

# State of Arizona Executive Budget

## SUMMARY

**Fiscal Year 2026**

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GOVERNOR



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# The Economy

## Powering Arizona Businesses and Communities

“We must embrace a vision of economic opportunity to realize the Arizona Promise.”

Gov Katie Hobbs

As 2024 came to an end, the global economy was in a better position than at the same point in 2023, with pandemic disruptions having subsided and economic conditions having begun to normalize.

Overall, the economy has performed well, with strong growth, full employment, and moderating inflation. The US economy has remained resilient and is expected to finish the year with three quarters of solid GDP growth. GDP growth is transitioning from a period of rapid expansion to normalcy, with the US economy poised for another strong year ahead. The Arizona economy has mirrored the strong growth of the US economy and has surpassed US performance. Inflation is currently below the national rate, and job growth is occurring at a faster pace than in the US. The outlook for Arizona remains positive and is anticipated to continue to outpace the US.

### Current Situation

Inflation has decreased, and the labor market remains robust, with national employment rates slightly above 4%.

After several years of unfulfilled recession fears, and contrary to the predictions of many economists, it appears that the elusive “soft landing” moderating inflation without triggering a recession is now highly plausible. The Federal Reserve started cutting interest rates in September and plans to continue lowering rates, paving the way for further economic growth in the coming year.

As the US economy continues to move away from the disruptions of the pandemic, several challenges remain. For example:

- Although the near-term inflation remains disinflationary, it may be a bumpy road to meet the Fed’s 2% objective and take longer than economists had initially anticipated. While the overall economy remains robust, labor demand is expected to continue to cool gradually.
- Consumers may continue to feel the pressures of higher prices and exercise more prudence in spending amid these challenges.
- The Fed is poised to continue to make decisions grounded in economic data while trying to achieve the balance between its dual objectives (maximum employment and 2% inflation).
- The current pandemic-era inflation illustrates that the US is susceptible to shocks that disrupt international supply chains and the flow of goods worldwide. Those disruptions can generate more inflationary pressures.

Other risks persist, particularly with global tensions at the center of the uncertainty, and with potentially significant shifts in US domestic policy expected in the year ahead. However, barring major shocks or significant federal policy missteps, the economy is poised for steady

growth with moderate inflation rates alongside progress toward a lower federal funds rate.

### THE NATION

As this assessment was prepared, the nation’s economy was poised to finish 2024 with its third consecutive year of GDP growth between 2.5% and 3% – a testament to its resilience.

After two years of persistent Federal Reserve tightening, the US labor market has avoided layoffs, and unemployment has remained low, as businesses limited hiring but also held onto their workforce. While unemployment rates can move quickly, there is no immediate cause for concern, and the stability of the labor market instills confidence about employment, even though it has slowed modestly over the past year.

As in 2023, inflation constituted a primary economic narrative in 2024. The US’s experience with inflation paralleled that of many advanced countries, reaching its peak in 2022 and subsequently moderating over the past two years.

The recent pandemic inflationary episode contrasts sharply with the decade-long experience of the 1970s and early 1980s, when the unemployment rate exceeded 10% and strict monetary policies were in place. High interest rates and tight control over the money supply characterized the 1970s period. These measures were implemented to curb inflation but had the side effect of high unemployment rates. The inflationary pressures experienced after the pandemic arose from different circumstances, and the variations in policy decisions have resulted in a more stable economic outcome.

While it is likely that prices will remain elevated, substantial progress has been made toward price stability. This moderation, coupled with stability in the labor market, has generally given way for real wages to keep pace with inflation. However, it is important to note that different groups and regions will have distinct experiences in terms of their wage growth.

The economy has been in a period of restriction due to the tight monetary policy that kept interest rates high over the last two years. This policy aimed to reduce economic expansion and inflation. With continued evidence of disinflation and price stability, current expectations are for gradual cuts to federal interest rates to occur over the foreseeable future. This policy easing will dictate how rates moderate for long-term borrowers, as will expectations from investors reacting to economic conditions and impacting the bond market’s volatility.

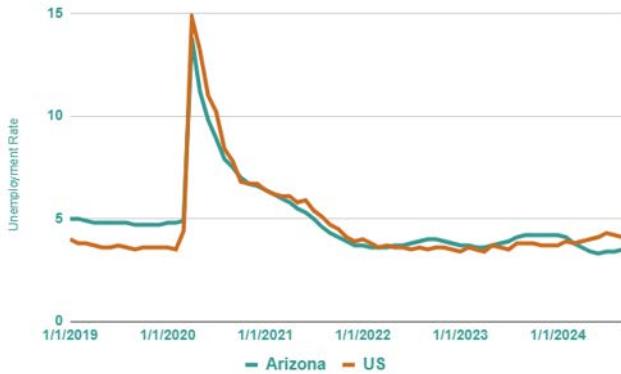
However, the overall economic outlook will be less tied to monetary policy in the future. Instead, federal fiscal, trade, and immigration policies will likely take center stage. Additionally, the ability to withstand and recover quickly from unexpected geopolitical and natural disaster disruptions will be essential in the coming year. Nevertheless, the likelihood of a recession in the next 18 months has significantly decreased, dropping from a 50% chance a year ago to less than one in three today.

### ARIZONA

Arizona’s economy remained strong throughout 2024, outperforming the national average. In May 2024, the state achieved a record-low unemployment rate of 3.4%, the lowest figure since 1976.

Figure 1

**Arizona Unemployment Rate Compared to the US Rate**



Arizona is increasingly recognized for its growth in technology-centered businesses and a thriving semiconductor market.

While the US economy faces various uncertainties and risks as it transitions into a period of steady growth, Arizona is better equipped to manage economic risks than most other states. This is attributed to a recent surge in business growth, ongoing population expansion, and favorable labor conditions. As a result of this economic momentum, Standard & Poor’s has upgraded Arizona’s credit rating outlook from “stable” to “positive,” stating:

“Arizona is supported by its robust economic growth, including notable population growth, gross state product (GSP) growth that surpasses the national average, improving personal income levels, and healthy reserves.”<sup>1</sup>

Arizona job growth surged in 2024. At year’s end, the state ranked ninth in the US for the pace of non-farm job creation, while Phoenix ranked seventh among large metropolitan areas. At the time of this writing, Arizona unemployment rates are about one percentage point below pre-pandemic levels. In contrast to the recent, highly publicized, reported downward revision of US job data, Arizona is expected to see upward revisions in its job figures next spring. Additionally, nominal wages in Arizona have been on the rise, with recent state labor market reports indicating an increase of more than 6% on a year-over-year basis, well exceeding inflation. Although wages are projected to continue rising, increases are expected to occur at a more gradual pace.

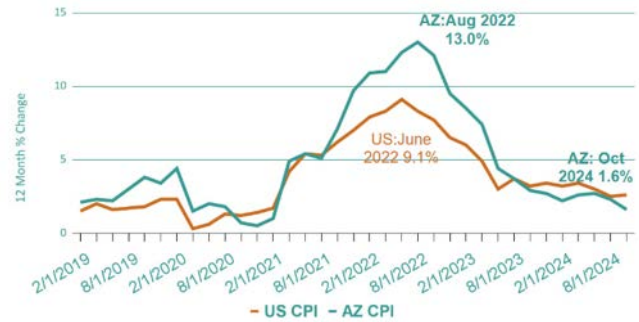
The Phoenix Metropolitan Statistical Area (MSA) Consumer Price Index (CPI) dropped below the US in October 2023 after ranking as the highest metro area during the peak of inflation. It has held below 3% since last October and has consistently remained below the US average. As of the latest readings, the Phoenix MSA CPI rose by 1.6% in October compared to the previous year. The slower increase was primarily due to a reduction in energy costs. The inflation slowdown since 2022 has largely been driven by falling service prices, along with the recent decline in energy prices. Services have been decelerating due to shelter costs, particularly rents. Historically, Arizona’s economy has been susceptible to fluctuations in the housing market. The state experienced a surge in housing prices and rents following the COVID-19 pandemic, but this upward price pressure has moderated over the last year. While still increasing, the pace of growth in housing costs has slowed, contributing to the overall easing of inflationary pressures in the Phoenix MSA CPI.

While prices have stabilized and are now increasing at a moderate pace, the high cost of housing, combined with elevated interest rates, continues to be a significant concern for housing affordability. To

<sup>1</sup> <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3259638>

address these issues, the Executive has invested in housing initiatives, including mortgage assistance and interest rate relief for first-time homebuyers, and the development of affordable housing (most notably, by extending the state low-income housing tax credit).

