

- creating a customer assistance team at the Department of Revenue to help Arizona taxpayers navigate other states' tax requirements under the new remote-seller regime (per the U.S. Supreme Court's *Wayfair* decision);
- investing in building renewal across the State's building system, including fire and life safety projects and targeted infrastructure repair, replacement, and renovation; and
- continued support for e-licensing, a key quality of a business-friendly environment.

The Executive Budget's business-friendly focus also includes State support for continued development of a Business One-Stop web portal – a single online location to help companies and individuals seamlessly plan, start, and grow Arizona businesses and relocate business from other states.

The Executive Budget's other key infrastructure investments include:

- accelerating the Interstate 10 (I-10) widening project between Phoenix and Tucson by replacing the four-lane Gila River Bridge with six lanes; and
- funding almost \$60 million in Smart Highway Corridors with the installation of 514 miles of broadband infrastructure along the entire lengths of I-40 and I-19 and a significant stretch of I-17 south of Flagstaff, to improve highway safety technology systems (traffic cameras, wrong-way driving detection, dynamic message boards, weather information, and variable speed limit signage).

Finally, the Executive Budget reverses a reduction of \$6 million in Arizona Competes funding and adds \$10 million to invest further in the newly created Rural Broadband Grant program.

Natural Resources

The Executive Budget includes targeted funding to protect air and water quality, promote fire safety in schools, preserve the state's forests, and maximize the value of State Trust land.

AIR AND WATER QUALITY

The Executive Budget places a strong emphasis on complying with federal air standards and preserving Arizona's most precious resource: water.

Specifically, the Executive Budget:

- increases funding and flexibility for the Department of Environmental Quality (DEQ) to implement (a) a public outreach campaign to reduce travel on high-pollution days and (b) a remote emission-testing pilot to discover technologies that can significantly help the state meet federal air quality requirements; and

- commits full funding of the State's program for hazardous waste cleanups, using the statutorily required formula for the first time since FY 2007 to support DEQ's efforts to evaluate and remediate polluted land.

Waters of the State. The Executive Budget also provides DEQ with the resources to conduct analysis, engage stakeholders, and develop program requirements to establish the "Waters of the State" program. The federal government is redefining its jurisdiction, which will ultimately lead to the regulatory abandonment of nearly all streams and lakes in Arizona. The investment will ensure that newly unprotected waters are under the State's appropriate and reasonable supervision.

FIRE SAFETY

The Executive Budget funds additional staff in the Office of the State Fire Marshal to accelerate the frequency of fire inspections while leveraging more agreements with local fire departments to conduct school inspections.

Fire Suppression. As the western U.S. experiences drier, warmer climates, with federal forests that have not been adequately maintained, Arizona faces a larger number of fires at a higher per-acre cost.

To address this more dangerous environment, the Executive Budget:

- repays all outstanding cost-share fire bills that the State owes federal partners from abnormally high concentrations of prior-year fires on State land;
- increases the General Fund deposit into the Fire Suppression Fund to reflect the State's higher costs associated with recent increases in multijurisdictional fires;
- raises by 5% the rate of firefighter pay at the Department of Forestry and Fire Management (DFFM), in recognition of longer wildfire seasons and increased work hours and safety risks of the State's firefighters; and
- helps the State fight fires more efficiently by providing the Arizona National Guard with equipment to access video from federal drone aircraft and share it with State partners.

School Fire Inspections. The Office of the State Fire Marshal (OSFM) is responsible for inspecting 15,000 State- and county-owned buildings, including schools. Schools have been inspected at a low rate in recent years, and the Executive Budget increases OSFM's funding to add three deputy fire marshal positions to accelerate the frequency of inspections.

PROACTIVE MANAGEMENT OF STATE TRUST LAND

The Executive Budget provides funding for the State Land Department to begin soil and drainage studies of the Superstition Vistas Planning Area in Pinal County. This parcel of State land has been identified as a high priority for future growth that could lead to substantial revenue to the Trust.

The Executive continues to advocate for timely payment of fees from the Central Arizona Project for water rights that benefit State Trust lands. The average supplemental appropriation included in previously enacted budgets has increased dramatically over the past decade, suggesting that this process is inadequate. Further, the Central Arizona Project has notified the State Land Department that failure to timely pay water bills will begin resulting in costly late penalties.

Major General Fund Budget Issues, FY 2020 and FY 2021

In Millions of Dollars

| | |
|--|----------|
| K-12: 20x2020 Teacher Salary Increase | \$ 124.5 |
| K-12: Fully Restoring Additional Assistance | 203.0 |
| K-12: Baseline Enrollment Growth and Inflation | 156.0 |
| SFB: Building Renewal Grants (Including FY 2020 Supplemental) .. | 125.0 |
| School Facilities Board (SFB): New Schools | 59.0 |
| Corrections: Prison Safety..... | 50.5 |
| Infrastructure: Smart Highway Corridors (I-40, I-19, I-17) | 49.7 |
| K-12: Closing the Achievement Gap | 43.6 |
| K-12: School Safety Package | 38.0 |
| Corrections: Security Pay Package..... | 37.1 |
| Universities: Capital and Operational Funding | 35.0 |
| Universities: New Economy Initiative | 35.0 |
| K-12: Results Based Funding Expansion | 34.7 |
| Infrastructure: Accelerating the I-10 Widening Project (Gila River) .. | 28.0 |
| K-12: Prop. 123 Operational Funding..... | 25.0 |
| Fiscal Responsibility: Rainy Day Fund Deposit..... | 25.0 |
| Environment: Fully Funding WQARF Program..... | 15.0 |

| | |
|---|------|
| Community Colleges: STEM/Workforce Formula | 11.1 |
| Community Colleges: Rural Community College Support..... | 10.6 |
| Public Safety: Updating Public Safety Assets | 10.2 |
| Commerce: Rural Broadband Grant Program Expansion | 10.0 |
| Counties: Eliminate DJC Cost Sharing for All Counties | 8.4 |
| SFB: New Schools Funding Enhancement..... | 6.4 |
| Fire Safety: Fire Suppression and Federal Repayment | 6.3 |
| Commerce: Restore Arizona Competes Fund | 6.0 |
| Judiciary: Pay Package | 5.6 |
| K-12: Arizona Industry Credential Incentive Program | 5.0 |
| DES: Rate Increases for Home and Community Based Services | 5.0 |
| K-12: College Credit Incentive and Aid Programs | 3.3 |
| Public Safety: Wrong-Way and Impaired Driving | 1.6 |
| DES: Rate Increases for Vulnerable Adults and the Elderly..... | 1.5 |
| Universities: Arizona Teachers Academy | 1.0 |
| Environment: Water of the State Program Start-Up..... | 1.0 |
| Health and Welfare: Suicide Prevention | 0.4 |

Projected Ending Balances

| | |
|---------------|-------|
| FY 2020 | 671.0 |
| FY 2021 | 165.4 |
| FY 2022 | 102.6 |
| FY 2023 | 128.4 |

Projected Structural Balances

| | |
|---------------|-------|
| FY 2020 | 762.9 |
| FY 2021 | 250.5 |
| FY 2022 | 98.0 |
| FY 2023 | 193.8 |

Executive Budget In-A-Flash

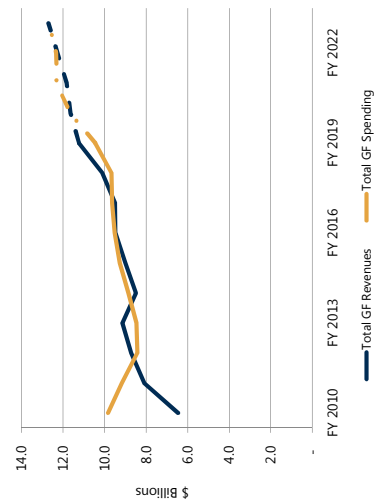
GENERAL FUND CASH FLOW

| | Prelim Actual FY 2019 | Executive Budget FY 2020 | Executive Budget FY 2021 | Executive Budget FY 2022 | Executive Budget FY 2023 |
|-----------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| Beginning Balance | \$ 449,632,000 | \$ 957,241,000 | \$ 671,035,000 | \$ 165,411,600 | \$ 102,566,251 |
| Adj. Base Revenues | 10,976,305,800 | 11,554,322,300 | 11,873,320,900 | 12,287,974,351 | 12,748,940,800 |
| Revenue Changes | - | - | (52,060,700) | (52,525,400) | (46,629,800) |
| One-time Revenues | 255,425,900 | 80,518,700 | 6813,700 | 26,725,700 | 0 |
| Total Revenues | \$ 11,681,363,700 | \$ 12,592,082,000 | \$ 12,499,108,900 | \$ 12,427,586,251 | \$ 12,804,877,251 |
| Enacted Spending | \$ 10,453,015,700 | \$ 11,582,558,100 | \$ 11,582,558,100 | \$ 12,308,697,300 | \$ 12,325,020,000 |
| Baseline Changes | - | 24,439,800 | (48,842,300) | (185,422,100) | 180,597,300 |
| Net New Initiatives | - | 42,942,100 | 774,981,500 | 201,744,800 | 170,860,300 |
| Total Spending | \$ 10,453,015,700 | \$ 11,649,940,000 | \$ 12,308,697,300 | \$ 12,325,020,000 | \$ 12,676,477,600 |
| BSF Deposit | 271,107,000 | 271,107,000 | 25,000,000 | 0 | 0 |
| Ending Balance | \$ 957,241,000 | \$ 671,035,000 | \$ 165,411,600 | \$ 102,566,251 | \$ 128,399,651 |
| | | | | | YOY ¹ % growth |
| | | | | | 2.9% |

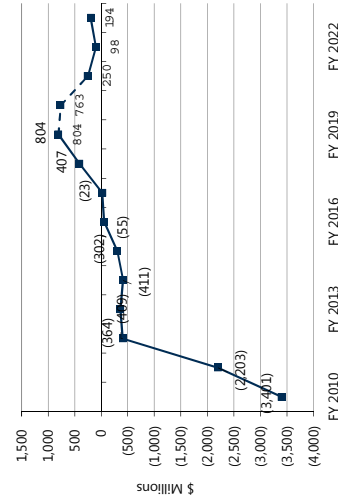
GENERAL FUND STRUCTURAL BALANCE

| | Prelim Actual FY 2019 | Forecast FY 2020 | Forecast FY 2021 | Forecast FY 2022 | Forecast FY 2023 | YOY % growth |
|---------------------------|--------------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------|
| Ongoing Revenues | \$ 10,976,305,800 | \$ 11,554,322,300 | \$ 11,821,260,200 | \$ 12,235,448,951 | \$ 12,702,311,000 | 3.8% |
| Ongoing Spending | 10,172,103,900 | 10,791,398,100 | 11,570,774,300 | 12,137,435,600 | 12,508,555,200 | 3.1% |
| Structural Balance | \$ 804,201,900 | \$ 762,924,200 | \$ 250,485,900 | \$ 98,013,351 | \$ 193,755,800 | |

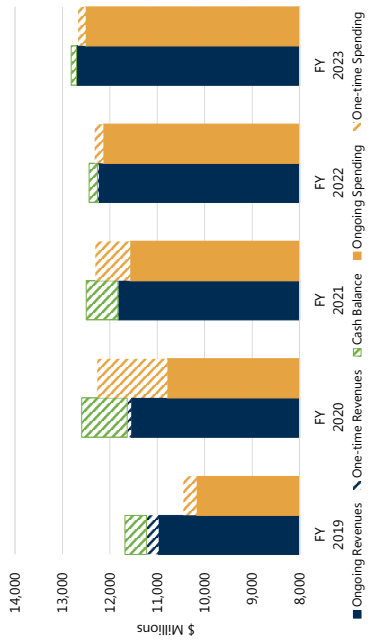
HISTORICAL REVENUES TO SPENDING



GENERAL FUND STRUCTURAL BALANCE



COMPARISON OF REVENUES TO SPENDING

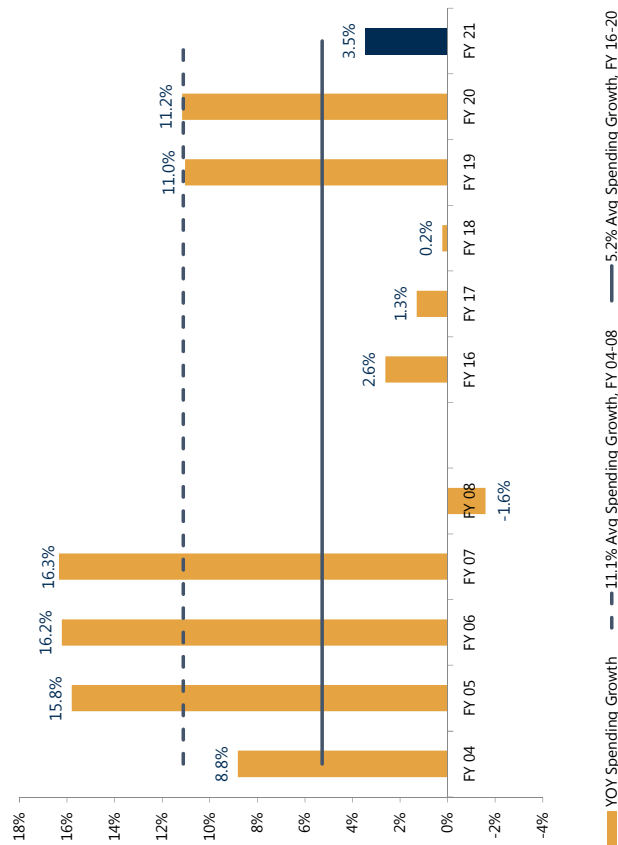


¹Year-over-year growth compares total spending, including supplemental appropriations and Budget Stabilization Fund deposits, to the prior year.

GENERAL FUND SPENDING

Average ongoing General Fund spending growth over the past 5 years has been just 4.5% compared to 11% in the 5 years prior to the Great Recession.

Cognizant of the mistakes of the past, the FY 2021 Executive Budget slows total spending growth to 3.5% next year, while ongoing spending growth falls from 7.2% to 3.1% over the next 3 years.

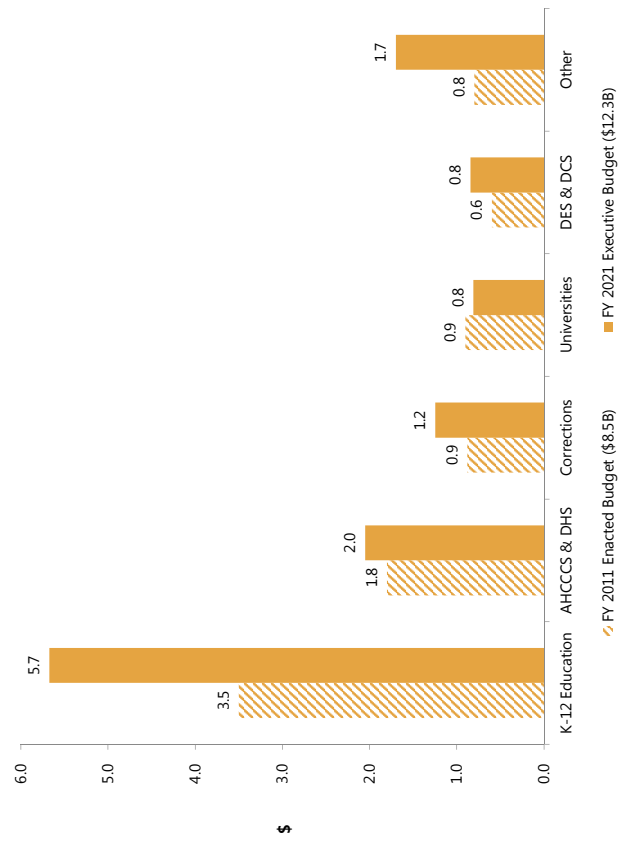
GENERAL FUND SPENDING GROWTH RATES, FY 2004 to FY 2020 vs. FY 2016 to FY 2020

³ The Baseline Adjustments for School Facilities Board include removal of one-time funding in FY 2020 and retired debt service on construction of new schools that occurred in the 2000s.

⁴ The amounts in the FY 2021 Executive Budget column may not equal to the sum of the FY 2020 and FY 2021 Baseline and Initiative columns because of supplemental included in FY 2020 that are considered one-time spending and not necessarily carried into FY 2021.

| | Prelim Actual | Executive Budget | | | Baseline Adjustments ³ | | New Initiatives | | New FY 2020 Spending: \$ | | New FY 2021 Spending: \$ | | YOY % growth |
|-------------------------|-------------------------|----------------------|----------------------|----------------------|-----------------------------------|-------------------|-------------------|-------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------|
| | | FY 2019 | FY 2020 | FY 2021 | FY 2020 | FY 2021 | FY 2020 | FY 2021 | | | | | |
| Education | 4,704,652 | 5,200,185 | 5,672,715 | 5,672,715 | 258,235 | 214,295 | 214,295 | 214,295 | | | | | 9.1% |
| AHCCCS | 1,777,094 | 1,785,188 | 1,955,842 | 1,955,842 | 192,007 | 3,087 | 3,087 | 3,087 | | | | | 9.6% |
| Corrections | 1,099,670 | 1,167,111 | 1,248,027 | 1,248,027 | 0 | 80,915 | 80,915 | 80,915 | | | | | 6.9% |
| Economic Security | 650,937 | 749,708 | 822,083 | 822,083 | 65,875 | 6,500 | 6,500 | 6,500 | | | | | 9.7% |
| Child Safety | 375,839 | 384,653 | 408,446 | 408,446 | 2,352 | 21,441 | 21,441 | 21,441 | | | | | 6.2% |
| ASU - Tempe | 328,776 | 341,917 | 358,248 | 358,248 | (18,669) | 35,000 | 35,000 | 35,000 | | | | | 4.8% |
| School Facilities Board | 274,700 | 360,650 | 242,010 | 242,010 | (181,050) | 97,410 | 97,410 | 97,410 | | | | | -32.9% |
| U of A | 208,836 | 215,809 | 227,213 | 227,213 | (9,246) | 20,650 | 20,650 | 20,650 | | | | | 5.3% |
| NAU | 112,096 | 117,251 | 124,018 | 124,018 | (7,583) | 14,350 | 14,350 | 14,350 | | | | | 5.8% |
| Health Services | 89,931 | 97,158 | 93,852 | 93,852 | (4,307) | 1,000 | 1,000 | 1,000 | | | | | -3.4% |
| Other ⁴ | 1,101,592 | 1,501,416 | 1,181,245 | 1,181,245 | (346,456) | 280,334 | 280,334 | 280,334 | | | | | -21.3% |
| Total | \$ 10,724,122.70 | \$ 11,921,047 | \$ 12,333,697 | \$ 12,333,697 | \$ (48,842) | \$ 774,982 | \$ 774,982 | \$ 774,982 | \$ 67,381,900 | \$ 726,139,200 | \$ 726,139,200 | \$ 726,139,200 | 3.5% |

⁴ Other spending includes Sub-Budget deposits, Early.

GENERAL FUND SPENDING DISTRIBUTION, FY 2011 to FY 2021 (billions)

| GENERAL FUND SPENDING BREAKDOWN | |
|---|--|
| KEY HIGHLIGHTS | |
| <ul style="list-style-type: none"> The Executive Budget protects and continues to grow the Budget Stabilization Fund balance, investing another \$25 million and keeping total reserves at \$1.2 billion in FY 2021 Additionally, the Budget fully funds the final leg of the Governor's "20x2020" plan and accelerates Additional Assistance Restoration | |

K-12 AND HIGHER EDUCATION

| DEPARTMENT OF EDUCATION | |
|------------------------------|---|
| \$258.2M FY 2021 Baseline | |
| \$131.7M | Inflation Adjustment |
| \$124.5M | Teacher Salary Increase |
| \$67.8M | Increase Additional Assistance |
| \$64.1M | Proposition 301 Bridge |
| \$25M | State Aid Supplement |
| \$24.3M | Enrollment Growth |
| \$19M | 1% Cap Increase |
| \$5M | Arizona Industry Credential Incentive Program |
| \$1.5M | Empowerment Scholarship Account - BSA Increases |
| \$0.4M | Teacher Professional Development Pilot |
| (\$10.8M) | Increased Permanent Fund Distributions |
| (\$59.7M) | Property Taxes From New Construction |
| (\$134.6M) | Remove One-Time FY 2020 Appropriations |
| \$214.3M FY 2021 Initiatives | |
| \$135.5M | Accelerate Additional Assistance |
| \$38M | School Safety Grant Program |
| \$34.7M | Results Based Funding |
| \$2.1M | College Credit by Examination Incentive Program |
| \$1.2M | College Placement Exam Fee Waiver |
| \$1M | Gifted Education |
| \$0.5M | Alternative Teacher Development Program Expansion |
| \$0.4M | Jobs for Arizona Graduates |
| \$0.4M | Adult Education State Match |
| \$0.4M | Investigations Unit Expansion |

| SCHOOL FACILITIES BOARD | |
|-----------------------------|--|
| (\$181M) FY 2021 Baseline | |
| \$45.8M | New School Facilities - In Progress |
| \$13.2M | New School Facilities - Conceptual Approvals |
| (\$62.8M) | Prior Year Building Renewal Grants |
| (\$64.7M) | New School Facilities Debt Service |
| (\$112.6M) | Prior Year New School Construction |
| \$97.4M FY 2021 Initiatives | |
| \$90.8M | Building Renewal Grants |
| \$6.4M | Enhanced Square Footage Calculations |
| \$0.2M | Enhanced Operational Support |

| UNIVERSITIES | |
|----------------------------|---|
| (\$35.5M) FY 2021 Baseline | |
| \$0.5M | 2017 University Capital Infrastructure Financing |
| (\$1.0M) | 2003 Research Infrastructure Refinancing |
| (\$35.0M) | Remove One-Time FY 2020 Appropriations |
| \$71M FY 2021 Initiatives | |
| \$35.0M | Workforce Development for the New Economy |
| \$35.0M | Restore FY 2020 Additional Investment |
| \$1M | Teachers Academy Marketing, Outreach, and Recruitment |

| COMMUNITY COLLEGES | |
|-----------------------------|--|
| (\$32.8M) FY 2021 Baseline | |
| \$2.6M | Equalization Aid |
| (\$0M) | STEM and Workforce Programs Aid |
| (\$0.4M) | Operating State Aid |
| (\$35M) | Remove One-Time FY 2020 Appropriations |
| \$17.6M FY 2021 Initiatives | |
| \$11.1M | Fully Fund STEM & Workforce Programs Aid Formula |
| \$6.5M | Rural Community College Aid |

HEALTH AND WELFARE

| ECONOMIC SECURITY | |
|----------------------------|---|
| \$65.9M FY 2021 Baseline | |
| \$58.2M | DDD Caseload Growth & Capitation |
| \$8.7M | Integration of Behavioral Health Services for DD into DES |
| (\$1M) | Remove One-Time FY2020 Appropriation |
| (\$0M) | Technical Adjustments |
| \$6.5M FY 2021 Initiatives | |
| \$5M | DDD HCBS Provider Rate Increases and Quality Care System |
| \$1.5M | Provider Rate Increases for Adult and Aging Services |

| AHCSS | |
|----------------------------|--|
| \$192M FY 2021 Baseline | |
| \$129.6M | Traditional Formula Adjustments |
| \$39.8M | Arizona Long Term Care System Formula Adjustments |
| \$14M | Proposition 204 Formula Adjustments |
| \$12.3M | KidsCare Formula Adjustments |
| \$5.9M | Comprehensive Medical and Dental Formula Adjustments |
| (\$0.1M) | Newly Eligible Adults Formula Adjustments |
| (\$0.8M) | Remove FY 2020 Appropriations |
| (\$8.7M) | Integration of BHS into the DES DDD |
| \$3.1M FY 2021 Initiatives | |
| \$3M | Information Technology Systems Operating Costs |
| \$0.1M | PHMIS Information Technology Roadmap Consultant |
| (\$0M) | CRS Administration Base Modification |

| DEPARTMENT OF CHILD SAFETY | |
|----------------------------|----------------------------------|
| \$2.4M FY 2021 Baseline | |
| \$2.4M | Adoption Subsidy Caseload Growth |

| \$21.4M FY 2021 Initiatives | |
|-----------------------------|--|
| \$9.3M | DCS Pay Package |
| \$5M | Kinship Stipend Enhancement |
| \$3M | Adoption Incentive for Sibling Groups |
| \$3M | Administrative Support |
| \$1.2M | Adoption Subsidy Increase for Children with Disabilities |

PUBLIC SAFETY

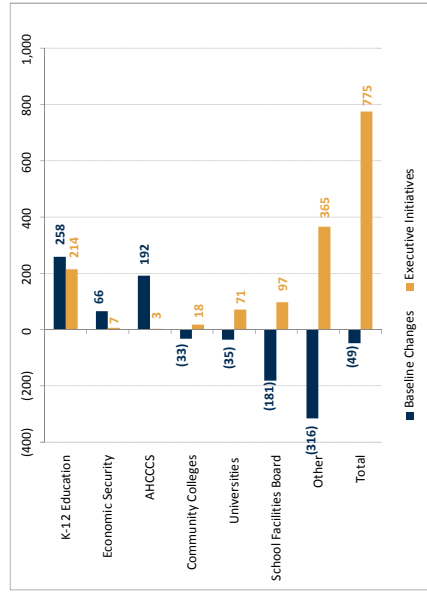
| DEPARTMENT OF PUBLIC SAFETY | |
|-------------------------------|--|
| (\$8.2M) FY 2021 Baseline | |
| (\$8.2M) | Remove One-Time FY 2020 Appropriations |
| (\$16.3M) FY 2021 Initiatives | |
| \$5.5M | Helicopter Replacement |
| \$2.9M | Overtime |
| \$2.9M | Radio Replacement |
| \$1.8M | ACTIC, Caseload, and Replacement Equipment |
| \$1.6M | Wrong Way Driving Patrol |
| (\$31M) | Ex-Appropriation |

| CORRECTIONS | |
|-----------------------------|---|
| \$0M FY 2021 Baseline | |
| \$80.9M FY 2021 Initiatives | |
| \$37.1M | Salary Increase for Security and Investigators Series |
| \$33.2M | Bed Management Strategy |
| \$5.8M | Leadership Enhancement & Development |
| \$2.8M | Private Prison Inflation Adjustment |
| \$1.1M | Recidivism Reduction Programs |
| \$0.7M | Inmate Food Contract Inflation Adjustment |
| \$0.3M | Braille Transcription Program Expansion |
| (\$0M) | Community Corrections SLI Adjustment |

| OTHER CHANGES | |
|----------------------------------|--|
| (\$312.2M) FY 2021 Net Baseline | |
| \$80M | Extra Pay Period Costs for FY 2021 |
| \$6M | State Funding for Maricopa Superior Court Judges |
| \$0.4M | Charter Accountability |
| (\$396.2M) | All Other, Net Baseline |
| \$295.4M FY 2021 Net Initiatives | |
| \$49.7M | Transportation - Smart Highway Corridors |
| \$43.6M | Closing the Achievement Gap |
| \$29.4M | Corrections - Lewis and Yuma Locks, Fire, and HVAC |
| \$28M | Transportation - Gila River Bridge |
| \$10M | Rural Broadband Grants |
| \$2.1M | Deposits into the Automation Projects Fund |
| \$135.5M | All Other Initiatives |

| OVERALL SPENDING | |
|--------------------------------|----------------------|
| (\$48.8M) FY 2021 Net Baseline | |
| \$524.8M | Baseline Increases |
| (\$573.6M) | Baseline Decreases |
| \$806.3M | Initiative Increases |
| (\$31.3M) | Initiative Decreases |
| \$775M FY 2021 Net Initiatives | |

| \$726.1M Total New Spending | |
|---|--|
| NEW GENERAL FUND SPENDING PROFILE FY 2021 | |



General Fund Sources and Uses

\$ in thousands

| | FY 19 | FY 20 | FY 20 | FY 20 | FY 21 | FY 21 | FY 21 | FY 22 | FY 22 | FY 23 | FY 23 |
|--|-------------------|-------------------|---------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------|-------------------|
| | Prelim Actual | Enacted Base | Net Changes | Executive Budget | Net Changes | Executive Budget | Executive Budget | Net Changes | Executive Budget | Net Changes | Executive Budget |
| SOURCES OF FUNDS | | | | | | | | | | | |
| Beginning Balance | 449,632 | 764,372 | | 957,241 | | 671,035 | | 165,412 | | | 102,566 |
| Ongoing Revenues | | | | | | | | | | | |
| Base Revenues | 11,651,110 | 11,839,225 | | 12,291,896 | | 12,701,814 | | 13,141,043 | | | 13,625,803 |
| <i>Urban Revenue Sharing</i> | <i>(674,804)</i> | <i>(737,574)</i> | | <i>(737,574)</i> | | <i>(828,493)</i> | | <i>(853,068)</i> | | | <i>(876,862)</i> |
| Adjusted Base Revenues | 10,976,306 | 11,101,651 | | 11,554,322 | | 11,873,321 | | 12,287,974 | | | 12,748,941 |
| Transfers & Newly Enacted Changes | 255,426 | 80,519 | | 80,519 | | (45,247) | | (25,800) | | | (46,630) |
| PDRF Transfer | 0 | 69,000 | | 69,000 | | 16,700 | | 16,700 | | | 0 |
| Wells Fargo Settlement | 0 | 20,000 | | 20,000 | | 0 | | 0 | | | 0 |
| IT - One-time Conformity Revenue | 155,000 | 0 | | 0 | | 0 | | 0 | | | 0 |
| TPT - Estimated Payment Thresholds | 0 | (10,322) | | (10,322) | | (10,005) | | (9,974) | | | 0 |
| Water Infrastructure Repayment | 0 | 0 | | 0 | | 0 | | 20,000 | | | 0 |
| Executive Changes to the Liquor Licensing Fund | 0 | 0 | | 0 | | (1,770) | | (1,325) | | | (1,325) |
| Executive Changes to the DPS Forensics Fund | 0 | 0 | | 0 | | (4,800) | | (4,800) | | | (4,800) |
| New Fund Transfers | 0 | 0 | | 0 | | 119 | | 0 | | | 0 |
| Prior Fund Transfers | 100,426 | 1,841 | | 1,841 | | 0 | | 0 | | | 0 |
| Military Pension Pay Exemption | 0 | 0 | | 0 | | (45,491) | | (46,401) | | | (40,505) |
| Subtotal Revenues | 11,231,732 | 11,182,170 | | 11,634,841 | | 11,828,074 | | 12,262,175 | | | 12,702,311 |
| TOTAL SOURCES OF FUNDS | 11,681,364 | 11,946,542 | | 12,592,082 | | 12,499,109 | | 12,427,586 | | | 12,804,877 |
| USES OF FUNDS | | | | | | | | | | | |
| Operating Budget Appropriations | 10,320,966 | 11,220,212 | 67,382 | 11,287,594 | 860,139 | 12,147,733 | 123,688 | 12,271,421 | 345,957 | | 12,617,377 |
| Other Expenses/(Revenues) | 403,157 | 633,453 | 0 | 633,453 | (447,489) | 185,964 | (132,365) | 53,599 | 5,501 | | 59,100 |
| Extra Pay Period Costs for FY 2021 | 0 | 0 | 0 | 0 | 80,000 | 80,000 | (80,000) | 0 | 0 | | 0 |
| Prior Year Capital Outlay | 4,959 | 4,575 | 0 | 4,575 | (4,575) | 0 | 0 | 0 | 0 | | 0 |
| FY 2019 One-time Supplementals | 33,956 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 |
| FY 2019 Ongoing Supplementals/Ex-Appropriations | (42,839) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 |
| Phoenix Convention Center Payment | 22,996 | 23,500 | 0 | 23,500 | 498 | 23,998 | 501 | 24,499 | 501 | | 24,999 |
| Rio Nuevo District | 14,000 | 14,000 | 0 | 14,000 | 0 | 14,000 | 0 | 14,000 | 0 | | 14,000 |
| Asset Sale/Lease-Back Debt Service | 84,112 | 77,709 | 0 | 77,709 | (24,007) | 53,702 | 2 | 53,704 | 0 | | 53,704 |
| Arts Commission | 0 | 2,200 | 0 | 2,200 | (200) | 2,000 | (2,000) | 0 | 0 | | 0 |
| 20108 Debt Payoff | 0 | 190,000 | 0 | 190,000 | (190,000) | 0 | 0 | 0 | 0 | | 0 |
| Unallocated Retirement Rate Adjustment | 0 | 0 | 0 | 0 | 16,890 | 16,890 | 0 | 16,890 | 0 | | 16,890 |
| Unallocated FY 2019-20 Health Insurance Adjustment | 32 | 52 | 0 | 52 | (52) | 0 | 0 | 0 | 0 | | 0 |
| Prior Year Transportation Funding | 0 | 95,310 | 0 | 95,310 | (95,310) | 0 | 0 | 0 | 0 | | 0 |
| HITF One-Time Adjustment | 0 | 0 | 0 | 0 | 15,375 | 15,375 | (25,868) | (10,493) | 0 | | (10,493) |
| Administrative Adjustments | 185,833 | 128,000 | 0 | 128,000 | 10,000 | 138,000 | 5,000 | 143,000 | 5,000 | | 148,000 |
| Reversions | (171,000) | (173,000) | 0 | (173,000) | (10,000) | (183,000) | (5,000) | (188,000) | 0 | | (188,000) |
| Transfer to Rainy Day Fund | 271,107 | 271,107 | 0 | 271,107 | (246,107) | 25,000 | (25,000) | 0 | 0 | | 0 |
| TOTAL USES OF FUNDS | 10,724,123 | 11,853,665 | 67,382 | 11,921,047 | 412,650 | 12,333,697 | (8,677) | 12,325,020 | 351,458 | | 12,676,478 |
| ENDING BALANCE | 957,241 | 92,877 | | 671,035 | | 165,412 | | 102,566 | | | 128,400 |
| Ongoing Revenues | 10,976,306 | 11,101,651 | | 11,554,322 | | 11,821,260 | | 12,235,449 | | | 12,702,311 |
| Ongoing Expenditures | 10,172,104 | 10,791,398 | | 10,791,398 | | 11,570,774 | | 12,137,436 | | | 12,508,555 |
| STRUCTURAL BALANCE | 804,202 | 310,253 | | 762,924 | | 250,486 | | 98,013 | | | 193,756 |

Note: FY 2020 to FY 2023 Net Changes columns include baseline and initiative issues.

The Economy

While consensus projections for the next 12 to 18 months suggest that the nation's economy will moderate from its robust performance of the last two years, Arizona is well positioned to remain one of the nation's growth leaders.

"With hundreds of new residents and businesses moving to Arizona every day, one thing is clear: Smart policy matters."

Gov. Doug Ducey

The current economic recovery, while slow by historical standards, is the longest in U.S. history, surpassing the 120-month expansion between 1991 and 2001. As this forecast was prepared, the nation's economy was on track to finish 2019 with just over 2% growth in real gross domestic product (GDP).

Current data puts the third-quarter economic growth rate at 1.9%, down from 2% in the second quarter and 3.1% in the first. Those results follow a year of unusually strong growth for the post-recession period, when national GDP growth briefly returned to the 3% level.

The American labor market is stronger than it has been in decades. The unemployment rate is at a 50-year low, and, for the first time since the Great Recession, labor force participation is increasing.

At the same time, real economic activity as measured by GDP growth has returned to a stubbornly persistent 2% level, following brief acceleration last year. Generally strong overall, the U.S. economy slowed in 2019 from its 2018 surge, as business capital investment returned to more normal levels after being stimulated by corporate tax cuts.

Arizona. While the nation's economy was moderating in 2019, Arizona's economy grew at a robust pace. Current Executive projections call for that growth to continue through at least 2020, and the Executive's conservative fiscal policies leave the State well positioned to weather most downturn scenarios.

While boosted by national economic momentum, Arizona is a growth leader in its own right, thanks to a booming local economy fueled by a business-friendly tax and regulatory climate and a thriving startup ecosystem.

National Outlook

The consensus national outlook assumes growth will continue to moderate into 2020 as the primary impact of stimulating policies diminishes. However, as long as consumer confidence remains high, labor markets tight, and wage gains moderate, the economy will continue to grow.

While few economists predict negative growth in the near term, many point to a higher risk of recession over the next 24 months, due in part to an expected return to cyclical normality after the impact of recent pro-growth national policies. However, even the most aggressive prognosticator is more sanguine about the short term than the 13- to 24-month period, and forecast accuracy falls off rapidly after six to 12 months.

The most recent consensus outlook suggests real GDP growth trajectory of about 2% through 2020, with the growth outlook beyond that point increasingly difficult to forecast with certainty. Some economists believe the slowing in the near term largely reflects investor concern over trade uncertainty, and the resolution of those issues could allow a return to 2018 levels. Others warn that the ongoing global slowdown could have more sustained and substantial impacts on the U.S. economy, preventing a return to the rate of growth seen over the past 18 months. The Executive projection reflects this uncertainty through a forecast for conservative but sustained growth at a rate between the two extremes.

In response to recent rhetoric about the long duration of the current U.S. expansion and the possibility of a mild recession in 2020, experts are quick to caution that most expansions die not of old age but from external shocks, such as excessive Federal Reserve tightening or other negative economic stimuli. While those factors could be present in the next 18 months, the Fed has demonstrated its ability to pivot from the tightening cycle that persisted through 2017 and 2018 to a more accommodating position throughout 2019. This shift reduces the risk that excessive regulatory intervention will inadvertently end the current expansion cycle.

The Executive will be monitoring how Congress and the federal government respond to economic pressures or any other shocks that arise. The Federal Reserve has clearly illustrated a willingness to respond to changes in the health of the national economy, but fiscal and trade policy may have a bigger impact on near-term growth, given the more relaxed Reserve Board posture.

The key national policy wild card is trade negotiations. Settling the ongoing trade dispute with China and ratifying the United States-Mexico-Canada Agreement (USMCA) would be strong catalysts for accelerated economic growth into 2021.

EMPLOYMENT

The national labor market is very healthy. Job creation has occurred steadily for most of the last decade, as employers have largely set aside lingering concerns from the Great Recession and seized opportunities stemming from corporate tax cuts and federal regulatory reform.

Consensus employment projections suggest that the U.S. economy will continue to create jobs at a pace of about 150,000 per month through 2020, which would be on par with 2019 but down significantly from 2018. The unemployment rate should remain below 3.5%, with primary concerns coming from the slow growth in the working-age population and continued challenges in labor force participation.

Against a backdrop of low unemployment and continued strong job gains, the conversation will likely shift to labor force participation and wage growth. A tightening labor market, in concert with continued strong employer demand, should lift wages and increase labor force participation over the next few years. Both outcomes would benefit the national and Arizona economies.

CONSUMER SPENDING

Service expenditures still bolster overall consumption rates. While consumer confidence continues to be underpinned by a strong labor market, there are warning signs:

- The rate of growth in the Consumer Confidence Index has slowed markedly.
- The pace of overall spending has slowed somewhat, based on 2019 retail sales nationwide.
- Student loan debt is a growing burden.
- October 2019 data suggests some erosion in confidence among high-income consumers.

Those concerns are mitigated by a low overall debt-to-income ratio, due largely to a lower share of debt devoted to mortgages and a national personal savings rate that remains above pre-recession levels.

Restoring business confidence will be necessary to rekindle capital investment spending. Considerable erosion in CEO confidence has occurred over the last year, following acceleration of trade tensions in 2018, and the pace of equity prices may dictate whether sentiment in this sector rebounds or continues to erode.

INTEREST RATES

Interest rate policy is not holding back economic growth today, nor should it in the near future, as businesses have an abundant supply of liquidity available at historically low rates.

As evidenced by its sharp move away from the tightening policy that was in place a year ago, the Federal Reserve has forcefully demonstrated that it does not intend to be the catalyst for a downturn and that it will strive for flexibility in response to economic trends and occurrences.

In 2019, interest rate movements captured considerable attention as a yield-curve inversion (i.e., short-term rates higher than long-term rates) sent warning signals throughout national markets. This was especially newsworthy when the two-year Treasury note traded at rates that exceeded the 10-year Treasury note. Historically, this situation has been followed by recession within 12 to 18 months. However, the inversion was short-lived, as the Federal Reserve responded by reducing short-term target rates and, more recently, the 10-year Treasury note firmed.

It is difficult to assess the overall credit market in a global economy characterized by negative interest rates. Indeed, global investors in search of yield may be investing in the U.S. at historically high rates, which would tend to push bond prices up and corresponding yields down. The signal sent by the recent yield-curve inversion may simply not have the same meaning it had historically.

More troubling would be a lack of appetite for long-term borrowing among businesses seeking capital expansion. If this is at the root of long-term rate erosion, it may indeed be a harbinger of a more serious slowdown. The Executive will continue to monitor long-term rates over the next year to assess pressures in the long-term debt markets.

The overall pace of short-term interest rates will be determined by the change in economic growth as well as how equity markets respond to a higher interest-rate environment.

MARKET PERFORMANCE

Equity performance was very strong in 2019, buoyed by persistently low interest rates, record-level stock repurchase programs, and steady growth in revenues and earnings.

The pace of equity appreciation will be influenced by a variety of global or national factors, including:

- progress on trade agreements,
- global growth,
- political uncertainty,
- foreign appetite for U.S. securities,
- concerns over U.S. debt levels,
- Federal Reserve policy,
- any signs of credit tightening or credit rating deterioration, and
- the size of corporate profits.

Given the expectation that equity investors are forward looking and prices reflect assumptions about future earnings, market indications since October have been positive for the national economy.

In the longer term, predicting equity markets is a challenging endeavor. However, the renewed conservative posture of the Federal Reserve, coupled with continued pro-growth policy from the Federal Government gives reason for optimism.

BUSINESS SPENDING

Mirroring trends in the broader national economy, capital investment by American businesses slowed in 2019 after a surge in investment spending during 2018. While a decline in business spending has contributed to the slowdown in national economic growth, and trade policy has contributed to that trend, there remains ambiguity concerning the longer-term prospects in this sector.

What is clear is that favorable federal tax policies – including lower income tax rates, accelerated depreciation schedules, and the small-business income tax subtraction – have induced more fixed investment by businesses. Meanwhile, higher foreign and domestic tariffs and national political uncertainty have served to undermine these gains.

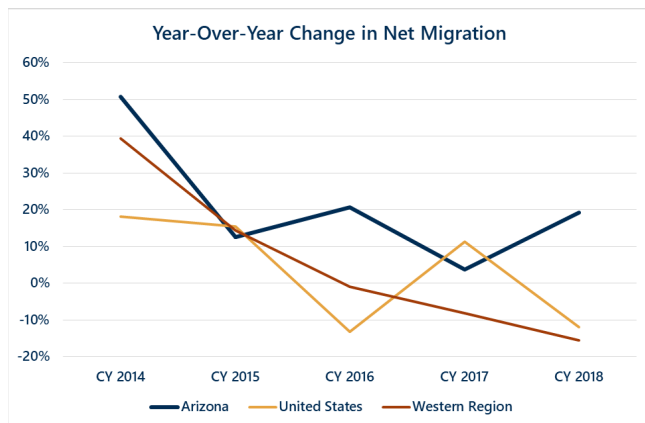
Combined with many of the provisions of the 2017 Tax Cuts and Jobs Act, overall prospects for the medium term remain somewhat of a mystery. The Executive will continue to monitor the national climate and pursue appropriate policy responses to alleviate any recognized risks.

Arizona Outlook

Despite a slowing of the national economy, Arizona's economy grew at a robust pace in 2019, and current Executive projections call for that growth to continue through at least 2020.

Arizona has historically been among the nation's leaders in population growth, employment growth, and income growth, and those trends have accelerated in the last year, even in the face of a national and regional slowdown in movers. In fact, last year Arizona captured nearly a tenth of total national migration, despite accounting for only about 2% of the national population.

Figure 1



Arizona's new working-age residents are expected to contribute to the state's overall economic strength, which in turn enhances the consistent and sustainable revenue growth needed to support the Executive's conservative spending commitments.

EMPLOYMENT

Job creation in Arizona is growing at its most robust pace in more than 12 years. In 2018, employment gains exceeded 3% on a year-over-year basis for the first time since the Great Recession. While 2019 growth rates were slightly slower, the pace remains healthy.

Arizona's economy today is more diverse than before the recession, when the construction industry accounted for nearly 9% of Arizona employment. By the end of 2018, construction employment was strong, but its share of the state's employment base had dropped below 5%.

With a relatively larger manufacturing and service-sector orientation, the state's economy is more mature and balanced, absent signs of the heavy real estate excesses that made the Great Recession so severe.

The state's manufacturing sector in particular has defied prognostications by achieving steady growth since 2017. Manufacturing employment growth has averaged more than 4% over the past two and a half years, and Arizona is poised to add another 9,000 manufacturing jobs in 2019 despite speculation of a manufacturing slowdown nationwide.

Professional services job creation is also strong, and health care's share of the state's GDP is now similar to that of manufacturing.

Arizona is well positioned to continue these positive trends:

- Trade relations with Mexico have improved significantly in recent years.
- Western states have experienced significant growth as workers and businesses have migrated west.
- Arizona's business-friendly tax and regulatory environment, which contrasts favorably with anti-growth policies pursued by California and some other western states, will continue to attract capital and ensure the state's participation in national growth.

While the state's 4.8% unemployment rate remains elevated relative to the nation's 50-year low levels, this condition gives the Executive more confidence in Arizona's immediate prospects. Falling unemployment rates nationally have generally been followed by slowing rates of job creation, but the continued availability of willing workers within Arizona should allow the state to sustain its historically high levels of employment growth over the next 12 to 24 months.

PERSONAL INCOME

Growth in employment and inflation is generally a leading indicator of growth in personal income. Consistent with that tendency, Arizona's personal income has continued to grow at or near post-recession highs over the past 12 months, even as the national economy appeared to slow compared to its 2018 highs.

In 2018, Arizona personal income grew by more than 6%, which ranked fifth among all states. It continued to do well in

2019, with the first three quarters growing at a 5.4% clip. That performance reflects Arizona's healthy job and business growth over the past several years and compares very favorably to the post-recession rate of 4%.

Looking forward, the Executive expects a continued robust Arizona labor market to sustain elevated rates of personal income growth in the range of 5% to 5.5%.

IN-MIGRATION

As was mentioned earlier in the "Arizona Outlook" section, people and businesses continue to move to Arizona at rates that rank among the nation's leaders. While the relocation rate is lower than in previous decades, Arizona has succeeded in capturing an increasingly disproportionate share of interstate migration and is well positioned to continue that trend.

Business relocation, wage appreciation, and abundant job and quality-of-life opportunities, buoyed by low taxes and affordable costs of living, will continue to fuel Arizona's standing as a desirable destination for businesses and families.

The quality and skill levels of the workers that Arizona attracts and retains will continue to be dictated by the needs of Arizona employers. As the needs of the manufacturing, healthcare and professional business service industries grow, so too will the demand for workers with requisite skills. That demand will be met in large part by younger professional job seekers graduating from the state's universities and joining with young workers moving into Arizona to start their families and careers.

RISKS

While predicting economic change is an imperfect exercise, current prognostications are largely positive. As in previous years, the most serious risk to Arizona comes from a scenario in which the nation falls back into recession due to macroeconomic conditions.

Arizona remains reliant on the health of the defense industry, including Boeing, Raytheon, and other defense contractors. Various factors suggest that, in the event of an economic shock, the positive qualities specific to Arizona will position the state more favorably than the nation as a whole.

The pace of national growth may be influenced by the current erosion of global growth and the continued slowdown in the pace of capital investment. It is too soon to know whether those or other factors will push the U.S. economy into a recession, but it is clear that Arizona is better positioned to weather a mild U.S. recession today than it was in 2009, due to the strength of the state's economy and State Government's fiscal health.

UPSIDE POTENTIAL

In recent years, economic growth has been strong in Arizona and throughout the West, and the impetus from that strength is likely to endure into 2020 and beyond. While the baseline Executive forecast calls for some return to normality following two

years of unusually strong economic and revenue growth, the possibility of continued over-performance remains.

Economic over-performance could come in at least three forms:

- Resolution of trade frictions would likely stimulate capital investment, and Arizona's business-friendly environment positions the state to benefit from any form of capital expansion.
- Arizona always benefits from the upside of a real estate cycle. Opportunities for steady growth in that sector, absent any excesses, would boost the Arizona economy.
- Despite the lack of recent progress on policy initiatives from Washington, significant federal investment in infrastructure is a possibility. Arizona is well positioned to take advantage of a national infrastructure investment program, especially in the area of transportation.

Revenue Outlook

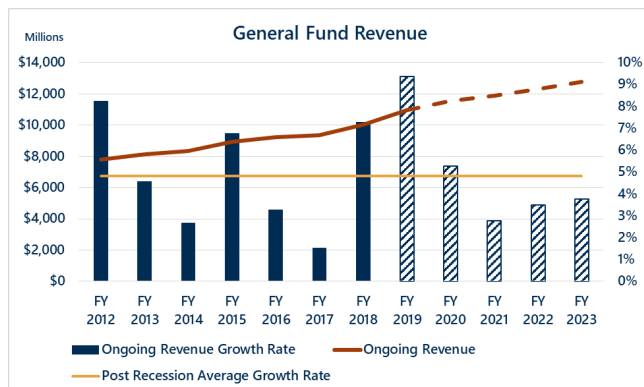
During FY 2019, the State's General Fund again achieved strong growth, easily exceeding post-recession and longer-term trends. On an ongoing basis, the State achieved a 9.4% year-over-year growth rate and exceeded FY 2020 budget expectations by approximately \$250 million.

Collections in FY 2020 and beyond will continue to be influenced by changes in State and federal tax law. The State's 2019 Tax Omnibus (Laws 2019, Chapter 273) helps in this regard by (a) making permanent Arizona's conformity to the federal changes and (b) reducing the State's reliance on the volatile income tax in favor of the Transaction Privilege Tax (TPT), a consumption-oriented sales tax.

Seizing an opportunity made available to the states by the U.S. Supreme Court's 2017 *Wayfair v. North Dakota* decision, State Government has adopted an economic nexus test under which remote sellers would be obligated to collect and remit TPT. In turn, policymakers were able to reduce individual income taxes by an additional \$85 million in a net revenue-neutral fashion.

Overall, collections from the "Big 3" revenue sources – Transaction Privilege Tax, Individual Income Tax, and Corporate Income Tax – are on track to meet or exceed the Executive Budget forecast (see *Figure 2 below*).

Figure 2



The State's Transaction Privilege Tax – the largest component of General Fund revenue and a key bellwether of state economic and fiscal health – has been a strong performer, posting a 10.1% gain over the prior year through November 2019. That growth rate exceeds levels contemplated in the enacted budget and as of November includes only the first month of anticipated revenues from the State's new remote seller's tax.