Figure 2



**Consumer Price Index: Year Over Year Change**

**National Outlook**

The Blue-Chip Economic Indicators (BCEI) consensus forecast (a survey that gathers insights from over 50 top business economists) projects that the US Gross Domestic Product (GDP) in 2024 will have grown by 2.7%. For 2025, the panel consensus is 2%. Alternatively, the top ten range by the panel for GDP for 2025 is 2.4%, and the bottom ten range is 1.6%.

These predictions by the business forecasters are decidedly more optimistic than they have been in the past few years, when most forecasters were predicting slow growth and recessions. With strong US growth predicted and little reason to expect a recession, the US will conceivably achieve the Fed’s long-pursued “soft landing” or possibly encounter another alternative: a “no landing” scenario when inflation gets close to the Fed’s target. In the meantime, growth is at or above long-term trend estimates.

The BCEI panel estimates that inflation will run at 2.2% CPI and 2.1% PCE (personal consumption expenditures), with unemployment rates at around 4.3% and the US 10-year Treasury rate at 3.6% in 2025. The Treasury market may continue to be volatile in the near term.

In 2024, market expectations changed swiftly over stronger-than-expected US macroeconomic data, causing markets to shift investing strategies to different segments. This shift caused spikes and declines in the bond market over the last few months. This trend will likely continue into 2025, until the markets have more predictability in future macroeconomic conditions and election policy shifts.

The current rise in long-term interest rates has directly impacted the mortgage market, pushing 30-year fixed mortgages higher after a brief reduction in the summer of 2024. If long-term Treasuries eventually soften, mortgage rates are predicted to lower in 2025 to about 5.75% to 6.25%.

On One Hand. The pace of GDP growth going forward will be dictated by the pace of federal funds rate reductions and the economy’s resilience against external shocks or significant fiscal policy changes. The Blue-Chip panel reflects consensus sentiment among economists nationally, which is that 2025 will see moderate growth that is certainly strong enough to absorb mild shocks and likely increases in the working-age population.

Post-Presidential election periods have historically been associated with periods of economic expansion, the anticipation of which could

benefit market growth and GDP growth. The post-election economic expansion will depend primarily on fiscal policy measures enacted over the next few years.

Also, many provisions in the Tax Cuts and Jobs Act, enacted in 2018, expire in 2025. Any extension, expansion, and additions to those provisions will presumably affect the future economic outlook.

On the Other Hand. Tangential factors, if they occur, would likely slow the pace of growth. As examples:

- A prolonged war in the Middle East would likely disrupt world energy supplies, leading to higher energy costs and exacerbating the inflation challenge.
- Significant escalation of geopolitical crises, such as those involving Russia-Ukraine or China-Taiwan, could significantly alter economic outlooks. These crises can disrupt supply chains, affect inflation rates, and influence financial markets, altering global stability in economic forecasts.
- Factors that could derail growth would be aggressive anti-trade and broad-based tariff policies that ignite trade wars, interrupt trade flows, stifle supply, and ultimately raise the costs of goods.
- Should stricter immigration and deportation policies be implemented, they could restrict the labor market and reduce consumer spending outlooks.

Economic growth in the near term will continue to be bolstered by recent fiscal policy initiatives that have fostered increased investments in infrastructure and advanced domestic manufacturing and expanded public/private investment pursuits enabled by legislation, namely the Infrastructure Investment and Jobs Act (IIJA) and the CHIPS and Science Act, which promotes domestic semiconductor research and manufacturing in the US. Indeed, the CHIPS Act has been instrumental in Arizona, leading to the expansion of operations at Intel and the Taiwan Semiconductor Manufacturing Company (TSMC), both located in the state.

## SUPPLY CHAIN DISRUPTION

Supply chain disruptions help explain much of the recent course of economic history. Supply chain challenges stem from the decades-long reliance on “just in time” inventory management and global economic interactions free from significant friction.

The expansion of trade between China and the US over the past few decades has surged. This trade has benefited both countries, particularly the US consumer, by lowering the prices of goods. In recent years, even before the pandemic, the system began to show signs of stress as relations between the US and China deteriorated due to allegations of unfair trade practices. Tensions have already led to shifts in the US-China relationship, with Mexico now surpassing China as the US’s top market for imports for the first time in decades, and the US and China imposing export controls on one another on key technologies, limiting trade and economic ties between the two countries.

The pandemic further strained this fragile system, leading to the shutdown of manufacturing facilities and transportation networks out of fear of the virus and concerns about a prolonged economic downturn.

Initially, as demand fell, orders dropped sharply. However, consumers quickly focused back on purchasing goods, since services were limited and less appealing. This increased demand for goods was further fueled by various federal stimulus programs and easy credit, which allowed consumers to build up savings. As consumer demand surged, inventories were quickly depleted, prompting producers to boost their activity. Unfortunately, shortages of both finished and intermediate goods soon became apparent. Only recently have these pressures begun to ease.

The supply chain will remain vulnerable to shocks and shifting policy agendas. Unless domestic production or straightforward product substitutions can fill the gaps, challenges with product availability and price pressures can deepen with a continuing deterioration in free-flowing trade. Over time, domestic production can fill gaps, but the transition period may be taxing. Any aggressive tariff policy could lead to a trade war, resulting in headwinds for America’s exporters.

Many consumers feel the strain from the shift in the low prices and abundant inventories that the efficient global supply chain network delivered pre-pandemic. However, it is unlikely that the goods-distribution system will return to previous operational efficiency levels in the near term.

In time, it appears that more reliance on domestic sources of goods may be required, but the reliance on domestic production will ultimately come at the expense of higher prices.

## INFLATION

Inflation has primarily cooled through 2024, especially in core goods, but remains somewhat flat due to services and housing prices, where the cooling trend has moderated in the last few months. Moderating inflation and a softening labor market allowed the Federal Reserve to initiate its first 2024 rate cuts during the last five months, with a 50-basis-point reduction in September and a 25-basis-point reduction in November and December. This easing is expected to continue through 2025, although it may be at a slower pace than most economists had initially predicted.

In March of 2022, the Fed approved its first rate hike after it became evident that inflation levels that were higher than the 2% Fed target had become entrenched. The series of rate hikes that followed were aimed at curbing demand and easing price pressures. This approach has considerably reduced the inflation rate while overall economic growth has generally slowed. Interest-sensitive sectors such as real estate have been impacted most severely by the rate hikes, and real estate remains unsettled even with current rate cuts, due to volatility in the bond market and other key factors. High interest rates, higher housing prices, and supply constraints make it likely that the housing market will remain stagnant, making housing affordability a persistent challenge for the US through most of 2025 and 2026.

While inflation is normalizing, prices are still mostly positive, indicating they are still rising but at a slower rate, and the cost of many goods and services will likely remain high in the next several years. These higher prices can cause households to experience inflation differently across different sub-groups and time periods:

- Households with income increases and low fixed-interest rate mortgages have been more insulated from rising goods and service costs.
- In sharp contrast, renters, fixed-income households, and those with slower wage growth have experienced eroding purchasing power. This cohort’s inflation-adjusted incomes (real incomes) have lagged until the last 24 months.

The positive aspect is that inflation has decelerated, and rising wages have dampened inflation. However, the fact remains that high prices and wage growth differences toughen inflation impacts across various groups.

## EMPLOYMENT

In 2024, the labor gap between supply and demand began to balance. The labor market has performed remarkably well, with total non-farm employment in the US growing by about 9 million over the past three years, a pace that outstrips job creation in the three years prior to the pandemic. In addition, layoffs remain low at 1%, and job openings, while softening, are stable at 4.6%. The strength and duration



of job recovery post-pandemic has been impressive due to the tight job market, where demand outpaced the labor supply.

The Blue-Chip panel predicts that unemployment rates will remain well below 5% through 2025, with modest GDP growth due to market normalization. The labor market in the near term is expected to continue to moderate, as evidenced by several key data measures, such as a decline in job postings and the decline in the “quits rate” – the percentage of people who quit their jobs.

Some risks remain that a more severe cool-down could occur while the Federal Reserve works to reduce inflation to the 2% target rate, although the Fed’s current trajectory suggests a commitment to supporting the labor market rather than taking a firmer stance on curbing inflation. When considering the current labor market and economic conditions, a mixed picture emerges as slowing trends exist alongside several other indicators of resiliency, including continued strong GDP growth, consumer spending, and wage growth.

The US labor market will face significant challenges in the next several years, resulting in tighter labor conditions. Labor force participation for prime workers, aged 25-54 years, has continued its upward trend since the pandemic. In 2024, it has been around 62.4%, slightly below the long-term trend of 62.84%; however, it may not be enough to overcome an aging population.

The working-age population is losing aging Baby Boomers at a rapid rate, and younger generations have lower birth rates. The domestic working-age population is essentially stagnant. In the past decade, demands for a growing labor force have been met by foreign-born workers. However, without reform in immigration laws, it will be challenging to meet the needs of the labor force in the current environment. If labor scarcity challenges persist or widen, the Federal Reserve may have more room to raise or keep interest rates higher. Typically, the Fed raises interest rates in normal tightening cycles to cool the economy. This generally leads to a less tight labor market and increased unemployment rates. If employment remains consistently tight, as it did in early 2024, the Fed will be less inclined to reduce rates. It also remains unclear how sizable fiscal policy changes in immigration and fiscal austerity will affect the labor market tightness in the near future.

Artificial intelligence (AI) innovation may also become a significant factor in the near future, and its potential impact on the labor market is yet to be determined. These effects may offset the tight labor shortages and boost productivity or shift job demand to different segments. Given the high rate of uncertainty and the likelihood of rapid adoption, AI innovation poses both potential risks and potential opportunities for the current state of the labor market.

### CONSUMER SPENDING

Consumers have continued spending over the past few years amid rising prices and remain well supported by strong wage growth. But the downside risks are growing.

A considerable portion of consumption was likely fueled by savings accumulated during and shortly after the pandemic. This stock of savings has largely been exhausted in all but the highest- income cohorts. The outlook remains solid, but with a segmented outlook, lower- to medium-income households with higher debt burdens and reduced buffers from savings continue to feel the impact of higher prices more acutely, causing them to exercise more prudence in purchasing decisions.

In contrast, higher-income households with more financial freedom will drive a larger share of consumption. Faster interest rate cuts could increase consumption by allowing consumers to assume more debt, but moderating employment growth or spikes in energy prices could weigh on consumption further. Consumption patterns are still skewed by a preference for experience-related services such as traveling or attending

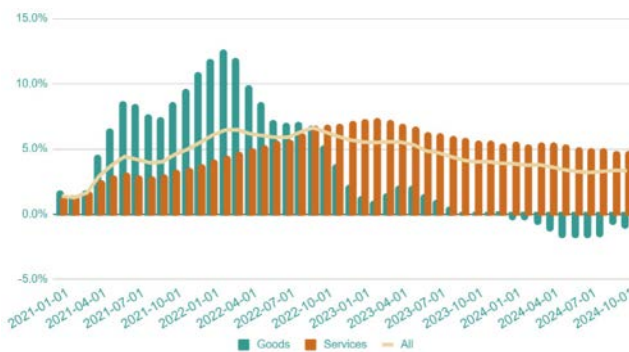
an event over physical goods. This preference will likely persist as consumers make more strategic trade-offs in their purchasing decisions.

The cost of borrowing will influence the consumption of interest-sensitive items. High lending rates and tighter credit policies could potentially discourage purchases of durables such as housing and automobiles. Meanwhile, non-interest-sensitive sectors such as services, travel, and entertainment will continue to be favored.

The caveat in consumption will be available credit and the consumer credit prices shaping consumption patterns over the next year.

Figure 3

### US Consumer Price Index (CPI-U) Excluding Food and Energy



### INTEREST RATES

Interest rates were historically low in the pre-pandemic years. Low rates resulted from relatively sluggish economic growth, accommodative Federal Reserve policies, and historically low inflation. These low rates fueled consumption, home buying, and business borrowing, ultimately leading to a significant appreciation of equity prices. Rather than being the norm, it is increasingly clear that the interest rates that prevailed during the decade before the pandemic were anomalies.

Consider that the 30-year mortgage rate averaged:

- 12% in the 1980s,
- 7.5% in the 1990s,
- 6% in the first decade of the 21st century, and
- 4% in the decade leading up to the pandemic, with mortgage rates as low as 3% in 2021.

If history provides a guide, it is unlikely that interest rates will decline to 4% any time soon. Market conditions and several other factors determine long-term interest rates, and it will be difficult to predict how quickly they will drop, but it is safe to predict that mortgage rates will not return to below 4% in the near term.

Figure 4

**Interest Rates**



Much of the dissatisfaction with the current US economy relates to affordability issues, and interest rates dictate how much housing and other durables, like appliances and automobiles, are within reach of the average household. History has proven that, once in place, inflationary pressures leave a lasting impact on the cost of credit for years and, in some cases, decades.

**MARKET VOLATILITY**

The US equity market has experienced a remarkable run despite the Federal Reserve tightening policy that began in 2022.

Also, price acceleration surged throughout 2024 as the Fed began to signal that they would continue to reduce the policy rate in the future.

The US equity market has become a more crucial financial function for the average American. Declining equity prices erode 401(k) and pension fund balances and make it harder for public companies to tap into the market for investment funds. In today’s job market, many technology workers receive a significant portion of their earnings through equity.

For state and local fiscal policy, capital gains realizations surged by about 75% in calendar year 2021, leading to a significant revenue collections in states with income tax revenue as part of their respective bases, and these collections have decreased. Land price volatility is another source of capital gains, especially for Arizona investors. The real estate market has cooled significantly in the last several years, adding headwinds to capital gains and income tax revenue accumulation.

In 2025, the pace of equity appreciation will influence the Fed’s progress in its inflation battle. The landscape will continue to be complex, and more ups and downs could be seen over the next year. Other factors may play a role, such as geopolitical shocks, tariffs, changes to corporate tax rates, antitrust or technology company regulation, and, of course, the economy’s overall health and the ability of public corporations to make profits.

Failure of the Fed to wipe out inflation could be even more damaging, and the lesson of the 1970s shows that the inability to persistently fend off inflation and a slowing economy is a recipe for “stagnation” – slow growth with significant inflation – and that stagnation can persist for years.

Investors will be paying close attention to specific federal policy actions. Key areas of interest include the potential extension or expansion of tax cuts for corporations and individuals, the impact of increasing the US budget deficit, and deregulation or eliminating tax credits that could distort specific industries’ profitability. Additionally, trade disputes that lead to supply chain issues will be of concern, particularly any developments that could hinder progress in addressing inflation, resulting in higher interest rates sustained for a more extended period.

**BUSINESS SPENDING**

Over the past year, business spending has experienced a moderate growth rate as companies have evaluated potential future returns that might prevail going forward. Some sectors concerned by regulation are now poised for expansion due to anticipated deregulation policies under the new administration. The traditional energy sector, in particular, may witness significant growth, while renewable energy investments could slow down, especially if existing clean energy credits are eliminated.

The fate of oil and gas investments will ultimately depend on investor perceptions of future demand for fossil fuel products and the ability of companies to exercise sufficient pricing power to generate requisite returns. While oil companies stand to gain from increased production, they also rely on pricing power to maintain their profitability. There is a delicate balance between these two factors, as an overemphasis on production could erode pricing power.

**Arizona Outlook**

Arizona’s economy currently remains strong, and the state is well-prepared to manage the headwinds of a national economic slowdown or mild recession.

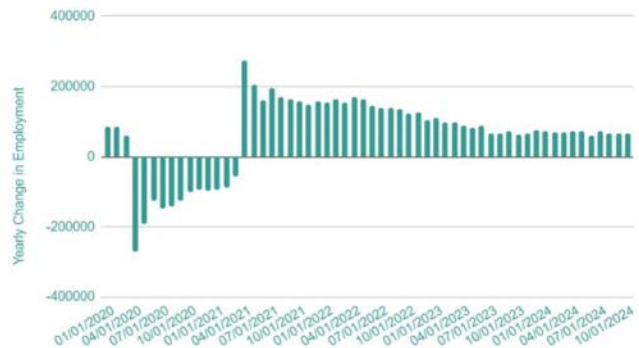
Arizona has been one of the nation’s growth leaders for most of the past 75 years. In the past two years, growth has been fueled by:

- A business-friendly environment that attracts persistent interest among companies contemplating relocation and
- A reliable workforce during the pandemic.