In the first five months of FY 2020, Individual Income and Corporate Income taxes were, respectively, 10.1% and 18.1% higher than in the same period in FY 2019, which was also a very strong year. That pace puts revenue flows for each component ahead of the enacted FY 2020 budget forecasts for the year by 6.3% and 51.9%, respectively, and on track to meet or exceed current Executive projections.

Table 1

Historical and Projected Revenue Growth

| | 8-Year Average | FY 2020 ¹ | FY 2021 |
|-----|----------------|----------------------|---------|
| TPT | 4.5% | 7.0% | 4.1% |
| IIT | 8.3% | 6.4% | 2.9% |
| CIT | 0.8% | 1.7% | 2.1% |
| GF | 5.5% | 5.3% | 2.8% |

¹Adjusted for prior tax law changes

Because of the volatility stemming from significant changes in federal tax law pursuant to the 2017 Tax Cuts and Jobs Act, the Executive Budget's projections for the Individual Income Tax assume that the estimated fourth-quarter 2018 payments will revert to more normal levels, compared to the huge influx witnessed in 2017. Conversely, revenue flows in the spring of 2019 will display substantial growth over the depressed levels observed during the same period in 2018.

Overall, considering both the pace of recent revenue growth and the tailwinds boosting Arizona's economy, the Executive Budget is well positioned to meet or exceed its baseline forecast of approximately \$11.6 billion.

CONTINUED INCOME TAX REFORM

In December 2017, passage of the Tax Cuts and Jobs Act provided the largest federal tax law change in decades and yielded significant tax savings to Arizona residents.

Last year the Legislature passed and the Executive signed the 2019 Tax Omnibus (Laws 2019, Chapter 273), which not only conformed Arizona to those important changes but also enacted meaningful State reform in its own right, with taxpayer benefits that include:

- reducing the number of brackets;
- lowering individual income tax rates;
- creating a new child tax credit; and
- allowing taxpayers who claim the Arizona standard deduction to deduct a portion of their charitable giving.

As previously mentioned, the legislation also expanded the reach of the State's TPT to include out-of-state sellers and online marketplaces.

While these changes have had a positive impact on Arizona's economy and helped modernize Arizona's tax systems, there is more to be done.

Exemption for All Military Pension Pay. Since 1989, Arizona has provided a partial exemption for public service pension pay - including military pensions. Acknowledging the fact that this tax benefit had gone unchanged for more than two decades, in 2018 the Executive called on the Legislature to increase the exemption from \$2,500 to \$10,000 for retired military personnel. Ultimately, the exemption was increased to just \$3,500, leaving incomplete the efforts to recognize the service of Arizona's veterans.

Thankfully, since then the state's economy and General Fund revenues have experienced extraordinary growth under the conservative fiscal management of the Executive and our Legislative partners. Today, the State of Arizona is in its strongest-ever fiscal position. It is time for the State to recognize the sacrifice of its more than 53,000 retired veterans, who receive a lifetime benefit from our nation in the form of a pension, by allowing them to keep as much of that benefit as possible.

Therefore, the FY 2021 Executive Budget fully eliminates this tax by exempting all pension pay of the Uniformed Services of the United States. This new exemption – retroactive to tax year 2020 – is expected to save the average pensioner more than \$840 per year in State income tax and reducing General Fund revenues by approximately \$45.5 million beginning in FY 2021.

General Fund Revenue Summary

| | Actual FY 2019 | Estimate FY 2020 | Estimate FY 2021 | Estimate FY 2022 | Estimate FY 2023 |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| TAXES | | | | | |
| Individual Income | 5,009,021.6 | 5,164,121.5 | 5,311,765.0 | 5,537,951.5 | 5,752,469.5 |
| Corporate Income | 514,264.1 | 523,000.0 | 533,980.0 | 543,590.0 | 559,166.7 |
| Sales and Use | 5,096,750.3 | 5,444,336.7 | 5,669,903.4 | 5,891,450.5 | 6,107,974.7 |
| Property Taxes | 29,683.3 | 36,094.0 | 37,307.4 | 36,845.6 | 31,012.0 |
| Luxury Taxes | 58,300.1 | 58,396.0 | 58,812.5 | 59,286.8 | 52,565.0 |
| Insurance Premium Taxes | 549,760.6 | 545,100.0 | 553,276.5 | 561,575.6 | 567,191.4 |
| Estate Taxes | - | - | - | - | - |
| Other Taxes | 13,539.4 | 12,548.7 | 13,257.1 | 14,005.8 | 6,211.0 |
| TOTAL TAXES | 11,271,319.4 | 11,783,596.9 | 12,178,301.9 | 12,644,705.8 | 13,076,590.3 |
| OTHER REVENUES | | | | | |
| Licenses, Fees & Permits/Misc. | 167,387.3 | 186,831.6 | 189,745.1 | 193,099.7 | 214,545.4 |
| Interest Earnings | 53,106.7 | 42,378.6 | 47,118.5 | 48,738.3 | 51,175.2 |
| Lottery | 82,886.1 | 94,349.2 | 102,048.1 | 109,191.5 | 114,651.1 |
| Transfers & Reimbursements | 63,365.0 | 55,574.7 | 58,501.9 | 61,332.9 | 94,840.5 |
| TOTAL REVENUES | 11,638,064.5 | 12,162,731.0 | 12,575,715.5 | 13,057,068.3 | 13,551,802.5 |
| ADJUSTMENTS | | | | | |
| Urban Revenue Sharing | (674,804.4) | (737,573.9) | (828,492.9) | (853,068.2) | (876,861.7) |
| Disproportionate Share | 95,552.6 | 95,500.0 | 92,750.0 | 74,000.0 | 74,000.0 |
| Public Safety Transfers | 72,364.5 | 23,343.2 | 23,343.2 | - | - |
| Temporary Transaction Privilege Tax | 128.6 | - | - | - | - |
| Scheduled Fund Transfers | 100,425.9 | 90,840.7 | 16,818.7 | 36,700.0 | - |
| Recommended Revenue Changes | - | - | (52,060.7) | (52,525.4) | (46,629.8) |
| GRAND TOTAL REVENUES | 11,231,731.7 | 11,634,841.0 | 11,828,073.9 | 12,262,174.7 | 12,702,311.0 |

Note : Projected impacts from previously enacted tax law changes are included in the forecast.

Other Fund Revenue Summary

| | (in thousands) | | |
|--------------------------------|---------------------|---------------------|---------------------|
| | Actual | Estimate | Estimate |
| | FY 2019 | FY 2020 | FY 2021 |
| TAXES | | | |
| Motor Vehicle Fuel Tax | 2,256,028.3 | 790,919.2 | 810,409.9 |
| Property Taxes | 11,729.1 | 13,498.1 | 13,013.2 |
| Sales and Use | 672,191.5 | 422,668.9 | 373,516.9 |
| Luxury Taxes | 303,038.2 | 293,986.5 | 293,473.9 |
| Insurance Premium Taxes | 40,779.3 | 43,400.2 | 45,039.0 |
| Motor Carrier Tax | (8,584.3) | 22,197.9 | 23,134.5 |
| Vehicle License Tax | (424,980.6) | 670,013.2 | 705,722.1 |
| Other Taxes | 1,838,285.0 | 1,468,383.4 | 1,523,583.0 |
| TOTAL TAXES | 4,688,486.4 | 3,725,067.4 | 3,787,892.5 |
| OTHER REVENUES | | | |
| Licenses, Fees & Permits/Misc. | 1,953,926.9 | 2,111,811.4 | 2,187,484.6 |
| LF & P | 889,036.2 | 933,450.0 | 991,550.6 |
| S & S | 1,064,890.8 | 1,178,361.4 | 1,195,934.0 |
| Misc | - | - | - |
| Interest Earnings | 441,025.4 | 387,199.4 | 386,768.3 |
| Lottery | 1,787,482.0 | 1,891,318.5 | 1,891,318.5 |
| Charges for Services | 4,668,912.9 | 4,825,931.0 | 4,945,246.1 |
| Miscellaneous Revenues | 1,442,477.2 | 1,539,597.3 | 1,491,747.7 |
| TOTAL OTHER REVENUES | 10,293,824.4 | 10,755,857.6 | 10,902,565.2 |
| TOTAL REVENUES | 14,982,310.9 | 14,480,925.0 | 14,690,457.7 |
| OTHER FINANCING SOURCES | | | |
| Transfers & Reimbursements | 21,901,436.6 | 22,823,155.9 | 24,559,635.2 |
| GRAND TOTAL REVENUES | 36,883,747.4 | 37,304,080.9 | 39,250,092.9 |

*Other Appropriated Funds Revenues include all revenues for funds which may only be partially subject to statutory or legislative appropriation. The expenditures shown in the "Other Funds Budget Summary" are for the appropriated portion of these funds only and may represent only a small portion of the funds' total expenditures. There are several funds where a General Fund appropriation is deposited into an "Other Appropriated Fund" and these deposits are reflected in the figures above; as such General and Other Fund Revenues may not sum to total State revenue.

Education

The Executive Budget increases per-pupil spending to record highs, provides more money for teachers, promotes access to high-quality schools, expands charter school oversight, enhances funding new school construction, and improves students' readiness for college and careers.

"When it comes to the improved K-12 results we are seeing in Arizona, credit goes to our teachers and educators. And we are truly grateful, because the state of our state can only be strong with strong public schools. Arizona is one of only a few states in the nation demonstrating academic improvements over the last decade."

Gov. Doug Ducey

For years, Recession-era gimmicks, school finance lawsuits, and long-standing cuts dominated Arizona's education funding landscape. Those days are over, thanks to the Executive's leadership, a committed and supportive Legislature, and the influence and input of education stakeholders from all sectors of the state.

Today, policies of the past continue to be replaced through smart, sustainable decisions that position Arizona to perpetuate, for the long term, the momentum achieved for K-12 schools since 2015.

Learning from the Past, Focusing on the Future

The Executive Budget for FY 2021 features a heightened continuation of the disciplined year-by-year progress achieved over the last five fiscal years:

- The FY 2016 budget, in conjunction with Proposition 123, settled lawsuits over inflation and school capital funding.
- The FY 2017 budget transitioned school finance from a prior-year funding model to a current-year funding model, ensuring that the State is funding schools in the right amount for the current year.
- The FY 2018 budget expanded access to high-quality schools by implementing Results Based Funding.
- The FY 2019 budget charted a path to increase teacher pay and restore Recession-era budget cuts.
- The FY 2020 budget not only honored the previous year's promises – it accelerated them.
- The FY 2021 Executive Budget resets K-12 funding by fully implementing the 20x2020 plan and fully restoring formula cuts.

Thanks to these smart policies, Arizona is poised to do more than simply restore the cuts of the past. The FY 2021 Executive

Budget advances education the "Arizona Way," including expanding the school safety grant program, incentivizing academic success, and supporting school choice.

PRIOR K-12 INVESTMENTS

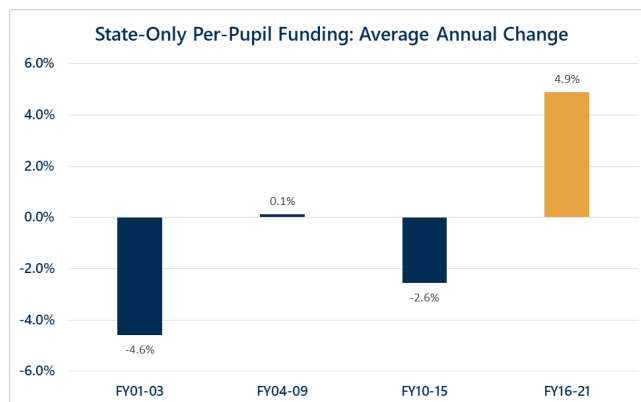
Cumulative Spending Since 2015. Over the past five years, the State has increased real per-pupil State-only funding by an average of 4.9% per year. No administration has matched this record since 2000. (In fact, between 2003 and 2008 – a period of historic economic growth – the State averaged just 0.1% in annual increases.)

The Executive Budget builds on the recent record of success by continuing to deliver increases in K-12 spending above and beyond inflation and population growth.

Over Governor Ducey's first five budgets, the State has cumulatively spent nearly \$4.5 billion on public education. With the investments proposed in this budget, that figure grows to \$6.6 billion.

These sustainable and ongoing investments have been made without any tax increases.

Figure 3



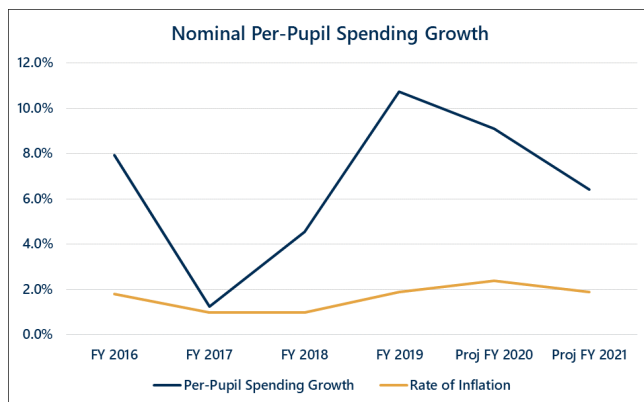
The Executive estimates that, in FY 2021, nominal State-only per-pupil spending will reach a post-Recession high of \$6,156 – a 6.7% increase, or \$387 per pupil, over the prior year. When all funding sources are included, nominal per-pupil spending is estimated to reach \$11,253. In real, 2012 inflation-adjusted dollars, these figures are estimated at \$5,250 per pupil for State-only dollars and \$9,597 per pupil for all sources.

For perspective, the Joint Legislative Budget Committee reports that in FY 2015, immediately prior to the Governor's first term, the State spent just \$3,958 (State-only, inflation adjusted) and \$8,605 (all funding sources, inflation adjusted) per pupil, as adjusted for inflation. This represents a 33% increase in State-only investment and 12% in all-funds investments since Governor Ducey took office.

Increasing Education Spending Beyond Inflation. Since taking office, Governor Ducey committed the State to increase education funding above and beyond the rate of inflation every year that he is in office. The FY 2021 Executive Budget continues Arizona's five-year record of achieving that objective.

In fact, while inflation over the past five years has averaged just 1.6% per year, nominal State-only per-pupil spending growth each year has averaged nearly 6.6%.

Figure 4



New School Construction. For years, the State built new schools in the year that they were needed. As a consequence, schools outgrew their facilities and were forced into temporary structures while new classrooms were being built – a process that typically takes about two years.

Last year, the Executive proposed and the Legislature enacted a budget that provides for starting construction on new school buildings two years before they need to be occupied. Not only does this allow for schools to stay ahead of overcrowding situations; it is also more fiscally responsible, as the School Facilities Board is no longer forced to incur unnecessary design and construction costs to meet accelerated schedules.

The FY 2021 Executive Budget continues to fully fund this policy on a cash basis.

Public Charter Accountability. For years, Arizona has responsibly promoted school choice and educational excellence through competition. While our State-sponsored charter schools include some of Arizona's and the nation's best-performing public school options, their rapid growth has created a commensurate need for additional oversight capacity of the Arizona State Board for Charter Schools.

The FY 2020 budget included 5.0 FTE positions in FY 2020 and 5.0 FTE positions in FY 2021 to (a) implement a new intervention

process for schools that do not meet the State's standards for financial strength or academic performance and (b) increase the frequency of Board staff on-site visits. The Executive has monitored the implementation of this plan to date, and the Executive Budget includes the second year of funding increases for oversight contemplated in the FY 2020 budget.

This increase in on-site monitoring and targeted visits is intended to increase the Board's ability to hold charter schools accountable for operational, academic, and financial performance standards. As a result of this investment, the Board is expected to increase site visits from 89 in FY 2019 to 169 in FY 2021, an increase of 89%.

FUTURE K-12 INVESTMENTS

20x2020: Fully Implementing Teacher Salary Increases. The FY 2021 Executive Budget provides the third installment of the State's \$645.2 million cumulative investment in Arizona's public school teachers.

The Executive's 20x2020 plan began in the FY 2018 budget with a \$34 million investment and achieved a 10% increase in FY 2019, for a cumulative investment of \$306 million.

The FY 2020 budget continued to implement the 20x2020 plan with a \$164.7 million increase, bringing the total cumulative effect to \$470.7 million and a 15% increase in salary.

The Executive Budget seals this commitment with \$174.5 million in new funding – the final payment of 20x2020 – resulting in permanent funding for a 20% increase for average teacher pay.

Fully Restoring Recession-Era Cuts. District Additional Assistance (DAA) and Charter Additional Assistance (CAA) are components of the Basic State Aid formula that were suspended during the Great Recession. DAA and CAA are formula dollars that can be used for capital and operational costs, including additional pay for all categories of certificated teachers and classified staff, as well as soft capital needs such as textbooks.

The DAA formula provides annual per-pupil funding of approximately \$450 to \$600 to school districts, while the CAA formula provides annual per-pupil funding of \$1,843 to \$2,148 to charters. CAA funding has historically been higher than DAA because, unlike school districts, charters cannot levy property taxes and do not receive State funding for capital costs or some types of maintenance and operating costs.

The FY 2019 budget charted a five-year plan to restore \$371 million in cuts to DAA and CAA. The FY 2020 budget (a) continued this plan with a \$68 million increase in new funding and (b) accelerated restoration with an additional \$68 million one-time investment.

The FY 2021 Executive Budget fully restores cuts to DAA and CAA, two years ahead of schedule. The Executive Budget includes the planned \$68 million increase and provides an additional \$136 million in one-time funding to fully reverse long-standing suspensions of two portions of the State Aid formula.

Table 2
District Additional Assistance

| | Laws 2018, Chapter 285 | | Executive Recommendation | | Acceleration Needed |
|---------|------------------------|-------------|--------------------------|-------------|---------------------|
| | Suspension | Restoration | Suspension | Restoration | |
| FY 2018 | \$ 352,442,700 | \$ 0 | \$ 352,442,700 | \$ 0 | |
| FY 2019 | 257,469,900 | 94,972,800 | 257,469,900 | 94,972,800 | |
| FY 2020 | 193,102,400 | 159,340,300 | 64,367,400 | 223,707,800 | n/a |
| FY 2021 | 128,734,900 | 223,707,800 | 0 | 352,442,700 | 128,728,800 |
| FY 2022 | 64,367,400 | 288,075,300 | 0 | 352,442,700 | 64,367,400 |
| FY 2023 | 0 | 352,442,700 | 0 | 352,442,700 | 0 |

Table 3
Charter Additional Assistance

| | Laws 2018, Chapter 285 | | Executive Recommendation | | Acceleration Needed |
|---------|------------------------|-------------|--------------------------|-------------|---------------------|
| | Suspension | Restoration | Suspension | Restoration | |
| FY 2018 | \$ 18,656,000 | \$ 0 | \$ 18,656,000 | \$ 0 | |
| FY 2019 | 13,628,800 | 5,027,200 | 13,628,800 | 3,407,200 | |
| FY 2020 | 10,221,600 | 8,434,400 | 6,814,400 | 11,841,600 | n/a |
| FY 2021 | 6,814,400 | 11,841,600 | 0 | 18,656,000 | 6,814,400 |
| FY 2022 | 3,407,200 | 15,248,800 | 0 | 18,656,000 | 3,407,200 |
| FY 2023 | 0 | 18,656,000 | 0 | 18,656,000 | 0 |

Increased Funding for Daily Operations. In May 2016, Arizona voters passed Proposition 123, an education funding plan that settled a five-year lawsuit by infusing an estimated \$3.5 billion over ten years into Arizona's K-12 public education system.

The State Aid Supplement was a key component of this funding plan, which originally included \$50 million annually between FY 2015 to FY 2020 for general maintenance and operations of public schools.

In FY 2021, this investment increases by \$25 million, to \$75 million, in new funding for schools. The additional funding is outside the K-12 formula and is paid on a pro rata share based on student count.

Inflation and Enrollment Growth. The Executive Budget includes \$156 million in the base as permanent funding for a 0.6% increase in student enrollment and a 1.88% inflation adjustment. This increase is sourced from (a) higher property tax revenues generated from new construction, (b) increased distributions from the Permanent School Fund, and (c) a General Fund baseline increase of \$87 million for enrollment growth, inflation, and related adjustments, or \$76 per pupil.

INVESTING IN SMART POLICIES, SUPPORTING SCHOOL CHOICE

Rewarding Academic Excellence. In FY 2018, Governor Ducey created the Results Based Funding (RBF) program to incentivize high-performing schools to expand and replicate, thereby increasing access to high-quality public K-12 education. The monies could be used to increase teacher salaries, provide professional development opportunities for teachers, and expand enrollment capacity.

As a result, during FY 2018, \$39 million was distributed to 298 schools based on AzMERIT scores. However, statute called for the RBF distribution formula to transition to the letter grade framework beginning in FY 2019, and to award RBF to schools earning an A rating. The FY 2019 and FY 2020 budgets notwithstanding this section of statute, continuing to award RBF using AzMERIT scores, awarding \$38 million to 285 schools in FY 2019

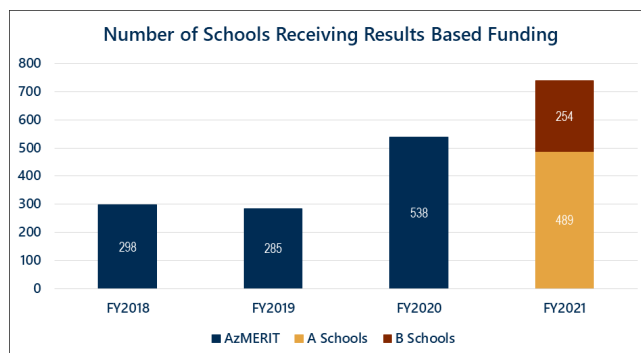
and an estimated \$72 million to an expected 538 schools in FY 2020.

A consequence of relying on AzMERIT scores over school letter grades is that rewards are zero-sum – i.e., if one new school improves and earns the funding, another school must necessarily lose it.

The FY 2021 Executive Budget addresses this issue by (a) making the transition to the distribution formula contemplated in the original law, and (b) going beyond that to include high-performing B-rated schools with 60% or more pupils enrolled in the free and reduced-price lunch (FRL) program. Expanding RBF to include qualifying B-rated schools recognizes high-performing schools by taking into account the extra resources required by schools that have high rates of FRL participation and continue to perform above the state average.

A-rated schools with 60% or higher FRL will receive \$400 per pupil, and A-rated schools with less than 60% FRL will receive \$225 per pupil. As part of this policy change, B-rated schools with 60% or higher FRL will also receive \$225 per pupil. The Executive estimates that a total of 743 schools will receive RBF in FY 2021, with awards totaling \$107 million, an increase of \$35 million over FY 2020.

Figure 5



Additionally, the FY 2020 budget included enhanced reporting requirements for schools receiving RBF. As this document was being prepared, the Executive anticipated receiving the first report containing this school site-level data in December 2019. The report is expected to provide insights into the strategies and approaches that are used by Arizona's highest-performing schools and can be replicated at other schools.

Through this combination of changes, the Executive looks forward to every Arizona school having the opportunity to be rewarded for the results they achieve and to expand opportunities for more students to attend the state's highest performing schools.

Supporting School Choice. Arizona is among the nation's top states for school choice. Students and families have the ability to apply for admission to any Arizona public school with available classroom space: local school district, neighboring school district, charter school, online schooling, or homeschooling.

One of the ways in which parents exercise school choice is the Empowerment Scholarship Account (ESA). ESAs give parents the freedom to choose a schooling option that works best for their child. The ESA program grew by 1,405 students last year, and the number of ESAs has increased by an average of 52% each year since FY 2015.

In turn, this growth has created administrative challenges at the Department of Education (ADE), and those challenges have made it more difficult for parents in need to receive in a timely fashion the scholarships for which they are eligible.

The Executive Budget supports parents who pursue school choice, and it provides funding for five student and family engagement specialists for technical support of families applying for and participating in the ESA program. Additionally, the Executive Budget provides funding for ADE to create resources and engage in outreach, including seminars on the benefits of the ESA program and how to apply.

Helping Students Become Workforce Ready. The Arizona Industry Credential Incentive Program incentivizes schools to encourage high school students to complete career and technical education programs and to graduate with industry-recognized certificates, credentials, and licenses in a high-demand industry.

The Executive Budget includes \$5 million that was promised by the FY 2020 budget to create this program and that will reward schools for up to 5,000 graduates who earn approved credentials beginning in FY 2021.

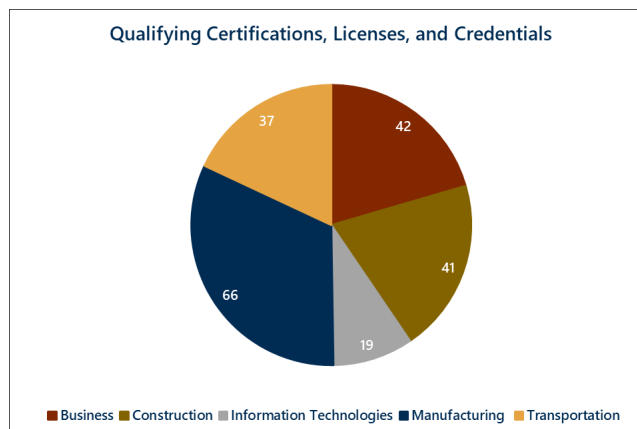
All school districts, charter schools, and career and technical education districts (CTEDs) are eligible to participate. Public schools must have approved CTE programs that offer certificates, credentials, or licenses in high-demand industries as identified by the Arizona Commerce Authority. These certificates must be approved by the State Board of Education and placed on the CTE Industry Credential List maintained by ADE. The CTE Industry Credential List includes 165 certificates and credentials in the business, construction, health, information technology, manufacturing, and transportation sectors. Some credentials appear in multiple sectors. (See *Figure 6* for a chart of all qualifying credentials, by sector.)

District and charter schools will earn \$1,000 for each high school graduate who obtains an approved industry-recognized certificate. Schools may use the monies for:

- professional development for CTE teachers;
- creating, expanding or improving an approved CTE program or course;
- purchasing instructional hardware, software or supplies;
- career exploration; and
- offsetting the student's cost of certification.

ADE will begin data collection efforts to identify qualifying students in May 2020, with the first incentive payments scheduled for September 2020.

Figure 6



SETTING UP STUDENTS FOR SUCCESS

Earning College Credit and Saving Money. In FY 2018, Arizona started the College Credit by Examination Incentive Program (CCEIP), which provides incentive bonuses to teachers, school districts, and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school.

The majority of students who pass qualifying examinations take advanced placement (AP) tests offered by the College Board. The College Board estimates that Arizona students and their families saved \$48 million in tuition payments as a result of achieving passing scores on AP tests in 2018, based on an average rate of \$384.67 per credit hour for tuition at Arizona four-year public institutions.

The Executive Budget provides additional resources for CCEIP to incentivize high performance and earning college credit, enabling Arizona students to save on tuition dollars and graduate sooner.

The CCEIP bonus is \$450 per passing score for a student who is enrolled in a district or charter school where at least 50% of students are eligible for free or reduced-price lunch (FRL). Schools that do not meet this threshold receive \$300 per passing score.

In FY 2018, CCEIP awarded \$4 million for 13,388 passing exams. In FY 2019, 46 exams were added to the list of qualifying exams, and the total number of passing exams in FY 2019 increased to 22,296 and generated demand for \$7 million in incentive payments. Because the FY 2019 appropriation was \$5 million, ADE prorated the per-pupil award amounts. The Executive Budget funds \$2 million in FY 2021 based on the excess program demand from FY 2019.

The Executive Budget also includes funding to waive test fees for low-income students who take examinations that qualify for college credit. In 2018, Arizona students qualifying for free and reduced-price lunch took 18,862 college placement exams and, after receiving other rebates and State support, paid out of pocket an average of \$35 per test.

The Executive Budget provides funding to eliminate this financial hurdle and enable qualifying students to take exams resulting in college credit free of charge.

Supporting Gifted Education Programs. Approximately 8% of Arizona students qualify as gifted and advanced learners. State law requires all public schools to identify and provide appropriate educational programs and services for gifted learners.

The Gifted Education Grant program was most recently funded in 2019 as a one-time investment to supplement gifted education programs and services. The grant program was funded again in FY 2020 as one-time funding and provided grants benefiting students at 240 schools across the state.

The Executive Budget continues \$1 million in funding for this important resource and makes it permanent.

SCHOOL SAFETY AND ACCOUNTABILITY

Dedicating More Resources to the School Safety Grant Program. The Executive Budget responds to the dramatic increase in demand for school safety personnel. The FY 2020 budget expanded the School Safety Grant program to include grants for school counselors and school social workers, in addition to the school resource officers the program has historically supported.

In response to this \$20 million program expansion, 931 districts and charters submitted requests for 302 school resource officers (SROs), 473 school counselors, and 396 social workers, totaling more than \$97 million – nearly five times the available funding.

Applicants were asked to denote their first choice for funding, which included requests for 267 SROs, 337 school counselors, and 279 social workers, for a total of \$73.8 million, which is more than three times the current funding for this grant program.

The Executive Budget funds the 461 remaining unfunded applications after the State Board of Education approved grant awards in December 2019. The cumulative request of those schools encompasses an estimated 144 school resource officers, 162 school counselors, and 155 social workers, totaling \$38 million in grant funding.

Investigating Educator Misconduct. Student safety is a high priority, and the Executive Budget provides additional resources to increase ADE's capacity for investigating teacher misconduct.

Since 2012, the number of disciplinary actions taken annually by the State Board of Education on cases investigated by ADE has increased by 238%, from 55 to 131. While not every case reaches the Board, an average of 1,000 cases are opened each year, requiring varying levels of investigation given the nature of the complaint or allegation.

The Executive Budget provides \$430,000 for four additional investigator positions and one additional administrative assistant, doubling the size of the Investigations Unit. The new positions are expected to decrease the average number of open cases per

investigator by 50% to ensure more manageable caseloads and faster case management.

RESOURCES FOR SCHOOLS IN NEED

Developing New Teachers. The Executive Budget doubles the State's investment in the Alternative Teacher Development Program. Established in FY 2007, the program accelerates the process of identifying, training, and placing highly qualified individuals into low-income schools.

Historically, the State Board of Education has awarded program funding to the Teach for America-Phoenix (TFA) program, which has demonstrated success in improving student outcomes. TFA reports that 71% of its first- and second-year teachers improved student academic growth by one to one-and-a-half grade levels.

To receive the funding, TFA must match the State grant allocation with an equal or greater amount of private-sector funding. TFA has 141 corps members in 50 Arizona district and charter schools that serve 8,400 students. The average percentage of students eligible for free and reduced-price lunch (FRL) in TFA schools is 86% (compared to the state average of 56%), and test scores are 29.5% in math and 30.1% in English language arts relative to the state average of 42% for both tests.

Over 92% of TFA teachers are retained after two years of teaching, compared to 78% of all new Arizona teachers.

Knocking Down Barriers to Graduation and College and Career Readiness. The Executive has provided support for Jobs for Arizona Graduates (JAG) through the use of Workforce and Innovation Opportunity Act dollars, and through Legislative appropriations beginning with the FY 2018 budget.

JAG is currently offered as an elective course at 17 high schools. Each program is spearheaded by a program coordinator (JAG teacher) who takes personal responsibility for the JAG students and helps ensure that program participants stay in school, graduate, have a career and post-secondary plan to enact after graduation, and are supported for at least one year after graduation to transition successfully into the workforce and/or college.

In 2019, JAG served 708 high school students and saw increases in GPA for 71% of participants and improved attendance for 58%.

The FY 2021 Executive Budget increases the State's contribution from \$100,000 to \$500,000. The Executive estimates that this \$400,000 increase will fund an additional 500 students and create new JAG programs across the State.

Investing in Closing the Achievement Gap. To close the achievement gap of performance-challenged schools, the Executive Budget builds on successful pilots by scaling resources and support provided to three diverse districts to a statewide model that the Executive calls the "Closing the Achievement Gap."

In FY 2016, the State invested \$575,000 to support a public-private partnership with the Challenge Foundation and Avondale

Elementary School District (AESD) to implement a comprehensive school-improvement model that included \$150 per pupil in resources and is designed to assist students, teachers, and staff members in meeting the goal of increasing student achievement.

Over the course of three years, AESD increased its AzMERIT performance by 13% in English Language Arts and by 18% in Math, relative to the statewide average of 7% and 6%, respectively. The Executive added Wickenburg Unified School District (WUSD) and Deer Valley Unified School District (DVUSD) to the program and is seeing similar positive results. The Executive Budget proposes expanding access to funding to close the achievement gap statewide in FY 2021.

This initiative scales the success of the initial pilot and will include first priority in the "Beat the Odds" School Leadership Academy and access to funding grants. To accomplish this expansion, the Executive Budget includes \$44 million annually as recurring one-time funding over the next three years.

The achievement gap funding grants will provide targeted financial support to underperforming and failing schools. Grant funding can be used to support implementation of proven achievement gap strategies, such as the model used by the AESD, WUSD, and DVUSD pilots.

The three-year pilot will monitor academic success across three indicators, including moving up a letter grade, earning at least 50% of growth points in the letter grade framework, and improvement in attendance.

C-rated schools with 60% or higher FRL and any D- or F-rated schools may opt into the pilot program. Funding will be provided on a \$150-per-pupil basis. The Executive's investment is estimated to serve all schools in the three categories.

Table 4

Per Pupil Awards

| | 0-60% FRL | 60-100% FRL |
|-------------|-----------|-------------|
| "C" Schools | n/a | \$ 150 |
| "D" Schools | \$ 150 | \$ 150 |
| "F" Schools | \$ 150 | \$ 150 |

BUILDING RENEWAL AND NEW SCHOOL CONSTRUCTION

Achieving Efficiencies with Technology Solutions. The School Facilities Board (SFB) uses multiple applications designed in-house to manage the Building Renewal Grants Program. Grants are administered to school districts to cover the cost of HVAC, electrical, plumbing, and other building repairs and maintenance.

As a result of the Auditor General's recommendation in a June 2019 report, in consultation with SFB and the Arizona Department of Administration (ADOA) the Executive has determined that migrating to the State's enterprise grants management software would help SFB process building-renewal grant applications

more quickly and efficiently and reduce the backlog of more than 500 applications that have remained open for more than a year.

Building Renewal Grants. The SFB administers the Building Renewal Grant (BRG) program, which provides financial assistance to school districts to repair or replace existing school building systems.

Between 1999 and 2004, SFB completed deficiency-corrections projects totaling \$1.3 billion. As many of those projects are nearing the end of their useful life, SFB has recently seen an increase in school district building-renewal requests. From FY 2013 to FY 2019, applications have nearly tripled, from 319 to 878.

The Executive Budget includes funding of \$107.5 million, which is \$90.8 million more than the "base" amount of \$16.7 million that the State typically appropriates for BRG funding for districts' capital needs. This level of funding amounts to a 35% increase over the \$79.5 million appropriated for building renewal projects in FY 2020. In addition, based on the awards approved by SFB to date, the Executive anticipates a supplemental funding need of \$35 million in FY 2020 to fully fund the entirety of current-year BRG applications.

New School Construction. The Executive Budget includes funding of \$65.4 million in new school construction. Laws 2019, Chapter 265 requires new school capital funding if projections indicate that a school or additional space will be needed within two years.

The Executive projects that two new schools will reach capacity in FY 2022 and has included funding that reflects the 5.29% inflation adjustment adopted by the Joint Legislative Budget Committee at its December 2019 meeting. Additionally, the Executive Budget includes the second installment of funding for seven schools that were funded beginning in FY 2020.

The Executive Budget further invests \$6.4 million to enhance the square-footage calculations for schools reaching capacity in FY 2022.

Tables 5 and 6

| New School Construction - Conceptual Approvals | | | | |
|--|-------------------------|--|---|--|
| School District | Fiscal Year at Capacity | FY 2021 Funding Using Inflation of 5.29% (Baseline Amount) | Executive Budget Amount Above Baseline for FY 2021 Using Enhanced Inflation | Executive Budget Total Funding: Baseline Plus Enhanced Inflation |
| Chandler | 2022 | \$8,789,375 | \$4,717,563 | \$13,506,938 |
| Tanque Verde | 2022 | \$2,941,426 | \$1,653,843 | \$4,595,269 |
| Site Conditions | | \$1,500,000 | | \$1,500,000 |
| Total | | \$13,230,801 | \$6,371,406 | \$19,602,207 |

| New Schools Under Construction | | |
|--------------------------------|-------------------------|----------------------------------|
| School District | Fiscal Year at Capacity | FY 2021 Executive Budget Funding |
| Chandler | 2021 | \$8,984,500 |
| Douglas | 2021 | \$8,254,501 |
| Maricopa | 2021 | \$11,230,625 |
| Safford | 2021 | \$3,257,557 |
| Laveen | 2021 | \$7,306,992 |
| Santa | 2021 | \$2,556,854 |
| Vail | 2021 | \$4,214,700 |
| Total | | \$45,805,729 |

Adult Education

The Executive Budget includes an increase in funding to enable ADE to continue to meet State match requirements for federal dollars that support adult education.

Arizona's adult education program offers access to quality educational opportunities that support job training, employment, and aspiration for higher education. The Governor's Office will provide federal Workforce Innovation and Opportunity Act dollars to serve the projected waitlist of 2,455 adult learners.

Since FY 2015, the average increase in the federal allocation is 4.5%, yet the General Fund appropriation for adult education has remained flat. Historically, this State appropriation was sufficient to meet the federal match requirement but is \$209,400 short in FY 2020. The shortfall is projected to increase to \$370,500 in FY 2021. The Executive Budget covers the funding gap.

Higher Education

COMMUNITY COLLEGES

Full Funding of STEM & Workforce Programs Formula. Arizona community colleges are funded largely from three formulas: Operating State Aid, STEM & Workforce Programs Aid, and Equalization Aid.

With an investment of \$11.1 million, the Executive Budget fully restores cuts to the formula for STEM & Workforce Programs Aid in the Maricopa, Pima, and Pinal community college districts.

Rural Community College Support. As Arizona companies continue to face major challenges in sourcing and hiring qualified talent, the demand for educational programs that meet those needs continues to be a challenge, especially in rural areas.

The Executive Budget includes \$10.6 million in one-time funding to expand educational opportunities in rural communities around the state. Of the total, \$6.5 million is allocated to the 10 rural community college districts for general operating expenses and career and technical education programs. The remaining \$4.1 million is allocated to the Arizona Commerce Authority to expand the Arizona Advanced Technology Corridor into a network partnership of community colleges serving multiple geographic rural areas around Arizona. This investment will enhance an emerging workforce with skills aligned with industry needs, ultimately leading to the growth and development of the economic diversity in each rural region.

UNIVERSITIES

The Executive Budget makes targeted investments in the State's public universities to expand their capacity for graduating students in critical areas that will allow Arizona to compete in the New Economy.

The FY 2020 budget included \$35 million in one-time General Fund support for university operating and capital improvements. The Executive Budget continues this investment in FY 2021.

Additionally, the Executive Budget includes an ongoing increase of \$35 million in General Fund support to advance Arizona's workforce and increase Arizona's competitiveness through a "New Economy" initiative. The initiative makes targeted investments to:

- boost post-secondary attainment;
- increase the number of graduates in critical high-demand industries such as coding, artificial intelligence, and entrepreneurship; and
- reduce the time required to obtain a degree by modernizing curriculums and programs.

Increased Support for Research Endeavors. The Executive Budget includes an additional \$10 million in one-time General Fund support for research expenditures as a part of the New Economy initiative.

A January 2019 economic impact report by Elliott D. Pollack & Company showed that the statewide economic impact of Arizona's public universities' research activities exceeds \$2 billion. The targeted investment in the New Economy initiative provides the State match portion for Arizona's public universities to pursue major competitive national research grants to accelerate the universities' transformation into adaptive drivers of economic success for the state.

Teachers Academy Outreach. The Executive Budget includes \$1 million for the Arizona Teachers Academy to attract more potential teachers.

The FY 2020 budget included \$15 million to expand the Academy. Participation has increased by over 882% since the 2017-2018 school year, with over 2,170 students participating in the fall 2019 semester.

The Arizona Board of Regents plans to reach even more students through a marketing campaign. As of May 2019, 273 students had completed a program of study through the Academy, which is expected to grow significantly this year with an increase in scholarships in 2019 and 2020.

The Board has engaged in several paid media campaigns aimed at students, school academic counselors, parents of high school students, and other groups. The additional investment will allow the Board to increase marketing efforts that will reach and engage additional populations through social media and print and video media.

In addition, the Executive Budget contemplates expanding the number of participants in the Academy, such as students exclusively pursuing degrees outside of the universities' colleges of education and who are not pursuing traditional teacher certifications. Additional pathways into the Academy and ultimately into the classroom, amplified by the new investment included in the Executive Budget, will further enhance the momentum of the State's efforts to address the critical workforce shortage in the teaching profession.

Further, the Executive Budget changes the statute governing the Academy to clarify that, for the purposes of the Board distributing funding to participating community colleges on a \$3,000-per-slot basis, the Board must distribute the full amount for every post-baccalaureate student taking at least nine credit hours per semester.

The community colleges deem this load as full-time for the program, given that nearly all of the participants also serve as full-time teachers. This change will provide adequate funding for the community colleges to administer the Academy and keep students on a two-year track to obtain their post-baccalaureate certification.

Public Safety

The Executive Budget makes strategic investments to enhance and modernize public safety statewide; provide competitive pay for targeted corrections and court personnel; and equip public safety workers with the tools they need to fulfill their mission.

"There's no doubt about it, public safety is the most important thing government does - whether it's on our streets or in our corrections facilities."

Gov. Doug Ducey

The FY 2021 Executive Budget provides the resources necessary to improve public safety across the state in the "Arizona Way." Strategic law-enforcement investments focused on wrong-way and impaired drivers will make highway transportation safer, and resources devoted to communication infrastructure, body cameras, and modernization of the State's helicopter and highway patrol vehicle fleet will provide valuable tools in fighting crime and protecting our residents and visitors.

Additionally, the Executive Budget maintains a concerted effort to reduce recidivism by providing additional funding to the Department of Corrections. This funding will provide much-needed resources to enhance the safety and security of both staff and inmates, resulting in a prison environment in which "corrections" is not merely a label, but an achievable objective for all inmates.

Wrong-Way and Impaired Driving

EXPANSION OF "NIGHT WATCH" SHIFT

The FY 2020 Executive Budget included and ultimately secured funding for six new trooper positions dedicated to patrolling metropolitan Maricopa County between 8:00 PM and 6:00 AM, when impaired driving and threats to motorists are disproportionately high.

The FY 2021 Executive Budget continues efforts to mitigate and prevent wrong-way driving by including funding for six more trooper positions dedicated to the "Night Watch" shift. The new troopers will be trained as impaired-driving enforcement specialists as part of the Department of Public Safety (DPS) Driving Under the Influence (DUI) Squad. As members of the DPS DUI Squad, they will be issued specialized equipment and receive training as phlebotomists to conduct blood alcohol content blood tests that measure a driver's level of impairment.

DUI INVESTIGATIVE TASK FORCE

The number of wrong-way driving incident referrals to the Department of Liquor Licenses and Control (DLLC) increased from just six incidents in calendar year 2017 to 62 incidents in the first 224 days of 2019.

For FY 2021, the Executive Budget creates a nine-member DUI Investigative Task Force at the DLLC to increase the Department's prevention, investigative, and corrective actions for liquor-licensed establishments. The Task Force will consist of an additional 7.0 Investigator positions, 1.0 Analyst position, and 1.0 Sergeant position. Its primary mission will be investigating DUI and wrong-way driving incidents that result in death or serious injury, with an emphasis on a coordinated response with local law enforcement so that these incidents are immediately referred to DLLC for further investigation.

The Task Force will also develop and implement best practices and recommendations regarding wrong-way driving prevention as it relates to liquor-licensed establishments.

Figure 7

Funding for Wrong-Way Driving Prevention and Response



INVESTMENTS IN LOCAL PARTNERSHIPS

According to the Governor's Office of Highway Safety (GOHS), in Arizona from 2008 to 2018 the number of:

- traffic stops increased by 1,400%;
- DUI instances increased by 156%, from 13,700 to 35,100;
- DUI arrests more than doubled, and DUI drug arrests increased by more than 900%.

GOHS administers grants to local police departments to perform traffic enforcement responsibilities, such as DUI check-points and traffic stops.

The Executive Budget provides a \$7.5 million deposit to the GOHS DUI Abatement Fund in FY 2021 to increase DUI check-point and enforcement activities over the next three fiscal years. The Executive intends for the recipients of these grants to liaise with the DLLC DUI Task Force to provide DUI and wrong-way driving arrest data, as applicable, to combat and prevent impaired driving at liquor-licensed establishments.

This initiative will be paired with significant infrastructure investments along I-40, I-17, and I-19, including the installation of 76 thermal cameras to detect wrong-way driving located on strategic intersections. (See the "Government That Works" section of the Budget Message for more information on this investment.)

Prison Safety

The FY 2021 Executive Budget includes a total of \$164.2 million in new funding for the Department of Corrections (ADC):

- \$75.2 million in building renewal and capital management funding;
- \$42.9 million for staffing;
- \$33.2 million for bed management;
- \$9.4 million for recidivism reduction initiatives; and
- \$3.5 million for contract inflation

FLORENCE PRISON CLOSURE

In an effort to address staffing shortages and enhance overall officer safety, the Executive has evaluated the current situation at the Florence and Eyman prison complexes and recommends the following changes:

- vacating and closing the Florence Prison (with the exception of the Globe unit), eliminating 3,679 State-operated beds;
- moving existing staff from the Florence prison to the Eyman prison to fill vacant positions; and
- partnering with a third party that will manage and operate 4,193 beds for the State, providing a net increase of 514 beds.

It is the intent of the Executive that Arizona county jails be utilized for a portion of these beds. To the extent additional beds are needed, the State will consider other options.

The closure of the Florence prison complex will not require the termination of any current ADC employees. The Eyman prison complex, also located in Florence, will be able to absorb the majority of employees that currently work at the Florence complex. In particular, the Executive intends that Florence complex Correctional Officers will be transferred to the Eyman complex, helping to eliminate the latter facility's high Correctional Officer vacancy rate, which poses safety and security risks to staff and inmates.

The focus of this initiative is to ensure that ADC employees and inmates occupy an environment that is conducive to reducing the rate of recidivism. Additionally, the closure of the Florence prison will remove \$151.8 million in known building-renewal needs at the aged facility, allowing ADC to prioritize building renewal projects at other complexes.

Using a different cost-benefit analysis (the Department of Administration's Facilities Condition Index), the Florence prison would fall into the "Complete Replacement" category. The index is calculated based on Deferred Maintenance needed divided by Full Replacement Value. For Florence, this calculation is 66.1% (\$151,800,000 divided by \$229,689,594). Any building beyond the 60% threshold warrants full replacement.

The additional staff from the Florence prison will allow the Eyman complex to become fully staffed, eliminating the Correctional Officer II vacancy rate and providing inmates with better access to programs and other services in a safe environment. Safe, improved, and consistent access to programming opportunities will allow inmates to receive the support and education they need in order to reform and become productive members of society.

SECOND CHANCE INITIATIVES

In order to expand educational opportunities available to inmates, the Executive Budget includes an increase in funding of \$1.1 million to hire an additional 10.0 Correctional Education Program Teacher FTE positions. Eight of the positions will address the current waiting list for mandatory literacy classes, and two will be used to reduce the special education student-teacher ratio in Tucson.

The Executive Budget also includes \$250,000 for ADC to expand the prison braille transcription program. Currently, through a partnership with the Arizona Department of Education and the Foundation for Blind Children, prison inmates are trained to convert textbooks into braille, using braille transcription software. During the 2018-19 school year, this partnership produced for Arizona students 351 braille textbooks, 443 large-print textbooks, and 162 electronic textbooks. The Executive Budget will provide funding for one manager, two braille instructors, and the equipment required to expand the program to additional

inmates, resulting in more transcribed textbooks for the visually impaired.

In addition to the other initiatives included within the Executive Budget, the Executive supports utilization of the Medical Marijuana Fund to expand programming within ADC. This funding will be utilized to provide additional drug treatment opportunities to inmates, including learning the distinction between medical and nonmedical uses of marijuana. This investment will further support Laws 2019, Chapter 310, which allows inmates convicted of drug offenses to end their sentences early if they complete certain drug treatment programming.

BUILDING RENEWAL

To address the safety and security of staff and inmates, the Executive Budget includes an increase in funding to complete critical infrastructure improvements to locks, fire alarm and suppression systems, and HVAC units at the Lewis and Yuma prison complexes. Further, the Executive provides an additional \$20.9 million in funding to expand the projects' scope by replacing indirect evaporative cooling with air conditioning. The total project cost is estimated at \$72.3 million.

The shift from evaporative cooling to air conditioning is estimated to cost an additional \$20.9 million. Historically, evaporative cooling has posed a variety of problems for ADC, as the humid environment causes deterioration of both capital and electronic infrastructure. The installation of air conditioning better preserves prison infrastructure.

The building renewal project, which ADC plans to complete in 2021, is divided into three phases:

- Phase 1 - **Lewis Prison**. Repair or replace locks and fire alarm and suppression systems: \$25.9 million
- Phase 2 - **Lewis Prison**. Repair or replace HVAC systems: \$26.4 million
- Phase 3 - **Yuma Prison**. Repair or replace locks, fire alarm and suppression, and HVAC systems: \$20 million

Public Safety Assets

FULLY FUNDING HELICOPTER REPLACEMENT CYCLE

The Department of Public Safety (DPS) Aviation Unit supports State and local law enforcement with critical search-and-rescue functions and high-speed emergency transportation. In FY 2019, the Unit conducted 2,127 air rescue missions.

DPS operates a fleet of five helicopters: four single-engine Bell 407s and one twin-engine Bell 429. Per industry standards, helicopters should be replaced every 10 years or 10,000 flight hours, whichever occurs first.

Table 7

| DPS Helicopter Fleet Years in Service by Fiscal Year | | | | | | |
|--|------------|------------|------------|------------|------------|------------|
| | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
| 1999 Bell 407 | 20 | 0 | 1 | 2 | 3 | 4 |
| 2004 Bell 407 | 15 | 0 | 1 | 2 | 3 | 4 |
| 2004 Bell 407 | 14 | 15 | 16 | 0 | 1 | 2 |
| 2006 Bell 407 | 12 | 13 | 14 | 15 | 16 | 0 |
| 2016 Bell 429 | 2 | 3 | 4 | 5 | 6 | 7 |

DPS Helicopter Fleet: Years in Service by Fiscal Year

The Executive Budget includes funding to strengthen DPS's air rescue capabilities to support local law enforcement, by replacing two aging single-engine helicopters with two new twin-engine models. One helicopter will be purchased outright, while the other will be acquired on a lease-purchase for a period of two years. (At an estimated 3% annual interest rate, the cost equates to \$5.5 million per year.)