In 2024, job growth accelerated. Arizona added 65,000 jobs during the fourth quarter, and projections from the Arizona Office of Economic Opportunity indicate that the state will see job growth of an average of 1.3% annually over the next 10 years, tripling the projected national average of 0.4%.

Figure 5

**Arizona Employment Increase Over the Prior Year**



**HOUSING**

The primary challenges to the Arizona economy for the next several years are centered around housing, the pace of its recovery, and the availability of affordable housing options.

It is evident that the real estate sector has experienced a slowdown from the middle of 2022 to 2024. Interest rates are expected to remain higher than pre-pandemic levels, and housing affordability may continue to be a challenge. New buyers are confronted with relatively high rates and limited access to credit, while potential sellers are reluctant to relinquish their low, fixed-rate mortgages obtained before and during the pandemic. While new supply via homebuilding has accelerated in recent years, Arizona continues to face a shortage of

housing, particularly for lower- and middle-income households, which has put upward pressure on home prices and rent.

Historically, Arizona has been unusually sensitive to real estate changes due to its past sectoral concentration in the real estate industry. This may be somewhat mitigated moving forward, however, based on the increased industry diversification of the state in 2024. As a result, the state is likely to avoid the negative impacts of the sluggish real estate sector. Real estate effects into 2025 and beyond will likely be driven by substantial business relocation, expansion momentum, and continued net domestic in-migration.

The Executive signed four key pieces of legislation in 2024 to create more home choices for Arizonans and address the state's housing shortage. These policy changes promote building more casitas, duplexes, triplexes, quadplexes, and townhomes, converting commercial space into housing, and streamlining municipal approval processes. Additionally, the Executive has invested in several initiatives to counter the challenges in the market, including:

- An extension of the Arizona Low Income Housing Tax Credit (LIHTC), which incentivizes building of affordable housing throughout the state and reduces housing instability for working-class Arizonans.
- A \$15 million FY 2026 deposit into the Housing Trust Fund (HTF); the Department of Housing has issued more than 80 grants from a \$150 million FY 2024 deposit for projects that have financed affordable housing construction, assisted individuals at risk of homelessness, provided relief from extreme weather events in counties across Arizona, and more; the fund also received a \$15 million deposit in the current fiscal year.

## EMPLOYMENT

In the five years preceding the pandemic, Arizona was among the nation's leaders in job creation. Relative to other states, Arizona managed to weather the pandemic quite well, with 2021 job growth ranked among the fastest in the nation. Although growth slowed in late 2022 and continued at a slower pace in 2023, Arizona regained its status as a top job producer in 2024.

The cooling US labor market signifies a return to typical growth patterns following the pandemic-induced destabilization and labor shortages. From 2009 to 2020, the long-run average of US payroll gains from 2009 to 2020 was approximately 185,000, and the US is expected to remain near this level into 2025.

Although Arizona may experience a similar return to normalcy, Arizona's labor market is outperforming the US, and this is expected to be sustained into 2025 and 2026, driven by robust business relocations and a recovering real estate market.

**Manufacturing.** Earning the nickname "Silicon Desert," Arizona has become a top tech hub and the nation's leading semiconductor ecosystem. The resurgence of the state's manufacturing sector is now one of its best economic stories.

Phoenix was listed as a top momentum market, recognized by the CBRE Tech-30 Report as the fourth-fastest-growing city for high-tech jobs over the last two years. Today, the largest manufacturing employers continue to be in aerospace, defense, and semiconductor manufacturing. These sectors will be key in the future, as will the development of the state's burgeoning clean energy and automobile supply sectors.

The pace of new development in these areas will depend on the new global demand for products, ongoing dependency on advanced chips, and government regulators. Over the past year, the manufacturing

sector has faced some headwinds, possibly due to the dramatic shift in consumer spending from goods to services. The industries also faced higher interest rates, which hindered long-term investments in production, while higher prices increased the cost of input materials.

Arizona is a leader in attracting new manufacturing and emerging technology companies looking to relocate or expand. Top assets for the state include competitive taxes, low operating costs, an efficient transportation system, reliable energy grid, strong postsecondary education partners, and a productive, available, highly-skilled workforce. Arizona's blossoming high-tech ecosystem and skilled manufacturing labor pool cultivated by the Executive also generate a virtuous cycle of companies and suppliers looking to co-locate with other high-tech companies already in Arizona. Retaining and expanding on these attributes will be crucial for future economic development.

With a strong pipeline of potential business relocations and expansions, Arizona is expected to continue leading in business attraction. These new businesses can help strengthen existing manufacturing sectors and diversify the state's product base.

Arizona's historical competitiveness in incentives, taxes, regulation, and affordability may need to be complemented with a greater focus on growing and developing our own talent that is ready for jobs in high-growth, high-demand fields. Nearly 7 out of 10 jobs in Arizona will require some type of postsecondary education or training by 2031.<sup>2</sup> The current competitive landscape will necessitate a stronger emphasis on workforce development, postsecondary education attainment, and skill development for Arizona to maintain its competitiveness in economic development growth.

Toward that objective, the Executive has made multiple investments in workforce development and postsecondary education to make progress toward the State's attainment goal (Achieve60AZ), including:

- Creating the Talent Ready AZ initiative, which is creating opportunities that allow Arizonans to obtain a postsecondary certificate or degree that leads to good jobs in high-demand and high-growth industries;
- Forming the Governor's Workforce Cabinet, focused on aligning the state's resources and creating new initiatives toward the State's job goals;
- Launching five Future48 Workforce Accelerators to create partnerships with Arizona community colleges and industry to offer customized training for jobs in advanced manufacturing, including semiconductors, battery, and more;
- Establishing the BuildItAZ Apprenticeship Initiative to double the number of construction and trade apprentices by 2026;
- Developing the Arizona Community College Workforce Scholarship program, which to date has helped 6,200 Arizonans pursue a credential or degree or build advanced skills that lead to jobs in high-wage, high-growth occupations;
- Creating the Tribal College Education & Workforce Scholarship Program, which will serve approximately 3,600 Arizona students attending Tribal colleges;
- Fostering growth in apprenticeship programs in traditional and non-traditional areas, including semiconductors, cyber security, and other leading-edge industries; and
- Building Arizona's healthcare workforce through the AZ Healthy Tomorrow initiative with the State universities and the nursing programs at community colleges.

<sup>2</sup> "After Everything: Projections of Jobs, Education, and Training Requirements through 2031," McCourt School of Public Policy, Center on Education and the

Workforce, Georgetown University



The Executive has created the Governor’s Workforce Cabinet. The Cabinet includes state agency and Board leadership that will help set goals and create initiatives to meet the state’s workforce needs and focus on key sectors, such as construction, health care, and manufacturing that are important to the state’s future and economic growth. The Cabinet will collaborate with external partners to prepare and link Arizonans to high-paying jobs.

Additionally, the Executive has invested in initiatives that increase access to postsecondary education and that remove barriers to entering or staying in the workforce. This includes the Executive’s work to lower childcare costs and address early childhood education workforce needs, bolstering parents and/or guardians’ ability to continue to participate in or enter the workforce.

The Executive committed to remove barriers to make higher education more affordable to help more Arizonans obtain a credential or degree through investments in the Arizona Promise program, Arizona Teachers Academy, and Community College Workforce Scholarship program.

Construction. In 2019, the state’s 12,000 new construction jobs ranked Arizona among the top five states in construction job growth. In 2023, construction job growth slowed due to a decline in housing sales caused by high interest rates. After the decline in 2023, Arizona construction jobs were up by 6,800 for the first three quarters of 2024, a pace somewhat faster than 2023 but slower than pre-pandemic growth.

The pace of growth in 2025 and 2026 will be dictated by how quickly the overall housing sector recovers, the pace of continued business relocations and expansion in the state, and the level of long-term interest rates, which have remained high.

Rising labor costs have exacerbated recent challenges in the sector due to several factors, including increased demand for workers, a lack of skilled workers, and ongoing barriers to obtaining legal work status for immigrant workers. Further, changes in federal policy, especially regarding investments in infrastructure and domestic manufacturing, may affect these incoming investments in the future.

To deliver on these major manufacturing and infrastructure projects and attract future opportunities to the state, the Executive launched the BuildItAZ Apprenticeship Initiative to address the workforce needs of the construction industry. The effort is working to support registered apprenticeship programs in recruiting more apprentices, retaining apprentices already enrolled, and providing wrap-around services like childcare and transportation, to build the skilled workforce needed to deliver on these major projects

Health Care. The healthcare sector is Arizona’s primary job creation source, with an additional 27,000 jobs added as 2024 came to a close, ranking Arizona third in the nation for healthcare job creation.