The one-time cost in FY 2021 to purchase a helicopter is \$10.5 million; this purchase cost is expected to be offset by \$887,700 in trade-in value for the oldest helicopter, a Bell 407. As of September 2019, that helicopter was 20 years old – 10 years beyond the industry's replacement standard. Additionally, unlike the model it is replacing, the new helicopter will be capable of hoisting persons into the aircraft without landing, thus decreasing the time it takes to provide critical life-saving care.

The Executive Budget further provides an equipment replacement lifecycle for the DPS helicopter fleet, so that a new helicopter is lease-purchased every two years at an ongoing cost of \$5.5 million. As a result of the lifetime replacement cycle, the entire fleet will be operating within recommended replacement standards by FY 2026.

FULLY FUNDING VEHICLE REPLACEMENT CYCLE

DPS troopers depend on reliable vehicles to patrol Arizona highways safely. Maintaining and replacing vehicles at regular intervals helps ensure the safety of troopers and the public.

The DPS fleet consists of 2,413 vehicles, including the 42 vehicles added as part of the FY 2020 budget's new positions and the proposed six additional Night Watch vehicles. The fleet also includes a total of 1,221 Highway Patrol vehicles.

DPS seeks to replace patrol vehicles after 120,000 miles or six years. As of September 2019, 19.1% of patrol vehicles exceeded one or both of those thresholds.

The Executive Budget provides funding for a constant lifetime replacement cycle for the DPS vehicle fleet. Under the replacement cycle, a sixth of DPS vehicles will be traded in, and new vehicles will be lease-purchased for six years (at an estimated annual interest rate of 2.94%). This cycle will allow the entire vehicle fleet to be replaced every six years, within the recommended replacement benchmarks.

ENHANCING TROOPER SAFETY & EFFICIENCY

The Executive Budget funds the purchase of 1,267 body cameras for the Department's sworn personnel and other agency personnel assigned to DPS task forces to enhance trooper safety, improve agency efficiency, and promote public transparency.

The Executive Budget also provides funding for 20 additional positions to manage the video collected by the body cameras, including relevant retention and redaction services. DPS will establish and train on policies and procedures for the use of body cameras in the field that align with industry standard best practices.

MAINTAINING COMMUNICATION INFRASTRUCTURE

DPS owns, operates, and maintains a statewide microwave network that provides critical radio communications for over 12,000 users, including 12 State agencies and a number of local, federal, and tribal agencies.

The State's microwave radio system is divided into three loops: southern, western, and northern. Upgrades to the southern and western loops were completed in FY 2011 and FY 2018, respectively. The FY 2019 budget included \$1.3 million from the Public Safety Equipment Fund to help fund an estimated \$13.7 million of upgrades to the northern loop.

The existing network consists of 80 analog sites and 32 digital sites (the majority of which are located in southern Arizona). The Executive Budget includes \$4.4 million to purchase radios for the Highway Patrol in areas of the state that are digitally enabled but in which the Highway Patrol currently operates with analog equipment.

The microwave equipment used to support this network is aging and has not been supported by the industry for 20 years. As a result, DPS has found it difficult to find replacement parts for system repairs, and the risk of critical system failure has grown.

The Executive Budget also includes \$1.2 million in supplemental funding for FY 2020 to initiate site permitting for the upgrade project. Further, the Executive Budget advance-appropriates \$16 million each year, from FY 2021 through FY 2023, from the Highway Patrol Fund to complete upgrades to the microwave radio communications system backbone. The appropriations will lapse after two years, consistent with capital appropriations.

This funding will pay for the remaining upgrades to the radio backbone and the construction of 10 new microwave sites that will improve signal quality. The microwave backbone upgrade project is anticipated to be completed in FY 2023 at a total cost of \$49.2 million. Of that cost, \$150,000 is expected to be ongoing for additional land lease purposes.

Public Safety Compensation

DEPARTMENT OF CORRECTIONS SALARIES

The Executive Budget provides salary increases to key ADC positions, primarily with a focus on security personnel, which are difficult to recruit and retain. This initiative is projected to result in increases for 8,434 ADC employees.

This funding will result in a 15% salary increase for the Correctional Officer II FTE position since FY 2019. The impacts of this increase can be seen in the following table.

Table 8

Correctional Officers and Jailers: Mean Annual Wage

| Area | Average Pay/Year | \$ Difference from ADC | % Diff. from ADC (FY 2019) |
|-------------------------|------------------|------------------------|----------------------------|
| Phoenix-Mesa-Scottsdale | \$ 45,060 | \$ 8,058 | 21.8% |
| Arizona | 44,150 | 7,148 | 19.3% |
| ADC – FY 2021 | 42,516 | 5,514 | 15.0% |
| Tucson | 42,440 | 5,438 | 14.7% |
| ADC – FY 2020 | 40,668 | 3,666 | 10.0% |
| ADC – FY 2019 | 37,002 | n/a | 0.0% |

Source: U.S. Bureau of Labor Statistics, May 2018

ESTABLISH CORPORAL POSITION AT ADC

The Executive Budget also establishes 286.0 Corporal FTE positions. This initiative will not require any additional FTE authority, as ADC will convert 286.0 vacant Correctional Officer II FTE positions to Corporal positions.

Corporals will be the intermediate supervisor between Correctional Officers and Sergeants and will be responsible for routine assignments within a unit and serving as the "officer in charge." The newly established Corporal position will assume some of the current Sergeant duties, which will allow Sergeants additional time to develop, coach, train, and engage Correctional Officers.

The total cost of this initiative is \$18.6 million. This cost is largely offset by eliminating 286.0 vacant Correctional Officer II positions, for a net cost of \$1.6 million.

Additionally, the Executive Budget includes a total of \$4.1 million to address salary compression issues for correctional supervisors. Currently, 51.0 Sergeants have higher salaries than Lieutenants, and similar compression issues exist throughout the Correctional Series. This funding will help to establish clear delineations of supervisory tasks and responsibilities from a pay scale perspective.

JUVENILE CORRECTIONS SALARIES

The Department of Juvenile Corrections (DJC) faces many of the staffing challenges that plague ADC. In FY 2018, DJC experienced 60% turnover within the Youth Correctional Officer I and II FTE positions. The resulting costs of recruiting and training, and the consequences of relative inexperience in those positions, are a major burden for the Department. These issues resulted in the FY 2020 Executive Budget including a recommendation to increase pay and bring salaries into parity between ADC and DJC.

In the FY 2020 budget, DJC received \$3.2 million to increase pay in several positions across the agency. The FY 2021 Executive Budget includes \$1.3 million to increase pay further and maintain parity for several positions across the agencies. Security personnel, such as Youth Corrections Officers, will receive 69% of the total funding.

The Executive Budget's salary adjustments will closely align DJC's salary schedules with those of ADC for comparable positions and alleviate interagency competition in recruiting and retention.

Additionally, the salary increase continues to fund the recently established eight-year "step plan" for Youth Correctional Officers that provides an annual salary increase for the first eight years of an individual's employment. This plan is similar to that of ADC and will provide another annual incentive to remain in service at DJC.

COURT SALARY INCREASES

The Supreme Court and the Administrative Office of the Courts (AOC) handle the administration for more than 200 courts within the state, with over 10,000 employees in their purview.

The type of staff needed to carry out the functions required at the Supreme Court and AOC are highly technical and require many years of experience within the judicial system. Over the years, it has become increasingly difficult for AOC to recruit talented staff with the necessary years of court experience; in fact, the main cause of staff departures (excluding retirements) is to accept a higher paying job, mostly within general jurisdiction or limited jurisdiction courts.

Each year the AOC conducts a personnel salary review. The most recent review, conducted in July 2019, revealed that the Supreme Court, AOC, and Court of Appeals (COA) were 12.6%

below market on a position-by-position review. During the last two fiscal years, the courts' average turnover rate has been just over 12%. Additionally, 22% of the AOC workforce will be eligible for retirement in the next five years.

Additionally, salaries for Arizona judges rank 39th nationally among state supreme court justices, 31st among court of appeals judges, and 35th among trial court judges. The Executive Budget includes funding to adjust salaries as needed for retention and recruitment of AOC staff and the judicial bench (Supreme Court, Court of Appeals, and Superior Court).

FULLY FUNDING OVERTIME AT DPS

DPS troopers are often required to extend their shifts when responding to collisions, protests, rallies, storms, and other emergencies and when completing investigations. Current practice at the Department is for employees to "adjust out" their week by taking a corresponding amount of time off or by taking the overtime hours off work as compensatory time. This system often results in Friday shifts being short-staffed, creating service gaps during rush hour.

In FY 2019, DPS allocated 1.7% of its overall Personal Services budget for overtime expenses, but that budgeted amount was insufficient to cover the Department's actual overtime expenses of 3.1% of Personal Services.

The Executive Budget provides \$2.9 million to fully fund the Department's overtime expenses, including compensatory time, eliminating the need for officers to adjust out and improving employee morale and retention. The dedicated funding will alleviate service gaps and other issues associated with short staffing and reduce the Department's reliance on vacancy savings in order to meet its overtime needs. The vacancy savings offset from this issue could fund 11 new troopers.

Transportation Travel Identification

Pursuant to federal law, beginning October 1, 2020, every air traveler in the U.S. must have a federally compliant license or a passport for domestic air travel. The law prohibits federal agencies from accepting any forms of identification that do not meet the new federal standards.

The Executive Budget includes a total of \$9 million in FY 2020 supplemental funding and FY 2021 funding for increased staffing at Motor Vehicle Division (MVD) locations, additional credential issuance, and marketing. The majority of the funding will go toward MVD staffing with the intent of decreasing wait times and enhancing customer satisfaction.

The Arizona Department of Transportation (ADOT) anticipates that 2.5 million Arizonans will board a commercial airline in the year following October 2020. ADOT has issued about 600,000 Arizona travel IDs. Given the close proximity of the deadline and the inability to acquire a travel ID online, ADOT is expecting a surge of applicants during the latter months of FY 2020 and during the first half of FY 2021.

Government That Works

The State of Arizona continues to pursue excellence in public asset management, agency operations, customer service, and business creation and relocation.

“The size of our government is actually shrinking — all while providing faster, more efficient customer service to taxpayers and citizens. In Arizona, we believe in maximizing freedom and limiting government. We believe government should do fewer things, but do the things it does well.”

Gov. Doug Ducey

The FY 2021 Executive Budget demonstrates responsible stewardship of State assets and, true to the “Arizona Way,” supports important initiatives designed to optimize State agency performance and build on Arizona’s momentum in economic development.

Data Protection

In March 2018, Governor Ducey issued Executive Order 2018-03, which created the Arizona Cybersecurity Team to develop a set of recommendations to protect Arizonans from cybersecurity threats. The FY 2021 Executive Budget includes a package of cybersecurity-related initiatives that improve State Government’s cyber preparedness.

To further bolster the State’s cybersecurity resilience, the Executive Budget provides \$11.6 million to establish a Cybersecurity Risk Management Program that is designed to prevent and recover from cyber incidents.

Central to this new program is a partnership with a cyber insurance vendor that will help the State improve its cybersecurity practices while guarding against financial losses from cyber incidents and helping the State execute response and recovery efforts.

The Statewide Information Security and Privacy Office (SISPO), which is the State’s primary defense against cybersecurity threats, will work with State agencies to mitigate risks to internal agency technology systems and further develop incident response plans to ensure the continuity of operations in the event of a breach.

National Guard Cyber Response Team. The Executive Budget includes \$372,700 to expand the capacity of the Arizona National Guard Cyber Response Team, which will improve statewide cyber preparedness and emergency response. The team will complement the preventive work of SISPO by identifying gaps in cyber

defenses through vulnerability assessments and penetration testing. The team can be deployed to provide the initial emergency response, serving as a crucial bridge between incident detection and full activation of the State’s response and recovery resources.

Citizen soldiers and airmen of the Arizona National Guard trained to serve in cybersecurity missions present an underutilized resource for the State. Many of these soldiers and airmen have full-time IT careers in the private sector and possess expert-level skills and knowledge.

The Executive Budget provides funding to allow the Department of Emergency and Military Affairs (DEMA) to maintain three full-time team members. The individuals will deploy on one-year rotations, allowing them to serve the State in that capacity while retaining the option to return to their professional careers.

Internal Technology Advancements

ENTERPRISE CLOUD INITIATIVE

In FY 2019, following an in-depth analysis of internet-based or “cloud” computing services, the Executive established the Cloud First policy to promote and encourage the use of internet-based technologies by all State agencies.

A cloud environment offers many benefits to the State, including improved operational efficiency, reduced IT infrastructure complexity, enhanced data security, and lower equipment costs. These efforts will allow the State to move at the “speed of business” through faster and more innovative applications and services.

In FY 2021, the Department of Transportation, Department of Agriculture, State Land Department, Industrial Commission of Arizona, and Secretary of State will begin cloud migration at a total investment of \$4.2 million.

OTHER INITIATIVES

The Executive Budget continues to invest in other system upgrades that will help State agencies serve the public more efficiently and provide a more positive customer experience.

Child Safety. The Department of Child Safety is completing the final year of a five-year project to replace the archaic Children’s Information Library and Data Source (CHILDS) system with the Guardian information management system. Guardian will be a secure cloud-based system that employs mobile technology to

support key agency functions, including intake processing, case management, provider management, and financial management.

Education. The Department of Education is in the second year of a three-year project to replace its school finance system. The current system is running on a legacy platform that is no longer supported, creating operational and security risks for the State. The new system will calculate and process payments more effectively, thereby reducing cybersecurity risks, eliminating manual payment calculations and errors, and allowing the Department to model comparisons of various funding scenarios.

Worker Safety. The Industrial Commission of Arizona is replacing outdated systems in its Labor Division; enhancing its current claims processing systems in the Claims Division and Administrative Law Judge Division; creating a data warehouse in the Accounting Division for financial reporting; and integrating with federal reporting systems in the Occupational Safety and Health Division.

Identity Protection. The Department of Transportation is upgrading the driver license security software that it uses to detect and prevent identity theft and fraud.

Property Tax Appeals. The Board of Equalization is replacing its archaic property tax appeal system for which technology support is no longer available.

E-Commerce Taxation. Through legislation passed in 2019, Arizona expanded its economic nexus thresholds above which an out-of-state seller is required to collect and remit to the State of Arizona the tax on retail sales.

It is estimated that over 3,000 out-of-state companies will be required to collect and remit tax on retail sales to the State of Arizona. The Department of Revenue estimates that enforcing the new thresholds will generate an additional \$85 million per year in General Fund revenue.

The Executive Budget includes funding to establish a permanent eight-person team to monitor and enforce the new economic nexus thresholds instituted by the Legislature. (Two of the team members will be dedicated to providing assistance to Arizona-based businesses in navigating other states' requirements.)

Cybersecurity. The Secretary of State is developing measures to address cybersecurity concerns across their critical IT infrastructure, including its election system. The Executive recognizes that these monies have the potential to be used as a match to draw down newly available federal monies for election security recently signed into law through H.R. 1158 – Consolidated Appropriation Act, 2020.

The Secretary of State anticipates approximately \$8.4 million in federal monies to be available to the State and localities requiring an approximate \$1.7 million match. The Executive Budget includes half of the match amount with the intention of localities providing the other half. As the Secretary of State reviews the requirements of the newly available federal monies for election security, the Executive would highlight projects that

may be of priority: (1) upgrading its failover system to provide faster data recovery; (2) developing an inventory management database; (3) mapping out data sensitivity levels within each application; and (4) conducting an assessment to create a system-specific IT security plan.

Arizona Is Open for Business

The state's thriving business climate requires commensurate improvements in business-focused State infrastructure. Investments included in the FY 2021 Executive Budget support economic development that will continue to bring high-paying jobs to Arizona.

BUSINESS ONE-STOP WEB PORTAL

The Executive Budget includes \$7.8 million to continue developing a Business One-Stop web portal that will provide a single online location to help companies and individuals plan, start, and grow Arizona businesses and relocate businesses from other states.

In FY 2020, the State conducted a readiness assessment and began portal design based on stakeholder feedback and a review of existing technologies. This information will be leveraged in FY 2021 to create a functional prototype focused on helping people navigate the legal requirements to start a business. In future development, the portal will be expanded, adding features intended to foster business growth and relocation.

The Department of Administration, which is coordinating the portal development, anticipates that the project will be completed in FY 2025 for a total cost of \$32.2 million.

ARIZONA COMMERCE AUTHORITY

Rural Broadband Internet Development. High-speed internet is essential for accelerating economic development, enhancing education, expanding access to healthcare, improving public safety, and modernizing government services.

To offset the construction costs of expanding broadband services, the Executive Budget includes \$10 million to provide matching grant funding to underserved rural communities. The Arizona Commerce Authority (ACA) will prioritize awards to local partnerships or ventures with clear and achievable plans to improve broadband services in one or more communities.

The \$10 million in funding will be split between broadband infrastructure development and community broadband planning. ACA will evaluate applicants based on multiple criteria, including the number of community anchor institutions and people served, available matching funds, demonstrated local support, and expected economic impact.

Arizona Competes Fund. ACA provides economic development grants to attract and support businesses through the Arizona Competes Fund, which receives deposits from the General Fund through dedicated income tax withholding and tax

revenues. The Executive Budget includes \$6 million to restore prior cuts to this grant program.

Economic Development Marketing. The Executive Budget invests \$1 million to expand a national marketing campaign that begins in FY 2021. The purpose of the campaign is to increase nationwide awareness of Arizona's favorable business environment.

The ACA will use the funding for an effective media mix that includes TV and radio, local and national print publications, and digital media intended to reach executives and other corporate decision makers.

DEPARTMENT OF TRANSPORTATION

Interstate 10: Gila River Bridge Replacement. The portion of Interstate 10 that connects Phoenix and Tucson is a vital transportation and commerce corridor, and widening it to six lanes will improve public safety and enhance economic development opportunities in central Arizona and the Gila River Indian Community.

The Executive Budget includes \$78 million to replace and expand the I-10 bridge across the Gila River, which will add a third highway lane in each direction. The Executive intends for the \$50 million scheduled for I-10 improvements in FY 2023 of the ADOT's Five Year Program to be accelerated to start in FY 2021.

Smart Highway Corridors. The Executive Budget includes \$49.7 million for broadband infrastructure in rural transportation corridors. The Arizona Department of Transportation (ADOT) will use this funding to install 514 miles of broadband conduit and fiber optic cable along designated highway segments, including:

- Interstate 17 between Sunset Point and Flagstaff;
- Interstate 40 between the Arizona-New Mexico and Arizona-California borders; and
- Interstate 19 between Tucson and Nogales.

This new infrastructure provides multiple benefits. ADOT will improve highway safety by installing smart highway technology systems, including traffic cameras, wrong-way detection systems, dynamic message boards, a weather information system, and variable speed limit signage. (For more on this topic, see the "Smart Highway Connectivity" issue in the "Stewardship of Capital Assets" section.)

In addition, the infrastructure opens the door for providing future broadband capacity for smart infrastructure projects in Arizona's rural and tribal areas.

Interstate 17: Lane Additions. The Executive Budget includes \$45 million for the second year of the three-year project to construct a third highway lane in each direction between Anthem and Black Canyon City and add a flex lane from Black Canyon City to Sunset Point. This project will strengthen a critical commerce corridor, reduce congestion, and improve highway safety.

Stewardship of Capital Assets

DEPARTMENT OF ADMINISTRATION (ADOA)

The ADOA building system includes an inventory of 4,500 structures with an aggregate area of 23.7 million gross square feet and an estimated replacement value of \$5.1 billion. Effective stewardship of those valuable assets is a priority reflected in the Executive Budget.

System-Wide Building Renewal Investments. The Executive Budget includes \$20.8 million in one-time funding (including \$3.8 million from the General Fund) for building renewal across the ADOA building system, including fire and life safety projects and targeted infrastructure repair, replacement, and renovation. The majority of the funding for this issue is derived from rental charges paid by State agencies that occupy State buildings.

The Executive Budget also includes \$34.2 million to fully fund the building renewal formula for certain agencies, including:

- \$26.8 million at the Department of Corrections (ADC), including \$21.2 million from the General Fund (ADC facilities represent the largest component within the ADOA building system, with 1,524 structures and a total area of 8.8 million square feet);
- \$4.6 million at the Game and Fish Department for building renewal and additional maintenance and repair of dams and hatcheries;
- \$2.3 million at Arizona State Parks and Trails for building renewal and maintenance;
- \$349,100 at the Pioneers' Home for targeted repairs and replacement of infrastructure and equipment; and
- \$146,700 at the Lottery Commission for building renewal and maintenance.

Building Renewal at Capitol Buildings. The Executive Budget includes \$4.1 million (including \$3 million from the General Fund) to complete greatly needed repair of infrastructure in the Capitol complex, which includes the House of Representatives and Senate buildings and the Executive Tower. In FY 2020, ADOA began replacing air handler units and hot water pumps at these facilities. The Executive Budget includes funding to complete replacement of the remaining outdated equipment.

Elevator Modernization. The Executive Budget includes \$2.2 million to modernize elevators at three Capitol Mall buildings: 1616 West Adams Street, 1200 West Washington Street, and 1535 West Jefferson Street.

The elevators in those buildings are beyond their expected service lives and depend on increasingly unreliable machinery. To improve reliability and safety, the funding will be used to modernize the antiquated mechanical and electrification systems, update controllers and signal systems, and replace worn-out machinery.

DEPARTMENT OF CORRECTIONS

The Executive Budget includes \$48.4 million for ADC to complete major upgrades and repairs at the Lewis and Yuma prisons. The Department has identified locks, HVAC systems, and fire alarm and suppression systems at those prisons that require replacement. Replacements are underway, and ADC plans to complete the project in August 2021 for a total cost of \$72.3 million.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

The Executive Budget includes \$671,300 for the Department of Emergency and Military Affairs (DEMA) to upgrade, at several Readiness Center facilities around the state, fire suppression systems that do not comply with fire code. DEMA will leverage this State funding to draw down \$1.2 million in matching federal funding.

DEPARTMENT OF JUVENILE CORRECTIONS

The Executive Budget includes \$2.5 million for the Department of Juvenile Corrections (DJC) to upgrade deteriorating doors in four units at Adobe Mountain School, a secure-care facility for youth who pose a threat to public safety. This funding will allow for the replacement of doors that have exceeded their expected useful life. This project represents a necessary investment in security infrastructure to maintain a safe environment for both staff and the youth that are in the custody of the State.

DEPARTMENT OF PUBLIC SAFETY

The Executive Budget includes \$8.2 million for capital projects at the Department of Public Safety (DPS) in response to operational needs.

The new Loop 202 Congressman Ed Pastor Freeway, which opened in FY 2020, is patrolled by DPS. Construction of the DPS South Mountain District Office, at a cost of \$6 million, will allow for improved emergency response, safer storage of equipment, and better working conditions for DPS troopers.

In addition, \$2.2 million will be used to replace modular housing units that are well beyond their expected useful life and have rapidly deteriorated. These 58 residential facilities, strategically located around the state, are used by DPS troopers who patrol remote sections of Arizona's highways.

This appropriation, along with the FY 2020 appropriation scheduled to replace eight houses, is part of the Executive's effort to completely replace all remote housing buildings that are beyond their useful life and adhere to a robust lifecycle replacement strategy.

DEPARTMENT OF TRANSPORTATION

Highway Maintenance. In FY 2020, ADOT has added to the State highway system over 40 urban lane-miles and 63 rural lane-miles. The Executive Budget includes \$1.2 million for ongoing maintenance of the new lane-miles, which will include roadside

and shoulder maintenance, landscaping, surface treatments, and traffic signals.

Building Renewal. In addition to managing the state's highways, ADOT maintains an independent building system that includes 1,200 structures comprised of 3.3 million square feet and having an estimated replacement value of \$780 million. The Executive Budget includes \$14.6 million for ADOT to replace or repair infrastructure and major building systems.

I-10 Tunnel Lighting Upgrades. The lighting fixtures in the Interstate 10 tunnel in central Phoenix are no longer manufactured. After exploring possible alternatives, ADOT implemented a pilot program with new LED lighting fixtures that are compatible with the units that hold the light fixture.

The Executive Budget includes \$1.5 million for ADOT to replace the remaining obsolete fixtures with the new LED fixtures, which are expected to reduce utility costs.

Highway De-icing. ADOT uses liquid brine to de-ice highways. The Executive Budget includes \$1.7 million for ADOT to construct new liquid brine storage tanks at four locations around the state. Strategic placement of the new tanks will allow ADOT to avoid excessive highway closures due to unsafe icy conditions.

Vehicle Fueling Facilities. The ADOT fueling network supports a majority of the agency's day-to-day operations. Sixteen stations rely on equipment that is beyond the expected useful service life, and the Executive Budget includes \$1.8 million to replace equipment at three of those stations.

Major Renovation of Annex Building. An ADOT building at 206 South 17th Avenue in Phoenix requires structural remediation to support loading requirements. The Executive Budget includes \$3.9 million for the needed major renovation.

Smart Highway Connectivity. The Executive Budget includes \$9.2 million to install multiple smart-highway technologies on the newly created Smart Highway Corridors. The technologies include traffic cameras, wrong-way detection systems, dynamic messaging boards, and weather information and variable speed-limit sign systems. Furthermore, ADOT plans to connect existing smart-highway technology, which will improve reliability, reduce costs, and enable 24/7 access.

These technologies provide considerable opportunity to enhance public safety, economic development, education, healthcare delivery, and government services for rural and tribal areas in Arizona.

Other Funding Initiatives

PRIMARY AND GENERAL ELECTIONS

The Secretary of State has statutorily mandated responsibilities associated with primary and general elections in Arizona. Among other duties, the Secretary is required to:

- reimburse counties for the costs of producing and mailing sample ballots to every household with a registered voter;

- reimburse counties for the costs of certifying petition and referendum signatures;
- for any initiative or referendum, print and mail a publicity pamphlet to every household with a registered voter; and
- review and process initiative and referendum signatures.

The Executive Budget includes \$5.2 million for the Secretary to execute the primary and general elections in 2020.

STATE EMPLOYEE HEALTH INSURANCE

In a strong economy with low unemployment, the job market requires employers – including the State of Arizona – to compete for top talent. The Executive Budget makes strategic investments in employee benefits to support workforce recruitment and retention.

The Health Insurance Trust Fund (HITF) supports the State's self-insured medical, pharmacy, and dental insurance for State employees. The Executive Budget includes a one-time increase in premiums paid into the HITF by State agencies on behalf of their employees. The increased premiums are expected to generate an additional \$85 million in total HITF revenue, with \$26.2 million originating from the General Fund.

Although the State has recently experienced slower growth in medical and pharmacy costs, expenditures continue to outpace revenues, leading to a declining fund balance. The one-time increase allows the State to continue to offer excellent health insurance benefits to employees while ADOA procures new contracts with health insurance vendors that will take effect in January 2021.

Natural Resources

The Executive Budget places a strong emphasis on complying with federal air and water quality standards, meeting the growing costs of fire suppression across Arizona, and purposefully and proactively managing State lands and parks.

“During higher times of wildfire activity, wildland firefighters protected Arizonans from several significant threats including the Museum Fire near Flagstaff and the Woodbury Fire in the Superstition Mountains—the fifth-largest fire in Arizona history. These heroic firefighters and first responders put their lives on the line to keep others safe, and Arizona is deeply grateful.”

Gov. Doug Ducey

Maintaining Arizona’s natural resources is a core purpose of State Government, and effective stewardship in this area requires deliberate planning and well-conceived funding priorities that are becoming hallmarks of the “Arizona Way.”

The FY 2021 Executive Budget includes targeted funding to protect air and water quality, preserve the state’s forests, maximize the value of State Trust land, and enhance recreational opportunities for Arizona residents and visitors.

Department of Environmental Quality

AIR QUALITY ATTAINMENT

In 2015, the U.S. Environmental Protection Agency (EPA) raised the National Ambient Air Quality Standard for ground-level ozone. Arizona’s unique geography and weather patterns make it difficult to meet that new level of attainment.

Based on the EPA air quality standard, Maricopa County is currently designated as “Marginal.” If Maricopa County does not reach the standard by 2020, it will be downgraded to “Moderate” in 2021. If the area does not reach the standard by 2023, it will be further downgraded to “Serious.”

With each downgrade, Arizona faces a series of EPA restrictions that would threaten economic growth. The Executive Budget includes initiatives to address this problem, including the following.

Remote Testing Pilot Program. The Executive Budget includes an increase in funding for the Department of Environmental Quality (DEQ) to carry out a remote emissions-testing pilot program authorized by Laws 2019, Chapter 141. Remote emissions testing can shorten travel distance and time to testing

stations, reduce idling at testing stations, and make testing less expensive and more convenient for customers.

DEQ will use the funding to award contracts for the development and post-implementation evaluation of pilot technologies.

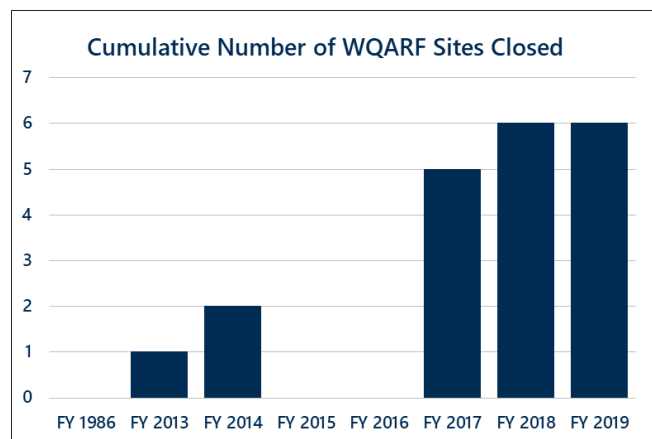
Public Outreach Campaign. Travel reduction programs are a productive way to improve air quality during certain times of the year. The Executive Budget includes funding for a public outreach campaign to increase awareness of these programs.

WQARF FUNDING

The Executive Budget continues support of the Water Quality Assurance Revolving Fund (WQARF) program. WQARF is Arizona’s alternative to the EPA’s approach to remediation of contaminated hazardous waste sites.

Through WQARF, the State maintains control over determining financial and other responsibility for site remediation. After completing remediation on six WQARF sites over the past six years, 36 sites remain on the WQARF program registry.

Figure 8



A.R.S. § 49-282(B) specifies that the first \$15 million in Corporate Income Tax (CIT) revenues is to be appropriated annually to WQARF before CIT collections flow into the General Fund. However, WQARF has not received the full CIT appropriation since FY 2007, and the past three budgets have funded WQARF from other DEQ funds. Those alternative fund sources are now insufficient to sustain both WQARF and the baseline DEQ activities that the funds were originally designed to support.

To ensure that DEQ can continue its work to remediate and close WQARF sites, the Executive Budget includes full funding for the program from the statutorily required CIT revenues.

WATERS OF THE STATE

The EPA and the Army Corps of Engineers are revising the definition of “Waters of the United States” (WOTUS). The proposed revision would remove from Clean Water Act jurisdiction an estimated 95% of stream reaches and 99% of lakes.

The waters impacted in Arizona include ephemeral and intermittent waters and isolated lakes and urban ponds, and all or part of year-round and seasonally flowing streams such as Oak Creek and the Salt, Verde, San Pedro, and Santa Cruz rivers.

While these waters would continue under Arizona’s definition of “Waters of the State,” there is no regulatory program for the newly unprotected waters. That situation could lead to serious environmental and economic impacts.

The Executive Budget includes one-time funding for DEQ to engage with stakeholders, conduct analysis, and develop program requirements to establish the Waters of the State program.

Department of Forestry and Fire Management

SCHOOL FIRE INSPECTIONS

The Office of the State Fire Marshal (OSFM) is responsible for inspecting 15,000 State- and county-owned buildings, including schools. As school safety is a high priority, the State is taking additional steps to ensure more frequent inspections of fire safety systems.

In August 2019, the State Government Transformation Office worked with OSFM to improve the inspection process and increase inspection frequencies using OSFM’s existing resources. Additionally, the Executive Budget increases OSFM’s funding to add 3.0 deputy fire marshal positions to accelerate the frequency of inspections.

FIRE SUPPRESSION

The Executive Budget includes an increase in funding for fire suppression. From a financial perspective, there are three types of fires for the State. *Reimbursable* costs stem from fires that occur on federal land. *Non-reimbursable* costs are associated with fires that occur on State land. *Cost-share* fires occur on State and federal land.

Reimbursable. A.R.S. § 35-144 enables DFFM to use up to \$20 million from the Budget Stabilization Fund (BSF) for reimbursable costs. DFFM uses the BSF to pay local districts and then returns the BSF to its original balance by depositing all federal reimbursements. Because of this cooperative agreement structure, there is no mechanism for local districts to seek federal reimbursement without going through DFFM.

Non-Reimbursable. The federal government does not reimburse the State for the costs of fire suppression on State-owned and unincorporated lands. Each fiscal year, DFFM is allotted \$4 million from the Fire Suppression Fund to pay for non-reimbursable costs for fire suppression on those lands.

Cost-Share Fires. In addition to reimbursable and non-reimbursable situations, “cost-share” fires are a combination of reimbursable and non-reimbursable costs.

The objective of a cost-share agreement is to establish and document the cost sharing and the basic organizational structure in response to multijurisdictional incidents, i.e., fires burning on or threatening lands for which the State and one or more of the cooperating federal agencies are responsible, and for which a decision is made to share costs.

Factors that impact negotiations include mission, the jurisdictions involved, location of resources, values at risk, suppression difficulty, and location of fire-control features.

Fire-Suppression Costs. Due in part to the effects of drought and population growth, the statutorily prescribed amount of funding for the Fire Suppression Fund (FSF) is inadequate. As a consequence, DFFM operates at a deficit.

From 2014 to 2018, fire-suppression costs in Arizona increased from approximately \$115 per acre to \$353 per acre. The rise in wildland firefighting costs is not restricted to Arizona; at the federal level, from 2015 to 2018, fire-suppression costs increased from \$210 per acre to \$359 per acre.

Additionally, the western U.S. is experiencing drier, warmer climates, with forests that have not been adequately maintained, resulting in an increase in State spending on multijurisdictional wildfires that did not correlate to a proportional increase to the agency’s FSF budget.

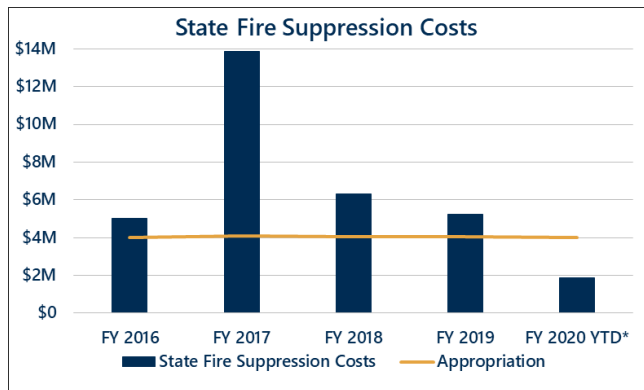
The State depends on the partnership of local cooperators throughout Arizona that deploy crews to fight fires. These cooperators are often small rural fire districts that depend on receiving timely payment from the State to maintain positive cash flow. This funding is critical to ensuring that local cooperators continue to partner with the State in fighting wildfires.

Federal agencies maintain a single cooperative agreement with the State through the Department of Forestry and Fire Management (DFFM), which maintains over 200 cooperative agreements with local fire districts.

As the figure below illustrates, the State’s fire-suppression costs for the last four years (excluding FY 2017, which was an outlier) have averaged \$5.5 million, whereas the FSF has been appropriated \$4 million.

The Executive Budget increases the Fund appropriation to align with actual fire-suppression expenditures.

Figure 9



Fire Expense Repayment. For the past four fiscal years, the \$4 million allotted to the FSF has been insufficient to pay for fires occurring on State-owned and unincorporated lands. To address that issue, the Executive Budget includes an increase in supplemental funding above the enacted FY 2020 appropriation for higher fire-suppression costs incurred by the State.

Also, an abnormally high concentration of fires on State land and an increase in complex fires pushed suppression costs from the FY 2017-FY 2018 fire seasons beyond available funding. The Executive has identified available fund sources to cover that shortfall and to manage cash flow in the near term.

However, a \$4.8 million shortfall remains. DFFM currently owes the federal government \$1.9 million for FY 2017 fires and \$7.9 million for FY 2018 fires. Those obligations are mitigated by amounts owed by the federal government to DFFM: \$2 million for FY 2017 fires, \$2.5 million for FY 2018 fires, and \$500,000 for FY 2019-FY 2020 fires.

The Executive Budget increases funding to address that issue.

FIREFIGHTER COMPENSATION

The FY 2020 budget included a Public Safety Compensation Strategy that provided salary increases to key positions – with a focus on public safety – for which agencies were experiencing difficulty in recruiting and retaining highly qualified staff.

No DFFM positions were included in the initiative.

The Executive Budget includes funding for a 5% increase in firefighter salaries. The additional funding will help DFFM attract a more productive, better-educated workforce, which will enhance the agency's vital role in public safety. The pay increase also recognizes the recent lengthening of the wildfire season, with wildfires burning more area each year and increasing the amount of work and risks for firefighters.

Department of Emergency and Military Affairs

To address the State's increasing fire-suppression costs, the Executive Budget invests in an innovative strategy to help DFFM and local partners fight fires more efficiently.

The Arizona National Guard maintains for the federal government four MQ-9 remotely piloted drone aircraft and one RC-26

manned reconnaissance aircraft. The Guard's aircraft have the capability to collect full-motion video in the electro-optical and infrared spectrum that can provide accurate images through smoke and inclement weather conditions.

Some other states (e.g., California, North Dakota, Texas, and New York) use this technology for real-time mapping of forest fires and other emergencies, including flooding and search-and-rescue situations. While live-video images are currently used during federal missions, the State cannot access this technology because it lacks the capacity to receive and disseminate the data.

The Executive Budget makes a one-time investment in communication equipment that will allow the State to establish an operations center to collect and distribute live video, voice, and positional data from the National Guard aircraft. Wildfires and forest fires threaten Arizona seasonally, and the technology will be utilized frequently during the fire seasons.

The support provided by this technology is similar to the efforts that the National Guard currently delivers through the Joint Task Force-Arizona model.

State Land Department

PROACTIVE MANAGEMENT OF STATE TRUST LAND

To maximize revenue for the State Land Trust's 13 beneficiaries, the Land Department has shifted from passive management to proactive management of the State's 9.2 million acres of State Trust land.

Over 90% of State Trust land is held in trust for the benefit of public education; therefore, maximizing the value of Trust land provides more funding directly to Arizona's students.

The Superstition Vistas Planning Area is a 254-square-mile area of State Trust land located immediately east of the Phoenix metropolitan area in Pinal County. The property has been identified as a high priority for future growth that could lead to substantial revenue to the Trust.

The Executive Budget includes one-time funding that will be used by the Land Department to contract for aggregate and drainage studies that will maximize the value of the land as it is developed.

PROTECTING ARIZONA'S CAP WATER RIGHTS

The Land Department holds rights to an allocation of 32,076 acre-feet of Central Arizona Project (CAP) water that benefits State Trust lands.

The Department may assign a portion of its water rights to specific parcels of Trust land, which can greatly increase the value of the land when it is sold or leased. When a portion of the CAP allocation is transferred to a lessee or purchaser, the General Fund is reimbursed for all previous costs, in addition to interest and administrative fees.

The Department is required to pay fees for those rights annually. Failure to pay the annual fees would result in the

Department forfeiting all or part of its CAP allocation and all capital fees paid thus far, which totals approximately \$23.8 million.

In five of the last seven fiscal years, including FY 2020, the Department has required supplemental funding to pay its CAP water fees. The supplemental process results in late payment of CAP fees. In the past, CAP has waived the late fee for the State; however, in September 2019 CAP advised the Department that it would not do so in the future.

In addition to supplemental funding for FY 2020, the Executive Budget includes additional funding for CAP fees to match the provisional rate set by CAP in June 2019. That provision rate is 61% higher than the FY 2019 rate, which was used to set the appropriation in the FY 2020 budget. This additional funding will help avoid a future supplemental process and costly late fees.

Health and Welfare

State Government's fundamental purposes include providing critical services and support for Arizona's most needy and vulnerable citizens.

"Our youth face more challenges than ever today. Let's focus on the whole child, promoting personal resilience, community and a supportive environment. And tackling loneliness. Connecting with one another. Putting down our phones and talking with our kids, listening to our parents, and helping our neighbors."

Gov. Doug Ducey

The State of Arizona constantly seeks to improve its service delivery, reflective of the "Arizona Way" in meeting legitimate and compelling needs in the areas of child safety, assistance for low-income individuals and families, and public health.

The FY 2021 Executive Budget provides additional funding to help at-risk children, including child care, newborn health screening, child safety, foster adoptions and kinship assistance, child and family advocacy, and behavioral health in schools.

The Executive Budget also emphasizes services for adults, including suicide prevention and providing protection and expanded resources for the elderly and other vulnerable adults.

Programs That Benefit Arizona Children

CHILD CARE DEVELOPMENT FUND

The Child Care Development Fund (CCDF) provides subsidies that help low-income working families and foster parents afford child care. The FY 2020 budget significantly increased funding for this program with an additional \$55 million, boosting rates to child care providers and eliminating the waitlist of families seeking to access this important workforce program. The Executive Budget strategically builds on this year's investments with another increase of the CCDF appropriation.

The child care subsidy program, administered by the Department of Economic Security (DES), is available to:

- low-income parents who are working;
- teen parents in high school or general education development (GED) classes; and
- residents of homeless or domestic violence shelters.

The FY 2021 Executive Budget includes a funding increase in CCDF to sustain the elimination of the waitlist and provide tiered reimbursement and technical assistance to expand high quality child care centers.

Currently, DES subsidies provide families with access to 38% of child care centers in Arizona. The additional funding will:

- provide incentive bonuses to quality child care facilities ranked by "First Things First";
- help unranked facilities achieve certification as quality child care centers; and
- sustain the suspension of the waitlist resulting in an additional 1,285 children in quality child care settings in FY 2021.

First Things First is a voter-initiated statewide organization that focuses on early education and health programs that prepare Arizona's children for success in school. Its 5-star tiered ranking system provides guidance to child care centers on how to improve the quality of the care they provide. A pilot program that began in April 2018 provided incentive bonuses to centers that maintained a 4- or 5-star ranking. Funding in FY 2021 extends those incentive bonuses to 3-star centers.

Additionally, the Department of Child Safety (DCS) provides child care subsidies to foster parents, kinship families, and parents with children who are receiving preventive services. The Executive Budget invests \$1 million to provide reimbursement of up to \$200 for the cost of one-time child care enrollment fees. The additional funding will make quality child care more accessible for at least 5,000 kinship families.

NEWBORN SCREENING PROGRAM

The newborn screening program currently performs two blood tests for each Arizona newborn. The cost of the first test is currently \$36, and the second is \$65. The Executive Budget contemplates combining the costs of these tests into a single \$101 charge per newborn to better recover the costs of the program. This approach improves efficiency and provides a solution to the long-standing structural deficit in the Newborn Screening Fund.

A structural deficit exists primarily because the collection rate for the second test is approximately 91%. The collection shortfall occurs for a variety of reasons, including uninsured newborns, incorrect billing information, or parents leaving the state within the first two weeks of birth. Combining the costs of the tests will improve collection rates, giving the fund a more predictable revenue source.

The Executive Budget also calls for a statutory change to increase the screening fee from its current \$101 level to \$113, which will close the fund's structural deficit and cover the costs of (a) hiring two positions to assist in performing two new screens for newborns and (b) the reagents and operations costs associated with adding the two tests.

The two new tests are designed to detect:

- spinal muscular atrophy, a genetic disorder that affects motor nerves, which can lead to loss of motor control and death and affects one in 10,000 newborns per year, and
- X-linked Adrenoleukodystrophy (X-ALD), which causes deterioration of myelin, reduces the ability of nerves to communicate with the brain, and affects approximately one in 20,000 births per year.

Both tests are recommended by the Newborn Screening Advisory Committee and the U.S. Department of Health and Human Services.

CHILD SAFETY

DCS continues to make significant strides in investigating child welfare cases, improving in-home preventive services, and providing quality and timely health services for foster children.

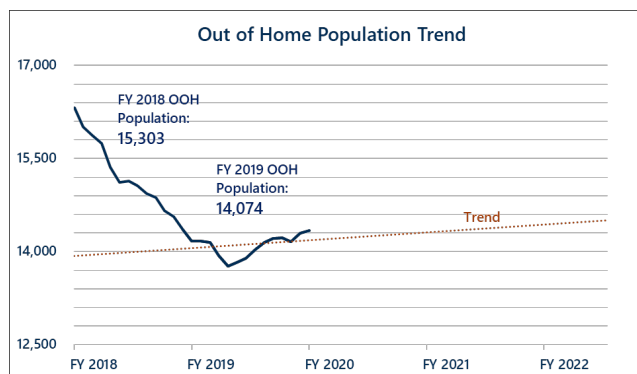
In 2013, the discovery of uninvestigated reports of child abuse brought to light the undeniable need to reform Arizona's child safety agency. Since then, the backlog of more than 16,000 inactive cases and 33,000 open reports that required investigation dropped to an all-time low and is now well below the Legislative benchmark of 1,000 inactive cases and 8,000 open reports.

Out-of-Home Population Trend. Consistent with Arizona's population growth, from FY 2017 to FY 2019 the number of child welfare reports received at the DCS hotline increased by 12%, from 74,000 reports to 83,000 reports.

Similarly, recent DCS data (see Figure 10) indicates that, since December 2018, the out-of-home population has also taken an upward turn, increasing by 5% from 13,674 children (below the Legislative benchmark of 13,964) to 14,401. That modest rise reverses a recent trend that saw a three-year decrease in the out-of-home population.

Despite that population increase, DCS continues to provide timely responses to child welfare investigations in 94% of the cases and kept more than 90% of children from reentering care after six months.

Figure 10



Continuing Support for Mission-Critical Staff. In working to create a safe and secure environment for Arizona's vulnerable children, DCS caseworkers and mission-critical staff members work vigilantly to respond to and investigate reports of child abuse and neglect and provide crucial in-home and out-of-home services with the goal to reunify families whenever that can be done safely.

Retaining qualified and experienced staff continues to be a major challenge facing DCS, as the agency has been consistently unable to meet the Legislative benchmark of retaining 1,406 caseworkers.

Despite the 5% average pay increase in FY 2020, DCS caseworker salaries continue to be 8% below market nationally and 10% below market when compared to neighboring states (e.g., Utah, New Mexico, Colorado, and Nevada).

Table 9

Average Caseworker Salaries by State

| | |
|------------|-----------|
| California | \$ 59,500 |
| Nevada | 52,410 |
| Colorado | 51,060 |
| Texas | 48,920 |
| Utah | 44,160 |
| Arizona | 42,673 |
| New Mexico | 41,460 |

In recognition of DCS staff's vital role in ensuring the safety of at-risk children, the Executive Budget includes \$11 million to fund another round of targeted salary adjustments.

ADOPTION INCENTIVES

A welcome result of children exiting State's care is an increase in the adoption rate. When reuniting a child with his or her family is not an option, adoption provides children with permanent homes where they will be safe and cared for.

Adoption Services funding covers adoption home recruitment costs, adoption legal expenses, and adoption subsidies for adopted children with special needs.

For the State, adoption is a long-term financial commitment, as DCS pays an adoption subsidy to the adoptive parents until the child reaches age 18 or graduates from high school, whichever occurs later.

The Executive Budget's total investment of \$14 million makes good on the Executive's commitment to increase the number of children in loving, forever families. In addition to funding baseline adoption caseload growth, the Executive Budget includes two new initiatives:

Adoption Incentive for Sibling Groups. To encourage adoptions of sibling groups, the Executive Budget provides to adoptive families a one-time incentive of \$5,000 per child. Adoptive parents may use the one-time incentive on costs associated with adopting the sibling group, such as buying additional furniture, remodeling or upgrading their home, and buying a vehicle. This initiative will provide payments to adoptive parents of 600 children in sibling groups of two or more.

Adoption Subsidy Increase for Children with Significant Developmental Disabilities. The Executive Budget provides funding to increase the average daily adoption subsidy rate from \$36.80 to \$75.00 to incentivize the adoption of children with significant developmental disabilities. There are certain financial barriers that make it challenging for families to adopt children with significant developmental disabilities, including additional doctor's visits, therapies, and medical services. This funding will help to provide families with the necessary support to meet the high needs of these children and ensure that quality services are received timely.

The goal is to finalize adoption in FY 2021 for 100 children who have significant developmental disabilities and, without the increased rate, would not be adopted.

DOUBLING FINANCIAL ASSISTANCE TO KINSHIP FAMILIES

To enhance outcomes for children in vulnerable situations, Arizona provides a "Grandmother Stipend" that expands financial assistance for family members who, in the absence of a parent, are caregivers for children under an arrangement commonly referred to as "kinship care."

The FY 2018 budget expanded program eligibility to "fictive kin," i.e., caregivers that have a meaningful relationship with the child but are not related by blood or by marriage. The program expansion provided a \$75 monthly stipend to 2,288 caregivers.

In FY 2020, the State again extended the eligibility of the program to all caregivers, regardless of income levels, without filing an application.

For FY 2021, the Executive Budget doubles the Grandmother Stipend to \$150 for 5,555 caregivers to maintain and promote lifelong family connections and lessen the disruption of removal. The additional funding will allow thousands of children in uncertain circumstances to be cared for by family and loved ones.

DEPENDENCY ALTERNATIVE PROGRAM (DAP)

In 2015, the Pima County Superior Court created a Dependency Alternative Program (DAP) to help the court better address the needs of a family while potentially avoiding a dependency and prolonged court involvement for filed dependency petitions. Maricopa County started a similar program in January 2019.

DAP has two specific goals:

- Prevent dependency cases when an alternative legal arrangement can provide safety and stability for the children.
- Keep families that reached a resolution via DAP out of the dependency system for at least one year.

The courts estimate that resolving a dependency case takes 141 days on average. With DAP, the average dependency case in 2018 took 22 days, if a case even occurs at all. In fact, a dependency case was prevented in 88% of the 203 cases in which families voluntarily participated in the program between 2015 and 2018, positively impacting 308 children.