The industry is traditionally labor-intensive. Even with productivity gains in treatment and surgical options, there will always be a growing need for people to deliver care at high-, medium-, and modest-skill levels. As the population demographics shift to a more significant percentage of aging cohorts, there will be an increasing demand for healthcare services at all levels, from home health care to nurses and doctors.

It will be essential to focus on producing, attracting, and retaining more workers trained for healthcare occupations. This demand will require expanding training programs, creating more internship opportunities, and developing additional labs to support research. The Executive has invested in the Arizona Nurse Education Investment Program to help source the future pipeline of available nurses to support the growing healthcare industry. The Executive also created the Community College Workforce Scholarship program to remove the cost of tuition as a barrier to a career in healthcare. Furthermore, the Executive invested in AZ Healthy Tomorrow to grow the capacity of

Arizona’s universities that will produce a stronger health care workforce.

**In-migration.** According to the 2023 American Community Survey by the US Census Bureau, Arizona was the fifth-most-popular destination for people moving within the United States, with a net gain of over 62,500 residents. This includes the net number of people moving into or out of Arizona. Most of the gains were from people moving from California. Domestic in-migration in the US surged post-pandemic with remote work and ample opportunities to change jobs under tight labor conditions.

As domestic migration and foreign immigration contract, states will be compelled to compete for young, innovative workers; those that attract the most will be among the fastest and most prosperous. Research conducted at Arizona State University reveals that, from the 1970s through the 1990s, the number of net migrants aged 15 to 34 surpassed the quantity of those aged 55 to 74 by 70%.

However, these trends have shifted. During the 2010s, the number of net migrants to Arizona within the 15-34 age range was 18% lower than that of individuals aged 55 to 74. ASU researchers attribute this shift in part to changes in the national age distribution. However, the older population’s net migration rate to Arizona has not fallen as much as that of young adults. This trend suggests that the state will increasingly need to rely on robust growth in business opportunities and workforce training programs to attract a share of the diminishing pool of young movers and retain Arizona natives in higher numbers over time.

The state encounters risks similar to those faced by the nation: potential losses in productivity from declining demographics, low birth rates, an aging population, and stricter immigration stances. The aging population incurs more costs and puts more pressure on social systems. Productivity enhancements from artificial intelligence could limit the impact on lost productivity from declining demographics. This promising development can augment human capabilities.

However, the risks to security and managing the change could prove problematic for a quick fix as the retirement boom expands over the next few years. Arizona’s robust economic environment, which creates dynamic business opportunities with a focus on proactive workforce development, ensures that the state can continue to prosper and have continuing economic growth in the face of demographic shifts.

## Risk and Opportunity

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While the risks of a recession have significantly declined, the US economy had softened by the end of 2024, leaving little room for further slowing on a national level. A US recession could still occur, possibly triggered by federal policy missteps or unexpected external shocks. In the event of a mild or moderate US recession, Arizona is expected to fare relatively well, given its current economic strength compared to the national economy.

Growing international conflicts, particularly in the Middle East, Ukraine/Russia, and China/Taiwan, pose additional risks. If the effects of these conflicts are not effectively mitigated, they could lead to sanctions, market destabilization, and fluctuations in energy and commodity prices. Such developments could significantly affect the global economy and notably impact Arizona’s economic outlook.

The broader outlook is clouded by uncertainty regarding post-election federal policy. Although the federal fiscal policy from the incoming administration is not yet definitive, fulfillment of various campaign promises could impact the nation and Arizona, such as increased tariffs and reduced immigration, which present downside risks to Arizona’s outlook in 2025 and beyond.

Immigration restrictions will lead to a limited labor supply, and the labor market has already been relatively tight in Arizona throughout

2024. Labor supply dynamics will be a factor in maintaining the balance of labor demand and supply into 2025. While employment has slowed, fundamentals in the market, such as new immigration restrictions coupled with an aging workforce, could reignite labor shortages experienced after the pandemic. The long-term impact would increase labor costs by driving wages upward, resulting in higher production costs and increased prices. Mass deportations and severe restrictions on legal immigration would create considerable downside risks to short-term growth and future growth prospects. These restrictions could lead to a shortage of labor, which could hinder business expansion and economic development in the US and, in particular, Arizona, which may face more widespread impacts because of its shared border with Mexico. Labor shortages, protectionist trade policy, and tax cuts all represent inflationary fiscal policy, further complicating the Federal Reserve’s mandate of targeting inflation of two percent.

As of this writing, there is uncertainty about how widespread the threatened tariffs would be or what industries might be most affected. However, tariffs could escalate trade tensions and disrupt global supply chains. Broad-based tariffs generally lead to higher inflation by increasing business production costs, and businesses subsequently pass on some or all of those costs to consumers.

The enactment of tax cuts would put more pressure on the US deficits, and large budget deficits are inflationary. The federal government will likely extend the provisions of the Tax Cuts and Jobs Act and cut corporate tax rates. In the near term, these could lead to economic expansion, reheating the economy while reducing the amount of tax revenues collected and widening the federal budget deficit. Rapid and widespread federal protectionist policy decisions that cause labor shortages, or increase tariffs could result in renewed inflation, leading to higher interest rates for an extended period. This will place additional strain on housing supply and affordability.

**OPPORTUNITY**

For decades, Arizona has remained well-positioned for business expansion. Arizona’s business-friendly tax and regulatory environment, its attractiveness as an in-migration destination for movers, and the continued interest in Arizona in the form of business relocation and site selection professionals all contribute to a positive economic outlook.

Maintaining a stable, predictable, business-friendly climate that is attractive to young and innovative workers can help sustain growth in the future. The investments made by the Executive to grow Arizona’s workforce and initiatives developed to invest in and create educational opportunities for all Arizonans will help attract and retain Arizona’s workforce, further bolstering the state’s economic prospects.

**The Revenue Outlook**

While forecasting State Government’s General Fund revenue is always challenging, this cycle presents new uncertainties.

In particular, the impact of the recent individual income tax cuts and the distortions from payment timing issues that the State encountered over the last few years will be accounted for once the spring filing season begins in 2025. Particular challenges will remain in deciphering prior year performance and comparing the year-over-year growth patterns.

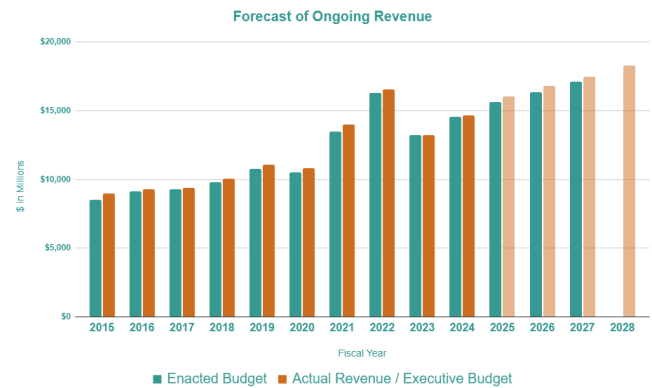
However, the pace of growth in income taxes in the years ahead will be more closely aligned with general economic conditions, barring any significant tax law shifts at the federal or state level. This has been evident in individual income revenue growth at the beginning of FY 2025, with withholding collection performing on par with Arizona’s strong wage growth, currently at a growth rate of 7% over last year.

Also, the future trajectory of the economy is generally clear, with lower inflation and steady growth expected in the economy. Recession probabilities are currently around 30%, down from 50% just a year ago.

The shift in spending from goods to services has been apparent in the transaction privilege tax revenues over the last year, especially in the brick-and-mortar retail sales category. Retail sales are currently at 1% over the prior year after correcting for several technical adjustments. This category has also been impacted by the diminishing gains from price inflation that benefitted sales tax in fiscal years 2021 and 2022.

Figure 6

**Forecast of Ongoing Revenue**



If disinflation remains stable, the slowing of retail tax revenue will stabilize. In 2025, consumer spending will be boosted by a strong labor market and rising wages, but consumers may exercise more caution in purchasing decisions, continuing to make trade-offs. While prices have stabilized, there is still some residual uncertainty regarding the continued resiliency of the US consumer.