In its first year, DAP achieved a high success rate for its second goal, as 98% of the involved children did not return to the child welfare system during the year following DAP involvement. Not only did the family not return to court with a new case filing or modification request; there were also no reports received by or involvement with DCS during that trailing year.

Recognizing the impressive success of Pima County's DAP, the Executive Budget includes funding for a three-year pilot DAP program in the 13 rural counties. Funding will pay for a statewide DAP coordinator and the cost to the counties of attorney fees and county DAP coordinators. The funding will also enable Pima County to expand its program with additional staffing and search for missing parents in privately filed matters wherein a child's legal guardian requests assistance.

DCS OPPORTUNITIES AND CHALLENGES

- As the out-of-home population rises and implementation of the federal Family First Prevention Services Act looms, DCS is working to strengthen its existing prevention programs, help group-home providers attain qualified residential treatment program status, and identify alternative placement for children with high needs.
- DCS continues to move toward completion of its new child welfare technology system in order to meet federal Comprehensive Child Welfare Information Systems standards, with a target date of July 6, 2020.
- DCS remains a defendant in a federal class-action lawsuit, *B.K. v. Faust*, which was filed in 2015. Trial is anticipated to begin in spring 2020.
- Pursuant to Laws 2019, Chapter 305, on October 1, 2020, DCS will integrate behavioral health services for foster children within its current Comprehensive Medical and Dental Program (CMDP), allowing caseworkers and DCS staff to

have close proximity and real-time access to the child's information and provide to foster children higher quality and more timely access to medical, dental, and behavioral health services.

CHILD AND FAMILY ADVOCACY CENTERS

Child and Family Advocacy Centers provide victim advocacy, case management, and counseling services to primary and secondary victims of child abuse, domestic violence, sexual assault, elder abuse and homicide.

The FY 2018 budget created the Child and Family Advocacy Centers Fund, and the FY 2019 budget included an ongoing General Fund deposit of \$100,000 into the new fund. For FY 2020, the Attorney General (AG) made a one-time deposit of \$400,000 into the fund, bringing the total available State funding for advocacy centers up to \$500,000.

For FY 2021, the Executive Budget increases the ongoing \$100,000 General Fund deposit to \$500,000, thereby backfilling the one-time contribution from the Attorney General.

Pursuant to A.R.S. § 41-191.11:

- 47.5% of fund monies are distributed equally among the eligible child and family advocacy centers.
- 47.5% is distributed to the centers based on each center's proportion of all victims served.
- 5% is distributed to a statewide membership organization that sets core standards for best practices and provides support and training to emerging and existing child and family advocacy centers and multidisciplinary teams.

No more than 5% of the fund may be retained by the AG for administrative costs. To be eligible for funds, a child and family advocacy center must certify to the AG that it meets certain statutory criteria relating to its ability to provide victim services.

Suicide Prevention

In 2017, suicide was the eighth-highest cause of death in Arizona, claiming the lives of 1,304 individuals, with a rate per 100,000 that was 24% higher than the national average. Certain groups, including military veterans, Native Americans, and individuals living in rural areas, have significantly higher suicide rates.

Only 40.3% of Arizonans living with mental illness received treatment in 2018. In providing access to mental health care for adults and children, Arizona ranked 30th and 43rd, respectively, among the states.

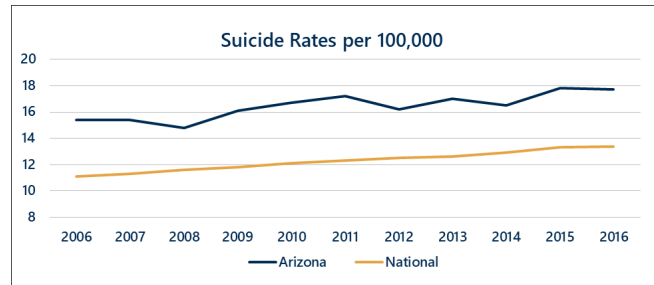
To address this growing issue, the Department of Health Services (DHS) has partnered with the Arizona Health Care Cost Containment System (AHCCCS) to establish a suicide prevention strategy that prioritizes developing and disseminating information on suicide prevention. The strategy includes:

- enhancing crisis response teams;
- expand access to suicide prevention resources;

- establishing a suicide mortality review team; and
- running a social isolation campaign.

The Department is on track to implement these interventions by June 30, 2020.

Figure 11



SUICIDE MORTALITY REVIEW TEAM

Identifying gaps in current suicide reporting is the first step toward understanding and beginning to solve the suicide crisis in Arizona. Currently, suicides are reported through hospital discharge data and death certificate data. This data can be delayed for up to 18 months, which does not allow for timely interventions and strategies to take effect. By identifying gaps in reporting and establishing a more timely reporting system, DHS can make better recommendations to prevent suicide in the future.

In 2019, DHS took several steps to prepare for creation of a Suicide Mortality Review Team, including developing a workgroup of medical examiners to standardize death certificate information, develop an online suicide dashboard, and develop and implement a statewide incident reporting system for lethal and non-lethal suicide attempts identified by State-licensed providers and facilities.

By June 2020, DHS plans to map suicide and self-harm hot-spots in Arizona and formally initiate the Team, which will be responsible for tracking suicide-related deaths, detecting gaps in reporting, and informing policy changes to address suicide in Arizona more effectively.

The Executive Budget provides \$400,000 for the creation of the Suicide Mortality Review Team.

Protecting Vulnerable Adults and the Elderly

DES and other State agencies strive to make Arizona safer for at-risk adults by providing temporary assistance to persons in need, protecting Arizona's most vulnerable citizens, and helping low-income working families and persons with disabilities achieve independence. The Executive Budget supports that mission.

DEVELOPMENTAL DISABILITY PROVIDER RATES

In FY 2020, DES received an additional \$13 million from the General Fund and \$30.3 million in federal funds to increase rates

for home- and community-based service providers who work with persons with developmental disabilities.

Throughout 2019, DES engaged in stakeholder meetings across Arizona with clients, family members, and provider communities to determine where provider rate increases would make the most impact. Common themes from stakeholder meetings included:

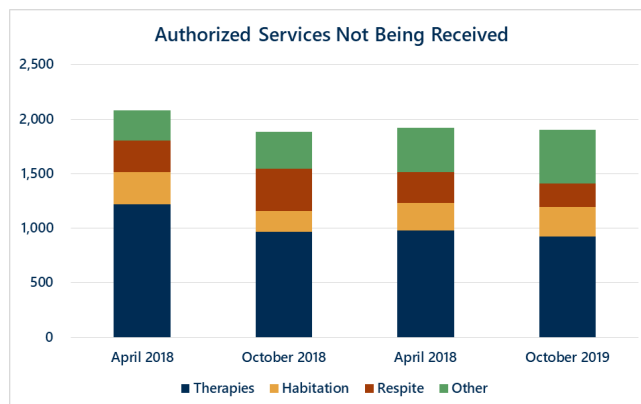
- quality care concerns, such as high turnover rates and quality of direct care provided;
- unmet needs, where clients had been authorized for services but no provider could meet their needs; and
- inadequacy of rates, which led to high turnover among care providers who could make a higher salary in the private market.

The FY 2021 Executive Budget continues to address those and related issues, with an additional \$5 million from the General Fund and an \$11.7 million federal match to increase provider rates.

Rate increases will be targeted at therapies, respite, and habilitation care. These services were identified during stakeholder meetings as services that have high turnover stemming from non-competitive provider rates and high complexity of care, and that exhibit the highest rates of unassigned authorizations, making the needed services difficult for families to obtain.

Figure 12 provides a breakout of services that have been authorized for DES clients but remain unassigned. In FY 2019, the average number of unassigned services totaled 1,946. Of that total, 55% were attributed to therapies, 16% to respite care, and 14% to hourly habilitation services.

Figure 12



As part of the initiative, DES will establish a transparent and accountable quality care system that will include:

- posting provider profiles online to help connect families with providers that meet their complex needs;
- monitoring unassigned authorizations; and
- identifying opportunities to improve long-term supports and services and home- and community-based services.

In addition to this funding, the Executive Budget includes an increase of \$1.5 million to raise rates for Aging and Adult Services providers, to reduce high turnover rates and enhance access by vulnerable and homebound adults to consistent quality care.

ENSURING ACCESS TO OPIOID TREATMENT SERVICES

AHCCCS and other State agencies strive to make Arizona safer for at-risk adults and children by providing health care services to those in crisis or struggling with substance abuse. The Executive Budget supports that mission.

Opioid Addiction. Opioid addiction continues to be a serious problem in Arizona. From June 2017 to November 2019, approximately 30,000 opioid overdoses and 3,700 opioid-related deaths were reported.

To address the increase in opioid-related deaths, in 2018 Governor Ducey signed the Arizona Opioid Epidemic Act, which provided a \$10 million deposit into the Substance Use Disorder (SUD) Fund.

Over the past two years, AHCCCS has used the funding to provide substance-use disorder treatment services (e.g., doctor visits, lab tests, and methadone administration) to underinsured and uninsured individuals who are not eligible for Medicaid. From February 2018 through September 2019, the SUD Fund appropriation supplied 42,880 services to 23,328 individuals.

AHCCCS expects to spend the entirety of the original funding by the end of FY 2020.

The Executive Budget supports making an ongoing commitment of \$6 million from the Medical Marijuana Fund to continue providing critical services to uninsured and underinsured Arizonans. The increased funding will allow AHCCCS to serve each year

an estimated 18,000 individuals in need of substance use treatment and services.

Using the Medical Marijuana Fund for substance use treatment is consistent with the 2018 Attorney General Opinion I18-009. While accessing the funding would require three-fourths votes in the Legislature, the Executive believes there is bipartisan support for this issue. The Opioid Epidemic Act was passed with unanimous support, and this funding would allow Arizona to continue providing services that reflect the values of both the Legislature and the Executive.

Table 10

Substance Use Disorder Services Count

| Service Description | Number of Services |
|--|--------------------|
| Medical Services | 13,071 |
| Methadone | 8,304 |
| Case Management Services | 7,876 |
| Treatment Services | 7,598 |
| Transportation Services | 1,885 |
| Peer Support Services | 1,444 |
| Support Services | 932 |
| Rehabilitation Services | 679 |
| Pharmacy Point of Sale-Buprenorphine | 362 |
| Crisis Intervention Services | 260 |
| Inpatient Services | 147 |
| Behavioral Health Day Program | 119 |
| Buprenorphine | 81 |
| Pharmacy Point of Sale-Naltrexone | 65 |
| Detoxification Services | 41 |
| Behavioral Health Residential Services | 6 |
| Family Support Services | 5 |
| Pharmacy Point of Sale-Naloxone | 4 |
| Naltrexone | 1 |
| Total | 42,880 |

FY 2021 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|---|-----------------|-----------------------|----------------------|--------------------|
| Board of Accountancy | 0.0 | 2,045.3 | 0.0 | 2,045.3 |
| Acupuncture Board of Examiners | 0.0 | 176.0 | 0.0 | 176.0 |
| Department of Administration | 7,876.6 | 218,977.6 | 1,025,940.0 | 1,252,794.2 |
| Office of Administrative Hearings | 889.8 | 0.0 | 793.9 | 1,683.7 |
| African-American Affairs | 128.1 | 0.0 | 20.0 | 148.1 |
| Department of Agriculture | 10,285.1 | 1,729.3 | 20,558.0 | 32,572.4 |
| Arizona Health Care Cost Containment System | 1,955,842.0 | 334,398.7 | 12,918,083.6 | 15,208,324.3 |
| Statewide and Large Automation Projects | 0.0 | 25,218.7 | 0.0 | 25,218.7 |
| Commission on the Arts | 2,000.0 | 0.0 | 1,900.9 | 3,900.9 |
| Board of Athletic Training | 0.0 | 127.0 | 0.0 | 127.0 |
| Attorney General - Department of Law | 24,982.4 | 52,735.9 | 70,805.2 | 148,523.5 |
| Board of Barbers | 0.0 | 406.3 | 0.0 | 406.3 |
| Board of Behavioral Health Examiners | 0.0 | 1,770.0 | 0.0 | 1,770.0 |
| Board for Charter Schools | 2,082.3 | 0.0 | 85.0 | 2,167.3 |
| Department of Child Safety | 408,446.1 | 756,506.2 | 6,326.6 | 1,171,278.9 |
| Board of Chiropractic Examiners | 0.0 | 438.6 | 0.0 | 438.6 |
| Citizens' Clean Elections Commission | 0.0 | 0.0 | 11,468.4 | 11,468.4 |
| Commerce Authority | 37,300.0 | 0.0 | 31,618.8 | 68,918.8 |
| Community Colleges | 82,219.1 | 0.0 | 0.0 | 82,219.1 |
| Constable Ethics Standards & Training Board | 0.0 | 0.0 | 368.0 | 368.0 |
| Registrar of Contractors | 0.0 | 12,368.8 | 4,666.8 | 17,035.6 |
| Corporation Commission | 620.8 | 27,148.0 | 1,907.0 | 29,675.8 |
| Department of Corrections | 1,248,026.6 | 61,405.6 | 71,956.2 | 1,381,388.4 |
| Board of Cosmetology | 0.0 | 1,879.1 | 25.2 | 1,904.3 |
| Criminal Justice Commission | 0.0 | 7,065.4 | 15,472.7 | 22,538.1 |
| Schools for the Deaf and the Blind | 25,914.9 | 15,252.7 | 21,955.3 | 63,122.9 |
| Commission for the Deaf and the Hard of Hearing | 0.0 | 4,624.9 | 0.0 | 4,624.9 |
| Board of Dental Examiners | 0.0 | 1,407.4 | 0.0 | 1,407.4 |
| Early Childhood Development and Health Board | 0.0 | 0.0 | 148,197.9 | 148,197.9 |
| Department of Economic Security | 822,098.3 | 358,607.4 | 3,662,109.9 | 4,842,815.6 |
| State Board of Education | 44,773.4 | 0.0 | 0.0 | 44,773.4 |
| Department of Education | 5,672,714.9 | 315,782.1 | 2,129,989.5 | 8,118,486.5 |
| Department of Emergency and Military Affairs | 12,833.4 | 1,506.1 | 68,035.1 | 82,374.6 |
| Department of Environmental Quality | 16,005.8 | 75,638.3 | 79,212.0 | 170,856.1 |
| Office of Economic Opportunity | 468.3 | 0.0 | 110,047.5 | 110,515.8 |
| Governor's Office for Equal Opportunity | 0.0 | 190.2 | 0.0 | 190.2 |
| Board of Equalization | 659.0 | 0.0 | 0.0 | 659.0 |
| Board of Executive Clemency | 1,150.0 | 0.0 | 30.1 | 1,180.1 |
| Exposition & State Fair | 0.0 | 13,282.2 | 0.0 | 13,282.2 |
| Board of Fingerprinting | 0.0 | 0.0 | 707.0 | 707.0 |
| Department of Forestry and Fire Management | 14,934.5 | 0.0 | 76,695.2 | 91,629.7 |
| Board of Funeral Directors & Embalmers | 0.0 | 422.8 | 0.0 | 422.8 |
| Game and Fish Department | 0.0 | 43,979.1 | 89,022.1 | 133,001.2 |
| Department of Gaming | 2,509.5 | 16,138.0 | 469.3 | 19,116.8 |
| Office of the Governor | 18,699.9 | 0.0 | 39,799.6 | 58,499.5 |
| Governor's Office of Strategic Planning and Budgeting | 2,684.1 | 0.0 | 0.0 | 2,684.1 |
| Department of Health Services | 93,851.7 | 56,202.1 | 319,630.8 | 469,684.6 |

FY 2021 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|--|-----------------|-----------------------|----------------------|--------------------|
| Governor's Office of Highway Safety | 0.0 | 7,500.0 | 13,951.5 | 21,451.5 |
| Arizona Historical Society | 3,107.7 | 0.0 | 1,257.6 | 4,365.3 |
| Prescott Historical Society of Arizona | 837.2 | 0.0 | 558.7 | 1,395.9 |
| Department of Homeland Security | 0.0 | 0.0 | 20,092.4 | 20,092.4 |
| Board of Homeopathic Medical Examiners | 0.0 | 46.1 | 0.0 | 46.1 |
| Department of Housing | 0.0 | 322.2 | 92,973.2 | 93,295.4 |
| Independent Redistricting Commission | 500.0 | 0.0 | 0.0 | 500.0 |
| Industrial Commission of Arizona | 0.0 | 20,055.5 | 17,212.8 | 37,268.3 |
| Department of Insurance and Financial Institutions | 7,644.1 | 9,349.3 | 3,902.2 | 20,895.6 |
| Court of Appeals | 17,736.2 | 0.0 | 0.0 | 17,736.2 |
| Superior Court | 102,847.2 | 11,973.2 | 5,858.0 | 120,678.4 |
| Supreme Court | 22,420.4 | 31,001.5 | 25,068.0 | 78,489.9 |
| Department of Juvenile Corrections | 38,475.0 | 6,405.6 | 1,126.6 | 46,007.2 |
| Land Department | 12,456.2 | 8,421.7 | 1,773.9 | 22,651.8 |
| Auditor General | 20,229.3 | 0.0 | 900.8 | 21,130.1 |
| House of Representatives | 16,407.5 | 0.0 | 0.0 | 16,407.5 |
| Joint Legislative Budget Committee | 2,834.2 | 0.0 | 0.0 | 2,834.2 |
| Legislative Council | 8,814.9 | 0.0 | 0.0 | 8,814.9 |
| Senate | 12,948.9 | 0.0 | 0.0 | 12,948.9 |
| Department of Liquor Licenses and Control | 0.0 | 5,064.8 | 1,096.2 | 6,161.0 |
| Local Government | 10,650.7 | 500.0 | 0.0 | 11,150.7 |
| Lottery Commission | 0.0 | 150,636.6 | 1,526,197.4 | 1,676,834.0 |
| Massage Therapy | 0.0 | 471.6 | 0.0 | 471.6 |
| Medical Board | 0.0 | 7,036.9 | 0.0 | 7,036.9 |
| Mine Inspector | 1,269.3 | 112.9 | 229.1 | 1,611.3 |
| Naturopathic Physicians Board of Medical Examiners | 0.0 | 193.4 | 0.0 | 193.4 |
| Navigable Stream Adjudication Commission | 129.0 | 200.0 | 0.0 | 329.0 |
| Board of Nursing | 0.0 | 5,284.6 | 413.4 | 5,698.0 |
| Nursing Care Ins. Admin. Examiners | 0.0 | 511.9 | 0.0 | 511.9 |
| Board of Occupational Therapy Examiners | 0.0 | 199.0 | 0.0 | 199.0 |
| Board of Dispensing Opticians | 0.0 | 155.9 | 0.0 | 155.9 |
| Board of Optometry | 0.0 | 240.7 | 0.0 | 240.7 |
| Board of Osteopathic Examiners | 0.0 | 1,012.3 | 0.0 | 1,012.3 |
| Arizona State Parks | 0.0 | 15,815.7 | 19,547.0 | 35,362.7 |
| Personnel Board | 0.0 | 368.1 | 0.0 | 368.1 |
| Board of Pharmacy | 0.0 | 2,610.3 | 2,473.1 | 5,083.4 |
| Board of Physical Therapy Examiners | 0.0 | 503.7 | 0.0 | 503.7 |
| Pioneers' Home | 0.0 | 6,668.4 | 0.0 | 6,668.4 |
| Board of Podiatry Examiners | 0.0 | 168.1 | 0.0 | 168.1 |
| Commission for Postsecondary Education | 1,680.9 | 1,536.7 | 1,692.0 | 4,909.6 |
| Power Authority | 0.0 | 0.0 | 23,097.2 | 23,097.2 |
| Board for Private Postsecondary Education | 0.0 | 423.3 | 250.3 | 673.6 |
| Board of Psychologist Examiners | 0.0 | 516.1 | 0.0 | 516.1 |
| Department of Public Safety | 67,869.8 | 307,195.1 | 113,139.0 | 488,203.9 |
| Public Safety Personnel Retirement System | 6,000.0 | 0.0 | 15,132.0 | 21,132.0 |
| Department of Real Estate | 2,909.5 | 0.0 | 203.3 | 3,112.8 |
| Residential Utility Consumer Office | 0.0 | 1,348.6 | 0.0 | 1,348.6 |

FY 2021 Executive Budget

(Dollars in Thousands)

| | General Fund | Other Appropriated | Non- Appropriated | All Funds Total |
|--|-------------------------|-------------------------------|------------------------------|----------------------------|
| Board of Respiratory Care Examiners | 0.0 | 342.6 | 0.0 | 342.6 |
| Arizona State Retirement System | 0.0 | 24,194.0 | 143,403.6 | 167,597.6 |
| Department of Revenue | 31,916.4 | 47,730.1 | 1,789.3 | 81,435.8 |
| School Facilities Board | 242,010.1 | 0.0 | 266,057.4 | 508,067.5 |
| Department of State - Secretary of State | 18,236.1 | 1,210.0 | 4,319.7 | 23,765.8 |
| Board of Tax Appeals | 281.8 | 0.0 | 0.0 | 281.8 |
| Board of Technical Registration | 0.0 | 2,364.3 | 30.4 | 2,394.7 |
| Office of Tourism | 9,214.0 | 0.0 | 25,951.4 | 35,165.4 |
| Department of Transportation | 0.0 | 448,600.9 | 853,296.8 | 1,301,897.7 |
| Treasurer | 1,205.1 | 5,955.0 | 104.0 | 7,264.1 |
| Governor's Office on Tribal Relations | 62.9 | 0.0 | 18.5 | 81.4 |
| Board of Regents | 23,397.7 | 0.0 | 196,828.6 | 220,226.3 |
| Arizona State University | 358,247.9 | 658,196.6 | 2,534,515.7 | 3,550,960.2 |
| Northern Arizona University | 124,017.6 | 156,154.5 | 478,360.9 | 758,533.0 |
| University of Arizona - Main Campus | 227,212.5 | 353,430.1 | 1,460,851.6 | 2,041,494.2 |
| University of Arizona - Health Sciences Center | 76,897.7 | 55,697.4 | 534,324.8 | 666,919.9 |
| Department of Veterans' Services | 8,209.3 | 39,005.2 | 22,860.7 | 70,075.2 |
| Veterinary Medical Examining Board | 0.0 | 600.0 | 0.0 | 600.0 |
| Department of Water Resources | 14,237.7 | 2,444.5 | 34,497.4 | 51,179.6 |
| | 12,002,911.4 | 4,807,204.8 | 29,373,254.1 | 46,183,370.3 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

General Fund Operating Budgets Summary

| | (Dollars in Thousands) | | | | |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
| Department of Administration | 7,590.4 | 8,147.6 | 8,147.6 | 7,876.6 | (271.0) |
| Office of Administrative Hearings | 868.9 | 889.8 | 889.8 | 889.8 | 0.0 |
| African-American Affairs | 118.2 | 128.1 | 128.1 | 128.1 | 0.0 |
| Department of Agriculture | 9,494.1 | 10,865.5 | 10,865.5 | 10,285.1 | (580.4) |
| Arizona Health Care Cost Containment System | 1,745,626.1 | 1,760,748.1 | 1,785,187.9 | 1,955,842.0 | 195,093.9 |
| Commission on the Arts | 0.0 | 2,200.0 | 2,200.0 | 2,000.0 | (200.0) |
| Attorney General - Department of Law | 25,069.9 | 26,082.4 | 26,082.4 | 24,982.4 | (1,100.0) |
| Board for Charter Schools | 1,078.0 | 1,714.5 | 1,714.5 | 2,082.3 | 367.8 |
| Department of Child Safety | 371,603.0 | 384,653.4 | 384,653.4 | 408,446.1 | 23,792.7 |
| Commerce Authority | 20,957.1 | 19,275.0 | 19,275.0 | 37,300.0 | 18,025.0 |
| Community Colleges | 54,380.5 | 97,400.7 | 97,400.7 | 82,219.1 | (15,181.6) |
| Corporation Commission | 814.2 | 620.8 | 620.8 | 620.8 | 0.0 |
| Department of Corrections | 1,088,900.2 | 1,167,111.3 | 1,167,111.3 | 1,248,026.6 | 80,915.3 |
| Schools for the Deaf and the Blind | 20,665.8 | 23,214.4 | 23,214.4 | 25,914.9 | 2,700.5 |
| Department of Economic Security | 662,286.9 | 749,708.2 | 749,708.2 | 822,098.3 | 72,390.1 |
| State Board of Education | 906.2 | 1,158.9 | 1,158.9 | 44,773.4 | 43,614.5 |
| Department of Education | 4,676,681.4 | 5,200,184.9 | 5,200,184.9 | 5,672,714.9 | 472,530.0 |
| Department of Emergency and Military Affairs | 6,531.5 | 12,201.6 | 12,201.6 | 12,833.4 | 631.8 |
| Department of Environmental Quality | 0.0 | 200.0 | 200.0 | 16,005.8 | 15,805.8 |
| Office of Economic Opportunity | 444.2 | 968.3 | 968.3 | 468.3 | (500.0) |
| Board of Equalization | 425.3 | 659.0 | 659.0 | 659.0 | 0.0 |
| Board of Executive Clemency | 1,000.0 | 1,150.0 | 1,150.0 | 1,150.0 | 0.0 |
| Department of Financial Institutions | 1,706.3 | 1,980.9 | 1,980.9 | 0.0 | (1,980.9) |
| Department of Forestry and Fire Management | 10,241.6 | 15,917.4 | 20,761.5 | 14,934.5 | (982.9) |
| Department of Gaming | 1,779.5 | 2,509.5 | 2,509.5 | 2,509.5 | 0.0 |
| Office of the Governor | 7,871.2 | 8,699.9 | 8,699.9 | 18,699.9 | 10,000.0 |
| Governor's Office of Strategic Planning and Budgeting | 2,014.5 | 2,684.1 | 2,684.1 | 2,684.1 | 0.0 |
| Department of Health Services | 84,825.4 | 97,158.3 | 97,158.3 | 93,851.7 | (3,306.6) |
| Arizona Historical Society | 3,195.0 | 3,107.7 | 3,107.7 | 3,107.7 | 0.0 |
| Prescott Historical Society of Arizona | 794.9 | 837.2 | 837.2 | 837.2 | 0.0 |
| Department of Housing | 0.0 | 15,000.0 | 15,000.0 | 0.0 | (15,000.0) |
| Independent Redistricting Commission | 0.0 | 0.0 | 0.0 | 500.0 | 500.0 |
| Department of Insurance | 5,044.4 | 5,663.2 | 5,663.2 | 0.0 | (5,663.2) |
| Department of Insurance and Financial Institutions | 0.0 | 0.0 | 0.0 | 7,644.1 | 7,644.1 |
| Court of Appeals | 15,960.5 | 16,765.0 | 16,765.0 | 17,736.2 | 971.2 |
| Superior Court | 80,392.7 | 92,596.5 | 92,596.5 | 102,847.2 | 10,250.7 |
| Supreme Court | 19,798.4 | 20,875.0 | 20,875.0 | 22,420.4 | 1,545.4 |
| Department of Juvenile Corrections | 21,131.7 | 36,926.5 | 36,926.5 | 38,475.0 | 1,548.5 |
| Land Department | 10,932.7 | 11,654.3 | 12,135.4 | 12,456.2 | 801.9 |
| Auditor General | 19,709.6 | 20,629.3 | 20,629.3 | 20,229.3 | (400.0) |
| House of Representatives | 14,774.4 | 16,407.5 | 16,407.5 | 16,407.5 | 0.0 |
| Joint Legislative Budget Committee | 2,307.3 | 2,834.2 | 2,834.2 | 2,834.2 | 0.0 |
| Legislative Council | 6,525.5 | 8,814.9 | 8,814.9 | 8,814.9 | 0.0 |

General Fund Operating Budgets Summary

| (Dollars in Thousands) | | | | | |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
| Senate | 9,708.4 | 12,948.9 | 12,948.9 | 12,948.9 | 0.0 |
| Mine Inspector | 1,084.5 | 1,269.3 | 1,269.3 | 1,269.3 | 0.0 |
| Navigable Stream Adjudication Commission | 118.7 | 129.0 | 129.0 | 129.0 | 0.0 |
| Commission for Postsecondary Education | 1,646.8 | 1,680.9 | 1,680.9 | 1,680.9 | 0.0 |
| Department of Public Safety | 102,560.2 | 92,350.3 | 92,350.3 | 67,869.8 | (24,480.5) |
| Public Safety Personnel Retirement System | 7,000.0 | 6,000.0 | 6,000.0 | 6,000.0 | 0.0 |
| Department of Real Estate | 2,499.7 | 2,909.5 | 2,909.5 | 2,909.5 | 0.0 |
| Department of Revenue | 28,576.9 | 31,245.2 | 31,245.2 | 31,916.4 | 671.2 |
| School Facilities Board | 299,607.4 | 325,650.3 | 360,650.3 | 242,010.1 | (83,640.2) |
| Department of State - Secretary of State | 15,885.7 | 17,367.9 | 19,984.8 | 18,236.1 | 868.2 |
| Board of Tax Appeals | 275.1 | 281.8 | 281.8 | 281.8 | 0.0 |
| Office of Tourism | 7,112.0 | 8,214.0 | 8,214.0 | 9,214.0 | 1,000.0 |
| Department of Transportation | 12,592.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Treasurer | 770.8 | 1,205.1 | 1,205.1 | 1,205.1 | 0.0 |
| Governor's Office on Tribal Relations | 56.9 | 62.9 | 62.9 | 62.9 | 0.0 |
| Board of Regents | 6,898.1 | 22,397.7 | 22,397.7 | 23,397.7 | 1,000.0 |
| Arizona State University | 328,739.7 | 341,916.8 | 341,916.8 | 358,247.9 | 16,331.1 |
| Northern Arizona University | 112,095.7 | 117,250.9 | 117,250.9 | 124,017.6 | 6,766.7 |
| University of Arizona - Main Campus | 208,836.4 | 215,808.9 | 215,808.9 | 227,212.5 | 11,403.6 |
| University of Arizona - Health Sciences Center | 68,897.7 | 76,897.7 | 76,897.7 | 76,897.7 | 0.0 |
| Department of Veterans' Services | 5,728.5 | 7,792.9 | 7,792.9 | 8,209.3 | 416.4 |
| Department of Water Resources | 13,238.4 | 66,937.7 | 66,937.7 | 14,237.7 | (52,700.0) |
| General Fund Operating Total | 10,238,377.4 | 11,200,661.6 | 11,268,043.5 | 11,992,260.7 | 791,599.1 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Board of Accountancy</u> | | | | | |
| Accountancy Board Fund | 1,537.6 | 2,045.3 | 2,045.3 | 2,045.3 | 0.0 |
| <u>Acupuncture Board of Examiners</u> | | | | | |
| Acupuncture Board of Examiners | 135.2 | 176.0 | 176.0 | 176.0 | 0.0 |
| <u>Department of Administration</u> | | | | | |
| Capital Outlay Stabilization Fund | 14,605.7 | 18,543.6 | 18,543.6 | 18,543.6 | 0.0 |
| Personnel Division Fund | 11,235.2 | 12,723.8 | 12,723.8 | 12,723.8 | 0.0 |
| Information Technology Fund | 4,737.7 | 8,443.4 | 8,443.4 | 8,443.4 | 0.0 |
| Air Quality Fund | 655.3 | 927.3 | 927.3 | 927.3 | 0.0 |
| Statewide Monument and Memorial Repair Fund | 25.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Web Portal Fund | 4,636.4 | 6,844.5 | 6,844.5 | 7,094.5 | 250.0 |
| Special Employee Health | 5,056.2 | 5,291.9 | 5,291.9 | 5,291.9 | 0.0 |
| Motor Pool Revolving | 5,675.1 | 10,191.2 | 10,191.2 | 10,191.2 | 0.0 |
| Admin - Special Services Fund | 714.0 | 1,169.0 | 1,169.0 | 1,169.0 | 0.0 |
| State Surplus Property | 2,277.0 | 2,977.8 | 2,977.8 | 2,977.8 | 0.0 |
| Federal Surplus Materials Property | 50.1 | 465.2 | 465.2 | 465.2 | 0.0 |
| Risk Management Fund | 76,343.3 | 94,579.9 | 98,513.0 | 96,828.8 | 2,248.9 |
| Arizona Financial Information System Collections Fund | 8,878.5 | 9,418.7 | 9,418.7 | 9,418.7 | 0.0 |
| Automation Operations Fund | 21,529.8 | 31,040.9 | 31,040.9 | 31,040.9 | 0.0 |
| Telecommunications Fund | 1,591.7 | 1,645.6 | 1,645.6 | 1,645.6 | 0.0 |
| Cybersecurity Risk Management Fund - NEW | 0.0 | 0.0 | 0.0 | 11,642.2 | 11,642.2 |
| Corrections Fund | 506.8 | 573.7 | 573.7 | 573.7 | 0.0 |
| Agency Total | 158,518.1 | 204,836.5 | 208,769.6 | 218,977.6 | 14,141.1 |
| <u>Department of Agriculture</u> | | | | | |
| Nuclear Emergency Management Fund | 274.7 | 301.4 | 301.4 | 280.5 | (20.9) |
| Air Quality Fund | 1,428.7 | 1,448.8 | 1,448.8 | 1,448.8 | 0.0 |
| Agency Total | 1,703.4 | 1,750.2 | 1,750.2 | 1,729.3 | (20.9) |
| <u>Arizona Health Care Cost Containment System</u> | | | | | |
| Tobacco Tax and Health Care Fund MNA | 66,143.9 | 61,752.6 | 61,752.6 | 62,703.6 | 951.0 |
| TPTF Emergency Health Services Account | 17,469.2 | 16,216.3 | 16,216.3 | 16,183.7 | (32.6) |
| Substance Abuse Services Fund | 2,250.2 | 2,250.2 | 2,250.2 | 2,250.2 | 0.0 |
| KidsCare - Federal Revenue and Expenditures | 77,051.8 | 104,650.2 | 104,650.2 | 94,896.1 | (9,754.1) |
| Budget Neutrality Compliance Fund | 3,756.2 | 3,906.4 | 3,906.4 | 3,906.4 | 0.0 |
| Prescription Drug Rebate Fund | 148,213.4 | 150,526.7 | 150,526.7 | 148,458.7 | (2,068.0) |
| Medical Marijuana Fund | 0.0 | 0.0 | 0.0 | 6,000.0 | 6,000.0 |
| Agency Total | 314,884.7 | 339,302.4 | 339,302.4 | 334,398.7 | (4,903.7) |
| <u>Commission on the Arts</u> | | | | | |
| Budget Stabilization Fund | 2,000.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <u>Board of Athletic Training</u> | | | | | |
| Athletic Training Fund | 109.8 | 127.0 | 127.0 | 127.0 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Attorney General - Department of Law</u> | | | | | |
| Antitrust Enforcement Revolving Fund | 111.8 | 148.6 | 148.6 | 148.6 | 0.0 |
| Consumer Restitution and Remediation Revolving Fund - Remediation Subaccount | 0.0 | 0.0 | 0.0 | 1,400.0 | 1,400.0 |
| Interagency Service Agreements Fund | 14,460.0 | 16,445.5 | 16,445.5 | 16,445.5 | 0.0 |
| Collection Enforcement Revolving Fund - Operating | 6,578.1 | 6,914.7 | 6,914.7 | 6,914.7 | 0.0 |
| Internet Crimes Against Children Enforcement Fund | 0.0 | 900.0 | 900.0 | 900.0 | 0.0 |
| Risk Management Fund | 9,005.0 | 9,590.0 | 9,590.0 | 9,590.0 | 0.0 |
| Attorney General Legal Services Cost Allocation Fund | 1,686.6 | 2,105.0 | 2,105.0 | 2,105.0 | 0.0 |
| Consumer Protection - Consumer Fraud Revolving Fund | 4,621.9 | 15,364.4 | 15,364.4 | 11,464.4 | (3,900.0) |
| Victims Rights Fund | 2,469.9 | 3,767.7 | 3,767.7 | 3,767.7 | 0.0 |
| Agency Total | 38,933.3 | 55,235.9 | 55,235.9 | 52,735.9 | (2,500.0) |
| <u>Automobile Theft Authority</u> | | | | | |
| Automobile Theft Authority Fund | 5,177.5 | 5,312.1 | 5,312.1 | 0.0 | (5,312.1) |
| <u>Board of Barbers</u> | | | | | |
| Board of Barbers Fund | 381.6 | 406.3 | 406.3 | 406.3 | 0.0 |
| <u>Board of Behavioral Health Examiners</u> | | | | | |
| Behavioral Health Examiner Fund | 1,497.5 | 1,770.0 | 1,770.0 | 1,770.0 | 0.0 |
| <u>Department of Child Safety</u> | | | | | |
| Temporary Assistance for Needy Families (TANF) | 156,486.1 | 157,428.8 | 157,428.8 | 157,428.8 | 0.0 |
| Child Care and Development Fund | 34,400.0 | 34,400.0 | 34,400.0 | 35,400.0 | 1,000.0 |
| DCS Expenditure Authority | 351,862.0 | 438,393.6 | 438,393.6 | 559,409.0 | 121,015.4 |
| Child Abuse Prevention Fund | 1,149.9 | 1,459.3 | 1,459.3 | 1,459.3 | 0.0 |
| Children and Family Services Training Program Fund | 0.0 | 207.1 | 207.1 | 207.1 | 0.0 |
| Risk Management Revolving Fund | 1,354.0 | 0.0 | 0.0 | 2,602.0 | 2,602.0 |
| Agency Total | 545,252.0 | 631,888.8 | 631,888.8 | 756,506.2 | 124,617.4 |
| <u>Board of Chiropractic Examiners</u> | | | | | |
| Chiropractic Examiners Board | 337.8 | 438.6 | 438.6 | 438.6 | 0.0 |
| <u>Commerce Authority</u> | | | | | |
| State Web Portal Fund | 0.0 | 2,500.0 | 2,500.0 | 0.0 | (2,500.0) |
| <u>Registrar of Contractors</u> | | | | | |
| Registrar of Contractors Fund | 9,691.4 | 12,368.8 | 12,368.8 | 12,368.8 | 0.0 |
| <u>Corporation Commission</u> | | | | | |
| Utility Regulation Revolving | 14,006.4 | 14,491.7 | 14,491.7 | 14,491.7 | 0.0 |
| Securities Regulatory & Enforcement | 4,703.1 | 5,115.8 | 5,115.8 | 5,115.8 | 0.0 |
| Public Access Fund | 6,096.3 | 6,771.8 | 6,771.8 | 6,771.8 | 0.0 |
| Securities Investment Management Fund | 714.7 | 718.0 | 718.0 | 718.0 | 0.0 |
| Arizona Arts Trust Fund | 50.7 | 50.7 | 50.7 | 50.7 | 0.0 |
| Agency Total | 25,571.2 | 27,148.0 | 27,148.0 | 27,148.0 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Corrections</u> | | | | | |
| Corrections Fund | 22,233.9 | 30,312.3 | 30,312.3 | 30,312.3 | 0.0 |
| State Education Fund for Correctional Education | 726.0 | 729.3 | 729.3 | 729.3 | 0.0 |
| DOC - Alcohol Abuse Treatment | 443.7 | 555.5 | 555.5 | 555.5 | 0.0 |
| Transition Program Fund | 1,202.4 | 2,400.1 | 2,400.1 | 2,400.1 | 0.0 |
| Prison Construction and Operations Fund | 10,000.0 | 12,500.0 | 12,500.0 | 12,500.0 | 0.0 |
| Inmate Store Proceeds Fund | 282.4 | 1,341.3 | 1,341.3 | 1,341.3 | 0.0 |
| Medical Marijuana Fund | 0.0 | 0.0 | 0.0 | 8,125.0 | 8,125.0 |
| Penitentiary Land Earnings | 2,361.6 | 2,780.3 | 2,780.3 | 2,780.3 | 0.0 |
| State Charitable, Penal & Reformatory Land Earnings | 3,046.4 | 2,661.8 | 2,661.8 | 2,661.8 | 0.0 |
| Agency Total | 40,296.5 | 53,280.6 | 53,280.6 | 61,405.6 | 8,125.0 |
| <u>Board of Cosmetology</u> | | | | | |
| Cosmetology Board | 1,852.5 | 1,949.1 | 1,949.1 | 1,879.1 | (70.0) |
| <u>Criminal Justice Commission</u> | | | | | |
| Criminal Justice Enhancement Fund | 437.4 | 655.5 | 655.5 | 655.5 | 0.0 |
| Victims Compensation and Assistance Fund | 3,989.4 | 4,223.0 | 4,223.0 | 4,223.0 | 0.0 |
| Drug and Gang Prevention Resource Center Fund | 794.0 | 613.2 | 613.2 | 613.2 | 0.0 |
| Transition Program Fund | 0.0 | 750.0 | 750.0 | 0.0 | (750.0) |
| Fingerprint Clearance Card Fund | 11.3 | 600.0 | 600.0 | 600.0 | 0.0 |
| State Aid to County Attorneys Fund | 790.6 | 973.7 | 973.7 | 973.7 | 0.0 |
| Agency Total | 6,022.7 | 7,815.4 | 7,815.4 | 7,065.4 | (750.0) |
| <u>Schools for the Deaf and the Blind</u> | | | | | |
| Telecommunication for the Deaf | 1,460.5 | 0.0 | 0.0 | 581.0 | 581.0 |
| Schools for the Deaf and the Blind Fund | 11,387.0 | 12,921.7 | 12,921.7 | 14,671.7 | 1,750.0 |
| Agency Total | 12,847.5 | 12,921.7 | 12,921.7 | 15,252.7 | 2,331.0 |
| <u>Commission for the Deaf and the Hard of Hearing</u> | | | | | |
| Telecommunication for the Deaf | 2,911.4 | 4,624.9 | 4,624.9 | 4,624.9 | 0.0 |
| <u>Board of Dental Examiners</u> | | | | | |
| Dental Board Fund | 1,007.2 | 1,229.8 | 1,229.8 | 1,407.4 | 177.6 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Economic Security</u> | | | | | |
| Statewide Cost Allocation Plan Fund | 0.0 | 1,000.0 | 1,000.0 | 1,000.0 | 0.0 |
| Temporary Assistance for Needy Families (TANF) | 65,324.9 | 65,395.9 | 65,395.9 | 65,395.9 | 0.0 |
| Child Care and Development Fund | 104,317.5 | 158,952.9 | 158,952.9 | 181,251.3 | 22,298.4 |
| Workforce Investment Grant | 56,438.7 | 56,044.5 | 56,044.5 | 56,044.5 | 0.0 |
| Special Administration Fund | 5,066.4 | 4,511.2 | 4,511.2 | 4,511.2 | 0.0 |
| Child Support Enforcement Administration Fund | 10,163.7 | 17,094.7 | 17,094.7 | 17,094.7 | 0.0 |
| Domestic Violence Services Fund | 2,228.3 | 4,000.0 | 4,000.0 | 4,000.0 | 0.0 |
| Public Assistance Collections Fund | 0.0 | 423.4 | 423.4 | 423.4 | 0.0 |
| Department Long-Term Care System Fund | 24,425.2 | 26,559.6 | 26,559.6 | 26,559.6 | 0.0 |
| Spinal and Head Injuries Trust Fund | 4,249.7 | 2,326.8 | 2,326.8 | 2,326.8 | 0.0 |
| Health Services Lottery Fund | 1,000.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 273,214.4 | 336,309.0 | 336,309.0 | 358,607.4 | 22,298.4 |
| <u>Department of Education</u> | | | | | |
| School Accountability - Prop 301 Fund | 5,105.6 | 7,000.0 | 7,000.0 | 7,000.0 | 0.0 |
| Teacher Certification Fund | 1,880.2 | 2,342.7 | 2,342.7 | 2,342.7 | 0.0 |
| State Web Portal Fund | 500.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Empowerment Scholarship Account Fund | 1,246.1 | 1,283.4 | 1,283.4 | 2,244.4 | 961.0 |
| Professional Development Revolving Fund | 67.9 | 2,700.0 | 2,700.0 | 2,700.0 | 0.0 |
| Tribal College Dual Enrollment Program | 225.9 | 250.0 | 250.0 | 250.0 | 0.0 |
| Permanent State School Fund Earnings | 277,115.3 | 290,489.1 | 290,489.1 | 301,245.0 | 10,755.9 |
| Agency Total | 286,141.0 | 304,065.2 | 304,065.2 | 315,782.1 | 11,716.9 |
| <u>Department of Emergency and Military Affairs</u> | | | | | |
| Nuclear Emergency Management Fund | 1,459.9 | 1,458.7 | 1,458.7 | 1,506.1 | 47.4 |
| Emergency Management Assistance Compact Revolving Fund | 25.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 1,485.0 | 1,458.7 | 1,458.7 | 1,506.1 | 47.4 |
| <u>Department of Environmental Quality</u> | | | | | |
| DEQ Emissions Inspection | 30,512.4 | 30,657.3 | 30,657.3 | 29,388.0 | (1,269.3) |
| Hazardous Waste Management | 1,444.2 | 1,748.2 | 1,748.2 | 1,748.2 | 0.0 |
| Air Quality Fund | 9,296.9 | 8,295.9 | 8,295.9 | 5,389.8 | (2,906.1) |
| Underground Storage Tank Revolving | 0.0 | 5,126.7 | 5,126.7 | 126.7 | (5,000.0) |
| Recycling Fund | 3,145.3 | 3,513.8 | 3,513.8 | 1,361.8 | (2,152.0) |
| Permit Administration | 5,525.7 | 8,155.7 | 8,155.7 | 7,155.7 | (1,000.0) |
| Emergency Response Fund | 130.9 | 132.8 | 132.8 | 132.8 | 0.0 |
| Solid Waste Fee Fund | 962.1 | 1,247.8 | 1,247.8 | 1,247.8 | 0.0 |
| Water Quality Fee Fund | 8,572.2 | 10,575.5 | 10,575.5 | 10,575.5 | 0.0 |
| Safe Drinking Water Program Fund | 1,166.7 | 1,812.0 | 1,812.0 | 1,812.0 | 0.0 |
| Indirect Cost Recovery Fund | 13,187.9 | 13,615.9 | 13,615.9 | 16,700.0 | 3,084.1 |
| Agency Total | 73,944.3 | 84,881.6 | 84,881.6 | 75,638.3 | (9,243.3) |
| <u>Governor's Office for Equal Opportunity</u> | | | | | |
| Personnel Division Fund | 179.9 | 190.2 | 190.2 | 190.2 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Exposition & State Fair</u> | | | | | |
| Arizona Exposition and State Fair Fund | 12,235.1 | 13,282.2 | 13,282.2 | 13,282.2 | 0.0 |
| <u>Department of Financial Institutions</u> | | | | | |
| Financial Services Fund | 3,592.6 | 3,986.6 | 3,986.6 | 0.0 | (3,986.6) |
| Banking Department Revolving | 50.0 | 50.6 | 50.6 | 0.0 | (50.6) |
| Agency Total | 3,642.6 | 4,037.2 | 4,037.2 | 0.0 | (4,037.2) |
| <u>Board of Funeral Directors & Embalmers</u> | | | | | |
| Funeral Directors & Embalmers Fund | 346.7 | 399.7 | 399.7 | 422.8 | 23.1 |
| <u>Game and Fish Department</u> | | | | | |
| Game and Fish Fund | 31,548.9 | 37,758.6 | 37,758.6 | 37,758.6 | 0.0 |
| Watercraft Licensing Fund | 3,989.4 | 4,855.4 | 4,855.4 | 4,855.4 | 0.0 |
| Game, Non-Game, Fish and Endangered Species Fund | 102.2 | 347.7 | 347.7 | 347.7 | 0.0 |
| Capital Improvement Fund | 1,300.3 | 1,001.2 | 1,001.2 | 1,001.2 | 0.0 |
| Wildlife Endowment Fund | 0.0 | 16.2 | 16.2 | 16.2 | 0.0 |
| Agency Total | 36,940.8 | 43,979.1 | 43,979.1 | 43,979.1 | 0.0 |
| <u>Department of Gaming</u> | | | | | |
| State Lottery Fund | 300.0 | 300.0 | 300.0 | 300.0 | 0.0 |
| Permanent Tribal-State Compact Fund | 1,831.1 | 2,098.3 | 2,098.3 | 2,098.3 | 0.0 |
| Arizona Benefits Fund | 10,424.7 | 11,153.3 | 11,153.3 | 11,153.3 | 0.0 |
| Racing Regulation Fund | 2,143.7 | 2,402.4 | 2,402.4 | 2,486.4 | 84.0 |
| Racing Regulaions Fund - Unarmed Combat Subaccount | 19.1 | 100.0 | 100.0 | 100.0 | 0.0 |
| Agency Total | 14,718.6 | 16,054.0 | 16,054.0 | 16,138.0 | 84.0 |
| <u>Department of Health Services</u> | | | | | |
| Capital Outlay Stabilization | 197.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tobacco Tax Hlth Care Fund MNMI Account | 539.8 | 700.0 | 700.0 | 700.0 | 0.0 |
| Health Services Licenses Fund | 10,547.0 | 15,835.4 | 15,835.4 | 15,835.4 | 0.0 |
| Child Care and Development Fund | 845.7 | 882.6 | 882.6 | 882.6 | 0.0 |
| Disease Control Research Fund | 963.4 | 1,000.0 | 1,000.0 | 1,000.0 | 0.0 |
| Health Research Fund | 4,498.8 | 4,000.0 | 4,000.0 | 3,000.0 | (1,000.0) |
| Nuclear Emergency Management Fund | 731.6 | 789.7 | 789.7 | 789.7 | 0.0 |
| Emergency Medical Operating Services | 5,225.1 | 5,740.6 | 5,740.6 | 4,290.6 | (1,450.0) |
| Newborn Screening Program Fund | 6,690.0 | 7,664.2 | 7,664.2 | 8,676.0 | 1,011.8 |
| Nursing Care Institution Resident Protection Revolving Fund | 0.0 | 138.2 | 138.2 | 208.2 | 70.0 |
| Prescription Drug Rebate Fund | 0.0 | 1,000.0 | 1,000.0 | 2,000.0 | 1,000.0 |
| Environmental Laboratory Licensure Revolving | 812.9 | 931.1 | 931.1 | 931.1 | 0.0 |
| Child Fatality Review Fund | 85.8 | 96.1 | 96.1 | 96.1 | 0.0 |
| Vital Records Electronic Systems Fund | 2,527.9 | 3,637.6 | 3,637.6 | 3,637.6 | 0.0 |
| The Arizona State Hospital Fund | 2,371.8 | 2,592.0 | 2,592.0 | 2,592.0 | 0.0 |
| DHS State Hospital Land Earnings | 649.7 | 650.0 | 650.0 | 1,050.0 | 400.0 |
| Health Services Lottery Fund | 88.9 | 100.0 | 100.0 | 100.0 | 0.0 |
| Indirect Cost Fund | 9,799.2 | 10,412.8 | 10,412.8 | 10,412.8 | 0.0 |
| Agency Total | 46,575.4 | 56,170.3 | 56,170.3 | 56,202.1 | 31.8 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Governor's Office of Highway Safety</u> | | | | | |
| Arizona Highway Patrol Fund | 0.0 | 0.0 | 0.0 | 7,500.0 | 7,500.0 |
| <u>Board of Homeopathic Medical Examiners</u> | | | | | |
| Homeopathic Medical Examiners | 37.6 | 46.1 | 46.1 | 46.1 | 0.0 |
| <u>Department of Housing</u> | | | | | |
| Housing Trust Fund | 322.2 | 322.2 | 322.2 | 322.2 | 0.0 |
| <u>Industrial Commission of Arizona</u> | | | | | |
| Industrial Commission Administration Fund | 18,506.8 | 20,055.5 | 20,055.5 | 20,055.5 | 0.0 |
| <u>Department of Insurance and Financial Institutions</u> | | | | | |
| Automobile Theft Authority Fund | 0.0 | 0.0 | 0.0 | 5,312.1 | 5,312.1 |
| Financial Services Fund | 0.0 | 0.0 | 0.0 | 3,986.6 | 3,986.6 |
| Banking Department Revolving | 0.0 | 0.0 | 0.0 | 50.6 | 50.6 |
| Agency Total | 0.0 | 0.0 | 0.0 | 9,349.3 | 9,349.3 |
| <u>Superior Court</u> | | | | | |
| Supreme Court CJEF Disbursements | 2,327.5 | 5,455.1 | 5,455.1 | 5,455.1 | 0.0 |
| Judicial Collection - Enhancement | 3,965.5 | 6,015.2 | 6,015.2 | 6,015.2 | 0.0 |
| Drug Treatment and Education Fund | 500.2 | 502.9 | 502.9 | 502.9 | 0.0 |
| Agency Total | 6,793.2 | 11,973.2 | 11,973.2 | 11,973.2 | 0.0 |
| <u>Supreme Court</u> | | | | | |
| Supreme Court CJEF Disbursements | 3,496.1 | 4,399.7 | 4,399.7 | 4,399.7 | 0.0 |
| Judicial Collection - Enhancement | 10,752.2 | 14,872.1 | 14,872.1 | 14,872.1 | 0.0 |
| Defensive Driving Fund | 3,295.6 | 4,226.1 | 4,226.1 | 4,226.1 | 0.0 |
| Court Appointed Special Advocate Fund | 3,441.5 | 3,601.3 | 3,601.3 | 4,066.2 | 464.9 |
| Confidential Intermediary Fund | 329.2 | 492.1 | 492.1 | 492.1 | 0.0 |
| State Aid to Courts Fund | 2,044.1 | 2,945.3 | 2,945.3 | 2,945.3 | 0.0 |
| Agency Total | 23,358.7 | 30,536.6 | 30,536.6 | 31,001.5 | 464.9 |
| <u>Department of Juvenile Corrections</u> | | | | | |
| Juvenile Corrections CJEF Distribution | 182.6 | 531.5 | 531.5 | 531.5 | 0.0 |
| Juvenile Education Fund | 772.6 | 1,861.7 | 1,861.7 | 1,861.7 | 0.0 |
| Local Cost Sharing Fund | 11,260.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Charitable, Penal and Reformatory Land Fund | 3,036.6 | 4,012.4 | 4,012.4 | 4,012.4 | 0.0 |
| Agency Total | 15,251.8 | 6,405.6 | 6,405.6 | 6,405.6 | 0.0 |
| <u>Land Department</u> | | | | | |
| Environmental Special Plate Fund | 139.9 | 260.6 | 260.6 | 140.0 | (120.6) |
| Due Diligence Fund | 40.0 | 500.0 | 500.0 | 500.0 | 0.0 |
| Trust Land Management Fund | 5,786.7 | 7,281.7 | 7,281.7 | 7,781.7 | 500.0 |
| Agency Total | 5,966.6 | 8,042.3 | 8,042.3 | 8,421.7 | 379.4 |
| <u>Department of Liquor Licenses and Control</u> | | | | | |
| Liquor Licenses Fund | 3,072.2 | 3,373.8 | 3,373.8 | 5,064.8 | 1,691.0 |
| <u>Lottery Commission</u> | | | | | |
| Lottery Fund | 127,499.4 | 146,806.1 | 146,806.1 | 150,636.6 | 3,830.5 |
| <u>Massage Therapy</u> | | | | | |
| Massage Therapy Board Fund | 437.0 | 471.6 | 471.6 | 471.6 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Medical Board</u> | | | | | |
| Medical Examiners Board Fund | 6,517.2 | 7,036.9 | 7,036.9 | 7,036.9 | 0.0 |
| <u>Mine Inspector</u> | | | | | |
| Aggregate Mining Reclamation Fund | 49.4 | 112.9 | 112.9 | 112.9 | 0.0 |
| <u>Naturopathic Physicians Board of Medical Examiners</u> | | | | | |
| Naturopathic Board | 122.6 | 193.4 | 193.4 | 193.4 | 0.0 |
| <u>Navigable Stream Adjudication Commission</u> | | | | | |
| Arizona Water Banking Fund | 0.0 | 200.0 | 200.0 | 200.0 | 0.0 |
| <u>Board of Nursing</u> | | | | | |
| Nursing Board | 4,729.5 | 4,771.0 | 4,771.0 | 5,284.6 | 513.6 |
| <u>Nursing Care Ins. Admin. Examiners</u> | | | | | |
| Nursing Care Institution Administrators/ACHMC | 420.6 | 455.0 | 455.0 | 511.9 | 56.9 |
| <u>Board of Occupational Therapy Examiners</u> | | | | | |
| Occupational Therapy Fund | 173.0 | 199.0 | 199.0 | 199.0 | 0.0 |
| <u>Board of Dispensing Opticians</u> | | | | | |
| Dispensing Opticians Board Fund | 134.3 | 155.9 | 155.9 | 155.9 | 0.0 |
| <u>Board of Optometry</u> | | | | | |
| Board of Optometry Fund | 215.1 | 240.7 | 240.7 | 240.7 | 0.0 |
| <u>Board of Osteopathic Examiners</u> | | | | | |
| Osteopathic Examiners Board | 844.5 | 1,012.3 | 1,012.3 | 1,012.3 | 0.0 |
| <u>Arizona State Parks</u> | | | | | |
| State Lake Improvement Fund | 0.0 | 225.0 | 225.0 | 0.0 | (225.0) |
| State Parks Revenue Fund | 13,465.2 | 16,065.7 | 16,065.7 | 15,815.7 | (250.0) |
| Off-Highway Vehicle Recreation Fund | 0.0 | 692.1 | 692.1 | 0.0 | (692.1) |
| Agency Total | 13,465.2 | 16,982.8 | 16,982.8 | 15,815.7 | (1,167.1) |
| <u>Personnel Board</u> | | | | | |
| Personnel Division Fund | 141.6 | 368.1 | 368.1 | 368.1 | 0.0 |
| <u>Board of Pharmacy</u> | | | | | |
| Pharmacy Board Fund | 2,846.0 | 2,665.3 | 2,665.3 | 2,610.3 | (55.0) |
| <u>Board of Physical Therapy Examiners</u> | | | | | |
| Physical Therapy Fund | 419.1 | 503.7 | 503.7 | 503.7 | 0.0 |
| <u>Pioneers' Home</u> | | | | | |
| Pioneers' Home State Charitable Earnings | 4,432.2 | 4,515.0 | 5,039.1 | 4,609.2 | 94.2 |
| Pioneers' Home Miners' Hospital | 2,759.7 | 2,059.2 | 2,059.2 | 2,059.2 | 0.0 |
| Agency Total | 7,191.9 | 6,574.2 | 7,098.3 | 6,668.4 | 94.2 |
| <u>Board of Podiatry Examiners</u> | | | | | |
| Podiatry Examiners Board | 127.0 | 168.1 | 168.1 | 168.1 | 0.0 |
| <u>Commission for Postsecondary Education</u> | | | | | |
| Postsecondary Education Fund | 1,261.5 | 1,536.7 | 1,536.7 | 1,536.7 | 0.0 |
| <u>Board for Private Postsecondary Education</u> | | | | | |
| Private Postsecondary Education | 381.3 | 423.3 | 423.3 | 423.3 | 0.0 |
| <u>Board of Psychologist Examiners</u> | | | | | |
| Psychologist Examiners Board | 434.3 | 516.1 | 516.1 | 516.1 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Public Safety</u> | | | | | |
| State Highway Fund | 8,141.4 | 318.2 | 318.2 | 318.2 | 0.0 |
| Arizona Highway Patrol Fund | 116,340.8 | 194,968.5 | 196,168.5 | 256,699.0 | 61,730.5 |
| Safety Enforcement and Transportation Infrastructure | 1,327.6 | 1,650.9 | 1,650.9 | 1,650.9 | 0.0 |
| Drug and Gang Prevention Resource Center Fund | 630.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Motor Vehicle Liability Insurance Enforcement | 1,250.0 | 1,250.9 | 1,250.9 | 1,250.9 | 0.0 |
| DPS Forensics Fund | 22,758.9 | 22,554.2 | 22,554.2 | 23,880.7 | 1,326.5 |
| Public Safety Equipment Fund | 2,798.1 | 2,893.7 | 2,893.7 | 4,710.5 | 1,816.8 |
| Gang and Immigration Intelligence Team Enforcement Mission Fund | 3,483.7 | 2,541.2 | 2,541.2 | 2,541.2 | 0.0 |
| Fingerprint Clearance Card Fund | 936.1 | 1,556.4 | 1,556.4 | 1,556.4 | 0.0 |
| State Aid to Indigent Defense Fund | 698.0 | 700.0 | 700.0 | 700.0 | 0.0 |
| Motorcycle Safety Fund | 205.0 | 205.0 | 205.0 | 205.0 | 0.0 |
| Parity Compensation Fund | 3,451.5 | 3,990.5 | 3,990.5 | 3,990.5 | 0.0 |
| Concealed Weapons Permit Fund | 3,372.5 | 2,719.7 | 2,719.7 | 2,857.9 | 138.2 |
| Peace Officer Training Equipment Fund | 197.8 | 1,047.8 | 1,047.8 | 1,047.8 | 0.0 |
| Public Safety Interoperability Fund | 0.0 | 0.0 | 0.0 | 1,500.0 | 1,500.0 |
| Highway User Revenue Fund | 15,181.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| DPS Criminal Justice Enhancement Fund | 2,379.7 | 2,936.8 | 2,936.8 | 2,936.8 | 0.0 |
| Risk Management Fund | 1,345.3 | 1,349.3 | 1,349.3 | 1,349.3 | 0.0 |
| Agency Total | 184,497.7 | 240,683.1 | 241,883.1 | 307,195.1 | 66,512.0 |
| <u>Residential Utility Consumer Office</u> | | | | | |
| Residential Utility Consumer Office Revolving | 983.2 | 1,348.6 | 1,348.6 | 1,348.6 | 0.0 |
| <u>Board of Respiratory Care Examiners</u> | | | | | |
| Board of Respiratory Care Examiners | 298.8 | 322.6 | 322.6 | 342.6 | 20.0 |
| <u>Arizona State Retirement System</u> | | | | | |
| Retirement System Appropriated | 21,853.0 | 22,394.0 | 22,394.0 | 22,394.0 | 0.0 |
| LTD Trust Fund | 1,267.7 | 1,800.0 | 1,800.0 | 1,800.0 | 0.0 |
| Agency Total | 23,120.7 | 24,194.0 | 24,194.0 | 24,194.0 | 0.0 |
| <u>Department of Revenue</u> | | | | | |
| Tobacco Tax and Health Care Fund | 541.7 | 681.5 | 681.5 | 681.5 | 0.0 |
| DOR Liability Setoff Fund | 709.0 | 805.6 | 805.6 | 805.6 | 0.0 |
| Department of Revenue Administrative Fund | 40,679.9 | 48,243.0 | 48,243.0 | 46,243.0 | (2,000.0) |
| Residential Contractors' Recovery Fund | 75.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 42,005.6 | 49,730.1 | 49,730.1 | 47,730.1 | (2,000.0) |
| <u>Department of State - Secretary of State</u> | | | | | |
| Election Systems Improvement Fund | 2,406.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Records Services Fund | 941.3 | 742.8 | 960.0 | 1,210.0 | 467.2 |
| Agency Total | 3,348.0 | 742.8 | 960.0 | 1,210.0 | 467.2 |
| <u>Board of Technical Registration</u> | | | | | |
| Technical Registration Board | 1,943.5 | 2,199.5 | 2,247.2 | 2,364.3 | 164.8 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|--|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <u>Department of Transportation</u> | | | | | |
| State Aviation Fund | 1,627.7 | 2,010.9 | 2,010.9 | 2,010.9 | 0.0 |
| State Highway Fund | 488,177.4 | 397,585.4 | 401,211.7 | 408,808.4 | 11,223.0 |
| Highway Damage Recovery Account | 3,920.4 | 8,000.0 | 8,000.0 | 8,000.0 | 0.0 |
| Transportation Department Equipment Fund | 17,843.5 | 18,654.8 | 18,654.8 | 18,654.8 | 0.0 |
| Safety Enforcement and Transportation Infrastructure | 1,173.1 | 880.5 | 880.5 | 32.6 | (847.9) |
| Ignition Interlock Device Fund | 146.8 | 320.3 | 320.3 | 320.3 | 0.0 |
| Air Quality Fund | 300.9 | 324.2 | 324.2 | 324.2 | 0.0 |
| Vehicle Inspection and Title Enforcement Fund | 1,458.8 | 2,068.0 | 2,068.0 | 2,068.0 | 0.0 |
| Motor Vehicle Liability Insurance Enforcement Fund | 1,647.2 | 2,675.2 | 2,675.2 | 1,723.7 | (951.5) |
| Driving Under Influence Abatement Fund | 151.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Highway User Revenue Fund | 653.1 | 658.0 | 658.0 | 658.0 | 0.0 |
| Motor Vehicle Fleet Operations Fund - NEW | 0.0 | 0.0 | 0.0 | 6,000.0 | 6,000.0 |
| Agency Total | 517,099.9 | 433,177.3 | 436,803.6 | 448,600.9 | 15,423.6 |
| <u>Treasurer</u> | | | | | |
| Boating Safety Fund | 2,183.8 | 2,183.8 | 2,183.8 | 2,183.8 | 0.0 |
| Treasurer Empowerment Scholarship Account Fund | 304.4 | 304.4 | 304.4 | 304.4 | 0.0 |
| State Treasurer's Operating Fund | 2,625.9 | 3,350.8 | 3,350.8 | 3,466.8 | 116.0 |
| State Treasurer's Management Fund | 295.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency Total | 5,409.7 | 5,839.0 | 5,839.0 | 5,955.0 | 116.0 |
| <u>Arizona State University</u> | | | | | |
| ASU Collections Fund Tuition and Fees | 663,811.9 | 654,596.6 | 654,596.6 | 654,596.6 | 0.0 |
| Technology and Research Initiative Fund | 3,464.3 | 3,600.0 | 3,600.0 | 3,600.0 | 0.0 |
| Agency Total | 667,276.2 | 658,196.6 | 658,196.6 | 658,196.6 | 0.0 |
| <u>Northern Arizona University</u> | | | | | |
| NAU Collections - Appropriated | 160,958.9 | 156,154.5 | 156,154.5 | 156,154.5 | 0.0 |
| <u>University of Arizona - Main Campus</u> | | | | | |
| U of A Main Campus - Collections - Appropriated | 423,435.0 | 353,430.1 | 353,430.1 | 353,430.1 | 0.0 |
| <u>University of Arizona - Health Sciences Center</u> | | | | | |
| U of A Main Campus - Collections - Appropriated | 51,395.8 | 55,697.4 | 55,697.4 | 55,697.4 | 0.0 |
| <u>Department of Veterans' Services</u> | | | | | |
| State Home for Veterans Trust | 34,417.7 | 35,607.9 | 35,607.9 | 39,005.2 | 3,397.3 |
| <u>Veterinary Medical Examining Board</u> | | | | | |
| Veterinary Medical Examiners Board | 453.4 | 600.0 | 600.0 | 600.0 | 0.0 |
| <u>Department of Water Resources</u> | | | | | |
| Arizona Water Banking Fund | 612.0 | 1,212.2 | 1,212.2 | 1,212.2 | 0.0 |
| Water Resources Fund | 621.4 | 963.7 | 963.7 | 963.7 | 0.0 |
| Assured and Adequate Water Supply Administration Fund | 120.2 | 268.6 | 268.6 | 268.6 | 0.0 |
| Agency Total | 1,353.6 | 2,444.5 | 2,444.5 | 2,444.5 | 0.0 |

Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

| | FY 2019 Expenditures | FY 2020 Appropriation | FY 2020 Executive Budget | FY 2021 Executive Budget | FY 2021 Changes and Adjustments |
|---|-------------------------|--------------------------|--------------------------------|--------------------------------|---------------------------------------|
| Other Appropriated Funds Operating Total | 4,278,810.1 | 4,520,471.0 | 4,530,019.4 | 4,781,486.1 | 261,015.1 |

The total amount listed reflects agency operating expenditures and appropriations, but does not include expenditures and appropriations for capital projects or other selected statewide items, such as retirement contribution adjustments.

Resources

Governor's Office of Strategic Planning and Budgeting

[Website](#)

[Executive Budgets for FY 2020 and Previous Years](#)

[Statement of Federal Funds](#)

[Master List of State Government Programs](#)

[Constitutional Appropriation Limit Calculation](#)

State Agency Technical Resources

[Agency Budget Development Software and Training Resources](#)

[Managing for Results](#), Arizona's Strategic Planning Handbook

Other Helpful Links

[Arizona's Official Website](#)

[Governor's Website](#)

[State Agencies' Websites](#)

[Openbooks](#), a searchable database of the State Accounting System

[Arizona Employment Statistics](#)

[Arizona Population Statistics](#)

[FY 2020 Appropriations Report](#)

Acknowledgement

Governor Ducey gratefully acknowledges the skilled and dedicated efforts of the staff of the Governor's Office of Strategic Planning and Budgeting.

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Exhibit E

https://www.azfamily.com/news/investigations/3_on_your_side/originals/trust-fund-that-covers-arizona-employment-plunged-90-this-year/article_15254750-3bfb-11eb-b4b1-a7d2c0202009.html

3 ON YOUR SIDE

Trust fund that covers Arizona employment plunged 90% this year

CARES Act money could provide influx of cash

SUSAN CAMPBELL

POSTED DEC 14, 2020

PHOENIX (3 On Your Side) - Gov. Doug Ducey plans to use CARES Act money to support Arizona's unemployment trust fund if it runs out of money in the coming months, 3 On Your Side has learned.

During an interview in September, Department of Economic Services Director Michael Wisheart predicted the state's unemployment trust fund could be exhausted in November 2020. At the time, he said Arizona would be forced to borrow from the federal government to make unemployment payments.

 **Interactive dashboard: Unemployment in Arizona**

"You have to pay that money back through taxes on employers going forward," Wisheart said.

Things have changed since that September interview. The trust fund has hemorrhaged money, but not as quickly as expected.

According to a review of state data, Arizona began 2020 with its unemployment trust fund sitting at about \$1.1 billion. By December 2020, the fund that provides a lifeline to unemployed Arizonans had plummeted to less than \$100 million, a 90% drop in less than one year.

Trust fund balance drops by 90% in 2020

Source: Brett Bezio, Arizona Department of Economic Security

It's really hard to predict things right now because we've got two things going on at once. On one hand, we're very optimistic about the vaccine and it rolling out and us getting back to something that's more normal. On the other hand, the pandemic is out of control.

Dave Wells, Grand Canyon Institute



"That's the whole purpose of having an unemployment insurance trust fund, is having it there when people need it. And we've needed it this year really badly," said Dave Wells, the research director for the nonpartisan think tank Grand Canyon Institute.

Wells predicts the trust fund could reach zero sometime in March, but he expects it to rebound quickly into positive territory.

"Employers pay a tax to fund it, and the first tax is due at the end of the first quarter and mostly paid in April," Wells explained. "In that scenario, I see the trust fund still having about \$70 million by the end of next year, a year from now."

The maximum weekly unemployment benefit in Arizona is \$240 per week, the second-lowest in the country. According to Wells, the rate of payments for state unemployment insurance will slow down as people get jobs or exhaust their 26 weeks of benefits. But he is quick to point out there is no crystal ball in such uncertain times.

"It's really hard to predict things right now because we've got two things going on at once," Wells said. "On one hand, we're very optimistic about the vaccine and it rolling out and us getting back to something that's more normal. On the other hand, the pandemic is out of control."

It is not unprecedented for the state's unemployment trust fund to dip into the red. During the Great Recession, the fund hit zero, and the state borrowed money from the U.S. Department of Labor to pay for benefits. Ben Petersen, a spokesman for Ducey, said the state has other options during the pandemic.

"Arizona is planning to use some of its federal CARES Act funds to replenish the unemployment trust fund should additional funds be needed," Petersen wrote in an email. "This will ensure that Arizonans in need will continue to receive unemployment benefits and avoid a costly burden on businesses and job creators."

Since the start of the pandemic, Arizona has paid out more than \$12.4 billion in unemployment benefits to more than 2 million people, according to DES spokesman Brett Bezio. The payments include state unemployment insurance claims and federal Pandemic Unemployment Assistance (PUA) claims.

UI and PUA benefits paid in Arizona




Total number of recipients:
2,063,833

Doing the math, that averages out to less than \$6,050 per person. It's not that straightforward, though, because some people will have received more than others, depending on how long they were unemployed.

Source: Arizona Department of Economic Security



More stories about unemployment in Arizona

-  **New ID verification rules delay unemployment for some Arizonans**
-  **Hundreds of thousands of Arizonans could lose unemployment lifeline in weeks**
-  **Unemployment recipients will have to verify identity with new system through DES**

 **3.5M Arizona unemployment claims flagged for fraud while real claims fall through cracks**

 **AZ inundated with 3.4 million fraudulent unemployment claims**

 **Criminals using dead Arizonans' information to file fraudulent unemployment claims**

 **Ducey claims Arizona economy is 'booming' as unemployed lose federal relief**

 **Arizona unemployment fraud victims wait more than a month for response from DES**

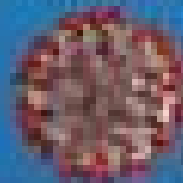
 **Unemployment benefits showing up in random mailboxes in Arizona**

 **Thousands of Arizonans receive bills for unemployment overpayments**

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ARIZONA: HOW WE GOT HERE

 **ONE YEAR IN...**

Where Arizona stands 1 year into the coronavirus pandemic

Susan Campbell

Exhibit F

! Click here for COVID information and resources for New Yorkers.

Charles E. SCHUMER
UNITED STATES SENATOR FOR NEW YORK



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Help For
NEW YORKERS

Newsroom Press Releases

03.08.21

AFTER TIRELESS ADVOCACY, SCHUMER SECURES \$23.8 BILLION IN DIRECT AID FOR NEW YORK'S STATE & LOCAL GOVERNMENTS IN FIRST MAJOR VICTORY AS MAJORITY LEADER, SCHUMER DELIVERS BILLIONS FOR NY'S TAXPAYERS AND MUNICIPALITIES; BILL DELIVERS \$35 BILLION TO NYS AGENCIES, INCLUDING \$12.6 BILLION TO NYS FOR FISCAL RELIEF & SENATOR SECURES ADDITIONAL \$10.8 BILLION DIRECT TO LOCALITIES

State & Local Aid Has Been Top Schumer Priority Since Beginning Of Pandemic; Schumer Delivers Direct Federal Assistance To Every Community Of Every Size, Keeping Local Economies Afloat, Frontline Workers on the Job & Main Streets Alive

*State & Local Fiscal Relief Funds Provides a Whopping **\$12.56B** To NYS, **\$6.14B** To Metro Cities, **\$3.9B** For Counties, **\$825M** For Small Cities, Towns, And Villages, & **\$358M** For NYS Broadband Program*

Schumer To NY Municipalities and Taxpayers: Help Is On The Way!

Delivering on his promise of robust relief for New York State and localities, U.S. Senate Majority Leader Charles E. Schumer declared that "help is on the way" and detailed the contents of the \$23.8 billion in state and local fiscal aid, including \$12.56 billion for New York State's government and more than \$10.8 billion for counties, cities, towns, and villages, he secured for New York in the American Rescue Plan he led to passage in the Senate. Upon President Biden's signature, the American Rescue Plan will provide a vital and substantial injection of funding for cash-strapped localities that can be used to pay for essential services, retain vital frontline workers, and offset lost revenues and increased costs from the COVID-19 emergency.

Funds can also be used for relief to small businesses, hard-hit industries, and infrastructure investments to help rebuild local economies. Schumer says the state and local funding will keep local economies afloat and essential services running for communities, including the roll out of vaccines. It is estimated that New York State's agencies and authorities will receive over \$30 billion from the American Rescue Plan, on top of the funds from the state and local fiscal relief fund.

"After fighting this pandemic on the frontlines, New York's counties and municipalities were loud and clear: they needed help and they needed it now to keep frontline workers on the job and prevent brutal service cuts. And today, to all towns, villages, cities, and counties throughout New York I say: help is on the way," said Senator Schumer. "As Majority Leader, I was proud to make state and local funding my top priority as municipalities throughout New York and The American Rescue Plan will deliver the much deserved relief for New York's local governments – to the tune of \$23.8 billion – to get New York's municipalities the resources and funding they need to prevent layoff, to keep essential services running, and to keep our Main Streets alive and able to rebound when we emerge from the pandemic."

The senator explained that the nation's economic recovery depends on the survival of state and local governments, which have been forced to make substantial layoff across the nation as they struggle with revenue shortfalls caused by the COVID downturn. New York State lost billions of dollars in revenue compared to pre-pandemic years and counties and other municipalities across the state have already had to cut thousands of jobs due to massive budget shortfalls.

Concerned about the layoffs of public health care workers, firefighters, sanitation workers, teachers, and other vital public servants across New York, Schumer has fought since the beginning of the pandemic to deliver financial resources to help all counties, cities, towns, and villages recover. In addition to securing \$150+ billion for New York in previous COVID relief bill negotiations, Schumer visited the Southern Tier and Western New York and pushed the previous administration to provide robust state and local aid that would benefit all Americans. After months of effort, the senator also successfully called for FEMA to provide 100% cost sharing to New York state, delivering billions more for the state to cover costs related to the pandemic.

The state and local allocation for New York in the Schumer-driven American Rescue Plan will help local governments avoid further layoffs and local tax and fee increases that would place a heavier burden on families and small businesses in crisis.

The full breakdown of the \$23.8 billion going to New York State and localities can be found [here](#).

\$23.8 Billion for New York –Total amount of funding provided to New York State through the state and local fiscal relief fund, to keep first responders, frontline health workers, and other providers of vital services safely on the job as states and local governments roll out vaccines and fight to rebuild Main Street economies. Funding can be used for assistance to households, small businesses, nonprofits, aid to impacted industries such as tourism, travel, and hospitality, investments in water, sewer, and broadband infrastructure, and to provide premium pay to frontline workers. Local governments of every size, including all counties, cities, towns, and villages, receive dedicated federal aid awards. A new \$10 billion capital projects program also support state broadband deployment efforts. Funds are allocated in New York as follows:

- **\$12.569 Billion** for New York State Government
- **\$6.141 Billion** for New York Metro Cities
- **\$3.907 Billion** for New York's Counties
- **\$825 Million** for New York's Small Cities, Towns, and Villages
- **\$358 Million** for a New York State Broadband Investment Program

Eligible uses for the state and local funds as detailed in the American Rescue Plan, appear below. This information is subject to change:

Funds may be used by state and local governments for:

- Costs associated with responding to the COVID-19 public health emergency or its negative economic impacts, including but not limited to, assistance to households, small businesses, and nonprofits or aid to impacted industries such as tourism, travel, and hospitality.
- To support workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers or by providing grants to eligible employers that have eligible workers who perform essential work.
- To cover revenue losses caused by the COVID-19 public health emergency.
- To make necessary investments in water, sewer, or broadband infrastructure.

Reactions from around New York:

"We acknowledge the leadership of Senator Schumer and the members of New York's Congressional Delegation who supported our local governments throughout this pandemic. Without our Senator Schumer, this package would not have included the federal assistance to counties and local governments. He has always been there for New Yorkers, and his resolve has only been strengthened during this this pandemic," said **NYSAC Executive Director Stephen Acquario**.

"Local governments have been on the frontline since the beginning of the pandemic providing critical public health services and ensuring the well-being of our most vulnerable citizens. For more than a year, we have continued this important work despite the immense challenges and fiscal uncertainty we have faced due to COVID-19 and the subsequent economic fallout. We thank Senator Schumer for his continued advocacy, this support helps to ensure local governments throughout the nation, and the people they employ, can continue the important and life-saving work they do every day," said **New York Association of Counties President and Dutchess County Executive Marc Molinaro**.

"I am profoundly thankful to Leader Schumer and his team for their tireless efforts to deliver COVID relief to state and local governments," said **Erie County Executive Mark Poloncarz**. "Erie County has been on the frontline of the pandemic since day one, and this critical funding will allow us to continue fighting the virus and vaccinating our residents while maintaining essential services and promoting the economic recovery."

"We cannot have an adequate and full economic recovery without direct aid to counties and localities that have been on the frontlines of the pandemic response. Senate Majority Leader Schumer understood that and he fought for this historic funding included in the relief package passed on Saturday. Albany County will be receiving over \$55.1 million in aid, while the combined total for our cities, towns and villages will come out to be more than \$170 million, and I was proud to advocate for it over the last year. I urge the House to take up this bill and get it passed quickly so it can be signed by President Biden and provide families and businesses with the lifeline they desperately need," said **Albany County Executive Daniel P. McCoy**.

Albany Mayor Kathy Sheehan said, "The American Rescue Plan is going to help us keep our residents safe, frontline employees delivering essential services, businesses open, and cities thriving. A huge thank you to U.S. Senate Majority Leader Chuck Schumer for being a tireless advocate for this legislation and leading the charge to secure its passage in the US Senate. Our entire country needs this."

"We appreciate the tireless efforts of Senator Schumer, Senator Gillibrand, and Congressman Tonko to secure financial assistance for local communities, including the City of Troy," said **Troy Mayor Patrick Madden**. "The Covid-19 pandemic has taken a significant financial toll on our community, impacting essential operations and services while reducing much-needed revenues. We eagerly await final passage of the American Rescue Plan, and applaud President Biden and our federal representatives for their commitment to rebuild our economy through this direct emergency assistance program."

"Senator schumer has been working for most of this past year to deliver local pandemic relief to municipalities like Schenectady. He visited City Hall this summer to redouble his commitment and true to his word, in his first bill as Majority Leader he has delivered. This funding will be enormously helpful to us in dealing with the revenue we lost in the pandemic and boosting our economic development moving forward," said **Schenectady Mayor Gary McCarthy**.

"Buffalo has weathered immense challenges due to the COVID-19 pandemic," said **Buffalo Mayor Bryon W. Brown**. "I predicted the need for federal aid early on. Direct local funding in this relief bill will ensure our recovery and I am confident Buffalo will emerge stronger and more resilient than ever. I applaud President Biden, Leader Schumer, Speaker Pelosi, Senator Gillibrand, and Congressman Higgins for their leadership during this difficult time."

Rochester Mayor Lovely Warren said, "Our City, and all local governments across the country, have been hit hard with both revenue shortfalls and expenses related to the pandemic. Just like so many households, Rochester's finances have been stressed and I'm grateful for Senator Schumer's leadership in delivering assistance for our city and all the other localities across the nation that needed a boost. Working with his congressional colleagues and President Biden, Chuck Schumer did what he does best -- fighting for all of us here in New York. Thank you Senator Schumer for ensuring our city has the resources to keep fighting for our neighbors across every one of Rochester's neighborhoods."

"I commend Senator Schumer's leadership and determination. The American Rescue Plan will give Syracuse and communities across the nation the opportunity to not only recover from the pandemic but to come back stronger and more competitive," said **Syracuse Mayor Ben Walsh**. "It brings relief to people all over Syracuse who are suffering and helps hundreds of city workers hurt by the fiscal impact of COVID-19. The aid coming to Syracuse will help us offset what we've lost and prepare for the effects of the pandemic that will surely linger for years."

Monroe County Executive Adam Bello said, "The American Rescue Plan will deliver immediate and critical help to the families, workers, businesses and state and local governments that have felt the brunt of the economic downturn from the ongoing COVID-19 pandemic. I thank Sen Schumer for listening to the American people about what they need to make it through this trying time, and for his leadership and determination that has delivered a plan that will provide real, tangible results for the people of Monroe County and New York State. Funding provided by this plan will help vaccination distribution, hire additional vaccinators, give struggling businesses the chance to survive, further address the needs of our schools and lift the weight of fear and worry from families facing eviction, foreclosure and food insecurity."

Onondaga County Executive McMahon said, "Local Counties have been on the frontline since day one addressing the COVID-19 pandemic, and no one has understood that better than Senator Schumer. Thanks to his tireless efforts, Onondaga County will be able to receive desperately needed funding to not only make up for lost revenue but help us recover stronger than ever. McMahon continued, "As we ramp up vaccinations, work to reopen schools and rebuild our economy, I know Onondaga County can rely on Senator Schumer to be the advocate we need in Washington."

"Municipalities throughout New York State and the country have been negatively impacted by the Coronavirus pandemic. Because of strong advocates like Senator Schumer, the American Rescue Plan Act of 2021 provides municipalities with necessary resources to provide services and enhance the quality of our residents. I commend the Senator for his tireless efforts and thank him for his continued support," said **Utica Mayor Robert M. Palmieri**.

"When Westchester was facing our darkest days at the onset of this pandemic, Leader Schumer instantly understood the massive hole that would be left in our - and other local governments' - budgets. With that in mind, he went to work. Our Senate and House delegation understood that the hole created in our budgets would result in less funding for vital functions -- like public health, safety and transportation -- that County government provides. This funding is a lifeline that will allow us to keep these vital public functions operating while easing the tax burden on already stressed residents. I sincerely thank Leader Schumer, Senator Gillibrand, Congressmen Bowman, Jones & Maloney and President Joe Biden for their efforts on the *American Rescue Plan*," said **Westchester County Executive George Latimer**.

The City of Newburgh has been extremely hard hit by the COVID-19 pandemic," said **City of Newburgh Mayor Torrance Harvey**. "The direct funding for the City of Newburgh that the *American Rescue Plan* provides will help us continue our efforts to defeat the virus and build back our City's economy. I thank Senator Schumer for his steadfast leadership in making sure that the City of Newburgh and its residents have the tools needed to continue on despite the challenges that have come along with this crisis."

"The American Rescue Plan is a huge win for every single American. This act restores faith that our government has our backs and can be a force for good when we are most in need. On behalf of the 180,000 residents of Ulster County, I want to thank Majority Leader Chuck Schumer. None of this would be possible without his leadership, vision, and relentless efforts," said **Ulster County Executive Pat Ryan**.

"After a long and turbulent year, aid is finally here for Yonkers families, thanks to President Biden's and Senator Schumer's unwavering leadership. They recognized the needs of cities like Yonkers, where the pandemic hit the hardest, devastating the economic and social progress achieved in recent years. Yonkers now has a clear path set for ourselves, our schools, businesses and local community organizations to begin the road to recovery so we can continue to move forward," said **City of Yonkers Mayor Mike Spano**.

"The City of Kingston and our dedicated staff have worked around the clock to respond to this pandemic on the frontlines, while as a city we dealt with revenue loss and economic hardship" said **City of Kingston Mayor Steve Noble**. "We thank Senator Schumer for his leadership in passing the American Rescue Plan, which will provide much-needed direct aid to the City of Kingston, and other cities across this nation, at a time when it is needed most so we can continue serving Kingston residents. "

Rockland County Executive Ed Day said, "Just like many of our residents, Rockland County's finances have been hard hit by the added expenses and revenue shortfalls related to the pandemic. While we took steps early on to limit the fiscal impacts of COVID-19, we in County government have been the boots on the ground during this crisis and we have done whatever was necessary to keep delivering the services that people count on, this funding will make that job just a little bit easier. I thank Senator Schumer and our entire congressional delegation for delivering direct assistance to localities which will make all the difference as we work to fully recover from the pandemic."

"The American Rescue Plan includes critically needed funding for vaccinations, testing, schools and small businesses right here in Broome County," said **Jason Garnar, Broome County Executive**. "For months I have advocated for this funding for local governments so we can support our employees who have been fighting COVID-19 since day one." said

County Executive. "For months I have advocated for this funding for local governments so we can support our employees who have been fighting COVID-19 since day one," said Broome County Executive Jason Garner. "A big thank you to Senator Schumer for helping make sure local governments in Broome County will get the funding we need to support our workers, fight COVID, and rebuild our economy."

"Funding for State and Local Governments is a big win for municipalities across the state and nation," said **Richard C. David, Major of the City of Binghamton.** "As President of the New York Conference of Mayors (NYCOM), I'm proud to have played a role working with Mayors throughout New York in advocating for this much needed direct relief. I'd like to thank Senator Schumer for his relentless leadership and for working with municipalities, listening to us and fighting for us. The funding for state and local governments will allow municipalities to continue to support critical police, fire, EMS, and other essential services as we recover from the pandemic and rebuild our local economies."

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March 3, 2021

State Aid in American Rescue Plan Act Is 116 Times States' Revenue Losses



Jared Walczak

Note: The state and local revenue allocation table was updated on March 9th to reflect Senate amendments modifying the state aid formula.

Preliminary data suggest that states closed out calendar year 2020 with only \$1.7 billion less revenue than they generated in 2019 (a decline of less than 0.2 percent), not counting federal assistance, while municipal governments actually experienced substantial revenue growth due to rising property values. Yet the [American Rescue Plan Act](#) (ARPA) sets aside \$350 billion in additional state and local aid. Increasingly, federal proposals to provide a cash infusion for state and local governments has become a solution in search of a problem.

Forty-three states and the District of Columbia have now published revenue data for all 12 months of 2020; in those states, revenues are up \$3.2 billion in aggregate compared to the previous calendar year, thanks to robust gains in financial markets and federal assistance that has kept businesses afloat and provided benefits to individuals. Some of those are, indeed, *taxable* benefits, in the case of enhanced and expanded unemployment compensation benefits. For the remaining seven states, it is necessary to project revenues through the end of the calendar year based either on U.S. Census Bureau data through the three quarters, or, in Nevada and New Mexico, state data running through October and November respectively.

These adjustments yield an aggregate \$1.7 billion decline in state revenues. Under the American Rescue Plan Act, states would receive \$195.3 billion in aid, divided according to each state's share of national unemployed workers. Under Senate amendments, a further adjustment is made to ensure that each state receives, at minimum, the amount it was allocated for purposes of the Coronavirus Relief Fund under the CARES Act. While some conservative lawmakers have criticized this allocation model (which benefits states with steeper job losses) on the grounds that different state policies and approaches may yield some of this variation and that the federal government should be neutral to these decisions, we have [argued previously](#) that using the change in unemployment is a more efficient targeting method than allocating aid per capita. Far less defensible, however, is the notion that aid to states should be 116 times the decline in state revenues—especially since the federal government has already provided [over \\$200 billion](#) in fungible aid to subnational governments.

Local governments, meanwhile, would receive \$130.2 billion, split evenly between cities and counties, with aid to cities based on the existing formula for Community Development Block Grants (CDBGs) and county aid based on population. The CDBG formula takes into account population, poverty, and the age and density of housing, as it was designed for grants administered by the U.S. Department of Housing and Human Services (HUD) to promote affordable housing and expand economic opportunities for low-income households. Data for municipal revenues are only available for the first three quarters of calendar year 2020, but local revenues actually [rose by \\$29.8 billion](#) over that period compared to the same period in 2019, and there is every reason to believe that this trajectory has continued. Local governments have more revenue than they did a year ago, but the American Rescue Plan Act would still provide them with \$130.2 billion.

The remaining \$24.5 billion in the state and local aid packages would provide another \$20 billion in assistance to tribal governments and a further \$4.5 billion to U.S. territories. Unlike

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dition in assistance to tribal governments and a further provision to state territories. Unlike the CARES Act, which allocated aid to the District of Columbia using the same formula used for territories, the American Rescue Plan Act would not only treat D.C. as a state for purposes of aid but would provide the District with an additional \$755 million payment to account for what it would have received under the CARES Act under a state designation. The District of Columbia recently announced a [\\$526 million surplus](#).

Aid Distribution Amounts and Formulas

| Level of Government | Amount | Distribution Formula |
|---------------------|-----------------|---|
| State Governments | \$195.3 billion | Share of National Unemployment with CARES Act Minimum Payment |
| Local Governments | \$130.2 billion | Population (Counties) and CDBG Criteria (Cities) |
| Territories | \$4.5 billion | Base Allocation plus Population |
| Tribal Governments | \$20.0 billion | Treasury Determination |

Source: American Rescue Plan Act.

The following table shows each state's estimated revenue gains or losses in 2020, alongside the state and local aid that would be allocated to each under the American Rescue Plan Act. Federal aid as a percentage of loss is for the state component only (state aid as a percentage of state revenue loss, where states have lost revenue). Aid per capita incorporates aid to both states and localities. The American Rescue Plan Act provides \$1,066 in state and local aid per capita nationwide, and the \$195.3 billion earmarked for state governments is almost 116 times the states' aggregate revenue losses. For state revenue data, we largely rely on [monthly tax collections data](#) collected by Marc Joffe at the Reason Foundation, updated where appropriate and projected through the end of the year for the seven states with data limitations.

State Revenues and State and Local Aid Under the Proposed American Rescue Plan Act Change in State Revenue in Calendar Year 2020 vs. 2019, with Proposed Federal Aid Allocations

| State | Revenue Change | American Relief Act Aid Allocations | | | Federal Aid Calculations | |
|----------------------|------------------|-------------------------------------|------------------|------------------|--------------------------|------------|
| | | State Aid | Local Aid | Total Aid | % of Loss | Per Capita |
| Alabama | \$563,716,794 | \$2,088,109,980 | \$1,890,457,564 | \$3,978,567,544 | — | \$811 |
| Alaska | -\$423,777,385 | \$1,250,000,000 | \$257,269,324 | \$1,507,269,324 | 295% | \$2,060 |
| Arizona | \$359,373,486 | \$4,727,380,641 | \$2,545,326,640 | \$7,272,707,281 | — | \$999 |
| Arkansas | -\$19,800,000 | \$1,625,508,134 | \$1,198,939,470 | \$2,824,447,604 | 8210% | \$936 |
| California | \$6,167,098,000 | \$25,672,242,592 | \$14,943,211,818 | \$40,615,454,409 | — | \$1,028 |
| Colorado | \$853,587,000 | \$3,894,086,649 | \$1,879,159,818 | \$5,773,246,467 | — | \$1,003 |
| Connecticut | -\$242,259,847 | \$2,607,685,594 | \$1,640,619,508 | \$4,248,305,102 | 1076% | \$1,192 |
| Delaware | -\$263,695,643 | \$1,250,000,000 | \$305,135,704 | \$1,555,135,704 | 474% | \$1,597 |
| District of Columbia | -\$434,620,000 | \$1,712,325,487 | \$493,410,164 | \$2,205,735,651 | 508% | \$2,075 |
| Florida | -\$2,634,900,000 | \$10,077,563,954 | \$6,047,585,455 | \$16,125,149,409 | 382% | \$751 |
| Georgia | \$598,533,000 | \$4,584,350,259 | \$3,565,534,086 | \$8,149,884,345 | — | \$768 |
| Hawaii | -\$1,151,388,697 | \$1,607,573,544 | \$481,024,078 | \$2,088,597,622 | 140% | \$1,475 |
| Idaho | \$484,103,896 | \$1,250,000,000 | \$642,991,105 | \$1,892,991,105 | — | \$1,059 |
| Illinois | -\$443,209,773 | \$7,378,600,932 | \$5,743,479,413 | \$13,122,080,345 | 1665% | \$1,036 |
| Indiana | -\$228,700,000 | \$3,014,287,495 | \$2,831,054,188 | \$5,845,341,684 | 1318% | \$868 |
| Iowa | -\$43,660,455 | \$1,358,228,983 | \$1,496,214,690 | \$2,854,443,673 | 3111% | \$905 |
| Kansas | \$13,514,896 | \$1,561,950,910 | \$1,154,157,645 | \$2,716,108,555 | — | \$932 |
| Kentucky | \$342,059,355 | \$2,403,006,436 | \$1,842,016,986 | \$4,245,023,422 | — | \$950 |
| Louisiana | -\$514,832,133 | \$3,160,523,381 | \$1,960,935,249 | \$5,121,458,630 | 614% | \$1,102 |
| Maine | \$110,714,348 | \$1,250,000,000 | \$645,944,718 | \$1,895,944,718 | — | \$1,410 |
| Maryland | -\$2,604,782,910 | \$3,811,534,788 | \$1,952,954,533 | \$5,764,489,321 | 146% | \$953 |
| Massachusetts | \$503,158,772 | \$4,444,672,468 | \$3,718,287,046 | \$8,162,959,514 | — | \$1,184 |
| Michigan | \$215,473,000 | \$5,569,433,975 | \$4,394,510,607 | \$9,963,944,582 | — | \$998 |
| Minnesota | -\$470,979,000 | \$2,538,554,243 | \$2,089,287,955 | \$4,627,842,198 | 539% | \$821 |
| Mississippi | \$106,565,829 | \$1,777,302,931 | \$1,259,098,668 | \$3,036,401,598 | — | \$1,020 |
| Missouri | \$52,965,166 | \$2,773,950,806 | \$2,499,324,557 | \$5,273,275,363 | — | \$859 |
| Montana | -\$66,558,000 | \$1,250,000,000 | \$409,233,237 | \$1,659,233,237 | 1878% | \$1,552 |
| Nebraska | \$162,771,567 | \$1,250,000,000 | \$802,781,938 | \$2,052,781,938 | — | \$1,061 |
| Nevada | -\$650,334,637 | \$2,902,454,982 | \$945,070,418 | \$3,847,525,399 | 446% | \$1,249 |
| New Hampshire | \$54,600,000 | \$1,250,000,000 | \$550,345,102 | \$1,800,345,102 | 2200% | \$1,320 |

| | | | | | | |
|-----------------------|-------------------------|--------------------------|--------------------------|--------------------------|---------------|----------------|
| New Hampshire | -\$54,000,000 | \$1,250,000,000 | \$550,245,183 | \$1,800,245,183 | 2289% | \$1,330 |
| New Jersey | -\$145,193,000 | \$6,337,020,215 | \$2,944,569,244 | \$9,281,589,459 | 4365% | \$1,045 |
| New Mexico | -\$160,423,717 | \$1,594,335,625 | \$838,780,675 | \$2,433,116,300 | 994% | \$1,160 |
| New York | -\$1,229,203,949 | \$12,379,759,682 | \$10,612,147,641 | \$22,991,907,322 | 1007% | \$1,182 |
| North Carolina | \$353,700,000 | \$5,196,748,534 | \$3,783,654,988 | \$8,980,403,522 | — | \$856 |
| North Dakota | -\$634,998,000 | \$1,250,000,000 | \$278,536,341 | \$1,528,536,341 | 197% | \$2,006 |
| Ohio | \$1,386,444,000 | \$5,553,441,961 | \$5,415,968,242 | \$10,969,410,204 | — | \$938 |
| Oklahoma | -\$520,800,000 | \$2,141,538,421 | \$1,392,397,620 | \$3,533,936,041 | 411% | \$893 |
| Oregon | -\$634,914,734 | \$2,568,859,439 | \$1,540,499,474 | \$4,109,358,913 | 405% | \$974 |
| Pennsylvania | -\$67,636,000 | \$7,183,557,197 | \$5,765,269,175 | \$12,948,826,372 | 10621% | \$1,011 |
| Rhode Island | -\$271,333,333 | \$1,250,000,000 | \$592,841,749 | \$1,842,841,749 | 461% | \$1,740 |
| South Carolina | -\$272,600,000 | \$2,063,612,223 | \$1,626,600,061 | \$3,690,212,284 | 757% | \$717 |
| South Dakota | \$131,092,878 | \$1,250,000,000 | \$345,024,191 | \$1,595,024,191 | — | \$1,803 |
| Tennessee | \$135,465,000 | \$3,763,168,202 | \$2,464,710,251 | \$6,227,878,453 | — | \$912 |
| Texas | -\$4,081,812,000 | \$16,445,251,204 | \$10,337,277,468 | \$26,782,528,672 | 403% | \$924 |
| Utah | \$727,600,000 | \$1,493,813,670 | \$1,012,752,533 | \$2,506,566,203 | — | \$782 |
| Vermont | \$189,760,000 | \$1,250,000,000 | \$305,917,280 | \$1,555,917,280 | — | \$2,494 |
| Virginia | \$444,400,000 | \$3,709,339,072 | \$2,676,624,514 | \$6,385,963,586 | — | \$748 |
| Washington | \$637,678,000 | \$4,188,785,028 | \$2,435,472,640 | \$6,624,257,668 | — | \$870 |
| West Virginia | -\$114,495,000 | \$1,230,617,479 | \$839,702,297 | \$2,070,319,777 | 1075% | \$1,155 |
| Wisconsin | \$2,344,131,000 | \$3,158,022,885 | \$2,493,465,345 | \$5,651,488,231 | — | \$971 |
| Wyoming | -\$192,100,707 | \$1,250,000,000 | \$131,311,647 | \$1,381,311,647 | 651% | \$2,387 |
| | | | | | | |
| Tribal Governments | unknown | \$20,000,000,000 | — | \$20,000,000,000 | n/a | n/a |
| U.S. Territories | unknown | \$4,500,000,000 | \$2,173,214,858 | \$6,673,214,858 | n/a | \$1,870 |
| | | | | | | |
| <i>State Subtotal</i> | <i>-\$1,689,702,940</i> | <i>\$195,300,000,000</i> | <i>\$128,026,785,142</i> | <i>\$323,326,785,142</i> | <i>11558%</i> | <i>\$983</i> |
| <i>U.S. Totals</i> | <i>n/a</i> | <i>\$219,800,000,000</i> | <i>\$130,200,000,000</i> | <i>\$350,000,000,000</i> | <i>n/a</i> | <i>\$1,066</i> |

Notes: State revenues are projected through the end of calendar 2020 in seven states where full-year data are not available (AK, MD, NV, NM, OR, RI, WY). Federal aid as a percentage of revenue losses is specifically for state aid as a percentage of state revenue losses. States with revenue gains over the period are excluded. Per capita aid incorporates aid to both state and local governments.