If price pressures reignite, that could put additional pressure on consumers in the coming months, posing a potential risk to revenue outlooks. Nevertheless, continuing interest rate cuts will benefit consumers by allowing them to access more credit into 2025. In addition, the real estate sector, impacted by the tight money policies of recent years, will likely have a moderate recovery from lower interest rates provided inflation slows.

**Achieving the FY 2025 Baseline Revenue Forecast**

The baseline forecasts for the current and next fiscal years are moderate; thus, absent fiscal policy missteps and large changes in the economic picture, revenues will reach projected levels as the economy grows modestly over the next 18 months.

**LOOKING AHEAD**

The Executive presents a cautious forecast as the economy enters a period of increased stability following the disruptions caused by the post-pandemic economy and changes in tax policy.

However, this is a critical juncture for the US economy, when the economy is transitioning from a period of high inflation to a disinflationary period, and any missteps could jeopardize this stability. The waning in international global diplomacies and fractured supply chains leading to economic disruptions pose additional risks to future outlooks.

Nevertheless, the overall picture is one of a stable economy. The forecast considers the following key factors.

Consumer Behavior. The ongoing shift in consumer preference for services and experiences over goods, coupled with slowing inflation, has influenced the sluggish growth in Transaction Privilege Tax (TPT) collections. However, employment and wage growth are strong, prices on goods remain firm, and TPT growth will continue, albeit at a modest pace. Momentum is expected to come from construction, utilities, and remote retail sales. Other considerations are the recurring pattern of refunds and audit settlements that often erode sector flows and are not predictable based on economic factors.

Capital Gains and Corporate Profits. Individual Income Tax collections are expected to stabilize as the complete transition to the new tax structure occurs at the end of 2024. However, the pace of capital gains realization could lead to unexpected results. If investors decide to cash in on the substantial increases in equity valuation over the past year, collections in the spring of 2025 could exceed expectations, as the baseline forecast incorporates only modest capital gain appreciation.

The flow of Corporate Tax Collections has increased in recent years due to robust growth in corporate profits and the expanded use of the pass-through entity credit, which allows filers with traditional S-corp liability to pay a portion of their individual income tax as corporate income tax. While this does not affect total General Fund collections, it explains the increase in corporate receipts and slower growth in Individual Income Tax collections. In the foreseeable future, corporate receipts will continue to exceed historical levels, with some emerging downside risks from normalizing GDP growth, restriction of easy credit, and softening consumer consumption. This may lead to an economic environment with slower and potentially more volatile corporate profits.

# Affordable and Thriving Economy

## Ensuring Arizona's Economy Works for Everyone and Lowering Costs for Arizona Families

“Let’s work together to lower costs and support families who are raising the next generation of Arizonans. Arizonans are counting on us to be their voice to lower costs and deliver the Arizona Promise.”

Gov. Katie Hobbs

Arizona has been and continues to be a national leader in providing a high quality of life for residents as well as attracting and retaining businesses. In this growing and strengthening economy, strategic solutions for child care, access to workforce needs, and affordable housing challenges are crucial.

To ease growing pains and continue the state’s economic momentum, the Executive Budget includes targeted investments toward lowering housing costs, expanding child care access, bolstering pathways to educational attainment, creating pathways for upward mobility for the workforce while addressing critical workforce shortages, and much more.

### Lowering Housing Costs

#### LOW INCOME HOUSING TAX CREDIT EXPANSION

Housing affordability continues to be a challenge for many Arizonans, particularly the working class. To encourage the continued development of affordable housing, the Executive Budget includes an expansion of the State’s Low Income Housing Tax Credit (LIHTC).

The State’s LIHTC program began in FY 2022 and, without an extension, will sunset on December 31, 2025. The Executive Budget extends the program to December 31, 2031, and expands the State tax credit from \$4 million to \$10 million for each year.

The State LIHTC program allows residential rental property developers to apply for and, if approved, claim tax credits against their insurance premium or income tax liability in equal amounts over a 10-year period to help offset the cost of developing affordable housing for working-class Arizonans. The State LIHTC works alongside the federal LIHTC to increase available credits that, in turn, promote investment in affordable housing throughout the state, reducing housing instability for Arizonans.

The current State LIHTC program has allocated \$13.8 million in credits over four years, resulting in the Arizona Department of Housing (ADOH) approving 1,600 units to be constructed, with half of the 14 projects awarded outside Maricopa and Pima counties. Under the extension, the projected fiscal impact to the State is a \$10 million reduction in General Fund revenue that accumulates each year from FY 2026 through FY 2031. The Executive Budget contemplates a revenue reduction of \$10 million in FY 2026 and \$20 million in FY 2027, with the projected revenue reduction peaking at \$76 million in FY 2031.

The total new investment over the life of the extended program is estimated at \$600 million. This \$600 million will not only provide affordable housing options for working-class families; it will also be an

investment that will achieve positive economic impacts, including new jobs and construction-related increases in tax revenue.

#### HOUSING TRUST FUND DEPOSIT

To continue and expand the work being done to combat housing insecurity across the housing continuum, the Executive Budget includes a one-time deposit of \$15 million from the General Fund into the Housing Trust Fund (HTF). This deposit will be utilized to create and scale housing solutions targeted at working-class families.

The historic investments totaling \$165 million over the past two years have provided for more than 80 grants issued by the Arizona Department of Housing (ADOH) for multiple housing affordability initiatives, including financing affordable housing construction; rehousing and assisting individuals at risk of homelessness; providing relief from extreme weather events in counties across Arizona; contributing to homeownership assistance; and more.

ADOH continues to release competitive award opportunities and work with stakeholders and housing practitioners to identify the areas of the most need. Recently, ADOH has prioritized significant portions of recent HTF allocations for gap financing, particularly for LIHTC projects. Of the FY 2024 HTF allocation, \$46 million was awarded across 12 projects to generate nearly 2,400 units of affordable housing.

#### HOMELESS YOUTH ASSISTANCE PROGRAM

The Executive Budget includes \$1 million ongoing from the General Fund to continue the Homeless Youth Assistance program, which supports organizations that aid 18- to 24-year-olds experiencing homelessness.

The Department of Economic Security (DES) distributes funding to multiple organizations for street outreach services, providing basic needs and service connection for unsheltered youth experiencing homelessness, and drop-in center services, providing temporary day shelter and respite along with case management and supportive services. On average, 407 youth per quarter have been served since the program began.

The program was initially funded with federal monies in FY 2023. The FY 2022 three-year spending plan included \$1 million in ongoing funding beginning in FY 2024 to backfill the federal funding with General Fund monies. The backfill was delayed until FY 2026, while federal dollars continued to be spent down.

#### HOMES FOR HEROES

The Executive Budget includes \$5 million one-time from the General Fund to the newly established Homes for Heroes Fund at the Arizona Department of Veterans’ Services (ADVS). This investment will facilitate the development of a statewide, cross-jurisdictional plan by the end of FY 2026, with the goal of effectively reducing veteran homelessness in Arizona over the next decade. Implementation of the state plan will begin in FY 2027, with an emphasis on housing solutions (including rental assistance), social services, counseling, veteran treatment courts, and other evidence-based programs designed to effectively address and reduce veteran homelessness. In addition to coordinating the initiative at ADVS, funds would be used for grants to

partner with community-based organizations to build capacity to offer services and execute on this work through FY27.

Aligned with the Department’s strategic goal of reaching near-functional zero for unsheltered homelessness among veterans, these funds will allow cross-jurisdictional collaboration with other state agencies and initiatives - including the Arizona Department of Housing, Arizona Department of Economic Security, and the Governor’s Interagency and Community Council on Homelessness and Housing - Tribal governments, local jurisdictions, and federal partners.

#### “ARIZONA IS HOME” MORTGAGE ASSISTANCE PROGRAM

In FY 2024, the Arizona Is Home mortgage assistance program was created as a collaboration between ADOH and the Arizona Industrial Development Authority (AZIDA).

Arizona Is Home extends homeownership opportunities for qualifying middle-income homebuyers through enhanced down payment assistance and mortgage interest rate relief. To date, over 400 households participated in the program and closed on a home.

This new Executive allocation will expand the program to reach upwards of 1,000 households by:

- Renewing the AZIDA Arizona Is Home offering for households in rural counties, and
- Enhancing homebuyer assistance through a new partnership among ADOH, the Arizona Finance Authority, and IDAs in Maricopa and Pima counties.