Sources: American Rescue Plan Act; monthly state revenue reports (Reason Foundation data supplemented by the Tax Foundation); Tax Foundation analysis.

Prior federal legislation in response to the [COVID-19 pandemic](#) has already included substantial aid to states, some of which was flexible enough to be used to backfill any state revenue losses. The Families First Act, the [CARES Act](#), and the Response and Relief Act collectively [provided](#) about \$212 billion in fungible aid to state and local governments, and states have also been empowered to use a substantial portion of the \$150 billion provided under the Coronavirus Relief Fund to cover existing expenses, like the salaries of public safety and public health officials. This relief compares favorably to the \$144 billion provided during the Great Recession, even though state tax revenues ultimately declined about 10 percent during the Great Recession, compared to less than 0.2 percent in 2020. With local revenues [up](#) in aggregate, the need for an additional \$350 billion in aid is decidedly unclear. States were understandably worried about their finances early in the pandemic, but as state revenue outlooks brightened, the demand for aid became divorced from reality.

This is not to say that every state or local government is doing well. States with a heavy reliance on the energy industry are struggling, a problem which predates the pandemic but was exacerbated by it. Tourism destination states have also been adversely impacted by the pandemic. Consequently, the worst losses are in energy states like Alaska and North Dakota (both of which facing losses in excess of 20 percent of revenue), while states like Florida, Hawaii, and Nevada also have losses ranging from 7 to 14 percent, even though average revenue losses are -0.2 percent, the median is -0.4 percent, and 23 states saw revenue gains.

Similarly, most localities did well, but a few are clearly struggling, often because of their chosen tax structure. Nationwide, property taxes account for 72 percent of local tax revenue, with local [sales tax](#) responsible for most of the remainder. A handful of cities, however, lean heavily on local income taxes which only generate revenue if people are living or working in the city. New York City and Philadelphia, in particular, rely heavily on municipal income taxes and face significant shortfalls even though local governments have seen annual revenue growth as a whole. These challenge are real, but the federal legislation's \$350 billion price tag has no real connection to actual needs.

Where states are struggling, however, is with the intense demands on their unemployment compensation systems. Even though the federal government is spending three dollars for every dollar states spend on unemployment benefit payments, the state share is still daunting. States paid out [\\$144 billion](#) in benefits in 2020, compared to about \$30 billion in a typical

year, and their trust funds are depleted, with many states taking out repayable federal loans, called Title XII Advances, to cover current needs. Eventually, states will have to replenish these funds, and to do so, they will have to raise employment taxes drastically—with taxes potentially going up by thousands of percent. To meet an immediate state need and fend off ruinous tax increases on rehiring, the federal government could consider shifting from a system that provides general aid on the basis of unemployment to one that offsets some of the states' unemployment compensation costs. Short of this, states receiving federal aid well in excess of general fund needs would do well to consider depositing the money into their unemployment compensation trust funds.

Enhancing the solvency of unemployment trust funds meets a real need. A \$350 billion bailout package when state revenues are flat does not.

Related Resources

- [COVID-19 Tax Resource Center](#)
- [American Rescue Plan: Details & Summary](#)
- [U.S. COVID-19 Relief Provided More Than \\$60,000 in Benefits to Many Unemployed Families](#)
- [Does the American Rescue Plan Ban State Tax Cuts?](#)
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Jared is Vice President of State Projects with the Center for State Tax Policy at the Tax Foundation. He previously served as legislative director to a member of the Senate of Virginia and as political director for a statewide campaign, and consulted on research and policy development for a number of candidates and elected officials.

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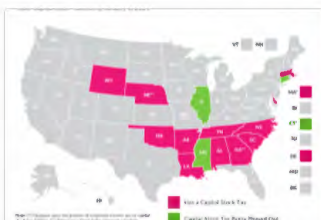
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Exhibit H

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Senate's \$1.9 Trillion Spending Bill Criticized For Blocking State Tax Relief, Rewarding Bad Gubernatorial Behavior



Patrick Gleason Contributor ⓘ ⊕

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U.S. Senate Majority Whip Sen. Dick Durbin (D-IL) speaks as Senate Majority Leader Sen. Chuck ... [+]

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“Why would you want to raise taxes when you don't have to?” That’s a question Connecticut Governor Ned Lamont (D) rhetorically [posed](#) in response to calls from fellow Democrats for tax hikes on upper income

households. While Governor Lamont is rejecting calls to enact what would be Connecticut's third income tax increase in the past decade, the Nutmeg State governor's position is a departure from the norm in his party, as his Democratic counterparts in other governors' mansions are moving to impose state-level tax increases this year to go along with whatever tax hikes President Joe Biden is able to enact.

While prominent blue state governors have released new budget proposals that [call for state tax hikes](#) in New York, Illinois, Pennsylvania, and Wisconsin, congressional Democrats are now [concerned](#) that Republicans will take red state fiscal policy in the opposite direction by cutting taxes in the places where the GOP controls state government, which is [nearly half of the country](#). Senator Chuck Schumer (D-NY) has gone so far as to include language in the new \$1.9 trillion spending package that prevents federal aid from being put toward state tax relief.

A managers amendment to the Senate version of the \$1.9 trillion spending package that passed the House on February 27, which sends another \$350 billion to state governments on top of the hundreds of billions they've already received through previous relief packages, stipulates that states or territories "shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase."

What that means is Senate Majority Leader Schumer and congressional Democrats want to block state legislators and governors from returning the next round of federal aid to states back to taxpayers in the form of tax cuts or rebates. Yet lawmakers in many states across the country have already begun moving forward with various forms of state-level tax relief to enact in

2021 that is not subject to these restrictions included in the \$1.9 trillion spending bill.

Governors and legislators in [West Virginia](#) and [Mississippi](#) are advancing legislation to phase out their state income tax. In New Hampshire, a state where Republicans won back control of the statehouse in 2020, lawmakers have [proposed legislation](#) to eliminate the Granite State's tax on investment income (the state already does not tax wage income).

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Trump Signs Executive Orders To Extend COVID-19 Economic Relief, Includes Unemployment Benefits, Eviction Moratorium

Biden: Stimulus Bill Passed During Lame Duck Session Is 'At Best Just A Start'

Tennessee is another no-income-tax state with one of the lowest tax burdens in the country. But as in New Hampshire, lawmakers in Tennessee are still finding ways to provide tax relief. Tennessee Representative Ron Gant (R) has [proposed legislation](#) to eliminate the remnants of the Volunteer State's professional privilege tax, which used to apply to more than 20 professions but now applies to only seven thanks to enactment of a 2019 bill that repealed the levy for most jobs. Legislation to enact income tax cuts and other forms of tax relief have been proposed or will soon be introduced in a number of other states where Republicans control both chambers of the state legislature.

Senate restrictions on the next round of state aid do not affect state tax relief efforts already in the works and others soon to be proposed. But this prohibition will prevent state officials from using any of the \$350 billion in additional funds to replenish state unemployment compensation funds, which is among the most pressing needs and, [according](#) to the Tax Foundation's Jared Walczak, "would be one of the most responsible ways

states could spend a large, but one-time, infusion that isn't substantially needed to backfill lost revenues."

In addition to the restrictions on the use of state aid, the formula by which state aid is divvied out in the \$1.9 trillion spending bill is also coming under fire. A bipartisan group of 22 governors issued a [joint statement](#) on February 27 urging the Senate to amend the formula. The new spending bill determines the amount of federal aid based on state unemployment rates, which these governors see as rewarding bad behavior and poor, unjustified decisions about restricting commerce.

"Unlike all previous federal funding packages, the new stimulus proposal allocates aid based on a state's unemployed population rather than its actual population, which punishes states that took a measured approach to the pandemic and entered the crisis with healthy state budgets and strong economies," [notes the joint statement](#), which was organized by South Carolina Governor Henry McMaster (R) and signed by nearly half of the nation's governors.

"A state's ability to keep businesses open and people employed should not be a penalizing factor when distributing funds," the gubernatorial coalition

statement added. “If Congress is going to provide aid to states, it should be on an equitable population basis.”

Senator Lindsay Graham proposed an amendment to the \$1.9 trillion spending package that would revert back to the state aid funding formula used in the CARES Act. That amendment was defeated by a **48 to 51 vote** in the wee hours of Saturday, March 6, shortly after 2:00 AM.

“The Democratic proposal creates a totally new formula for state and local government, which disproportionately rewards blue states like New York and California,” Senator Graham said. “My amendment retains and keeps in place the CARES formula that was used in the bipartisan package that passed 96-0. It’s a much fairer and better allocation for the country as a whole. Many states benefitted from the CARES formula and it should remain in place.”

In addition to thwarting state-level tax relief and basing the next round of federal aid to states on a contested funding formula, the new federal spending bill also entices states to commit to higher levels of spending in perpetuity. It does so by increasing the federal funding match for states that expand Medicaid in accordance with Obamacare. This promise of more money from Washington is an attempt to get governors and lawmakers in the **dozen states** that have yet to impose Obamacare’s Medicaid expansion to finally do so. Critics of Obamacare’s Medicaid expansion point out that imposing it will make future state tax relief less likely and future tax hikes a greater possibility, as it adds pressure to the category of state spending that is already growing fastest.

Between its restrictions on state tax relief, a controversial funding formula that many believe rewards bad gubernatorial behavior, and its provision enticing states to permanently grow the size of their governments, it’s not surprising that governors from both parties have spoken out against the \$1.9 trillion spending package now working its way to President Biden’s desk. What would be surprising is if enough Democratic senators shared these

objections such that it derailed the whole package. That's not expected to happened but only time will confirm.

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Exhibit I

COVID-19 Policy Update

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Summary of American Rescue Plan Act of 2021

March 10, 2021

On Wednesday, March 10, the House passed the Senate-approved version of [H.R. 1319](#), the American Rescue Plan Act of 2021, on a 220-211 vote (title-by-title summary available [here](#)). No Republicans supported the bill, and one Democrat, Rep. Jared Golden (D-ME), opposed the bill. Rep. Kurt Schrader (D-OR), who previously voted against the bill, voted to support the measure, which aims to accelerate activities to address the virus and provide additional economic support to individuals, state and local governments, and small businesses. The bill provides for a total of \$1.88 trillion in federal investments.

Below, please find a summary of key provisions in the package.

Vaccines and Testing

The measure notably provides a total of \$91 billion for the Department of Health and Human Services (HHS) for a number of coronavirus activities, including for accelerated research, development, manufacturing and distribution of vaccines and therapeutics; diagnostic testing and contact tracing; and increasing the health care workforce, among other things.

\$7.5 billion is set aside for the Centers for Disease Control and Prevention (CDC) to prepare, promote, administer, monitor and track vaccines. \$7.6 billion is also included for vaccination, testing and associated activities at Community Health Centers, as well as \$7.7 billion for HHS to establish, expand and sustain a public health workforce.

The package provides \$47.8 billion for HHS activities to detect, diagnose, trace and monitor COVID-19 infections, directing HHS to implement a national strategy for testing, contact tracing, surveillance and mitigation. Approved use of these funds includes facilitating activities related to the distribution and administration of tests and other supplies for testing; expanding testing and contact tracing capabilities with respect to laboratory capacity, community-based testing sites and mobile testing units, among other things; and supporting the nation's public health workforce.

\$6.1 billion is set aside for research, development, manufacturing, production and purchase of vaccines, therapeutics and ancillary medical products, and \$10 billion is set aside to support the production, purchase and distribution of critical materials and equipment under the Defense Production Act (DPA).

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The measure provides \$50 billion, to remain available through fiscal year (FY) 2025, to the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund in order to reimburse state and local governments for COVID-19-related expenses. Also of note, the amended version of the bill includes \$8.5 billion for rural health care providers.

Relief to State and Local Governments

The bill provides \$219.8 billion, available through December 31, 2024, for states, territories and tribal governments to mitigate the fiscal effects stemming from the public health emergency with respect to COVID-19. Of this amount, a total of \$195.3 billion is set aside for direct federal aid to states and D.C., \$4.5 billion in payments to territories, and \$20 billion for payments to tribal governments. Further, the language sets aside additional funds for D.C. in the form of \$755 million in retroactive Coronavirus Aid, Relief and Economic Security (CARES) Act funding. The bill also provides \$50 million, to remain available until expended, for the costs of administration of these funds.

The bill provides a total of \$130.2 billion, to remain available through December 31, 2024, for metropolitan cities, municipalities and counties. Of this amount, \$45.57 billion is set aside for payments to metropolitan cities using the formula for Community Development Block Grants, \$65.1 billion for counties with populations of 200,000 or more, and \$19.53 billion for cities and counties with populations under 50,000. The language stipulates that amounts provided to a locality cannot exceed 75 percent of the local government's budget as of January 27, 2020.

These funds for state governments, metropolitan cities, municipalities and counties may be used to cover costs incurred to:

- Respond to the public health emergency with respect to COVID-19 or its negative economic impacts, including assistance to households, small businesses and nonprofits, or aid to impacted industries such as tourism, travel and hospitality.
- Respond to workers performing essential work during the public health emergency by providing premium pay to eligible workers or grants to eligible employers.
- Provide government services to the extent of the reduction in revenue of states, territories or tribal governments due to the public health emergency.
- Make investments in water, sewer or broadband infrastructure.

Two restrictions on the use of funds are outlined in the language. States and territories are barred from using funds either to directly or indirectly offset a reduction in their net tax revenue resulting from a change in law, regulation or administrative interpretation during the covered period that reduces or delays any tax or tax increase. Further, states, territories, metropolitan cities, municipalities and counties are also prohibited from using funds for deposit into any pension fund.

With respect to reporting requirements, all states, territories, tribal governments, metropolitan cities, municipalities and counties receiving payments must submit "periodic reports" with a detailed accounting of the uses of funds.

A breakdown of estimated allocations to state and local governments is available [here](#).

Relief to Individuals

For individuals, the package includes an additional \$1,400 in recovery rebates in order to supplement the \$600 provided in December and fulfill Democrats' promise to provide \$2,000 in economic impact payments for taxpayers.

The measure includes an expansion of the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), nearly tripling the maximum EITC for childless workers. The package increases the amount of the CTC, from \$2,000 to \$3,000, with a higher \$3,600 credit for children under the age of 6, also allowing the CTC to be fully refundable.

Additionally, this bill includes an expansion of the Child and Dependent Care Tax Credit, which includes increasing the credit so households can receive a total of up to \$4,000 for one child or \$8,000 for two or more children.

After the House initially adopted the legislation and it moved to the Senate, Democratic leadership negotiated a \$300-per-week unemployment supplement in lieu of the House-passed \$400, as well as lower income thresholds for those receiving the \$1,400 recovery rebate, to secure the legislation's passage.

In the previous House bill, the phaseout began at \$75,000 adjusted gross income (AGI) and ended at \$100,000 AGI. In the subsequent Senate version of the measure, the phaseout still begins at \$75,000 but ends at \$80,000 instead of \$100,000. Similarly, for joint filers, the phaseout still begins at \$150,000 but ends at \$160,000 rather than \$200,000 AGI.

Other provisions of note in the package include \$21.55 billion in Emergency Rental Assistance; \$5 billion to support communities' efforts to provide supportive services and safe housing solutions; and \$9.961 billion in funding through the Department of the Treasury to states, territories, tribes and tribally designated housing entities to provide direct assistance to homeowners.

Relief to Businesses

The American Rescue Plan Act notably includes the Restaurants Revitalization Fund, which is based on the original \$109 billion Real Economic Support That Acknowledges Unique Restaurant Assistance Needed To Survive (RESTAURANTS) Act passed by the House last year and provides \$28.6 billion in relief for small and mid-sized restaurants. It also added an additional \$1.25 billion in funding for the \$15 billion Shuttered Venue Operator Grant (SVOG) program passed in December to provide relief to independent live music venues, performing arts centers, movie theaters and museums.

The measure contains new funds to support small businesses, providing \$15 billion in new funding for Targeted Economic Injury Disaster Loan (EIDL) grants. Regarding the Paycheck Protection Program (PPP), the bill expands program eligibility to include additional nonprofits such as 501(c)(5) labor and agricultural organizations and community locations of larger nonprofits, allocating \$7 billion for this purpose. In addition, it permits recipients of SVOG funding also to apply for a second PPP loan. The measure also provides \$10 billion for the State Small Business Credit Initiative (SSBCI) to allow state governments to create programs which utilize private capital for low-interest loans and other investment to support entrepreneurs.

The bill extends and expands the Employee Retention Tax Credit (ERTC) through December 31, 2021; allows certain businesses to claim the credit for a greater share of employee wages; and expands the credit to cover newly formed businesses.

Regarding paid sick leave, the package provides an extension and expansion of the paid sick and Family and Medical Leave Act (FMLA) leave tax credits created in the Families First Coronavirus Response Act of 2020. Specifically, it provides payroll tax credits for employers who voluntarily provide paid leave through the end of September 2021 and expands eligibility to state and local governments that provide this benefit.

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Exhibit J

March 17, 2021

Latest COVID-19 Relief Bill Brings State Tax Policy To A Halt

Eric Carstens, Stephen Kranz, Mark Nebergall

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Inside SALT



On March 11, 2021, US President Joe Biden signed the American Rescue Plan Act of 2021 (ARPA), the COVID-19 relief bill that includes \$350 billion in relief to states and localities. To prevent states from using federal relief funds to finance tax cuts, Congress included a clawback provision requiring that any relief funds used to offset tax cuts during the next three years be returned to the federal government. Here is the text of the provision:

- A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit or otherwise) or delays the imposition of any tax or tax increase.

This language broadly prohibits states from taking legislative or administrative action through the end of 2024 that reduces state tax revenues by any means (deduction, credit, delay, rate change, etc.) if doing so could be characterized as the use of federal relief funds to offset, directly or indirectly, the tax reduction. Practically speaking, this limitation will completely hamstring state and local governments from the normal ebb and flow of tax policy changes, adjustments and interpretations. Taken to its logical conclusion, this language freezes state legislative and administrative tax policy development out of fear anything they may do would require the return of federal relief funds. We expect the US Department of the Treasury will issue guidance clarifying this provision in the coming weeks.

Practice Note: This provision of ARPA is, in our view, the most significant federal pre-emption of state tax policy in history. For the next three years, legislators and tax administrators alike will be scrutinized as their tax policy decisions are evaluated through the lens of this prohibition. This

level of congressional control over state tax policy decisions and fiscal autonomy likely violates the Tenth Amendment of the US Constitution and would dismay the framers' basic notions of federalism.

While Congress has the ability to limit the use of federal funds in ensuring its policy goals are accomplished, the overly broad state tax limitation adopted by Congress goes far beyond its stated purpose and prevents states from furthering ARPA's goals by using tax policy to craft their own COVID-19 relief measures. Any regulation or administrative interpretation that reduces state tax revenue or delays the implementation of a tax is, effectively, barred by the unprecedented intrusion into state tax policy-making.

The effects of ARPA's state tax limitation are immediate and far-reaching. It will chill continuing state efforts to couple/decouple state tax codes to or from the Tax Cuts and Jobs Act of 2017. Additionally, ARPA already stalled legislation pending in Maryland that would delay, for one year, implementation of its digital advertising services gross receipts tax, restoring return filing and tax payment deadlines due this April. These are just a few of the many examples of state tax bills, regulations and administrative guidance abruptly halted by Congress through the enactment of ARPA.

Legislative Fix?

While it is too early to tell whether Congress will take remedial action walking back this intrusion into state tax policy, there is a proposal pending in the US Senate that would do so. Specifically, on March 11, Senator Mike Braun (R-IN) introduced a bill (S. 730, the Let States Cut Taxes Act) that would remove the prohibition. The bill was referred to the US Senate Committee on Finance upon introduction and, if enacted, would retroactively repeal the jaw-dropping congressional intervention in state tax and fiscal policy. Stay tuned for more on this development.

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Exhibit K



**FISCAL
FACT**
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Four Questions Treasury Must Answer About the State Tax Cut Prohibition in the American Rescue Plan Act

Jared Walczak

Vice President of State Projects

Key Findings

- The American Rescue Plan Act's restriction on states' Fiscal Recovery Funds being used to directly or indirectly offset a net tax cut is vague and raises difficult questions of interpretation and application. A broad interpretation of this prohibition may be unconstitutional.
- This restriction potentially implicates a wide range of tax decisions, not just rate reductions but also federal tax conformity, excluding unemployment benefits from income taxation during the pandemic, adjusting standard deductions, or awarding discretionary tax incentives.
- States will require answers to many questions, but particularly: (1) what constitutes a net tax reduction? (2) how is a net tax reduction determined to have resulted from a policy change? (3) which potential expenditures could be deemed to create fiscal capacity for a net tax cut? and (4) how would offsetting a tax reduction be defined, especially across multiple years?
- U.S. Department of Treasury guidance will be crucial as states seek to navigate this new environment.

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Introduction

States are set to receive \$195.3 billion in fiscal relief under the American Rescue Plan Act (ARPA), equivalent to 20 percent of the annual tax collections of state governments.¹ With state revenues essentially flat in 2020 (a net decline of less than 0.2 percent), the greatest challenge for states may be figuring out what to do with it. The State and Local Fiscal Recovery Funds can only be used for certain enumerated types of expenditures, and they specifically cannot be used to cut state taxes (there is no similar prohibition for localities), either directly or indirectly, or for deposits into pension funds.²

That prohibition on indirectly offsetting a state tax cut is extremely vague and potentially quite expansive, and it has created significant consternation in state capitols. A Treasury spokesperson stipulated on Wednesday that the provision does not prohibit states from enacting tax cuts so long as those reduction do not rely on federal aid.³ This may signal that Treasury guidance will construe the provision narrowly. If this assurance is to mean anything, however, Treasury will need to answer several important questions, outlined in this paper.

The restriction on the state tax cuts is brief and vague, but potentially quite broad:

“A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.”⁴

At the same time, however, the list of expenditures to which states *can* put federal aid is relatively short, particularly given that most states have either no revenue shortfall or only a modest one, and that many have struggled to spend the \$150 billion in Coronavirus Relief Fund assistance appropriated under the CARES Act for economic and public health responses to the pandemic, a purpose to which state Fiscal Recovery Funds can also be dedicated. States may use this latest aid to:

1. Respond to the public health emergency or its negative economic impacts, which includes aid to households, businesses, and impacted industries, and is likely to include covering the compensation of state health and public safety officials and current unemployment benefit claims, consistent with Treasury’s guidance on the Coronavirus Relief Fund, which was dedicated to similar purposes;
2. Supplement the pay of essential workers;

1 For state allocations and revenue gains or losses, see Jared Walczak, “State Aid in American Rescue Plan Act Is 116 Times States’ Revenue Losses,” Tax Foundation, Mar. 3, 2021, <https://www.taxfoundation.org/state-and-local-aid-american-rescue-plan/>.

2 H.R. 1319 (2021), Section 9901.

3 David A. Lieb, “Treasury says state tax cuts OK if separated from virus aid,” Associated Press, Mar. 17, 2021, <https://www.wfmj.com/story/43514133/treasury-says-state-tax-cuts-ok-if-separated-from-virus-aid>.

4 H.R. 1319 (2021), Section 9901.

3. Pay for general government services to the extent of any pandemic-induced revenue losses in the most recent full fiscal year; and
4. Make necessary investments in water, sewer, or broadband infrastructure.

Notably, assuming that this list is all-encompassing, states would be prohibited from using the funding to cover general operating expenses beyond what is necessary to backfill revenue losses. They cannot use the money to increase their general fund expenditures, nor, presumably, could they deposit the aid in a rainy day fund or use it to replenish their depleted unemployment compensation trust funds. And they certainly cannot use it on tax cuts (or pension plans, where deposits are also prohibited).

The restriction on direct use to facilitate a tax cut is largely uncontroversial. While some policymakers might have contemplated giving away the state aid in the form of temporary tax cuts absent the restriction, the federal government's prohibition is reasonable and clearly within its authority to impose.

Because money is fungible, however, it is very difficult to be sure what sort of uses of state aid might be interpreted as indirectly offsetting a net tax cut, even if the state had the resources to cut taxes in the absence of the federal assistance. Violation of the provision would result in the U.S. Department of the Treasury recouping the funds, previously transferred to a state, which were deemed to have been instrumental in facilitating the tax cut.

A great deal is at stake. At a theoretical level, the principle of fiscal federalism is implicated here, as a broad interpretation of the federal prohibition would represent an unprecedented degree of state entanglement in state fiscal policy, using federal dollars to dictate state policy in a way that vastly exceeds what has been attempted in the past. And at a practical level, the potential field of preemption is vast, not just what most people might think of as tax cuts.

What might run afoul of the prohibition? A non-exhaustive list would include states acting to:

- Inflation-adjust their standard deduction or personal exemption;
- Expand the earned income tax credit;
- Tinker with sales tax exemptions;
- Adjust tax incentives;
- Follow the federal government's lead in excluding \$10,200 of unemployment compensation from taxation;
- Offset local property tax burdens;

- Conform to the federal government's revised treatment of forgiven loans under the Paycheck Protection Program; or
- Take administrative action to stave off a large unemployment insurance tax increase that might otherwise be triggered by the insolvency of their trust funds.

It is, therefore, vital that the federal government provides greater clarity on what does and doesn't constitute indirectly offsetting a net tax cut.

Four Questions

Treasury guidance should provide greater clarity for states. Particularly, states would benefit from answers to the following questions:

1. What constitutes a net tax reduction?

The bill language prohibits offsetting a "reduction in the net tax revenue of such State or territory." No baseline is specified. If a current policy baseline is intended, then any provision that would result in a reduction in revenue compared to the continuation of the *status quo* would be subject to the restriction, even if state revenues increased.

Imagine, for instance, that state revenues were projected to rise \$500 million and the state increased a deduction for low-income filers, resulting in an increase in only \$450 million. Because this is lower than the amount that would have been raised in the absence of a policy change, is this a net tax cut (the current policy baseline position), or because net tax revenue is higher than in the previous year, is it outside the prohibition?

Since the intention of the restriction is to prevent the recovery funds from facilitating a tax cut, using a collections baseline is eminently more sensible. Clearly, in the above scenario, the tax reduction was facilitated through state revenue growth, not any assistance provided by the federal government. But while this seems clearly right as a matter of policy and intent, it is not as clear as it might be in the language, even though the inclusion of the word "net"—in addition, presumably, to allowing changes in multiple taxes to offset each other—does suggest it. Treasury should make the logic explicit and provide important clarity for states on this point.

2. How is a net tax reduction determined to have resulted from a policy change?

This may seem like a foolish question, and in some instances it would be. The law speaks to reductions in net tax revenue "resulting from a change in law, regulation, or administrative interpretation during the covered period [March 3, 2021 through December 31, 2024] that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase." This raises two questions, one of measurement and one of timing.

On measurement, how does Treasury propose to determine exactly how much revenue was forgone by the implementation of a tax reduction? States make estimates, of course, both before and after, but how much of any change in overall state revenues came from a tax reduction cannot be known with precision. How does Treasury plan to calculate it for purposes of deciding whether to claw back state aid, and how much?

On timing, the question is, what constitutes a change in law, regulation, or administrative interpretation during the covered period. If a state adopted a multiyear phasedown of a tax rate prior to the covered period, set to continue in the coming years, would the implementation of these reduced rates—provided for in law, prospectively—constitute a change in law? If a revenue agency had to sign off on the reduction by confirming that certain preestablished conditions had been met, but lacked discretion beyond that administrative determination, would this count as a regulation or administrative interpretation? What governs in determining what took place prior to the covered period and what takes place within it, current law or current policy?

Or if a state has rolling conformity with the Internal Revenue Code and the federal government amends its provisions in a way that might generate a net tax cut—say, by excluding a portion of unemployment benefits from tax (a provision to which many states conform) or by expanding the child tax credit (which has some limited mirroring in state laws)—does the automatic update to these new provisions implicate the provision? This would be particularly ironic, given that ARPA both threatens to claw back state aid if states implement net tax cuts (at least under some circumstances) and provides for tax reductions, within the covered period, to which some states automatically conform.

Again, relying on the presumption that the prohibition is only intended to apply to tax reductions states could not undertake with their own resources, future changes already enacted or contingently provided for under existing law should not come under the restrictions spelled out in ARPA. This too, however, is ambiguous, and Treasury should clarify this point.

3. Which potential expenditures could be deemed to create fiscal capacity for a net tax cut?

It is easy to imagine indirectly offsetting a tax cut in a way that Congress might legitimately wish to proscribe. If these new federal relief dollars cannot be directly funneled into tax relief, it is rational that Congress would not want states to be able to play a shell game by which they use federal aid to cover expenses in the general operating budget, using the state revenue freed up by this infusion to cut taxes. Gimmicks like this were undoubtedly at the heart of the restriction not only on direct but also on indirect offsetting of state tax cuts, and guardrails against this activity may be appropriate—and are certainly obligatory under the legislation.

But with such broad and vague language, it is equally easy to imagine scenarios in which the mere *concept* of the fungibility of money is sufficient to trigger the restriction, even where federal aid did not create the fiscal capacity for a tax change.

It matters, therefore, what states can spend the money on, and which of these expenses might reasonably be interpreted as offsetting any policy a state may adopt resulting in a reduction in net tax revenue. Is the list of four categories of expenditures exhaustive? It would seem to be. Will those categories be interpreted expansively? That remains to be seen. Nothing in the language of the provision would seem to allow depositing money into any sort of fund for future use, for instance, yet Congress expressly prohibits deposits into pension funds. Does that mean that other deposits, perhaps into a rainy day fund or an unemployment compensation trust fund, might be permissible as responses to the negative effects of the pandemic, particularly if those funds were depleted in the past year?

Some officials, moreover, seem to regard this relief as their ticket for funding long-languishing transportation projects or growing the state's annual budget. It is hard to understand how these expenditures could meet with approval under the text of the bill, but some, at least, are hoping for a remarkably generous Treasury ruling on this question.

Assume, for now, that the enumerated expenses are the only ones on which this federal aid can be spent, and that the most straightforward interpretations (if such a thing is possible) are adopted. The only federal aid dollars that can be clawed back are those which are unused by 2024 or are put to an impermissible use, like offsetting a tax cut or spending in a way not authorized under the bill.

It seems implausible that a new round of grants to businesses or individuals, permitted in the first bucket (responding to the public health emergency and its negative economic effects), could be understood as offsetting a tax cut, since such grants are not ordinary governmental expenses or part of a general operating budget. They are supplemental to the state's ordinary activities and specific to the coronavirus crisis, so the expenditure creates no fiscal capacity for a tax cut, provided the state doesn't use this aid to allow a reduction in the state's general outlays. (How would this be determined?) Presumably aid money spent this way could not be recouped if a state implemented a net tax cut because, by definition, it did not contribute to it (even indirectly). States would appreciate having this assurance from Treasury.

The same can likely be said of supplemental wages to private sector essential workers. This is not an expenditure currently found in any state budget, so offering this assistance with federal aid doesn't free up a single dollar for tax cuts. It would be extremely surprising if aid spent this way could be recaptured.

The limited set of infrastructure projects authorized under the bill—water, sewer, and broadband—pose a more interesting question. Infrastructure projects usually come out of the capital budget, which is distinct from the general fund budget. Some taxes flow directly to capital projects, while most general taxes go to the general fund, which is for operating expenses. (Terminology sometimes varies across states, but the concepts are the same.) A state might already have, say, a rural broadband project in the works, and could fund it with these aid dollars. That frees up money in the capital budget, but not the general fund budget. Were a state to cut a tax that flows into the general fund (like, usually, income or sales taxes), could that lead to the recoupment of aid which created additional capacity in capital accounts? (Presumably it *would* for taxes that flow to capital projects, like, for instance, the motor fuel tax.)

States can theoretically shift money from the general fund to the capital budget, or divert tax revenues from general taxes there, and sometimes do. Does the mere possibility of a future transfer govern, or would a state actually have to do so during the covered period to create a situation in which an authorized infrastructure investment could be deemed to offset a net tax cut?

That leaves two remaining allowable expenses. The first is a subset of a prior category. Assuming states can cover payroll for public health and public safety officials, this reduces state outlays in a way that creates fiscal capacity—money they would have budgeted otherwise, but which is now available. This might well be interpreted as providing an indirect offset for a net tax cut. The second is the final broad category, but one only available to some states: the relief can be used to cover general government expenditures to the extent of revenue losses arising from the pandemic, and if a state turned around and provided a net tax cut at the same time, that would almost certainly violate the prohibition.

However, that the above seems logically consistent with the provision, and maybe even necessary for making it logically coherent, does not mean that such an interpretation is assured. Treasury should provide clear guidance on which expenses can and cannot be deemed to contribute to offsetting a tax cut.

4. How would offsetting a tax reduction be defined, especially across multiple years?

Imagine that a state experienced a revenue loss of \$200 million due to the economic effects of the COVID-19 pandemic, a loss it is permitted to offset with the Recovery Funds. (This raises an additional question: how does Treasury propose to determine what portion of any revenue losses in the relevant fiscal year are attributable to the coronavirus crisis?) In subsequent years, however, this state experiences substantial growth, with revenues rising \$400 million the next year and a further \$100 million the year after that. The revenue baseline is now \$300 million higher than it was pre-pandemic. If the state were to cut taxes by \$100 million per year after that, this would still leave it with revenues above not only its pandemic-level receipts but also its pre-pandemic high. The \$500 million in revenue growth is more than enough to facilitate the tax cut—if the state prioritizes it over government growth—whether or not the state had ever received that \$200 million to offset pandemic losses.

Money, however, is fungible. If the state never received that aid, it would still have enough money to cut taxes without reducing revenues, but in that case, it would have had less to set aside for additional government expenditures or to set aside for a rainy day. Does the original \$200 million get clawed back?

And if it has the potential to—contingent on whether this is even a net tax cut (see the first question)—does it matter if the expenditure and the cut were in different years? In other words, can federal aid used in one year be deemed to offset a tax cut made in another, or is each year (or possibly, in states with biennial budgets, each budget cycle) discrete?

Each of these questions and many more deserve to be answered. The constitutionality of the provision, moreover, may well hinge on how these ambiguities are resolved. The federal government

undeniably has the power to impose certain conditions on the direct expenditure of the funds it provides states, but it does not possess the blanket authority to commandeer state policy as a condition of receiving federal funds. States unambiguously have the power to establish their own revenue levels. It would certainly raise red flags, for instance, if the federal government withheld Medicaid funding from states which legalized marijuana or tried to dictate state immigration policy via Community Development Block Grants. Such provisions would be presumptively unconstitutional.

Clawing back federal aid under a broad interpretation of indirect offsets to tax cuts would run into the same constitutional problems. If funding is contingent on states accepting a constraint on their policymaking ability, that constraint must be unambiguously related to the federal interest served by the funding, and not be so coercive as to reach the point where pressure turns into compulsion, under the precedent set in *South Dakota v. Dole* (1987).⁵ In that case, the Supreme Court approved a federal provision that made 5 percent of federal highway funding contingent on adopting 21 as the drinking age, but cautioned that if significantly more of the funding had been predicated on it, that would have been unduly coercive.

In *National Federation of Independent Business v. Sebelius* (2012),⁶ meanwhile, the Court held that the federal government could not make Medicaid funding contingent on a state's willingness to implement Medicaid expansion. Although that case is a maze of plurality opinions, this particular holding was considerably less controversial, with three justices in the 5-4 majority upholding the Affordable Care Act agreeing that this provision was unconstitutional. A broad policy tying states' hands for three years, therefore, is constitutionally dubious at best, while a narrow interpretation—a prohibition on directly funding a tax cut, which would be inconsistent with Congress's purpose, and some narrow guardrails to avoid shell games—would likely stand.

Conclusion

Given the narrow range of possible uses of the federal aid that could reasonably be interpreted as offsetting a tax cut, many states might be at minimal risk regardless of the tax policy choices they make. However, the vague language of this prohibition has every state nervous and unsure of what it can do.

Can California, which suspended certain structural deductions within its tax code when it anticipated a massive revenue shortfall, reverse those changes now that it has a \$26 billion surplus without incurring a reduction in its federal aid? Can governors dip into their "opportunity funds" to provide discretionary tax incentive packages to businesses, or does that result in a dollar-for-dollar recapture? Does the decision to conform to the provisions of ARPA itself potentially run afoul of its tax provision by reducing taxes on unemployment benefits?

States need answers to these questions, and they need them soon.

⁵ *South Dakota v. Dole*, 483 U.S. 203 (1987).

⁶ *National Federation of Independent Business v. Sebelius*, 567 U.S. 519 (2012).

Exhibit L



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The new suit attacking Biden's stimulus law, explained

Ohio wants red states to be able to get something for nothing from the federal government.

By Ian Millhiser | Updated Mar 19, 2021, 9:32am EDT



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Ohio Attorney General David Yost meets with law enforcement and members of the Ohio National Guard posted at the Ohio Capitol building on January 17, 2021. | Zach D. Roberts/NurPhoto/Getty Images

A few things in life are certain. The sun rises in the east and sets in the west. Everyone dies. Taxes must be paid.

And if a Democratic president signs a historic piece of legislation, a Republican state attorney general will file a lawsuit claiming that the new law is unconstitutional.

Indeed, by the standards of such lawsuits, the claim in *Ohio v. Yellen*, a lawsuit filed by Ohio's Republican Attorney General Dave Yost, is fairly mild. Yost does not seek a court order striking down the entire \$1.9 trillion American Rescue Plan, the stimulus law passed in March. Rather, he makes a fairly targeted attack on a provision he labels the law's "tax mandate."

This lawsuit follows a **letter from 21 state attorneys general to Treasury Secretary Janet Yellen**, which makes similar arguments to those raised by Yost, so it's likely additional suits will be filed soon.

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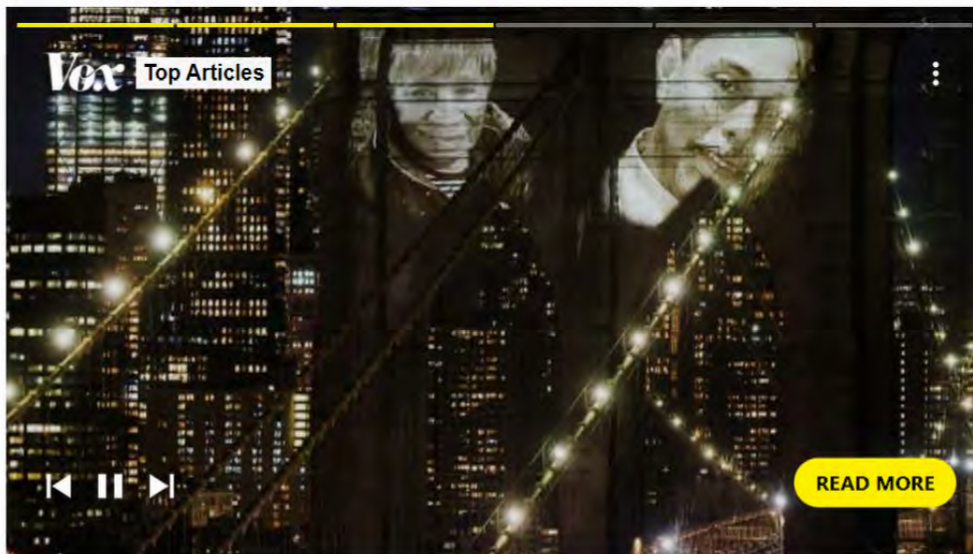
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The American Rescue Plan appropriates \$195.3 billion in aid to states, and Ohio's share is about \$5.5 billion. Like every other state, Ohio has the option to turn down the funds. If it does decide to take this free money, however, it must comply with a provision of the law specifying that "a State or territory shall not use the funds provided under this section ... to either directly or indirectly offset a reduction in the net tax revenue of such State or territory."

Essentially, Congress wanted to make sure the money it provided to help states fund public programs would actually go to fund public programs, not to cut taxes.

Congress's power to provide conditional grants to states is **broad but not unlimited**, and Ohio argues that the tax-cut restriction exceeds two constitutional limits on this power to place conditions on federal grants.

As explained below, one of the state's arguments is quite radical and could do significant harm to major federal programs such as Medicaid if the courts take it seriously. Ohio's second assertion is stronger and more plausible — indeed, it's the sort of argument likely to prevail in a conservative judiciary — although there is some language in the court filings that might **undercut its reasoning**.



The case will be heard by Judge Douglas Cole, a Trump appointee, so there's a very good chance that Ohio will have a receptive audience from the trial court. However Cole decides the case, his decision will likely be appealed to the United States Court of Appeals for the Sixth Circuit, which is dominated by very conservative Republican appointees, and then potentially to a Supreme Court with a 6-3 conservative majority.

So there's a decent chance that Ohio ultimately prevails, and that states will be allowed to take the money offered under the Rescue Plan without having to comply with the requirement not to spend that money on tax cuts. It is less clear, however, whether the courts will embrace the more radical of Ohio's two legal arguments.

Conditional federal grants, briefly explained

The Constitution permits Congress to levy taxes, and then to spend this money to "provide for the common defense and general welfare of the United States." One aspect of this power to raise and spend money

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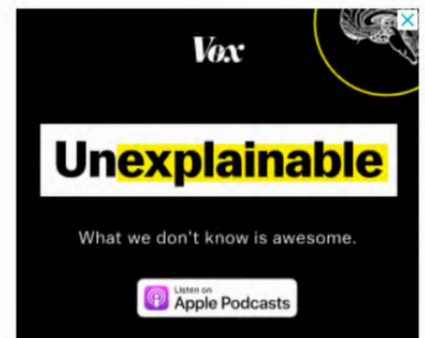
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is that Congress may offer grants to state governments, provided those states agree to certain conditions.

In a 1987 case, ***South Dakota v. Dole***, however, the Supreme Court held that there are some constitutional limits on the federal government's power to impose such conditions on grants to the states — and two of these limits are relevant in the *Ohio* case.

First, if Congress wants to place a condition on a grant to states, it “must do so unambiguously ... enabl[ing] the States to exercise their choice knowingly, cognizant of the consequences of their participation.” So, if the terms of the grant are confusing or uncertain, the state typically won't be required to comply with those terms.

The second limit that's relevant to the *Ohio* case is that a condition on a federal grant may be struck down if the “financial inducement” offered by Congress is not “**so coercive as to pass the point at which pressure turns into compulsion**” — an argument that will be familiar to anyone who followed the **first round of litigation challenging the Affordable Care Act**.

Ohio's argument that the tax-cut restriction is unconstitutionally ambiguous is a fairly strong legal claim — largely because of uncertainty about what it means to “indirectly offset a reduction” in tax revenue. As Daniel Hemel, a law professor at the University of Chicago and an expert on tax law, told me, “money is fungible, so I'm not quite sure what it means for the funds to indirectly offset a reduction in net tax revenue resulting from a tax cut.”

That said, Ohio only briefly lays out its claim that the “tax mandate” is unconstitutionally coercive in its **court filings**, and there's some language in one of its motions that cuts against its argument that the ban on using federal funds to pay for tax cuts is unconstitutionally ambiguous.

“Because ‘money is fungible,’” the state argues, “any money received through the Act will ‘indirectly,’ at least, ‘offset a reduction in the net tax revenue’ of a State that reduces the tax burdens on its citizens by law, regulation, or administrative interpretation. So every change in tax policy that leads to a decrease in tax revenue violates the Tax Mandate.”

The state, in other words, appears to concede that the word “indirectly” is *not* ambiguous. Under the state's reading of the law, the Rescue Plan bans states from enacting *any* tax cut. Ohio may not like that condition, but the fact that Ohio views this condition as too onerous does not make it ambiguous.

That said, on Thursday the Treasury Department put out a statement offering its own interpretation of the contested provision — the Biden administration says that **states may cut taxes** so long as they don't use Rescue Plan funds specifically to pay for those tax cuts.

That could diminish the stakes of the *Ohio* lawsuit considerably. But the fact that Treasury's interpretation of the law conflicts with Ohio's does suggest that the word “indirectly” is open to multiple interpretations.

Ohio's other argument against the “tax mandate” is quite radical

The state's other argument is that the tax-cut restriction is unconstitutionally coercive. This argument is quite a stretch. The federal government is offering Ohio \$5.5 billion in free money. Ohio has an absolute right to refuse this money if it chooses to, and the federal government will take no action

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to, and the federal government will take no action against the state if it turns down this free money.

Yes, the money comes with a condition that Ohio doesn't like. But the only penalty if Ohio decides that it does not want to accept the money and the conditions that come with it is that Ohio will not receive free money if it doesn't agree to the conditions. That's hardly coercion.

The Supreme Court hasn't placed much emphasis on *Dole's* warning that, in rare cases, a conditional grant may be "so coercive" as to become unconstitutional, but there is one very high-profile case where the Court did strike down a condition as unconstitutionally coercive.

In *NFIB v. Sebelius* (2012), the Supreme Court struck down a provision of the Affordable Care Act intended to encourage every single state to expand its Medicaid program. As originally drafted, Obamacare required every state to either expand Medicaid to cover everyone under age 65 who earned less than 133 percent of the federal poverty rate, or else a state could lose all of its existing Medicaid funding.

As Chief Justice John Roberts explained in an opinion comparing this kind of conditional grant to a "gun to the head," "Medicaid spending accounts for over 20 percent of the average State's total budget, with federal funds covering 50 to 83 percent of those costs." So states that did not agree to expand their Medicaid program risked losing at least 10 percent of their operating funds.

That kind of condition, Roberts claimed, amounted to coercion, and so he concluded that states must have the option to turn down the new Medicaid funds without losing funding for their existing Medicaid programs.

Ohio, for what it's worth, argues that the Rescue Plan's aid to states is similar to the conditional grant struck down in *NFIB* **because the Rescue Plan is very generous.**

The American Rescue Plan Act provides Ohio \$5.5 billion in federal funds. That is a tremendous amount of money; it equals roughly 7.4 percent of Ohio's total expenditure in 2020. No State, in the current economic situation, can turn down this "financial inducement." So here, as in *NFIB*, the States have "no real option" but to take the funds on offer.

Essentially, Ohio claims that, because the states are being offered so much money — and because they are being offered that money after the pandemic eviscerated many states' budgets — those states don't really have the option of turning down the Rescue Plan's funding.

But there's a big difference between the stimulus law and the provision of Obamacare struck down in *NFIB*. As originally drafted, Obamacare would have stripped states of funding for *existing* state programs unless the state agreed to accept new funds and expand those programs. The Rescue Plan, by contrast, does not threaten any of Ohio's existing federal grants.

If Ohio turns down the funding it's entitled to under the Rescue Plan, then Ohio will be in exactly the same position it would have been in if the federal government had never offered it new money in the first place.

Indeed, if Ohio is correct that conditions on a federal grant are unconstitutional simply because the federal government offers a state such a good deal that no state would reasonably refuse that deal, then Medicaid itself could be declared

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year, then Medicaid itself could be declared unconstitutional.

The Medicaid program is riddled with conditions imposed by the federal government — among other things, federal law requires states to spend Medicaid funds on health care for low-income people, and not on highways or policing or a fancy new wardrobe for the state's governor. And, as Roberts noted in *NFIB*, the Medicaid program funds at least 10 percent of the typical state's budget.

No state would reasonably turn down all of this money. But that doesn't make Medicaid coercive, it just makes it a very good deal.

In any event, the bottom line in the *Ohio* case is that the state's claim that the tax-cut restriction is unconstitutionally ambiguous is strong enough that it has a very good chance of prevailing, especially in a conservative judiciary. Ohio's coercion argument, by contrast, would so radically transform the legal doctrines governing conditional federal grants that major programs like Medicaid could be in danger.

And yet, it's still possible such a radical argument might prevail in a conservative judiciary.

Exhibit M

A Last-Minute Add to Stimulus Bill Could Restrict State Tax Cuts

Republicans say Congress is infringing on state sovereignty by trying to limit the ability of local governments to control their finances.



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President Biden signing the \$1.9 trillion economic relief plan into law on Thursday at the White House. The restriction is intended to ensure that states use federal funds to keep their local economies humming. Doug Mills/The New York Times



By **Alan Rappeport**

March 12, 2021

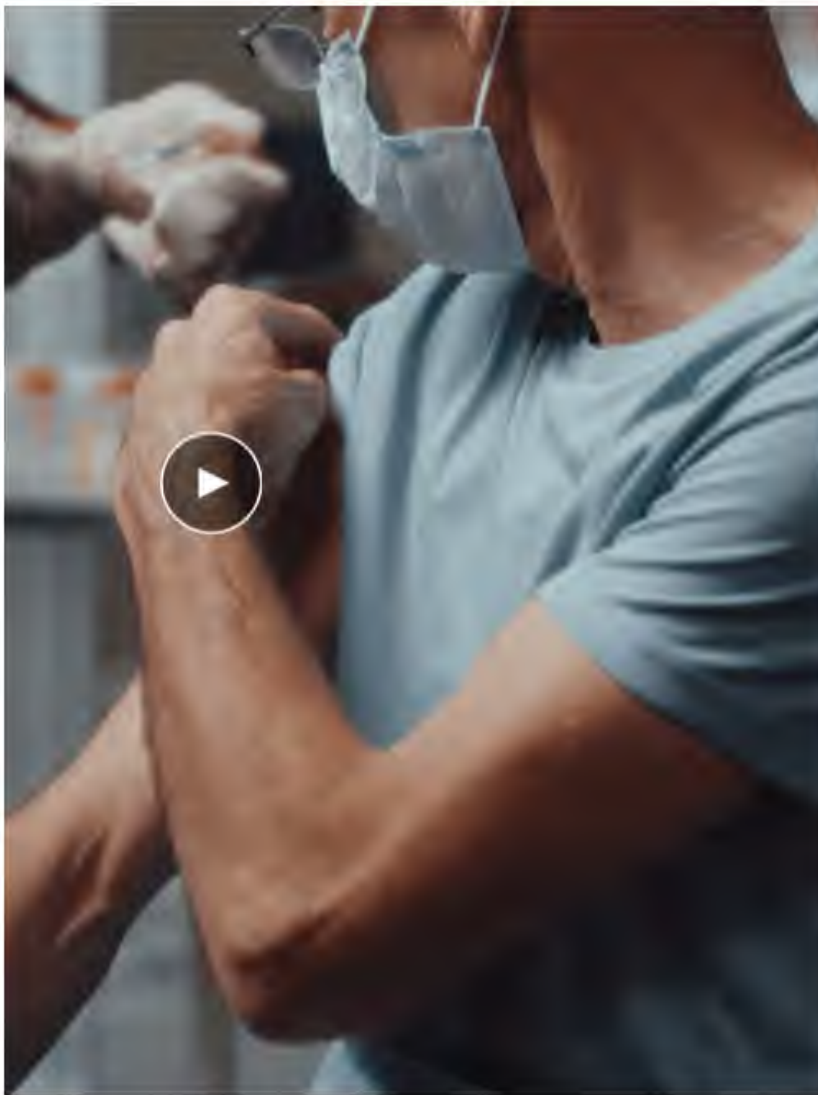
WASHINGTON — A last-minute change in the [\\$1.9 trillion economic relief package](#) that President [Biden](#) signed into law this week includes a provision that could temporarily prevent states that receive government aid from turning around and [cutting taxes](#).

The restriction, which was added by Senate Democrats, is intended to ensure that states use federal funds to keep their local [economies](#) humming and avoid drastic budget cuts and not simply use the money to subsidize tax cuts. But the provision is causing alarm among some local officials, primarily Republicans, who see the move as federal overreach and fear conditions attached to the money will impede upon their ability to manage their budgets as they see fit.

Officials are scrambling to understand what strings are attached to the \$220 billion that is expected to be parceled out among states, territories and tribes and are already pressing the Treasury Department for guidance about the restrictions they will face if they take federal money.

Under the new law, \$25 billion will be divided equally among states, while \$169 billion will be allocated based on a state's unemployment rate. States can use the money for pandemic-related costs, offsetting lost revenues to provide essential government services, and for water, sewer and broadband infrastructure projects.





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But they are prohibited from depositing the money into pension funds — a key worry of Republicans in Congress — and cannot use funds to cut taxes by “legislation, regulation or administration” through 2024.

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Democrats slipped the new language into the legislation last week after several senators from the party’s moderate wing expressed concern that some states would seize on the opportunity to use emergency relief money to subsidize tax cuts. They worked with

Senator Chuck Schumer, the majority leader, on language for the amendment, according to a Democratic Senate aide.

Senator Joe Manchin III, Democrat of West Virginia, explained why he pushed for the language in a briefing this week, arguing that states should not be cutting taxes at a time when they need more money to combat the virus. He urged states to postpone their plans to cut taxes.

“How in the world would you cut your revenue during a pandemic and still need dollars?” Mr. Manchin said.

Senator Ron Wyden, Democrat of Oregon, said the funds were meant “to keep teachers and firefighters on the job and prevent the gutting of state and local services that we saw during the Great Recession.”

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“It’s important that there are guardrails to prevent these funds from being used to cut taxes for those at the top,” he added.

But some Republican-led states are pointing to the apparent prohibition as a violation of their sovereignty and calling for that part of the law to be repealed. They see the requirement that states refrain from cutting taxes as an unusual intervention by the federal government in state tax policy.

“It is an intrusion into what would traditionally be a state prerogative of how we balance our budget,” said Ben Watkins, the director of the Florida Division of Bond Finance. “If they want to give us this money to deal with Covid, then they should just give it to us with no strings attached.”

Funding for state and local governments was one of the most contentious issues during stimulus talks, with Republicans saying Democrat-led states were being rewarded for mismanaging their finances and labeling the aid as a “blue-state bailout.”

Those concerns were amplified in the latest legislation, which allocates money to a state based on a formula that considers its unemployment rate rather than its population. Conservative-leaning states, many of which had less onerous coronavirus restrictions and did not shut down as much business activity, claim they are essentially being penalized for prioritizing their economies during the pandemic.

But early analyses of the bill show that both conservative-leaning and liberal-leaning states will receive big chunks of cash. California, Florida, New York and Texas will each get more than \$10 billion in aid, according to a Tax Foundation tally.

Still, the tax language has angered Republicans — none of whom voted for the rescue package — and on Thursday, Senator Mike Braun, Republican of Indiana, introduced legislation to reverse it.



“Democrats are trying to ban states from cutting taxes with a sneaky amendment to the \$1.9 trillion so-called Covid relief package,” Mr. Braun said. “Not only did this blue-state bailout bill penalize states for reopening by calculating state funds based on unemployment, now they are trying to use it as a back door to ban states from cutting taxes.”

Frequently Asked Questions About the New Stimulus Package

How big are the stimulus payments in the bill, and who is eligible?

The [stimulus](#) payments would be \$1,400 for most recipients. Those who are eligible would also receive an identical payment for each of their children. To qualify for the full \$1,400, a single person would need an adjusted gross income of \$75,000 or below. For heads of household, adjusted gross income would need to be \$112,500 or below, and for married couples filing jointly that number would need to be \$150,000 or below. To be eligible for a payment, a person must have a Social Security number. [Read more.](#)

What would the relief bill do about health insurance?

What would the bill change about the child and dependent care tax credit?

What student loan changes are included in the bill?

What would the bill do to help people with housing?

The restrictions have created a conundrum for states because, while [many cities are facing budget crunches](#), state finances have turned out to be relatively healthy.

[A New York Times analysis](#) this month found that, on balance, state revenues were generally flat or down slightly last year compared

with 2019 as expanded unemployment benefits allowed consumer spending and tax revenues to keep flowing.

“Idaho would potentially subsidize poorly managed states simply because we are using our record budget surplus to pursue historic tax relief for our citizens,” [Gov. Brad Little of Idaho said this week](#).

“We achieved our record budget surplus after years of responsible, conservative governing and quick action during the pandemic, and our surplus should be returned to Idahoans as I proposed.”

Gov. Jim Justice, a Republican of West Virginia, criticized Mr. Manchin [in an interview this week](#) with CNN.

“He’s hurting his own people in the state of West Virginia,” Mr. Justice said. “I do not condone it.”

The provision is also raising questions about what actually constitutes a tax cut and whether the law could prevent states from other types of tax relief. The language of the legislation appears to offer states little wiggle room.

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Jared Walczak, the vice president for state projects at the Tax

Foundation's Center for State Tax Policy, said that the fine print in the law raised many complicated questions for states that, in some cases, would be awarded money for things that they either do not need or that they already had plans to pay for out of their budgets. It is not clear, for example, if a state could use aid money for an expense related to the coronavirus that it was already planning to pay for and then offer tax credits with the additional surplus.

"If the federal government intends to forbid any sort of revenue negative tax policy, no matter what its size, because a state received some funding, that would be a radical federal entanglement in state fiscal policy that may go beyond what was intended," Mr. Walczak said.

Such questions will largely hinge on how Treasury Secretary Janet L. Yellen interprets the legislation and what guidance the Treasury Department gives to states.

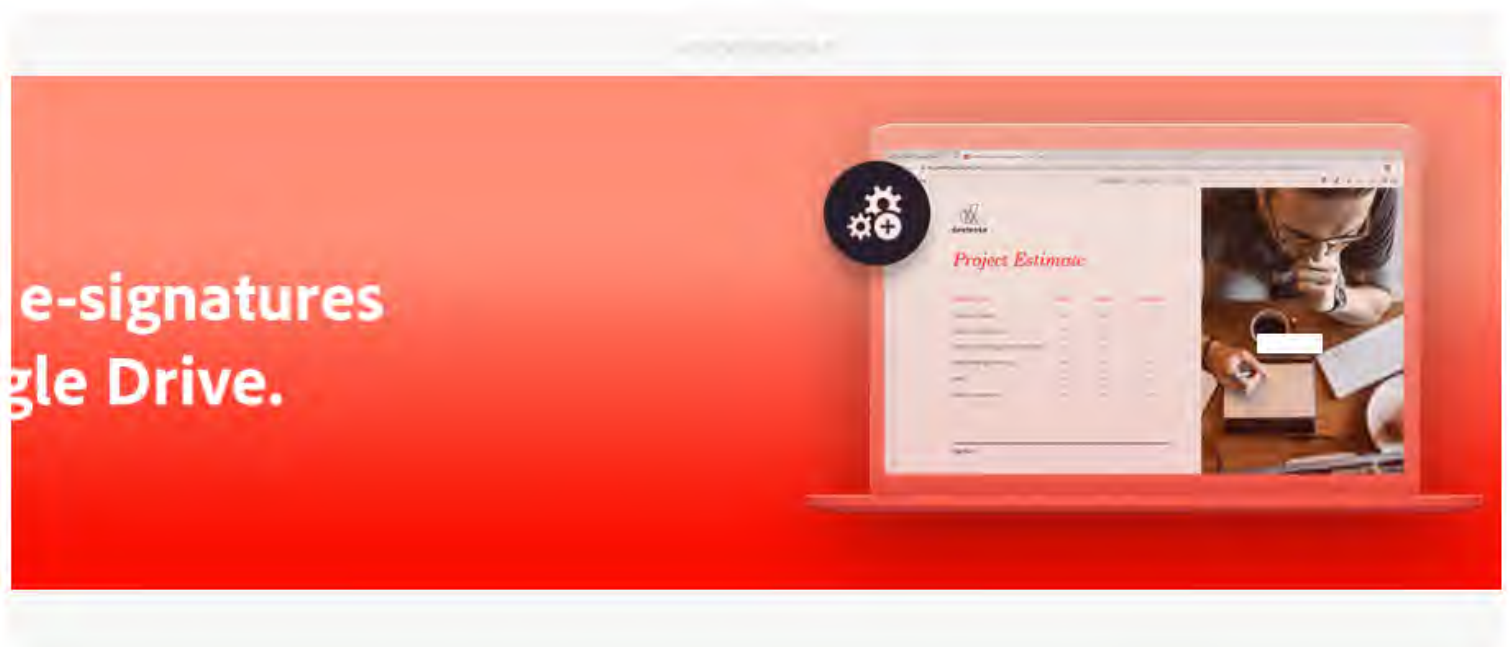
A department official noted that the law says that states and territories that receive the aid cannot use the funds to offset a reduction in net tax revenue as a result of tax cuts because the money is intended to be used to support the public health response and avoid layoffs and cuts to public services. More guidance on the matter is coming, the official said.

The lack of clarity also raises the risk that states use the money for projects or programs that do not actually qualify under the law and then are forced to repay the federal government. States are required to submit regular reports to the Treasury Department accounting for how the funds are being spent and to show any other changes that they have made to their tax codes. The department will also be setting up a system of monitoring how the funds are being used.

Emily Swenson Brock, the director of the Federal Liaison Center at

the Government Finance Officers Association, said that the eligible uses of the federal aid appeared to be relatively limited for the states and that some might actually find it challenging to deploy the money in a useful way.

“It’s complicated here for the states,” Ms. Brock said, adding that her organization had asked the Treasury Department for an explanation. “Congress is reaching in and telling these states how they can and can’t use that money.”



Before they receive federal funds, states will have to submit a certification promising to use the money according to the law. They could also decline funding or, if they are set on tax cuts, they could offset them with other sources of revenue that do not include the federal funds.

For many states, the federal money is welcome even if they do not necessarily need it for public health purposes.

Melissa Hortman, the speaker of the Minnesota House of Representatives, said that she was hopeful that the federal government gives states the flexibility to use the money to make

government gives states the authority to use the money to make up for lost revenue from the virus. She suggested that the state should look to make new investments in education and transportation. Minnesota is expected to have a budget surplus for the next two years and will receive more than \$2 billion in aid.

“It’s not too much money,” said Ms. Hortman, a Democrat. “Our country has just lived through a once-in-a-hundred-year pandemic.”



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March 10, 2021



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March 7, 2021



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March 1, 2021

Alan Rappeport is an economic policy reporter, based in Washington. He covers the Treasury Department and writes about taxes, trade and fiscal matters. He previously worked for The Financial Times and The Economist. [@arappeport](#)

A version of this article appears in print on March 13, 2021, Section B, Page 1 of the New York edition with the headline: Stimulus Bill Limits States On Tax Cuts. [Order Reprints](#) | [Today's Paper](#) | [Subscribe](#)



Exhibit N

Politics

Treasury Clears States to Cut Taxes -- But Not With Stimulus

By [Laura Davison](#)

March 18, 2021, 9:24 AM MST

Updated on March 18, 2021, 2:32 PM MST

-
- Biden administration offers response on use of aid funds
 - Republicans are seeking answers to tax-cut questions
-

The Biden administration said in a response to concerns raised by Republicans that state governments accepting pandemic-relief money from Washington are allowed to cut taxes, but only if they don't use the federal aid to offset those reductions.

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The Treasury Department's statement addresses a provision in the recently enacted \$1.9 trillion stimulus law that provided more than \$360 billion in aid to states and cities. The measure said states couldn't use the money to pay for net revenue reductions through 2024.

The law does not prohibit states from cutting taxes nor does it mandate them to return the funding if a state reduces levies, a Treasury spokesperson said in an emailed statement. States must replace that revenue from those tax reductions using other money in their budget, the Treasury said. If states did use relief-fund money to pay for a tax cut, then they could be required to reimburse the federal government for that, the department said.

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The response addresses a growing concern, particularly among politicians from Republican-led states, that accepting federal-rescue funds would prohibit them from reducing taxes through 2024. Uncertainty about the restrictions on the funds prompted Oklahoma Attorney General Mike Hunter and 20 other state attorneys general to send a letter to Treasury Secretary Janet Yellen earlier this week asking her to clarify whether the provision strips states of their “core sovereign authority to enact and implement basic tax policy.”

Asked during a phone briefing Thursday how the Treasury will enforce the law if states shift money within their budgets, department officials said the agency is in the process of crafting rules that will explain how the restrictions work.

On Wednesday, Ohio sued the Biden administration over the provision, claiming the rule illegally restricts the state's power to change its tax structure and economic policy. Ohio Attorney

General Dave Yost said the last-minute addition by Senate Majority Leader Chuck Schumer holds hostage the \$195 billion portion of the money for states.

Seeking Guidance

Several House Republicans have also sent a letter _____ to Yellen asking her to advise on whether various forms of tax relief, including making unemployment benefits tax exempt or issuing state-wide stimulus checks, would violate the rules in the stimulus bill.

Republicans say the issue needs to be resolved in relatively short order. The law gives the Treasury Department 60 days to establish the fund, release the rules and distribute the funding. Most state legislatures only meet part time. Many are in session now, but adjourn in late spring or early summer.

The aid to states was a point of contention during debate on the stimulus. Republicans objected to including the money, arguing that it would serve as a bailout for Democratic-run states that had mismanaged their budgets and that many states hadn't suffered severe revenue shortfalls as a result of the pandemic.

The provision added by Schumer was intended to focus the money on where it's needed most, by targeting it based on state population and unemployment levels. It bars states from "either directly or indirectly" using the funds to offset a reduction in tax revenue "resulting from a change in law, regulation, or administrative interpretation."

Democrats say the provision was a necessary guardrail to prevent states from using federal money to finance tax cuts. Schumer has said governors should use the money to focus on ending the pandemic, including on public health and social-assistance programs.

(Updates with Treasury comment from briefing in fifth paragraph.)

Exhibit O



Ducey calls for \$600 million in permanent income tax cuts

By Jeremy Duda - January 15, 2021

More than six years after he was first elected governor on a platform of getting Arizona's income tax rates "as close to zero as possible," Gov. Doug Ducey is looking to follow through on one of the core promises of his 2014 campaign.

It's unclear exactly how close to zero Arizona's income tax rates will go. Nor is it clear exactly what his tax cuts will look like and who they will affect. Much may depend on negotiations with the legislature.

But what is clear is that Ducey will push to make \$600 million income tax cuts, phased in over the next three years, and that he wants those cuts to be broad-based so they will affect as many Arizonans as possible.

The tax cut is part of the governor's \$12.6 billion budget plan for the upcoming fiscal year, which his administration unveiled on Friday. Ducey is earmarking \$200 million in his budget proposal for the fiscal year 2022 for tax cuts. That total will rise to \$400 million in 2023 and \$600 million in 2024.

Ducey signaled his intent for a larger-than-usual tax cut — he's made much smaller tax cuts each year he's been governor, another of his 2014 campaign pledges — in his [State of the State address](#) on Monday, telling the Republican-controlled legislature, "On tax reform, let's think big."

The tax cut idea is the result of surprisingly good revenue projections following a year of economic downturn caused by the COVID-19 pandemic and subsequent restrictions on economic activity. Arizona's general fund, which faced a [projected budget deficit of as much as \\$1.1 billion](#) in April of last year, is now expected to have a surplus of \$352 million at the end of the fiscal year in July, the governor's office said.

"Arizonans have been through a lot. Our small businesses have been through a lot. So, with some of that additional revenue, he wants to make sure that they get to keep their money that they have earned," Daniel Scarpinato, the governor's chief of staff, told reporters on Friday.



Arizona's graduated **income tax rates** range from 2.59% for individuals earning up to \$10,602 to 4.5% for people earning \$158,996 or more annually. Individuals who earn at least \$250,000 per year, and couples earning at least \$500,000, will also face a 3.5% surcharge on income above those amounts as a result of Proposition 208, which the voters approved in November. Two lawsuits seek to overturn that tax hike.

Scarpinato said the governor wants to reduce and simplify income taxes for as many Arizonans as possible. In addition to cuts to the actual tax rates, that could also include things Ducey's proposal from last year to **eliminate income taxes on veterans' pensions**.

"What we're looking at is how to bring the rates down, how to make it more simple, and how to make sure that as many, if not all taxpayers, see a reduction in their income tax," Scarpinato said.

Individual income taxes brought in about \$4.5 billion in the last fiscal year, making up the second largest chunk of state revenue after sales taxes, which generated nearly \$5.4 billion. The governor's budget plan projects that the state will still bring in about \$5.6 billion in individual income tax revenue in fiscal year 2022, nearly \$6 billion in fiscal year 2023, and nearly \$6.2 billion in fiscal year 2024.

Those figures don't include projected revenue from Proposition 208. That money goes into a new student support and safety fund created by the ballot initiative, not into the general fund.

Because of the way Arizona's income rates are structured, any cut will likely affect taxpayers across the board, including those who will pay the Proposition 208 surcharge.

Scarpinato defended the governor's decision to cut taxes amid the ongoing economic uncertainty of the COVID-19 pandemic. He noted that Ducey's budget still puts a record \$6.1 billion into K-12 education, and that there's still new money for other priorities as well.

"This isn't a situation of having to pick or choose. This is a situation of being able to fulfill our commitments and our obligations to the people of Arizona and the programs that we know are going to continue to help keep the state moving forward, while also recognizing that we still have additional revenue," he said.

However, history has shown that today's surplus can quickly turn into a deficit, and that tax cuts that go into effect when revenues are strong can become a drag on the state's budget when the economy goes south. And while spending increases can be reversed with a simple majority vote in the legislature, it takes a two-thirds vote in each chamber to raise taxes.

In 2011, then-Gov. Jan Brewer signed sweeping legislation that reduced corporation income tax rates, commercial property tax rates and other taxes, with the cuts scheduled to begin phasing in several years later to allow Arizona's economy to recover from the shock from the Great Recession before they went into effect. Legislative Democrats and K-12 education advocates have long blamed those tax cuts for reducing funding schools and other budget priorities, including in 2015, when Ducey, in his first year as governor, had to grapple with a budget deficit.

Joe Thomas, president of the Arizona Education Association, worried about the revenue that K-12 schools could lose from Ducey's proposed tax cut.

"It's reckless. I don't understand what the governor is thinking," Thomas said.

Thomas added the state would be better served using that money to prepare for the coming fiscal cliff in 2025. That's when Proposition 123, a 10-year plan approved by voters in 2016 that settled a

long-running K-12 funding lawsuit by using state trust land to increase funding, expires.

Phoenix Mayor Kate Gallego also took aim at the tax cut plan, noting that it will reduce the cities' allotment of the state's shared revenue pool. Gallego said that will cost Phoenix \$25 million per year when the full cuts go into effect, a cut that will be "felt most profoundly" by the city's police and fire departments.

"I firmly believe we must build up our first responders and provide the resources they need, not recklessly slash their ability to do their jobs and continue the necessary reforms we have already begun," Gallego said in a press statement.

Senate Minority Leader Rebecca Rios, D-Phoenix, said she hopes the tax cut isn't an attempt to "backfill" the money that top earners will pay under Prop. 208. But if the governor is going to cut taxes, Rios said she and her Democratic colleagues in the legislature would prefer to see them targeted toward low-income and working class families.

****UPDATED: This story has been updated to include additional comments.*

Jeremy Duda

Associate Editor Jeremy Duda is a Phoenix native and began his career in journalism in 2003 after graduating from the University of Arizona. Prior to joining the Arizona Mirror, he worked at the Arizona Capitol Times, where he spent eight years covering the Governor's Office and two years as editor of the Yellow Sheet Report. Before that, he wrote for the Hobbs News-Sun of Hobbs, NM, and the Daily Herald of Provo, Utah. Jeremy is also the author of the history book "If This Be Treason: the American Rogues and Rebels Who Walked the Line Between Dissent and Betrayal."

□ □



Exhibit P

Arizona Senate bill would allow some to avoid Proposition 208 surtax

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Proposition 208 would increase funding for Arizona teachers, support staff and education programs through a surtax on high earners.

PHOTOS BY ROCIO HERNANDEZ AND SKY SCHAUDT/KJZZ



By Jeff Gifford – Digital Editor, Phoenix Business Journal
Feb 26, 2021, 4:26pm EST

IN THIS ARTICLE

Government & Regulations
Industry

A bill in the Arizona Senate would alter the state's tax system and let some businesses avoid paying a new tax surcharge passed by voters last November.

The Arizona Capitol Times reported that Senate Bill 1783 creates a new tax category that didn't exist when Proposition 208 was passed and therefore would not be subject to the ballot initiative. Rather, it would be an alternative option for business owners.

The measure would allow small business owners whose business incomes pass through to them to compute their tax on their personal income tax forms after deducting business expenses, the Times reported.

Those owners would be able to choose the cheaper option between paying a 4.5% tax on their adjusted business income or paying the Prop 208 surcharge of 3.5% surcharge on adjusted personal income of more than \$250,000 for individuals or \$500,000 for married couples in addition to previous income tax rate.

The bill's sponsor, Chandler Republican Sen. J.D. Mesnard, told

the Times that the bill ensures that small business are not affected by the proposition, but one of the key advocates of the initiative, David Lujan, said the surcharge already only touched net income, after business and other deductions.

What's more, Lujan said, the bill creates the same 4.5% tax rate for income from estates and trusts, the Times reported.

Proposition 208 passed with 52% of the votes in November. Proceeds from the surtax would go to Arizona schools. One economist told the Phoenix Business Journal [approximately 3% of Arizona's tax filers will be affected by the measure](#).

Opponents of the measure have filed several lawsuits aiming to stop the surtax from going into effect. Earlier in February, a Maricopa County Superior Court judge [denied a request for an injunction](#) to halt the implementation of the surtax, saying that the constitutionality of the proposition will likely be decided in [the case](#), but it was not appropriate to make a decision now.

The measure must be debated by the full Senate before coming to a vote.

Exhibit Q

ARIZONA

Drivers will have to pay the \$32 Arizona car registration fee for two more years

Maria Polletta The Republic | [azcentral.com](https://www.azcentral.com)

Published 7:54 p.m. MT Jun. 3, 2019 | Updated 2:21 p.m. MT Jun. 7, 2019

Arizona drivers, don't say goodbye to that \$32 vehicle-registration fee just yet.

Motorists will continue to pay the full amount for the next two years rather than seeing a gradual phase-out before the fee's repeal, state officials confirmed Monday.

"The fee will remain at \$32 for fiscal year 2020 and fiscal year 2021 ... then drops to \$0 by July 1, 2021," Governor's Office spokesman Patrick Ptak said via email.

The Department of Transportation said it does not plan to pro-rate registration fees for drivers who must renew before the fee is repealed, however.

For example, a driver whose registration is up in December 2020 would pay the full \$32 fee upon renewing for one year, even though the fee would disappear halfway through that person's registration period.

Budget face-off prompted repeal

The planned elimination of the unpopular public-safety fee, which for months had angered drivers and lawmakers alike, emerged from a drawn-out budget stalemate last month.

Sen. Michelle Ugenti-Rita, who pushed for a repeal in the Senate, refused to vote for any budget plan that didn't address the fee.

A five-year phase-down deal reached by Gov. Doug Ducey's office and Republican leadership in the Legislature failed to appease the Scottsdale Republican, whose vote was critical in GOP budget talks. And the two-year phase-down she countered with initially went nowhere.

But after a few days of gridlock, Ugenti-Rita announced she had reached a deal with Ducey to get rid of the "very unpopular" and "very unnecessary" fee by July 2021.

At the time, she did not elaborate on what would happen to the fee between now and then. The details later were published in state budget documents.

How does this affect state coffers?

The Legislature passed a bill creating the public-safety fee — and giving the director of the Arizona Department of Transportation the authority to set it — last April.

State Rep. Noel Campbell, R-Prescott, sponsored the legislation because he wanted a permanent funding source for the highway patrol.

For years, lawmakers had covered highway-patrol needs by taking money collected for road repairs, a strategy that left roads and bridges crumbling throughout the state. The fee was intended to cover the highway patrol budget.

At the time, state officials estimated the fee would cost \$18 and generate about \$149 million. ADOT later announced the fee would be nearly double that amount, providing an updated revenue estimate of \$185 million.

It was not immediately clear whether drivers wanting to take advantage of the state's two- and five-year registration options should avoid doing so until the fee disappears.

Reach the reporter at maria.polletta@arizonarepublic.com or 602-653-6807. Follow her on Twitter @mpolletta.

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Exhibit R



Office of the Attorney General
State of Georgia



Office of the Attorney General
State of Arizona



Office of the Attorney General
State of West Virginia

March 16, 2021

VIA EMAIL & U.S. MAIL

The Honorable Janet L. Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220
(202) 622-1100
correspondence@treasury.gov

**Re: Treasury Action to Prevent Unconstitutional Restriction on State's
Fiscal Policy through American Rescue Plan Act of 2021**

Dear Secretary Yellen:

The undersigned State Attorneys General request that the Department of the Treasury take immediate action to confirm that certain provisions of the American Rescue Plan Act (the “Act”) do not attempt to strip States of their core sovereign authority to enact and implement basic tax policy. Those provisions, found in section 9901 of the Act,¹ forbid States from using COVID-19 relief funds to “directly or indirectly offset a reduction in ... net tax revenue” resulting from state laws or regulations that reduce tax burdens—whether by cutting rates or by giving rebates, deductions, credits, “or otherwise[.]”² This language could be read to deny States the ability to cut taxes in any manner whatsoever—even if they would have provided such tax relief with or without the prospect of COVID-19 relief funds. Absent a more sensible interpretation from your department, this provision would amount to an unprecedented and unconstitutional intrusion on the separate sovereignty of the States through federal usurpation of essentially *one half* of the State’s fiscal ledgers (*i.e.*, the revenue half). Indeed, such federal usurpation of state tax policy would represent the greatest attempted invasion of state sovereignty by Congress in the history of our Republic.

¹ <https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf>.

² *Id.* at pp. 1319-223.

Letter to Secretary Janet L. Yellen
 March 16, 2021
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Section 9901 of the American Rescue Plan Act, which amends sections 602 and 603 of the Social Security Act, explains what States may and may not use COVID-19 recovery funds for. Most pertinent here, subsection 602(c)(2)(A) (the “Tax Cut Prohibition”) prohibits the States from “us[ing] the funds provided under this section ... to either *directly or indirectly* offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.”³ States must certify that they will use any COVID-19 relief funds provided under the Act “in compliance with subsection (c) of this section[.]” and if a State fails to comply, the Act requires the State to repay the funds in “an amount equal to the amount of funds used in violation of such subsection[.]”⁴

The import of the Act’s prohibition against “offsetting” reductions in state tax revenue is unclear, but potentially breathtaking. This provision might have been intended merely to prohibit States from *expressly* taking COVID-19 relief funds and rolling them directly into a tax cut of a similar amount. But its prohibition on “indirectly” offsetting reductions in tax revenue, combined with the list of prohibited kinds of tax reductions (rate cuts, rebates, deductions, credits, or “otherwise”), could also be read to prohibit tax cuts or relief of any stripe, even if wholly unrelated to and independent of the availability of relief funds. After all, money is fungible, and States must balance their budgets. So, in a sense, *any* tax relief enacted by a state legislature after the State has received relief funds could be viewed as “using” those funds as an “offset” that allows the State to provide that tax relief.

Several real and hypothetical examples of state tax policy sharpen this troubling point:

- Arizona voters at the 2020 election voted for a large tax increase related to education that has nothing to do with COVID-19 and the Arizona Legislature may seek to provide an alternative tax structure for small businesses—again having nothing to do with COVID-19 or the federal funds.
- Arizona is phasing out law-enforcement fees on vehicle registration renewals.

³ “Covered period” is defined in Section 602(g)(1) as the period that begins on March 3, 2021, and “ends on the last day of the fiscal year of such State ... in which all funds received by the State ... from a payment made under this section or a transfer made under section 603(c)(4) have been expended or returned to, or recovered by, the Secretary.”

⁴ It further provides that “in the case of a violation of subsection (c)(2)(A), the amount the State ... shall be required to repay shall be the lesser of—(1) the amount of the applicable reduction to net tax revenue attributable to such violation; and (2) the amount of funds received by such State ... pursuant to a payment made under this section or a transfer made under section 603(c)(4).”

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- During the current legislative session and prior to the passage of the Act, Georgia's House of Representatives passed a bill, now under consideration by its Senate, that would extend a tax credit for families who adopt a child out of foster care.
- Also during the current legislative session and prior to the passage of the Act, Georgia's House of Representatives passed a bill that raises the standard deduction, which would provide Georgians with an estimated \$140 million in state income tax relief that largely benefits those of lower to middle incomes.
- The West Virginia Legislature is considering a bill to extend the Neighborhood Investment Tax Credit (a charitable program) and increase the annual tax credit cap from \$3 million to \$5 million. These changes are projected to reduce West Virginia tax revenue by roughly \$2 million per year in future years.
- Another bill in West Virginia would expand a limited aircraft repair and maintenance sales tax exemption to all such activities. This change will result in a small reduction in sales tax collections.
- Alabama legislators are currently considering legislation that would allow tax exemptions for organizations that provide care for the sick and terminally ill, offer services for children who are victims of sexual or physical abuse, furnish new homes for victims of natural disasters, and respond to emergencies and provide life-saving, rescue, and first-aid services; tax deductions that would benefit people with special needs and enable citizens to purchase storm shelters to protect their families from tornadoes; and tax credits for hospitals and universities engaged in research and development beneficial to society.
- The Indiana General Assembly is considering a tax credit for donations to public school foundations as well as a tax credit for donations to qualified foster care organizations. It is also considering various sales tax exemptions for purchases such as public safety equipment.
- Kansas is considering decoupling part of its income tax code from the federal tax code, to end a state-level income tax increase caused by pass-through changes from prior federal tax law revisions.
- Kansas is considering giving property or income tax deferrals or credits to small businesses impacted by closure orders during the COVID-19 pandemic.

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- Under bipartisan legislation proposed in Kentucky, homeowners in a proposed tax increment financing district meant to revitalize a predominantly minority area of Louisville hurt by decades of disinvestment would pay property taxes for the next three decades based on their property's assessed value this year. And a housing developer would be able to defer 80% of its annual property taxes, up to \$7.64 million, to offset construction costs.
- Montana's Legislature is considering a very slight income tax cut for most income earners.
- Montana's Legislature is also considering increasing its current education tax credit for families.
- In Oklahoma, a bill has passed the House that would, among other things, restore the refundability of the state's Earned Income Tax Credit.
- Suppose a property decreases in value resulting in a decrease of legally assessed value, and the state keeps the assessed tax *rate* consistent—which results in a decrease in assessed *tax amount*.
- Similarly, suppose a property increases in value, but the State decreases the assessed rate such that the amount of tax assessed remains unchanged.
- Assume that projected state revenue is set to increase 10%, and a state legislature adopts measures such that the state's revenue collection “only” increases 8%.

Not one of these common changes to state tax policy has any real or direct connection to the State's potential receipt of COVID-19 relief funds, yet each of them could be deemed a tax “rebate,” “deduction,” “credit,” or “otherwise” that could result in a “reduction in the net tax revenue” of the State. Thus, each of these otherwise lawful enactments could be construed as violations of the Act's prohibition on “offsetting” tax cuts.

Put aside the gross federal overreach inherent in trying to take state tax policy hostage in this way. If this expansive view of this provision were adopted, it would represent an unprecedented and unconstitutional infringement on the separate sovereignty of the States. When Congress attaches conditions to a States' receipt and use of federal funds, those conditions must (1) be placed “unambiguously[,]” (2) relate to “the federal interest” for which the spending program was established, (3) not violate other constitutional provisions, and (4) not contain a financial inducement “so coercive as to pass the point at which ‘pressure turns into compulsion.’” *See generally South Dakota v.*

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Dole, 483 U.S. 203, 207-208, 211 (1987); *National Federation of Independent Business v. Sebelius*, 567 U.S. 519 (2012). Spending conditions imposed on States that do not meet these requirements are not “necessary and proper” for exercising Congress’ spending power and also infringe on powers “reserved to” the States. U.S. Const. Art. I, Section 8, Clause 18; U.S. Const. Amd. X. The Act’s Tax Cut Prohibition violates these requirements.

First, if the Tax Cut Prohibition were interpreted to place any limits on how States could enact tax relief not directly connected to the relief funds provided by the Act, it would impose a hopelessly ambiguous condition on federal funding. The examples listed above make the point: how is a State to know, when accepting the relief funds, whether any of these kinds of commonplace and sensible tax relief measures are “indirectly” offset by COVID-19 relief funds? Is it enough that the funds help balance a state budget that *also* contains tax relief measures? What if the presence of relief funds in 2021’s budget effectively frees up funds to offer tax relief in 2022? Absent a clear and narrowing construction by Treasury regulation, States cannot possibly know the bargain they are striking in accepting the relief funds. Yet the “legitimacy of Congress’ power to legislate under the spending power ... rests on whether the State voluntarily and knowingly accepts the terms of the ‘contract.’” *Pennhurst State School and Hospital v. Halderman*, 451 U.S. 1, 17 (1981).

Second, for similar reasons, a maximalist construction of the Tax Cut Prohibition would result in federal conditions that do not relate to the federal interest for which the spending program was established: relief from the economic harms caused by COVID-19. It is one thing to require that coronavirus-stimulus-related money be spent on coronavirus-related stimulus. It is quite another, and beyond Congress’s Spending Power, to forbid States from providing tax relief *of any kind, for any reason*, merely to ensure that federal funds are spent for their intended purpose.

Third, a broad construction of the Tax Cut Prohibition would violate separation of powers and fundamental democratic principles, and would effectively commandeer half of the State’s fiscal ledgers, compelling States to adopt the one-way revenue ratchet of the current Congress for the next three years. For example, if citizens wish to lower their overall tax burden in the next two election cycles, they cannot elect a candidate for state office that could actually carry out such a policy. Similarly, elected officials who wish to spend more public funds would now have a ready excuse for why state surpluses cannot be used to cut taxes: Congress forbids that, so we “have” to spend it instead. Such a system would eliminate the democratic accountability that federalism serves to protect. *See, e.g., New York v. United States*, 505 U.S. 144, 169 (1992) (“Accountability is thus diminished when, due to federal coercion, elected state officials cannot regulate in accordance with the views of the local electorate[.]”). The upshot is that, for purposes of setting tax policy, there would now be a single sovereign in the United States: Congress.

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But fundamental to our Constitution is separate federal and state sovereigns, who can each set their own taxing policies based on their own independent legislatures.

In addition, a governor could—by mere stroke of a pen—accept the stimulus funds and thereby bind both (1) the legislature of that state and (2) his or her successor as governor from cutting any tax or tax assessment. Congress has no such power to intrude upon the democratic structures of the States, whose republican forms of government are guaranteed by Article IV. Notably, the 117th Congress cannot even bind the 118th Congress from enacting legislation contrary to its legislation. Yet a broad construction of the Tax Cut Prohibition would let the governors of the States in 2021 prohibit future state governors and legislatures from enacting revenue-reducing measures in 2024.

Fourth, the expansive view of the Tax Cut Prohibition is unconstitutionally coercive. No one could dispute that Congress cannot force States to pursue certain tax policies at the state level. *Cf. Sebelius*, 567 U.S. at 577 (plurality) (“[T]he Constitution has never been understood to confer upon Congress the ability to require the States to govern according to Congress’ instructions.’ Otherwise the two-government system established by the Framers would give way to a system that vests power in one central government, and individual liberty would suffer.” (quoting *New York*, 505 U.S. at 162)). Congress may not micromanage a State’s fiscal policies in violation of anti-commandeering principles nor coerce a State into forfeiting one of its core constitutional functions in exchange for a large check from the federal government. Such “economic dragooning” of the States cannot withstand constitutional scrutiny. *Id.* at 582.

Yet the Act arguably compels that result. The COVID-19 pandemic has wreaked economic havoc across much of the Nation, leaving many citizens in need of short-term financial support, and Congress determined that some of that support would flow through the States. Although some States have weathered the crisis better than others, it is difficult to envision many, if any, turning down this support for their citizens. For example, Arizona has an annual budget of around \$12.4 billion from its general fund, and the moneys from the State Recovery Fund are anticipated to be \$4.8 billion—40 percent of one year’s general fund budget. As another example, West Virginia’s share represents over 25% of one year’s budget. Many States put to the Hobson’s choice of taking this financial support or maintaining their sovereign independence to set their own tax policy will be hard pressed to decline the federal funds.

Given the foregoing, we ask that you confirm that the American Rescue Plan Act does not prohibit States from generally providing tax relief through the kinds of measures listed and discussed above and other, similar measures, but at most precludes *express* use of the funds provided under the Act for direct tax cuts rather than for the purposes specified by the Act. In the absence of such an assurance by March 23, we will take appropriate additional action to ensure that our States have the clarity and assurance

Letter to Secretary Janet L. Yellen

March 16, 2021

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necessary to provide for our citizens' welfare through enacting and implementing sensible tax policies, including tax relief. We look forward to hearing from you promptly. Please direct your response to joe.kanefield@azag.gov, and we will forward.⁵

Sincerely,

Mark Brnovich

Attorney General of Arizona

Christopher M. Carr

Attorney General of Georgia

Patrick Morrissey

Attorney General of West
Virginia

Steve Marshall

Attorney General of
Alabama

Leslie Rutledge

Attorney General of
Arkansas

Ashley Moody

Attorney General of Florida

Lawrence G. Wasden

Attorney General of Idaho

Theodore E. Rokita

Attorney General of Indiana

Derek Schmidt

Attorney General of Kansas

Daniel Cameron

Attorney General of
Kentucky

Jeff Landry

Attorney General of
Louisiana

Lynn Fitch

Attorney General of
Mississippi

Eric S. Schmitt

Attorney General of
Missouri

Austin Knudsen

Attorney General of
Montana

Douglas J. Peterson

Attorney General of
Nebraska

Mike Hunter

Attorney General of
Oklahoma

Alan Wilson

Attorney General of South
Carolina

Jason R. Ravensborg

Attorney General of South
Dakota

Ken Paxton

Attorney General of Texas

Sean D. Reyes

Attorney General of Utah

Bridget Hill

Attorney General of
Wyoming

⁵ Please note this letter is not intended to be and is not in any way a waiver of any legal rights, claims, defenses, or immunities possessed by the States regarding this matter.

Exhibit S

IN THE UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF OHIO

STATE OF OHIO,

Plaintiff,

v.

JANET YELLEN, in her official
capacity as Secretary of the
Treasury; RICHARD K. DELMAR, in
his official capacity as acting
inspector general of the Department
of Treasury; and U.S.
DEPARTMENT OF THE
TREASURY;

Defendants.

No. 1:21-cv-181

**COMPLAINT FOR INJUNCTIVE
AND DECLARATORY RELIEF**

INTRODUCTION

1. This suit challenges an unconstitutional provision in the American Rescue Plan Act—a provision that allows the federal government to commandeer state taxing authority, and that the Act coerces the States into accepting.

2. The Act includes a \$195.3 billion aid program intended to, among other things, help States recover from the pandemic-caused downturn.

3. The aid program, which appears in §9901 of the Act, contains a provision that this complaint calls the “Tax Mandate.”

4. The Tax Mandate forbids States from using funds received under the Act to “directly or indirectly” offset a “reduction in net tax revenue” caused by a change in tax policy. American Rescue Plan Act of 2021, Pub. L. No. 117-2, §9901 (2021) (adding §602(c)(2) to the Social Security Act (42 U.S.C. §801 et seq.)).

5. Another provision in §9901 empowers the Secretary of the Treasury to recoup federal funds that she thinks the State used to offset revenue loss from a tax reduction in violation of the Tax Mandate. *Id.* (adding §602(e) to the SSA).

6. Money is fungible, so *any* revenue lost from a tax credit, deduction, rebate, delay, or decrease that Ohio legislators or executive officers may implement would be “indirectly” offset by the \$5.5 billion the State expects to receive pursuant to the Act. Thus, the Tax Mandate effectively prohibits reductions in taxes: any State that reduces taxes, and that experiences a loss in tax revenue, is subject to having billions of dollars in federal funding recouped by the Department of the Treasury.

7. Congress has no direct authority to “require the States to govern according to Congress’s” preferred tax regime. *New York v. United States*, 505 U.S.

144, 162 (1992). And while the Spending Clause of the U.S. Constitution empowers Congress to “provide for ... the general Welfare,” Congress may not use its influence under the Spending Clause to *coerce* the States to adopt Congress’s tax preferences, *Nat’l Fed’n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 578 (op. of Roberts, C.J.).

8. Congress, through the Act, has coerced Ohio and its sister States into accepting a limitation on their sovereign authority as a condition for their being allowed to use badly needed federal funding.

9. Ohio seeks to enjoin federal officials from enforcing the unconstitutional Tax Mandate, and seeks declaratory relief establishing that the State of Ohio, under the Tenth Amendment to the U.S. Constitution, retains the freedom to manage its own tax policy.

JURISDICTION AND VENUE

10. This Court has subject matter jurisdiction under 28 U.S.C. §1331 and §§2201–02.

11. Venue is proper in this judicial district under 28 U.S.C. §1391(e)(1).

12. The State of Ohio has standing to challenge the Tax Mandate, and to seek injunctive and declaratory relief. The Mandate injures the State by unconstitutionally intruding on the State’s sovereign authority, by interfering with the State’s orderly management of its fiscal affairs, and by subjecting the State to the risk that it may be made to return funding to the federal government. *See Celebrezze v. U.S. Dep’t of Transp.*, 766 F.2d 228, 232 (6th Cir. 1985); *Alaska v. U.S. Dep’t of Transp.*, 868 F.2d 441, 443 (D.C. Cir. 1989); *Texas v. United States*, 809 F.3d 134, 155–57 (5th Cir. 2015); *see also Barnes v. E-Systems*, 501 U.S. 1301, 1304 (1991)

(Scalia, J., in chambers). Injunctive or declaratory relief would redress the State’s injuries.

PARTIES

I. Plaintiff

13. Plaintiff, the State of Ohio, is a sovereign State of the United States of America.

II. Defendants

14. Janet L. Yellen is the Secretary of the Treasury, and is named in her official capacity. The Secretary of the Treasury is responsible for administering the coronavirus local fiscal recovery fund created by §9901 of the American Rescue Plan Act of 2021.

15. Richard K. Delmar is the Acting Inspector General of the Department of Treasury, and is named in his official capacity. The Inspector General is responsible for monitoring and oversight of existing coronavirus relief funds to the States, and is generally responsible for informing the Secretary of the Treasury about programs administered by the Department and advising on the necessity for corrective action.

16. The Department of the Treasury is an agency of the United States and is additionally responsible for administering the coronavirus local fiscal recovery fund created by §9901 of the American Rescue Plan Act of 2021.

FACTUAL ALLEGATIONS

I. The American Rescue Plan Act

17. On March 11, 2021, President Biden signed into law a \$1.9 trillion stimulus package, the “American Rescue Plan Act,” H.R. 1319. The text of the Act is

available at <https://www.congress.gov/bill/117th-congress/house-bill/1319/text>.

18. The Act appropriates \$195.3 billion in aid to the States and the District of Columbia. Pub. L. No. 117-2, §9901 (adding §602(b)(3)(A) to the Social Security Act). Of that amount, \$25.5 billion is allocated equally among the States and the District. The remainder, minus additional money for Washington, D.C., is distributed based on each State’s average number of unemployed individuals from October through December of 2020. *Id.* (adding §602(b)(3)(B) to the SSA).

19. The State of Ohio is expected to receive \$5.5 billion in aid under the Act. Jared Walczak, *State Aid in American Rescue Plan Act is 116 Times States’ Revenue Losses*, TAX FOUNDATION (Mar. 3, 2021), <https://taxfoundation.org/state-and-local-aid-american-rescue-plan/>. Additional billions will be sent to Ohio’s localities directly and are not the subject of this suit. *Id.*

20. The American Rescue Plan Act’s funds are available to the States “through December 31, 2024.” Pub. L. No. 117-2, §9901 (adding §602(a) to the SSA).

21. The Act’s “Tax Mandate” is the provision in §9901 of the Act that provides:

A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) *to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.*

(emphasis added).

22. If a State violates the Tax Mandate, the Secretary of the Treasury shall

recoup the lesser of: (1) the amount of the applicable reduction to net tax revenue; or (2) the amount of funds the State received from the federal government. Pub. L. No. 117-2, §9901 (adding §602(e) to the SSA).

23. The Act does not provide any process for a State to dispute an alleged violation of the Tax Mandate.

24. The Act gives the Secretary broad authority to issue regulations “necessary or appropriate to carry out” the program. *Id.* (adding §602(f) to the SSA).

II. Ohio’s Budget

25. The State expects to receive \$5.5 billion from the American Rescue Plan Act to help Ohio and its citizens recover from the devastating effects of the pandemic.

26. \$5.5 billion fills such a large and urgent need in Ohio’s budget that Ohio has no real choice except to take the funds, especially while attempting to respond to the economic instability wrought by the COVID-19 pandemic.

27. The pandemic brought a drastic economic slowdown, substantially affecting available funds and thus Ohio’s ability to support needed programs.

28. The State of Ohio is obligated to maintain a balanced budget. If anticipated receipts and available balances in the State’s general revenue fund will likely be less than appropriations from that fund, the Governor must order spending reductions to prevent a deficit. Ohio Rev. Code §126.05; *see also* Ohio Legislative Service Commission, A Guidebook for Ohio Legislators at 98–99 (2021), <https://www.lsc.ohio.gov/documents/reference/current/guidebook/17/Guidebook.pdf>.

29. In April 2020, tax revenues fell \$866.5 million below estimate, a 35.3

percent drop. See Monthly Financial Report at 13, Ohio Office of Budget and Management (May 11, 2020), https://archives.obm.ohio.gov/Files/Budget_and_Planning/Monthly_Financial_Report/2020-05_mfr.pdf. In May 2020, Governor DeWine ordered \$775 million in spending cuts, including to K-12 schools and Medicaid. See Randy Ludlow, *Coronavirus in Ohio: \$775 million in budget cuts due to pandemic include \$300 million reduction to schools*, THE COLUMBUS DISPATCH (May 5, 2020), <https://www.dispatch.com/news/20200505/coronavirus-in-ohio-775-million-in-budget-cuts-due-to-pandemic-include-300-million-reduction-to-schools>.

30. Tax revenues for fiscal year 2020 fell \$1.1 billion below estimate. More broadly, total non-federal revenues finished the fiscal year \$1.2 billion below estimate. See Monthly Financial Report at 11, Ohio Office of Budget and Management, (July 10, 2020), https://archives.obm.ohio.gov/Files/Budget_and_Planning/Monthly_Financial_Report/2020-07_mfr-final.pdf.

31. Ohio's economy contracted 3.5 percent between the end of 2019 and the third quarter of 2020, mirroring the national economy, which experienced the largest economic decline since just after World War II. See Monthly Financial Report at 2, Ohio Office of Budget and Management (Mar. 10, 2021), https://archives.obm.ohio.gov/Files/Budget_and_Planning/Monthly_Financial_Report/2021-03_mfr.pdf; Baseline Forecast Testimony at 1, Ohio Legislative Service Commission, *available at* <https://www.lsc.ohio.gov/documents/budget/134/mainoperating/IN/HF%20forecast%20testimony.pdf> (last visited Mar. 16, 2021).

32. Meanwhile, demand for various state services has increased. Medicaid

enrollment, for example, has increased by 369,100 individuals since February 2020. *See* Monthly Financial Report at 22, Ohio Office of Budget and Management (Mar. 10, 2021), https://archives.obm.ohio.gov/Files/Budget_and_Planning/Monthly_Financial_Report/2021-03_mfr.pdf.

33. For fiscal year 2019, a comparatively “normal” year, which ran July 1, 2018, through June 30, 2019, the State of Ohio budgeted \$78 billion and spent \$71 billion. For fiscal year 2020, which ended June 30, 2020, the State budgeted \$77.9 billion and spent \$74.6 billion. For fiscal year 2021, Ohio budgeted \$93.3 billion, and through the first nine-and-a-half months of the fiscal year, it has spent 62.1 percent of that budget. *See* Ohio Office of Budget and Management, Ohio Checkbook, <https://checkbook.ohio.gov/State/Budgets/default.aspx> (last visited Mar. 15, 2021) (to view the data for each year, select the dropdown menu under “Fiscal Year,” which is located at the top of the graph).

34. The amount of money at stake—\$5.5 billion—represents 7.7 percent of Ohio’s 2019 expenditures, 7.4 percent of Ohio’s 2020 expenditures, and 5.9 percent of Ohio’s anticipated 2021 budget.

35. Looking at the nation as a whole, total state spending reached \$2.26 trillion in fiscal year 2020, up from \$2.1 trillion in fiscal year 2019. *See* Summary: 2020 State Expenditure Report at 1, National Association of State Budget Officers, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Issue%20Briefs%20Summary_of_2020_State_Expenditure_Report.pdf. Thus, the \$193.6 billion package to the fifty States

(subtracting \$1.7 billion for the District of Columbia), represents 8.6 percent of total state expenditures for 2020 and 9.2 percent for 2019.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF

Violation of U.S. Constitution, Article I; Violation of the Spending Clause, U.S. Const., Art. I, §8, cl.1

36. The State incorporates by reference the allegations of the preceding paragraphs.

37. Article I of the U.S. Constitution enumerates Congress’s legislative powers.

38. Article I does not give Congress the power to “issue direct orders to the governments of the States.” *Murphy v. NCAA*, 138 S. Ct. 1461, 1476 (2018).