The Executive has invested \$5 million of federal American Rescue Plan Act (ARPA) dollars in FY 2025 to the Arizona Is Home program. This new investment is in addition to \$13 million – \$3 million in ARPA funds and \$10 million from the Housing Trust Fund – directed to the program in FY 2024, bringing the total investment to date to \$18 million.

#### HOUSING AND HEALTH OPPORTUNITIES INITIATIVE

The Executive Budget leverages existing fund sources at the Arizona Health Care Cost Containment System (AHCCCS) and ADOH to draw down tens of millions of federal dollars for the Housing and Health Opportunities (H2O) pilot program.

For FY 2026, the State investment of \$5.3 million will draw down \$49.8 million in additional federal monies to provide housing and supportive services to Medicaid members who are experiencing both homelessness and one or more chronic diseases or conditions.

In turn, H2O is anticipated to lower the total cost of member care by increasing participation in preventive and rehabilitative care, thereby reducing the need for costly emergency services, hospitalization, and crisis interventions.

The H2O program was approved in 2022, and services began on October 1, 2024. The program is federally authorized through FY 2027 to provide transitional housing, rental assistance, and tenancy support to unsheltered Medicaid members. During the first year, H2O will emphasize services for members living with a serious mental illness (SMI) diagnosis.

The Executive has directed AHCCCS and ADOH to contribute the State’s share of the H2O investment in FY 2026 using the ADOH Housing Trust Fund and the AHCCCS SMI Housing Trust Fund.

<sup>1</sup> <https://www.strongnation.org/articles/2290-the-economic-impacts-of-insufficient-child-care-cost-arizona-4-7-billion-annually>

<sup>2</sup> <https://bipartisanpolicy.org/download/?file=/wp->

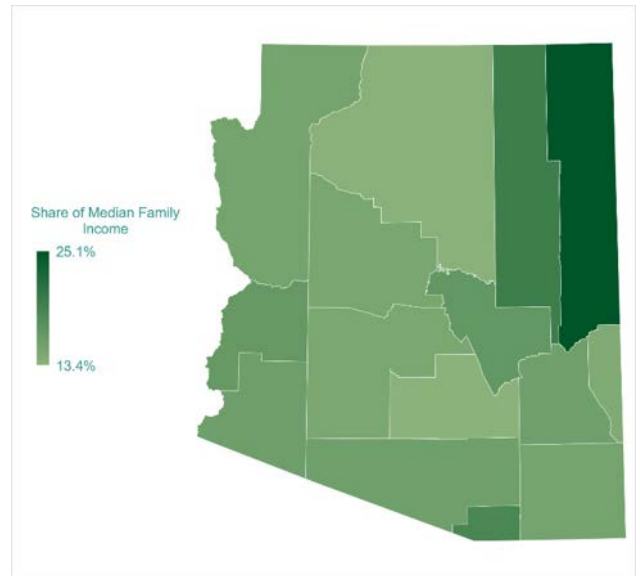
## Child Care Solutions to Meet Arizona’s Workforce Needs

### BRIGHT FUTURES AZ

Providing families access to child care not only improves children’s development and well-being; it is foundational to a thriving economy and available workforce. When families have access to affordable and available child care, they are able to work and businesses have a more reliable workforce.

Figure 7

#### Price of Infant Center-Based Child Care as a Share of Median Family Income in Arizona



However, many families in Arizona struggle with finding available care that they can afford.

- Disruptions in child care cause a \$4.7 billion economic disruption to Arizona’s families, employers, and state economy each year, with families losing \$3 billion in earnings, and businesses losing \$958 million in reduced revenue and increased hiring costs.<sup>1</sup>
- As many as 25% of Arizona children need child care but do not have access.<sup>2</sup>
- Over the next 10 years, the need for child care is expected to grow by 20%.
- Child care costs for a family should not exceed 7% of a family’s income, but in Arizona the average family pays 17%.

The economic impact of disruptions in child care is significant to Arizona businesses, employees, and the economy:

- Without reliable access to child care, parents and other caregivers may miss work, skip opportunities for promotion, or leave the workforce altogether.
- Child care helps employers prosper from having employees on whose time and attendance they can depend, which leads to stronger earnings, greater tax revenues, and employment gains.

content/uploads/2021/09/BPC\_Data\_By\_State\_AZ\_RV2.pdf



The FY 2026 Executive Budget includes a \$7 million ongoing investment from the General Fund, \$159,800 from other funds, and \$5.5 million already invested by the Executive through American Rescue Plan Act (ARPA) dollars, to decrease child care costs for Arizona families, increase child care availability, address early childhood education workforce needs, and support child care providers.

This funding will be invested in the Bright Futures AZ initiative as follows:

**Decrease Child Care Costs for Arizona Families**

- \$3 million ongoing from the General Fund to the Early Childhood Development and Health Board (First Things First) to develop a public-private partnership among the State, employers, and families that reduces the cost of child care for working-class families; and
- \$3 million ongoing from the General Fund to DES to create a grant program for youth ages 5-12 for afterschool and summer programming for working-class families.

**Increase Child Care Availability**

- \$3.5 million one-time from ARPA to DHS to provide coaching to grow the number of licensed child-care providers and child-care slots;
- \$159,800 ongoing from the Health Services Licenses Fund to DHS for 3 childcare licensing FTEs to expand support to providers who wish to become licensed;
- \$1 million ongoing from the General Fund to create a corporate tax credit with a sunset date after five years for businesses that provide child care for employees; and
- \$500,000 one-time from ARPA to DES to develop a web tool to provide information to families on child care availability.

**Address Early Childhood Education Workforce Needs**

- \$1 million one-time from ARPA to DES to support early childhood educators with child care scholarships.

**Support Child Care Providers**

- \$500,000 one-time from ARPA to the Office of Economic Opportunity to expand the Microbusiness Loan Program to include child-care providers to upgrade their facilities and support their operations.

**EXPANDING ACCESS AND AFFORDABILITY OF CHILD CARE**

The DES Child Care Assistance program helps working-class families pay for care in provider or home settings. Assistance is available for parents whose annual incomes are at or below \$51,480 for a family of four, as well as qualifying grandparents and guardians with children from birth through age 12.

The Executive Budget includes \$191.1 million – \$112.4 million ongoing General Fund, \$30 million ongoing other funds, and \$48.7 million one-time from other funds – to support the Child Care Assistance program and help ensure that Arizona families have access to affordable, high-quality child care.

This investment in child care will:

- Expand families’ access to high-quality settings by continuing to offer special incentives to child care providers, including a 50% high-quality enhancement rate, increasing the payment made to providers that meet certain criteria;

- Help child care providers recruit and retain educators and sustain operations;
- Implement system updates and conduct research to ensure compliance with federal 2024 Child Care and Development Fund Final Rule timelines; and
- Admit households from the child care waitlist, which is projected to be reduced by half with this investment, subject to attrition and available funds.

**Talent Ready AZ: Expanding Arizona’s Workforce and Increasing Access to Postsecondary Education**

The Executive launched the Talent Ready AZ initiative in September 2024, with the goal of providing increased access to postsecondary education and training that lead to good jobs in high-demand and high-growth industries.

Nearly seven out of 10 jobs in Arizona will require some type of postsecondary education or training by 2031; however, only 48% of Arizonans have attained a degree or certification.<sup>3</sup>

Increases in education attainment lead to stronger individual lifetime earnings and a stronger state workforce. Arizonans with some level of college education have higher earnings and are better positioned to prosper in all sectors of the Arizona economy.<sup>4</sup>

Investments in the Arizona Promise Program, dual enrollment, adult education, Teachers Academy, and Nurse Education Investment Program will increase education attainment and move the state closer to its Achieve60AZ education attainment goal: to reach 60% of Arizona working adults with a postsecondary degree or credential by 2030.

**ARIZONA PROMISE PROGRAM**

Postsecondary education pays dividends in growing individual earnings, a strong state workforce, and economy. As was mentioned above, by 2031, nearly seven out of 10 Arizona jobs will require some type of postsecondary education, but less than half of Arizonans have a degree or credential.

Increasing opportunities for students to pursue and complete a postsecondary credential is critical to the state’s future. However, many students and families struggle with the cost of higher education. The Arizona Promise program provides scholarships to make a degree more affordable and accessible to Arizona students from working families.

As a State-based financial aid program, the Arizona Promise program provides scholarships to students who reside in Arizona and graduate from high school with a 2.5 GPA or higher, receive a federal Pell Grant, complete the Free Application for Federal Student Aid (FAFSA), and enroll at Arizona State University (ASU), Northern Arizona University (NAU), or the University of Arizona (UofA). In FY 2024, the Arizona Promise program served more than 9,000 students.