39. Congress may not use the Spending Clause, art. I, §8, cl. 1, to “indirectly coerce[] a State to adopt a federal regulatory system as its own.” *Nat’l Fed’n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 578 (2012) (op. of Roberts, C.J.). Congress violates its Spending Clause power when it coerces States into agreeing to limit their sovereign authority by offering financial inducements that States cannot practically refuse. *Id.*

40. In the current economic climate, Ohio has “no real choice,” *id.* at 587, but to accept the \$5.5 billion available through the American Rescue Plan Act—a figure that represents 7.4 percent of Ohio’s total expenditures in fiscal year 2020.

41. By accepting that money, the State must sacrifice its sovereign authority to set tax policy as it sees fit, because changes to tax policy that reduce revenues violate the Tax Mandate. Such violations could be used to force the State to return funding received through the Act.

42. Because Ohio and other States are coerced into accepting the limitations on their sovereign authority that the Tax Mandate imposes, Congress exceeded its authority under the Spending Clause when it enacted the Tax Mandate.

43. In addition, Spending Clause legislation must articulate “unambiguously” the conditions it imposes on the States, enabling them to understand the consequences of accepting funds. *South Dakota v. Dole*, 483 U.S. 203, 207 (1987). The Tax Mandate runs afoul of this requirement, because it is ambiguous regarding what precisely constitutes a change in state tax policy that “indirectly” offsets a loss in tax revenue.

44. None of Congress’s other enumerated powers authorized it to enact the Tax Mandate.

SECOND CLAIM FOR RELIEF
Violation of the U.S. Constitution, Tenth Amendment; Violation of
Anticommandeering Principle

45. The State incorporates by reference the allegations of the preceding paragraphs.

46. The Tenth Amendment states: “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

47. “[T]he Constitution has never been understood to confer upon Congress the ability to require the States to govern according to Congress’ instructions.” *New York v. United States*, 505 U.S. 144, 162 (1992). This prohibition against commandeering state governments serves important values, such as safeguarding

individual liberty and promoting political accountability. *Murphy*, 138 S. Ct. at 1477.

48. The Constitution neither takes the power to set state tax policy from the States, nor empowers the federal government to commandeer state taxing authority.

49. Because the Tax Mandate commandeers the States' sovereign authority to set tax policy, it violates the Tenth Amendment.

PRAYER FOR RELIEF

50. The State requests that this Court:

- a. Declare the Tax Mandate in §9901 of the American Rescue Plan Act of 2021—the provision amending the Social Security Act to include the new §602(c)(2)(A), *see* Pub. L. No. 117-2, §9901—to be in excess of Congress's powers enumerated in Article I, and thus unenforceable;
- b. Declare that the Tax Mandate violates the Tenth Amendment to the Constitution of the United States, and is thus unenforceable;
- c. Enjoin the defendants, and any other agency or employee of the United States, from recouping funds, as provided in Pub. L. No. 117-2, §9901, based on a violation of the Tax Mandate; and
- d. Enjoin the defendants, and any other agency or employee of the United States, from otherwise enforcing the Tax Mandate against Ohio.

Dated: March 17, 2021

DAVE YOST
Ohio Attorney General

/s/ Benjamin M. Flowers
BENJAMIN M. FLOWERS* (0095284)
Solicitor General
*Counsel of Record
ZACHERY P. KELLER (0086930)
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Counsel for the State of Ohio

Exhibit T



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 23, 2021

The Honorable Mark Brnovich
Attorney General
State of Arizona
2005 N Central Avenue
Phoenix, AZ 85004

Dear Attorney General Brnovich:

I write in reply to your March 16, 2021 letter regarding Treasury's implementation of section 9901 of the American Rescue Plan Act (the "Act"), which provides funds to States, territories, Tribal governments, and localities to help them manage the economic consequences of COVID-19.

In the Act, Congress has provided funding to help States manage the public health and economic consequences of COVID-19 and it has given States considerable flexibility to use that money to address the diverse needs of their communities. At the same time, Congress placed limitations to ensure that the money is used to achieve those purposes – including provisions stating that this funding may not be used to offset a reduction in net tax revenue resulting from certain changes in state law.

It is well established that Congress may place such reasonable conditions on how States may use federal funding. Congress includes those sorts of reasonable funding conditions in legislation routinely, including with respect to funding for Medicaid, education, and highways. Here, the Act provides a broad outlay of federal funds, and accordingly includes restrictions to ensure that those funds are properly applied. Earlier COVID-19 relief measures providing state funding also included restrictions that barred States from spending those funds on certain ineligible expenditures.

Nothing in the Act prevents States from enacting a broad variety of tax cuts. That is, the Act does not "deny States the ability to cut taxes in any manner whatsoever." It simply provides that funding received under the Act may not be used to offset a reduction in net tax revenue resulting from certain changes in state law. If States lower certain taxes but do not use funds under the Act to offset those cuts—for example, by replacing the lost revenue through other means—the limitation in the Act is not implicated.

It is also important to note that States choosing to use the federal funds to offset a reduction in net tax revenue do not thereby forfeit their entire allocation of funds appropriated under this

statute. The limitation affects States' ability to retain only those federal funds used to offset a reduction in net tax revenue resulting from certain changes in state law.

Treasury is crafting further guidance—including guidance to address more specifically the issues raised by your letter and the procedures Treasury will use for any future recoupment—that will provide additional information about how this provision will be administered. We will provide this guidance before a State must submit a certification under § 602(d)(1). We also expect to engage in an ongoing dialogue throughout the program.

These funds will provide transformative relief to States, territories, and Tribal governments, and our communities should be able to use the funds to recover from the economic fallout due to the pandemic, which is what Congress intended. I hope to work with your State, as well as others across the country, to ensure these funds can be used in ways that align with the goals of the statute without undue restrictions.

Sincerely,

A handwritten signature in black ink, reading "Janet L. Yellen". The signature is fluid and cursive, with the first name "Janet" being more prominent and the last name "Yellen" written in a continuous script.

Janet L. Yellen

cc: The Honorable Christopher M. Carr
The Honorable Patrick Morrissey
The Honorable Steve Marshall
The Honorable Leslie Rutledge
The Honorable Ashley Moody
The Honorable Lawrence G. Wasden
The Honorable Theodore E. Rokita
The Honorable Derek Schmidt
The Honorable Daniel Cameron
The Honorable Jeff Landry
The Honorable Lynn Fitch
The Honorable Eric S. Schmitt
The Honorable Austin Knudsen
The Honorable Douglas J. Peterson
The Honorable Mike Hunter
The Honorable Alan Wilson
The Honorable Jason R. Ravensborg
The Honorable Ken Paxton
The Honorable Sean D. Reyes
The Honorable Bridget Hill

Exhibit U

Mar 16, 2021, 08:38am EST | 12,122 views

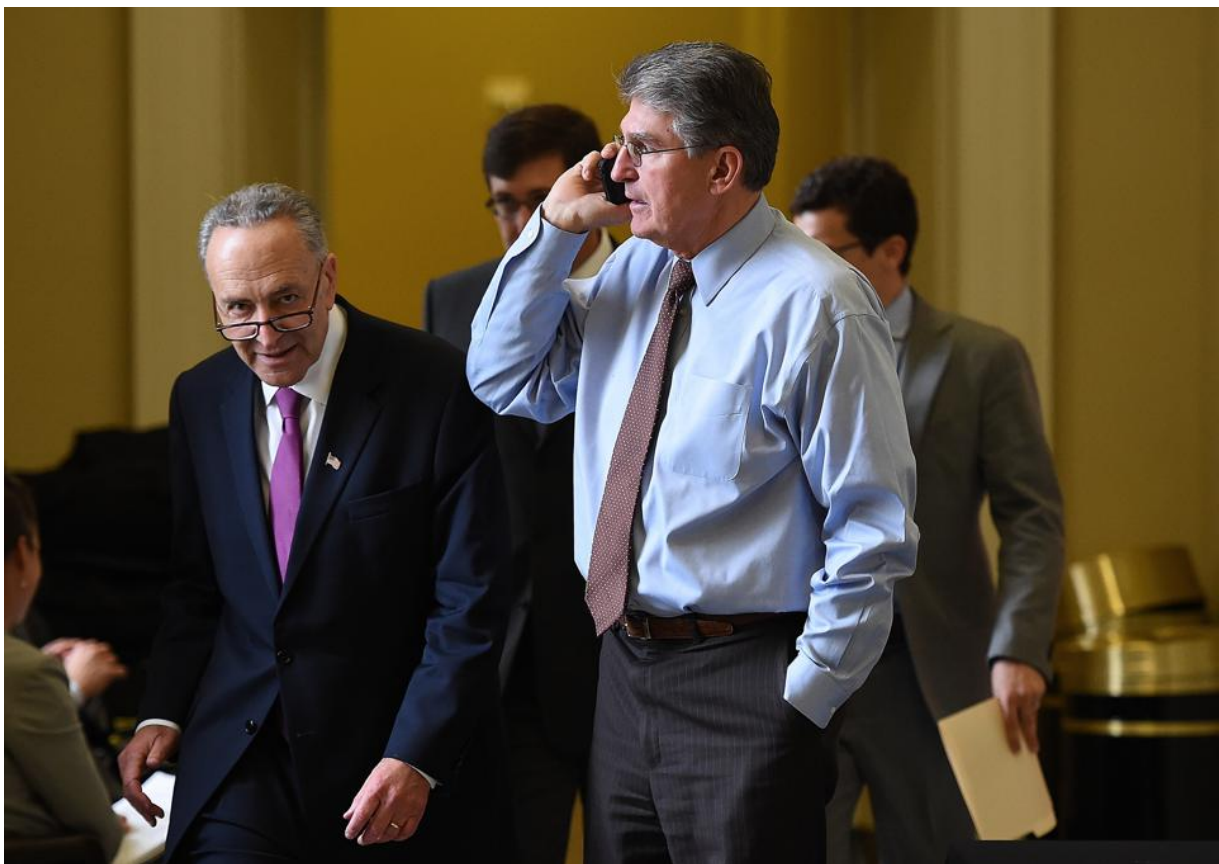
How Senator Joe Manchin's Move To Block Tax Relief In His Own State Costs All U.S. Taxpayers



Patrick Gleason Contributor ⓘ ⊕

Policy

I cover the intersection of state & federal policy and politics.



Sen. Chuck Schumer (D-NY) passes Sen. Joe Manchin (D-WV) as Manchin speaks on the phone outside the ... [+]
GETTY IMAGES

The prohibition of state tax relief included in the \$1.9 trillion spending bill signed into law by President Joe Biden on March 11, dubbed the American Rescue Plan Act (ARPA), has emerged as one of the most controversial aspects of the package. While this ban on state tax cuts, believed by many to be unconstitutional, was inserted as an amendment by Senate Majority Leader Schumer (D-N.Y.), it turns out this

provision was the demand of Senator Joe Manchin (D-W. Va.), the supposedly moderate Democrat who effectively controls the fate of the filibuster.

Senator Manchin's demand for the insertion of language banning state tax cuts was reportedly motivated by his opposition to West Virginia Governor Jim Justice's (R) proposal to phase out the state income tax. Senator Manchin took action to make sure that none of the billions West Virginia is set to receive from the new spending package will be used to facilitate the state income tax phaseout sought by Governor Justice and West Virginia state legislators. So in an effort to block state income tax relief for his constituents, Manchin has imposed a federal restriction on relief for taxpayers nationwide, one of questionable legality to boot.

"He's hurting his own people in the state of West Virginia," Governor Jim Justice [said](#) of Senator Manchin's amendment prohibiting state tax relief. "I do not condone it."

At the same time that the ARPA seeks to prohibit states from cutting taxes, it does nothing to stop states from accepting billions in additional federal aid and then turning around and raising state taxes. In fact, lawmakers in Hawaii are [moving](#) to do just that right now with a proposal to raise the top marginal state income tax rate to 16%, which would be the highest in the U.S.

Though Hawaii is the state most dominated by Democrats, it's not the only state where Democratic lawmakers are looking to raise state taxes. New York Governor Andrew Cuomo (D), Illinois Governor J.B. Pritzker (D), and others are also pushing for [blue state tax increases](#) despite the windfall of federal aid they have already received in the past year and are scheduled to collect under the ARPA. Governors Tim Walz (D-Minn.), Tony Evers (D-Wis.), and Tom Wolf (D-Pa.) are also proposing tax hikes this year. But unlike in New York and Illinois, Republicans in the Wisconsin, Minnesota, and Pennsylvania state legislatures have the ability to stop the tax increases proposed by their Democratic governors.

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In his attempt to block state income tax relief for his own constituents, some legal experts think Senator Manchin may have blocked what many believe to be among the most sensible uses of one-time ARPA money, which is the refilling of unemployment insurance (UI) trust funds and the repayment of federal unemployment insurance loans. According to the Tax Foundation's Jared Walczak, filling unemployment insurance funds and repaying federal UI loans "would be one of the most responsible ways states could spend a large, but one-time, infusion that isn't substantially needed to backfill lost revenues."

Some state legislators this author has spoken to, in states that already have budget surpluses even before receiving any ARPA funds, plan to ignore the ARPA's legally dubious prohibition on state tax relief and proceed with planned tax cuts that have been in the works for months. In fact, some of these state lawmakers will dare the Biden administration to sue them if the White House thinks states don't have the sovereignty to set fiscal policy as they see fit.

It's not only Republican legislators and governors who will be inclined to ignore this federal attempt to bar state tax relief. In New Mexico, where Democrats control the governor's mansion and both chambers of the legislature, state officials are [planning to forestall tax increases](#) by putting ARPA funds into the unemployment trust fund. As mentioned, some legal experts believe such a move is prohibited by Senator Manchin's amendment blocking the use of ARPA funds for state tax relief both directly and indirectly. As such, moves by lawmakers in New Mexico and elsewhere to fill UI trust funds could be met with legal challenges.

Senator Mike Braun (R-Ind.) has introduced Senate [legislation](#) that would repeal the ARA's prohibition of state tax relief. Congressman Dan Bishop (R-N.C.) has introduced a companion bill in the House.

"Democrats are trying to ban states from cutting taxes with a sneaky amendment to the \$1.9 trillion so-called COVID relief package," Senator Braun [said](#) in a March 11 press release. "Not only did this blue state bailout bill penalize states for reopening by calculating state funds based on unemployment, now they are trying to use it as a back door to ban states from cutting taxes. My bill would make sure they don't get away with it."

Unless repealed, the state tax relief prohibition language in the ARPA is expected to produce lawsuits for years to come. As Reason Magazine's Eric Boehm [explained](#) during the March 15 Reason Roundtable podcast, the provision Senator Manchin had added to the ARPA seeks to give the federal government "the ability to basically take states to court for the next few years if they try to do anything that would be considered a reduction in taxes or a rebate or a tax credit program, something like that."

"Money is fungible of course," Boehm adds, "so what dollars are used for what, who knows, but if any of these bailout dollars are connected either directly or indirectly, the law says, to those offsets, states could end up in court."

It seems that in an attempt to block his own constituents from receiving state income tax relief, Senator Manchin has possibly thwarted tax relief in states across the country while precluding some of the most sensible uses of ARPA funds. In the process, Manchin's amendment has created a nationwide legal mess that will take some time, and costly lawsuits, to sort out.

"It's childishness," Governor Justice said of Senator Manchin's effort to block state tax relief, adding "Joe needs to grow up and get by that. For God's sake, he's hurting his own people."

UPDATE: hours after publication of this article, a coalition of 21 state attorneys general sent a [joint letter](#) to U.S. Treasury Secretary Janet Yellen "seeking immediate confirmation that the most recent COVID-19 stimulus bill does not strip states of their well-established authority to tax or not tax their citizens," [stated](#) the press release issued by West Virginia Attorney General Patrick Morrisey.

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Patrick Gleason

I am Vice President of State Affairs at Americans for Tax Reform, a Washington-based advocacy and policy research organization founded in 1985 at the request of President... **Read More**

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Exhibit V

The Weirton Daily Times

BREAKING NEWS

Car rams into police at Capitol barricade; officer killed

Justice blames Manchin for stimulus provision limiting use for tax reform



Photo Courtesy/WV Legislative Photography BRIEFING — Gov. Jim Justice speaks to the public and media during a virtual briefing Monday.

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CHARLESTON — President Joe Biden's COVID-19 relief package could be approved by the U.S. House of Representatives as soon as today, but a provision placed in the bill triggered Gov. Jim Justice on a rant against West Virginia's lone Democratic U.S. Senator.

Justice, during his Monday morning virtual COVID-19 briefing with press from the State Capitol Building, cast blame on U.S. Sen. Joe Manchin, D-W.Va., for a provision in the \$1.9 trillion stimulus package that would limit any use of federal coronavirus relief dollars to offset losses due to legislated changes in state tax revenues.

"This is terrible, this is absolutely terrible," Justice said. "What was written into the law was written in there primarily by Joe Manchin. Joe Manchin is supposed to be your representative, West Virginia. You know what he is doing? He's trying to hit at me. That's all there is to it."

The provision states that "A state ... shall not use the funds provided ... to either directly or indirectly offset a reduction in the net tax revenue of such state ... resulting from a change in law, regulation, or administrative interpretation ... that reduces any tax ... or delays the imposition of any tax or tax increase."

"In this situation, (Manchin) has absolutely bent back double triple to hit at me for some reason," Justice said. "What he is doing is hurting West Virginia. It's just a slap at West Virginians."

A spokesperson for Manchin would neither confirm nor deny the senator's involvement with that provision. But in a statement Monday, Manchin said Justice should be working with him instead of criticizing him.

"Instead of political attacks that do nothing to help hard working West Virginians, I welcome the opportunity to speak with Governor Justice about the best possible ways to improve the lives of West Virginians with the more than \$2 billion in federal funding that I secured for our state in this bill," Manchin said.

Justice unveiled his tax reform legislation last week, though the bill has yet

It includes a one-year 60 percent cut in most personal income tax classifications, along with a \$52 million tax rebate for families making less than \$35,000 per year. The total tax reductions total more than \$1.087 billion.

The Justice tax reform plans also includes \$902.6 million in proposed tax increases in the consumer sales and use tax; a tiered severance tax for fossil fuels; a tax on certain luxury goods; and increased taxes on cigarettes, tobacco products, e-cigarettes, beer, wine, liquor, and soda. Even with additional savings and efficiencies, the plan leaves a \$90 million gap.

The \$1.9 trillion Biden package includes \$350 billion in aid to state, county, and municipal governments. The funding can be used to offset losses in tax revenue attributed to the COVID-19 pandemic and shutdowns, though the bill includes provisions prohibiting states from using the funding for state pension plans as well as offsetting tax cuts.

Manchin said the \$1.9 trillion package includes \$1.25 billion for the state and \$624 million in direct funding for county and municipal governments. The bill also includes \$800 million for state education funding, \$260 million for childcare, \$10 million for Head Start, \$140 million for broadband expansion as well as \$2 million for Wi-Fi hotspots, and millions more in funding for vaccine distribution and rural healthcare.

“Policy differences do not justify personal attacks,” Manchin said. *“I want to work with Governor Justice in the best interest of our state.”*

Manchin has been a vocal critic of Justice’s handling of the \$1.25 billion sent to West Virginia for state and local government COVID-19 expenses last April through the \$2.2 trillion federal C.A.R.E.S. Act. Manchin accused Justice last year of taking too long to send money out to local governments in the hope of the federal government easing restrictions to allow C.A.R.E.S. Act funds for budget backfill.

According to the State Auditor’s Office, more than \$660 million of the \$1.25 billion in federal dollars remains in the

Justice and state revenue officials said that \$400 million of that balance is needed to pay off a \$157 million interest-free loan through the U.S. Department of Labor to keep West Virginia's unemployment trust fund solvent as well as additional funding to replenish the fund. The interest-free period was set to end March 14.

During his Feb. 10 State of State address, Justice called for the creation of a third Rainy Day Fund to help cover possible shortfalls as the personal income tax is phased out. During his remarks before lawmakers, he speculated about the federal government possibly forgiving the state's unemployment loan, freeing up that \$660 million to put into the new rainy day "bucket."

"What do you think's going to happen with the Biden Stimulus package? What could happen? They could forgive all of the dollars that we've put out towards unemployment," Justice said last month. *"What if we had hundreds and hundreds and hundreds more millions of dollars? Put them in the bucket. Don't spend them."*

Justice walked back that idea Monday while also criticizing the Biden coronavirus package for limiting how the state can use those dollars.

"My additional rainy day bucket had nothing ... in the world to do with taking C.A.R.E.S. money and putting it over here in a rainy day bucket that is for tax relief," Justice said. *"If we have just happened to run our state better than other states that are absolutely run by Democrats and totally out of control ... should we not have the option to do with those monies whatever we want to do with those monies that will only help West Virginians and help us become better and bring more and more opportunities to us?"*

The Biden plan includes \$1,400 in direct payments to individuals making less than \$75,000, a \$3,000 child tax credit and makes it fully refundable, and extends enhanced unemployment benefits until Sept. 6 at \$300 per week — a deal pushed for by Manchin after the House of Representative passed a \$400-per-week extension through August.

Both Manchin and U.S. Sen. Shelley Moore Capito, R-W.Va, attempted to make the package less broad and more specifically tailored to the economic issues created by the pandemic. During those negotiations, Justice was on the record calling for a large stimulus package. He stood by those statements Monday, though admitted the bill had unneeded items.

“I frankly believe that really and truly a bigger stimulus package at this point and time is what is needed to finally get up the steepest part of the mountain,” Justice said. “To be perfectly honest, our federal government has a way of putting in so much pork into the situation that ... it’s a terrible mistake, but it’s what happens all the time.”

(Adams can be contacted at sadams@newsandsentinel.com)

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Exhibit W

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OPINION | REVIEW & OUTLOOK

Democrats to States: No New Tax Cuts

The Covid bill says more spending is fine, but cutting taxes is barred.

By [The Editorial Board](#)

March 9, 2021 6:49 pm ET



Senate Majority Leader Chuck Schumer holds a press conference on COVID Relief and Rescue package passed by the Senate, New York, March 7.

PHOTO: LEV RADIN/ZUMA PRESS



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4 minutes

Democrats in Congress aren't satisfied with spending \$1.9 trillion to help blue states and union friends. They've also launched a sneak attack against conservative states. Read their legislation's lips: No new state tax cuts.

That's the news from a provision added last week by Senate Democrats that limits how states and localities can use their \$360 billion windfall. States can use the loot to provide government services, cover revenue losses during the pandemic and "respond to the public health emergency" or "its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality."

 OPINION: POTOMAC WATCH

Passing Covid-19 To Find Out What's In It



00:00

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Much of the relief will invariably flow to government union pension funds, which are underfunded in states like Illinois, New Jersey and Connecticut. To inoculate themselves from GOP attacks, Democrats specified in the bill that relief funds may not be used “for deposit into any pension fund.” But money is fungible. States can pay out of their general funds for pensions and use the federal cash for something else.

Majority Leader Chuck Schumer also snuck a provision into his “perfecting amendment” allowing states to use federal funds to provide “premium pay” of up to \$13 an hour (and \$25,000 total) to workers who are “performing such essential work” as defined by the Governor of each state.

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PREVIEW

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But here’s the political gut punch. The bill explicitly bars states from cutting taxes. States “shall not use the funds,” the bill says, “to either directly or *indirectly* [our emphasis] offset a reduction in the net tax revenue” that results “from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.”

Wow. Democrats in Washington are trying to dictate to governors and state legislatures that they can't change their tax laws if they accept their share of the \$1.9 trillion. The sweeping prohibition would last through 2024, and the bill grants Treasury Secretary Janet Yellen authority to write regulations "as may be necessary or appropriate to carry" it out.

The language is so expansive that states could be limited from making any changes to their tax codes that reduce revenue even if they don't use federal funds as direct offsets. Much will depend on how Ms. Yellen defines "indirectly." States that don't comply with her interpretation will have to repay federal funds.

Several states including West Virginia, Mississippi, Arkansas and Idaho are considering tax cuts to attract people and business. Some GOP legislatures also want to start or expand private-school choice programs that give tax credits to businesses and individuals that donate money for scholarships. Treasury could say these policies break the law. Beltway Democrats are essentially barring GOP-led states from improving their competitiveness against high-tax Democratic states.

Democrats in California recently approved \$600 stipends for low-income residents and undocumented immigrants, and these and other handouts to liberal constituencies appear permissible under the bill as "assistance to households." A corporate tax cut? No way.

The constitutionality of this is open to question. The Supreme Court's "anti-commandeering" doctrine prohibits Congress from using federal funds to coerce states. But even if the tax cut ban doesn't meet the Court's legal test of coercion, it's still an egregious affront to constitutional federalism. In the 2020 election, Democrats failed in their goal of retaking statehouses, but now they plan to control them anyway from Washington.

Appeared in the March 10, 2021, print edition.

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Exhibit X

CONGRESS

Variety of last-minute changes made to Senate aid package

Fixes would restore aid to cities and counties; boost child care, Medicaid funds; expand eligibility for rural health care fund and more



Senate Majority Leader Charles E. Schumer offered a “perfecting amendment” that was adopted before passage of the relief bill. The amendment added billions of dollars in aid. (Tom Williams/CQ Roll Call)



By **Paul M. Krawzak**



A “perfecting amendment” that the Senate adopted just before final passage of a \$1.9 trillion aid package would add billions of dollars for local governments, restaurants and child care grants to states.

The changes came in a 58-page amendment from Majority Leader Charles E. Schumer, D-N.Y., covering various sections of the wide-ranging relief bill. Further modifications to initial amendment text obtained by CQ Roll Call before it was adopted by voice vote Saturday morning were written into the margins.

The biggest changes involved restoring \$10 billion in direct aid to cities and counties, which had been cut from the initial Senate substitute amendment to the House-passed aid bill. The restored funds bring the total for local governments to \$130.2 billion while preserving a \$10 billion fund for state broadband infrastructure projects that the earlier amendment made room for.

In addition, the final amendment would create a \$1 billion annual program, championed by Senate Finance Chair Ron Wyden, D-Ore., for communities and tribal governments that have historically been harmed by federal government policies.

In a statement for the record, Wyden cited communities across the Western United States, including his home state, that are situated on federal lands without a substantial local tax base to pay for government services. Federal environmental and wildlife protection laws have sapped rural counties’ ability to benefit from revenue-sharing arrangements involved in extraction of resources like timber, oil and gas.

Eligible communities include counties, parishes or boroughs, as well as the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. The fund would presumably benefit communities that have complained of the fiscal impact of Biden administration regulations prohibiting oil and gas exploration.

The money in Wyden’s program is available so far only for the 2022 and 2023 fiscal years, so more would need to be appropriated in subsequent legislation. Of the \$2 billion, \$500 million would be set aside for tribal governments.

Changes to state, local funds

Restrictions on direct aid to states would change somewhat under Schumer's perfecting amendment.

Gone is a requirement that the \$195.3 billion be split into two tranches, with the second allotment made available 12 months later; instead, Treasury Secretary Janet Yellen would be given the optional authority to withhold 50 percent of the funds upfront. The language stipulates that Yellen "shall" exercise that authority based on each state's unemployment rate.

In addition, the prescribed uses of funds for both states and localities would be revised from the earlier substitute amendment. A restriction on the uses of funds based on the need to provide government services would be tightened to stipulate that states and localities could use the money only to replace the amount of revenue lost during the pandemic compared with the prior full fiscal year.

State and local governments would gain the ability to use their allotments to provide "premium pay" to essential workers of up to \$13 per hour, capped at a maximum of \$25,000. Essential workers are defined as those "needed to maintain continuity of operations of essential critical infrastructure sectors" or others as designated by state and local officials as critical to "health and well-being" of their residents.

States would also gain more federal help with Medicaid costs associated with providing home- and community-based services. A 7.35 percentage-point boost in the federal matching percentage in the original version would jump to 10 percentage points in Schumer's perfecting amendment.

State grants for child care services would increase by \$5 billion over a decade from the underlying Senate version.

And as restaurants and bars earlier celebrated on Saturday after the bill passed, an extra \$3.6 billion for those hard-hit businesses was freed up in Schumer's amendment, bringing total grants to \$28.6 billion.

Disabled children, rural hospitals

It wasn't immediately clear how Democrats fit all the changes into the fiscal 2021 budget resolution's \$1.89 trillion ceiling.

But there were changes made tightening eligibility for nonprofits to benefit from forgivable loans under the Paycheck Protection Program, which a source involved in the discussions said was how the restaurant grants grew in size. Both provisions were in the jurisdiction of the Senate Small Business Committee.

The flurry of activity on Friday and Saturday that resulted in trimming added unemployment benefits from \$400 to \$300 per week, coupled with a one-week extension to Sept. 6, also probably freed up substantial extra funds for Medicaid, child care and state and local funds in the Senate Finance Committee's jurisdiction.

Other health care-related changes wouldn't cost additional money but would expand eligibility to receive slices of an \$8.5 billion fund for rural health care providers and suppliers. For instance, the perfecting amendment would strike a requirement that the parent organization receiving the funds remit all of the money directly to the provider.

It would also expand the definition of rural provider to include hospitals in rural census tracts within metropolitan statistical areas or others that serve rural patients, including in urban areas with fewer than 500,000 residents. Providers of home health, hospice or long-term care services at an individual's home located in a rural area would also qualify under the expanded definition, as would rural health clinics owned by hospitals or other providers.

Changes were also made in the Senate Health, Education, Labor and Pensions Committee's jurisdiction. The final amendment took \$3 billion out of funds set aside for K-12 education technology grants primarily for low-income and disabled children, instead creating a new \$3 billion pot for grants under the Individuals with Disabilities Education Act. Of that funding, \$550 million would be reserved for programs for preschools and infants and toddlers.

Also, a new workers' compensation fund for federal workers who came down with COVID-19 between Jan. 27, 2020, and Jan. 27, 2023, removed from the earlier version, would be restored in the final Senate bill. Federal employees who only worked remotely during that time wouldn't be eligible.

Out of \$26.1 billion in the bill for urban transit agency grants, a provision that would have allowed some local transit agencies to claim an additional amount was removed, presumably to more evenly distribute the remaining funds.

'Injurious species'

And it appears the "Byrd rule" — named for former Sen. Robert C. Byrd, D-W.Va. — intended to restrict what can be included in filibuster-proof budget reconciliation bills, struck a couple of other provisions in the earlier substitute.

The late amendment removes language that would have restricted access to \$10 billion in small-business credit allocations unless states presented plans for how minority-owned and community development financial institutions would participate. A requirement that states draw up plans for how the money would benefit "business enterprises owned and controlled by socially and economically disadvantaged individuals" was also removed.

The amendment also removes prescriptive language on \$10 million appropriated for the U.S. Fish and Wildlife Service. The agency was supposed to use the money to identify and track species that would potentially transmit pathogens that could make humans sick, as well as "develop regulations to make emergency listings for injurious species."

The preliminary Schumer amendment would have removed only the requirement that the Fish and Wildlife Service develop the emergency listings regulations; handwritten changes would strike all of the prescribed uses of the \$10 million, however. Instead, the money would have to be used under the existing statute governing illegal trafficking in wildlife and plants, known as the Lacey Act.

A final handwritten fix at the end of the 58-page amendment would change the way in which \$280 million for Native American community development block grants is

distributed. The underlying bill would have made the money available “without competition,” but those two words were struck by the perfecting amendment.

Peter Cohn, David Lerman, Jennifer Shutt and Tia Yang contributed to this report.

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Exhibit Y

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Yellen: Treasury faces 'thorny questions' about restrictions on state tax cuts

Republicans are up in arms about the provision, which has already resulted in one lawsuit against the administration.



Treasury Secretary Janet Yellen speaks during a virtual roundtable Feb. 5 in Washington. | Jacquelyn Martin/AP Photo

By TOBY ECKERT
03/24/2021 06:23 PM EDT



Treasury Secretary Janet Yellen said on Wednesday the department has “a host of thorny questions” to work through before it can give states guidance on a provision in the \$1.9 trillion Covid relief package that prohibits them from using federal aid to subsidize tax cuts.

Two issues she singled out: How to treat tax exemptions that states may provide for unemployment benefits, like the federal government is doing, and exactly how to determine whether a state is using federal money for a tax cut.



“We will have to define what it means to use money from this act as an offset for tax cuts. And given the fungibility of money, it's a hard question to answer, but that's what we're required to do, and we will — we will do our best to offer guidance on it,” she told the Senate Banking Committee.

Republicans are up in arms about the provision, which says states, the District of Columbia, territories and tribal governments can't use the \$220 billion in aid that Congress gave them to “indirectly or directly” offset the cost of tax cuts.

Ohio has already sued the Biden administration over the provision, saying it's unconstitutional, and more suits could follow, likely from other red states.

West Virginia Attorney General Patrick Morrisey tweeted Tuesday, “We're now

getting ready for Court,” saying the Biden administration’s response to a request for clarity on the issue “is unacceptable.”

Sen. Mike Crapo (R-Idaho) told Yellen that states are “hamstrung” and “this is an issue that needs immediate clarity.”

Yellen noted that Treasury has 60 days from enactment of the law, which President Joe Biden signed March 11, “to complete that work to get the money to distribute to the state and local governments, and there are a host of thorny questions that we have to work through to connect with the issue that you just mentioned.”

“We simply are going to have to try to craft guidance in that period of time,” she said. “We’re working on it 24/7 to get it out as rapidly as we possibly can.”

Crapo, who is co-sponsoring legislation to remove the restriction on tax cuts from the law, told Yellen, “I’m going to encourage you to do everything you can in developing this guidance to answer those thorny questions in a way that gives maximum flexibility to the states and local communities.”

Treasury officials have noted that the federal government often attaches conditions to funding it provides to states. They also have said states are still free to cut taxes, but not to pay for them with federal pandemic relief money.

Still, Crapo said it’s not a cut-and-dry issue. For instance, he noted that some states may follow the federal government’s lead in exempting some unemployment benefits from taxes. He asked Yellen whether that would “be a penalty that the state would have to pay for if it did that?”

Yellen said Treasury has “been asked this question by a number of states,” and “we are examining that question carefully.”

Exhibit Z



March 12, 2021

The American Rescue Plan Act Greatly Expands Benefits through the Tax Code in 2021

Garrett Watson, Erica York

| |
|--------------------------------------|
| American Rescue Plan: Summary |
| \$1,400 Stimulus Payments |
| Unemployment Benefits |
| Expanded Child Tax Credit |

American Rescue Plan Act of 2021 (ARPA)

The United States has provided about \$6 trillion (<https://www.covidmoneytracker.org/>) in total economic relief to the American people during the coronavirus pandemic, including the \$1.9 trillion that was approved when President Biden signed the American Rescue Plan Act (ARPA) into law (<https://www.ft.com/content/ecc0cc34-3ca7-40f7-9b02-3b4cfeaf7099>) on Thursday, amounting to about 27 percent of gross domestic product (GDP).

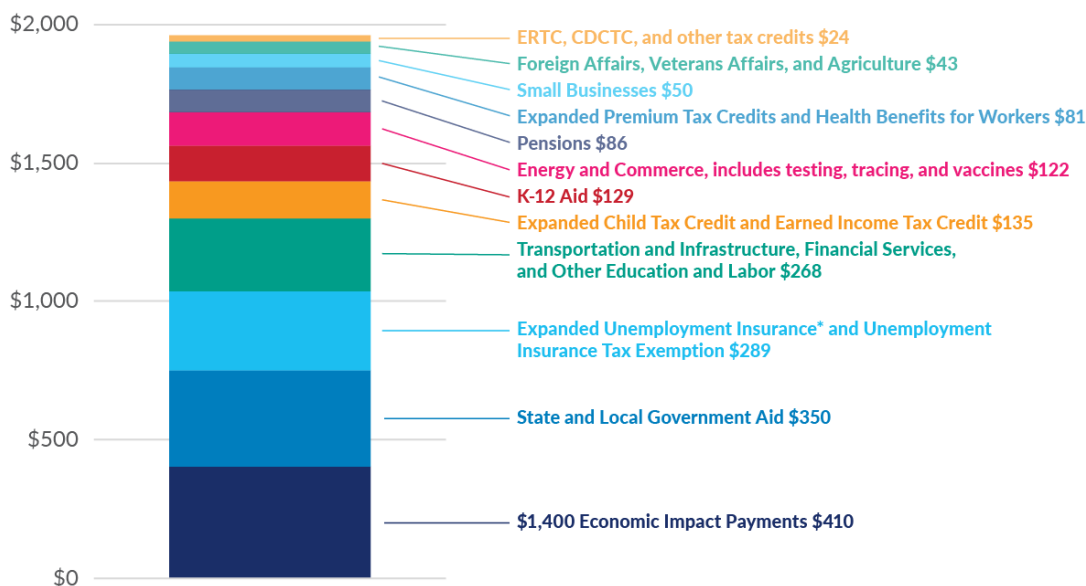
(<https://www.washingtonpost.com/world/2021/03/10/coronavirus-stimulus-international-comparison/>) Much of the economic relief in the American Rescue Plan is administered through the tax code in the form of direct payments (stimulus checks) and expanded Child Tax Credit (CTC) in 2021. The size and method of relief will revive debates over the proper role of spending in the tax code and whether the temporary benefits should become permanent after the economy has recovered.

Policymakers will need to determine if the tax code is the proper vehicle to disburse such cash benefits and if the IRS can handle the additional responsibilities. Over the course of many years, the IRS has been tasked with an ever-growing list of administrative duties that go well beyond simple revenue collection—everything from poverty alleviation to education, housing, and health-care benefits. The American Rescue Plan, in addition to other pandemic response measures, would now require the IRS to administer additional benefits on a recurring monthly basis, much as a traditional spending agency, all while processing upwards of 160 million tax returns.

While several of the provisions in the American Rescue Plan are targeted toward the pandemic, like the extended unemployment insurance benefits, other aspects, like the expanded Child Tax Credit, are unrelated and not well targeted toward the pandemic. Overall, about \$850 billion is directed to individuals while about \$65 billion is directed to businesses.

What's in the \$1.9 Trillion American Rescue Plan Act?

Topline summary of relief in Billions of Dollars



Note: *Subject to change pending estimate of Senate version of unemployment insurance expansion.

Source: Joint Committee on Taxation and Committee for a Responsible Federal Budget

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Most of the provisions are temporary expansions for 2021 to combat the pandemic. However, some policymakers are already considering making permanent (<https://www.cbsnews.com/news/child-tax-credit-monthly-checks-parents-democrats/>) several of the newly expanded benefits like the Child Tax Credit later this year, which would have a budgetary cost of well over \$1 trillion over the next 10 years.

Below we provide more detail on the three major tax-related benefits in the American Rescue Plan: a third round of direct payments, extended unemployment insurance (UI) benefits and a \$10,200 unemployment insurance income exemption for 2020, and an expansion of the Child Tax Credit.

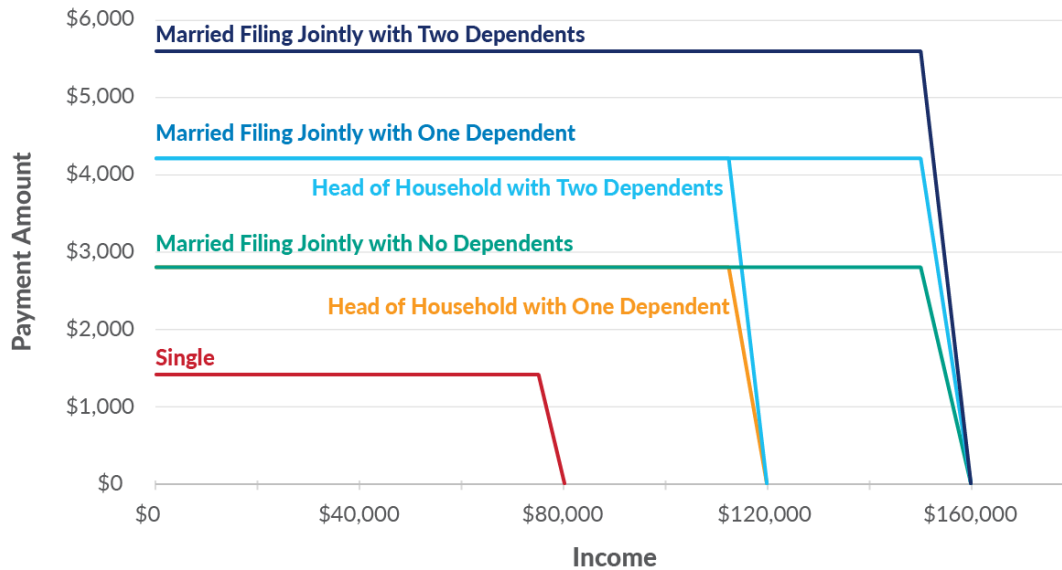
\$1,400 Stimulus Payments (Economic Impact Payments)

The American Rescue Plan Act provides a third round of stimulus payments up to \$1,400 for adults and any dependent. Households with earnings of more than \$80,000 for single filers, \$120,000 for Head of Household filers, and \$160,000 for married filing jointly will not receive any payment. The payments begin to phase out at \$75,000 for single filers, \$112,500 for Head of Household filers, and \$150,000 for joint filers—meaning about 89 percent of filers will receive a payment (see Table 1).

The payment design creates steep phaseout rates for higher earners, which means they face high marginal tax rates and disincentives to work and could encourage filers to increase traditional retirement contributions in 2021 to reduce their AGI and receive an additional payment.

Relief Rebates in American Rescue Plan Act

Individual Economic Relief Rebate by Filing Status



Source: American Rescue Act (Senate Version), Tax Foundation calculations.

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Conventional Distributional Effect of Direct Payments in the American Rescue Plan Act

| Income level | Percent Change in <u>After-Tax Income</u> | Share of Filers with a Rebate | Average Rebate Amount |
|--------------|---|-------------------------------|-----------------------|
| 0% to 20% | 24.70% | 100% | \$2,172 |
| 20% to 40% | 10.81% | 100% | \$2,537 |
| 40% to 60% | 6.41% | 100% | \$2,431 |
| 60% to 80% | 4.21% | 99.5% | \$2,611 |
| 80% to 90% | 1.97% | 74.5% | \$1,792 |
| 90% to 95% | 0.40% | 25.0% | \$509 |
| 95% to 99% | 0.01% | 1.6% | \$17 |
| 99% to 100% | 0.00% | 0% | \$0 |
| Total | 3.7% | 89.0% | \$2,157 |

Source: Tax Foundation General Equilibrium Model, January 2021.

Unemployment Benefits

The American Rescue Plan also extends the three federal unemployment insurance expansions first created by the CARES Act through September 6, 2021. The American Rescue Plan increases the total number of weeks of benefits available to individuals who cannot return to work safely from 50 to 79, matching the expiration of the broader UI benefits.

The law maintains the federal supplement at its current level of \$300 a week for weeks beginning after March 14 and before September 6, 2021. The American Rescue Plan provides 53 weeks of federal UI benefits after the state benefits end, up from 24 weeks.

The American Rescue Plan contains a new provision to exempt \$10,200 of unemployment benefits received in 2020 from income taxes. The exclusion is retroactive, applying to unemployment insurance benefits received last year, largely to reduce the issue of surprise tax bills. It only applies to individuals with incomes below \$150,000. The Joint Committee on Taxation (JCT) estimates the exemption will reduce federal revenue by \$24.9 billion.

More than 45 million tax returns have already been filed with the IRS in the ongoing tax season, which is currently set to end on April 15. The last-minute exemption is bound to create confusion for taxpayers and puts additional pressure on the IRS to quickly provide instructions and guidance for those who have already filed their returns. Ideally, the exemption would have been made prior to the tax season's commencement in mid-February to ensure a smoother tax season for the agency and taxpayers.

Expanded Child Tax Credit

Finally, the American Rescue Plan greatly expands the Child Tax Credit by allowing households with children to claim up to \$3,600 for younger children or \$3,000 for children age 6 or older regardless of earned income. While the CTC currently phases in with income and only \$1,400 can be refunded to low-income households, the American Rescue Plan allows the full credit for low-income households, which raises marginal tax rates on these filers as they are no longer provided the credit as income rises. As such, it introduces a new disincentive to work (<https://www.aei.org/research-products/report/the-conservative-case-against-child-allowances/>) for low-income earners, though the magnitude of the disincentive is disputed.

The expanded CTC would also be paid out monthly, which will be a major administrative challenge for the IRS. The agency must obtain projected incomes, filing statuses, and number of qualifying dependents for each eligible household to accurately advance the payments. While the Biden administration hopes to have this process ready by July, that may be an unrealistic timeline (<https://www.politico.com/newsletters/weekly-tax/2021/02/08/whats-next-on-the-child-tax-credit-793236>); it took the IRS two years to establish advance payments of the Affordable Care Act's premium tax credits.

As the public health situation and the economy hopefully improve this spring and summer, policymakers will have an opportunity to evaluate the effectiveness and the costs of the expanded benefits in the American Rescue Plan and determine whether they should be allowed to expire or otherwise be reformed.

Related Resources

[COVID-19 Tax Resource Center](#)

[American Rescue Plan Act Allocates \\$2 Billion to Nonexistent County Governments](#)

[U.S. COVID-19 Relief Provided More Than \\$60,000 in Benefits to Many Unemployed Families](#)

[American Rescue Plan Direct Payment Design and Marginal Tax Rates](#)

[Making the Expanded Child Tax Credit Permanent Would Cost Nearly \\$1.6 Trillion](#)

[Expanding Child Tax Credit as Monthly Payment for Pandemic Relief](#)

[State & Local Aid Allocation in the American Rescue Plan](#)

Does the American Rescue Plan Ban State Tax Cuts?

Which States Are Taxing Forgiven PPP Loans?

Banner image attribution: f11photo, Adobe Stock

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7 **UNITED STATES DISTRICT COURT**
8 **DISTRICT OF ARIZONA**
9

10 STATE OF ARIZONA,

11 Plaintiff,

12 v.

13 JANET YELLEN, in her official capacity
14 as Secretary of the Treasury et al.;

Defendants.

No. 2:21-cv-00514-DJH

[PROPOSED] ORDER

15
16 This case is before this Court on the Motion for a Preliminary Injunction of
17 Plaintiff the State of Arizona (“State”). For the reasons that follow, the motion is
18 **GRANTED**. Defendants are hereby **ENJOINED** from enforcing the Tax Mandate
19 against the State, or any other state, pending resolution of this action on the merits.

20 This case involves a challenge to a part of Section 9901 (the “Tax Mandate”) of
21 the American Rescue Plan Act of 2021 (“ARPA,” or the “Act”), Pub. L. No. 117-2,
22 § 9901, 135 Stat. 4, 223-228. The relevant provision states:

23 “A State or territory shall not use the funds provided under this section or
24 transferred pursuant to section 603(c)(4) to either directly or indirectly offset a
25 reduction in the net tax revenue of such State or territory resulting from a change
26 in law, regulation, or administrative interpretation during the covered period that
27 reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a
28 credit, or otherwise) or delays the imposition of any tax or tax increase.”

1 On its face, the Tax Mandate appears to be a broad prohibition against the States
2 providing tax relief from 2021-24 if they accept any ARPA funds.

3 The State challenges the Tax Mandate as unconstitutional violating, *inter alia*, the
4 Supreme Court's decision^s in *See National Fed'n of Indep. Bus. v. Sebelius* ("NFIB"),
5 567 U.S. 519 (2012) and *South Dakota v. Dole*, 483 U.S. 203 (1987).

6 A party can obtain a preliminary injunction by demonstrating that (1) it "is likely
7 to succeed on the merits," (2) it "is likely to suffer irreparable harm in the absence of
8 preliminary relief," (3) "the balance of equities tips in [its] favor," and (4) "an injunction
9 is in the public interest." *Winter v. NRDC*, 555 U.S. 7, 20 (2008). This Court concludes
10 that all requirements for a preliminary injunction are satisfied here, and that a preliminary
11 injunction should issue.

12 This Court concludes that the State is likely to prevail on the merits by
13 establishing that the Tax Mandate is unconstitutional for four reasons. *First*, the Tax
14 Mandate is too ambiguous to pass constitutional muster. For Congress to attach
15 conditions under its Spending Clause power, "the conditions must be set out
16 'unambiguously.'" *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291, 296
17 (2006). Congress has not done so here: the provisions are ambiguous, subject to multiple
18 interpretations, and raise a multitude of questions that the text of the statute cannot
19 answer.

20 *Second*, the Tax Mandate it is unrelated to the purpose of the state aid provision.
21 That is particularly apparent here where Congress itself provided extensive tax relief in
22 ARPA to stimulate the economy, but apparently seeks to forbid the States from providing
23 any stimulus through tax relief of their own.

24 *Third*, the Tax Mandate unconstitutionally attempts to exercise Congress's
25 Spending Clause power to "induce the States to engage in activities that would
26 themselves be unconstitutional." *Dole*, 483 U.S. at 210. Specifically, the Tax Mandate
27 seeks to induce the States to surrender their sovereign authority over taxation and instead
28 adopt Congress's preferred one-way ratchet policy, under which state taxes may only go

up, not down. Because the Tax Mandate seeks to induce States to sell out the “essence of their statehood,” *Charles C. Steward Mach. Co. v. Davis*, 301 U.S. 548, 597 (1937), it is unconstitutional.

Fourth, the Tax Mandate—combined with the massive amount of funds otherwise provided in the Act—unconstitutionally coerces States into adopting Congress’s preferred taxing policies. *See NFIB*, 567 U.S. at 583-85 (opinion of Roberts, C.J.). Such coercion violates the Supreme Court’s anti-commandeering principle. *Id.*

The remaining requirements for a preliminary injunction are also satisfied here. By infringing upon State sovereignty, the Tax Mandate causes clear irreparable harm. *See, e.g., Abbott v. Perez*, 138 S. Ct. 2305, 2324 n.17 (2018).

Because the federal government is a defendant, “the balance of the equities and public interest factors merge.” *Doe #1 v. Trump*, 984 F.3d 848, 861-62 (9th Cir. 2020) (cleaned up). Here the harms to the State’s sovereignty are substantially greater than the potential harms to Federal Defendants. That is particularly true as Congress has already determined through the Act that substantial macroeconomic stimulus through tax relief is warranted, and the federal government will hardly suffer much injury if the States supplement such stimulus through tax relief of their own. In addition, the public interest favors enjoining the Tax Mandate, which is an unprecedented intrusion upon the sovereignty of the States and violates multiple constitutional requirements.

IT IS THEREBY HEREBY ORDERED granting the State’s motion. Defendants are **PRELIMINARILY ENJOINED** from enforcing the Tax Mandate against any state, including the State of Arizona.

Dated this ____ day of April, 2021.