The Executive Budget includes a one-time investment of \$20 million from the General Fund for the Arizona Promise program. The investment in the program will provide total funding of \$40 million in FY 2026, increasing accessibility to higher education for students from working families.

**ADULT EDUCATION**

Supporting avenues for adults to complete their education and pursue skill attainment strengthens the workforce, fortifies economic

<sup>3</sup> <https://educationforwardarizona.org/progress/indicators/attainment/?indicators=State::Arizona::All>

<sup>4</sup> [https://educationforwardarizona.org/wp-content/uploads/2023/03/Helios\\_EdForwardAZ\\_Economic-Impact-Report-One-Pager-Digital.pdf](https://educationforwardarizona.org/wp-content/uploads/2023/03/Helios_EdForwardAZ_Economic-Impact-Report-One-Pager-Digital.pdf)

growth, and improves the quality of life for individuals and families. In Arizona, nearly 700,000 adults have less than a high school education.

The Executive Budget supports three different adult education programs that provide pathways to earn a high school diploma, a high school equivalency diploma, industry credentials and/or a community college degree.

The Executive Budget includes:

- \$2 million one-time from the General Fund to continue the Community College Adult Education Workforce Development Program, which provides opportunities for Arizonans to earn a high school diploma, an equivalency degree, industry-recognized credential, or a community college degree. The Executive Budget appropriates this funding through the Office of Economic Opportunity (OEO), transferring this program from the Arizona Department of Education (ADE) to OEO.
- \$2 million one-time from the General Fund for the Continuing High School and Workforce Training program, which leads to the issuance of a high school diploma and industry-recognized credentials. The Executive Budget appropriates this funding to ADE.
- \$2 million one-time from the General Fund for the Adult Workforce Diploma program, which helps individuals who are at least 21 years of age earn a high school diploma and develop critical employability and career technical skills. The Executive Budget appropriates this funding through OEO, transferring this program from ADE to OEO.

#### DUAL ENROLLMENT PROGRAM

Providing affordable pathways to higher education for Arizona students is integral to advancing educational attainment and maintaining a thriving economy. Dual enrollment accelerates the pathway to college for students by offering college courses to students while in high school. Dual enrollment saves students time and reduces the cost of completing a college degree or credential.

In FY 2024, nearly 26,000 Arizona students participated in a dual enrollment course, a jump from 17,500 from the year prior.

The Executive Budget includes a one-time investment of \$3 million from the General Fund to support the OEO Dual Enrollment Student Development Program. The program:

- Gives high school students the opportunity to earn community college credits;
- Increases the affordability and accessibility of a postsecondary education; and
- Supports the operational expense of dual enrollment courses.

#### ARIZONA TEACHERS ACADEMY

Ensuring that Arizona students have great educators in classrooms remains an important priority. The Arizona Teachers Academy offers college students an affordable pathway to become educators and meet the ongoing needs for teachers in schools across the state.

The program offers scholarships to college students who agree to teach in Arizona schools once they complete their education. Students in the Academy agree to teach in an Arizona public school for each academic year they received the scholarship. Over the past three years, the program has provided scholarships to more than 3,000 students.

To address the State's teacher workforce needs, the Executive Budget includes a one-time \$15 million General Fund investment for

the Academy. The investment will provide total funding of \$30 million in FY 2026.

The Arizona Teachers Academy serves students at ASU, NAU, UofA, Scottsdale Community College, Rio Salado College, Pima Community College, and Central Arizona College.

#### ARIZONA NURSE EDUCATION INVESTMENT PROGRAM

Addressing the State's nursing shortage is a key factor in improving health care delivery. The FY 2026 Executive Budget includes \$3 million from the General Fund to the Department of Health Services for the Arizona Nurse Education Investment Program.

The funding will expand the capacity of Arizona nursing education programs at the State's community colleges. The program also aims to address the Arizona's nursing shortage by increasing the number of nursing graduates. On average, more than 12,800 nursing students have been served each year through this program in fiscal years 2023, 2024, and 2025.

### Lowering Grocery Costs

#### SUN BUCKS

As of 2022, one in eight Arizonans, or 963,130 individuals, were considered food insecure. Food insecurity disproportionately impacts children in Arizona, since one in five children are considered food insecure.<sup>5</sup> <sup>6</sup> Food insecurity can harm children's mental health, reduce learning and productivity, and increase the risk of adverse health outcomes. Food insecurity for children is often exacerbated in the summer months, when schools close and children lose access to the meals that are provided during the school year.

The Executive Budget includes a \$3.1 million General Fund FY 2025 supplemental for DES and ADE to serve SUN Bucks summer 2024 participants, whose benefits were delayed, and to address an increase in the number of children projected to be served in FY 2025.

The SUN Bucks program offers families with eligible school-age children a \$120 grocery benefit during the summer months. When support is unavailable in the summer, working-class families may experience greater financial strain and a greater risk of food insecurity.

The Executive Budget also includes \$2.3 million in ongoing funding to DES and ADE in FY 2026 to address an increase in the number of children participating in the program.

This program allows the State to draw down a significant amount of federal funding. Participating states must cover 50% of administrative costs, while the federal government covers the other 50% of administrative costs and 100% of benefit costs.

With approximately 772,200 Arizona children projected to be served in FY 2026, the \$2.3 million from the General Fund is expected to bring in over \$90 million in federal funding.

#### SCHOOL MEALS GRANTS

Through a \$3.8 million one-time General Fund investment, the Executive Budget funds the School Meals Grants program, which reduces or eliminates the school meal co-pay for families eligible for reduced-price school meals

Prior investments have increased access to healthy school meals for Arizona students, providing up to ten million lunches and breakfasts for working families that do not qualify for free meals but are required to pay a reduced price.

Based on a family of four, these working families earn \$40,560 to \$57,720 annually. This investment will cover the \$0.40 co-pay for

<sup>5</sup> <https://www.feedingamerica.org/hunger-in-america/arizona#:~:text=In%20Arizona%2C%20963%2C130%20people%20are,of%20them%20293%2C950%20are%20children.&text=face%20hunger,to%20meet%20their%20food%20needs.>

<sup>6</sup> <https://mapazdashboard.arizona.edu/article/concern-about-tackling-food-insecurity-tucson-arizona-ma#:~:text=The%20Map%20the%20Meal%20Gap,considered%20food%20insecure%20during%202022.>

reduced-price lunches and \$0.30 co-pay for reduced-price breakfasts, which equates to a cost of about \$126 per school year for each qualifying child.

## Lowering Healthcare Costs

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### TRADITIONAL HEALING SERVICES

The Executive Budget includes \$1.3 million ongoing from the General Fund and \$221.5 million in ongoing federal expenditure authority to provide Traditional Healing services to individuals eligible for services through Indian Health Service (IHS) and Tribally operated health facilities.

The Executive recognizes the importance of culturally responsive services to address the physical, mental, and emotional health of members, using methods developed and practiced by generations of Tribal healers.

AHCCCS first established a Traditional Healing workgroup in 2015, in response to requests for traditional healing services from Tribal leaders and health providers. The group has worked for nearly a decade to advance this option. In October 2024, Centers for Medicare and Medicaid Services (CMS) issued a two-year approval to several states, including Arizona, for a pilot program to cover Traditional Healing for the first time in Medicaid history.

### EXPANSION OF FAMILY PLANNING COVERAGE

The Executive's expansion of family planning coverage will help an estimated 5,616 individuals maintain access to lifesaving detection of cancer, contraception, and other preventive care.

The Executive Budget includes \$344,000 ongoing from the General Fund and \$3.9 million in federal expenditure authority to AHCCCS to establish a family planning coverage category. The family planning-only option would allow individuals earning up to \$31,200 for a family of four (and no longer income-eligible for full coverage through AHCCCS) to receive critical reproductive health services, including birth control as well as testing for breast and cervical cancer, pregnancy, and sexually transmitted infections.

### EXTENDING POSTPARTUM COVERAGE

AHCCCS, Arizona's Medicaid program, covers half of all deliveries in the state. Compared to women with commercial insurance, women who participate in Medicaid are at an increased risk of pregnancy- and birth-related complications that can contribute to maternal mortality and severe morbidity.

The Executive Budget includes \$263,000 General Fund and \$1 million in federal funds ongoing to permanently implement 12-month postpartum coverage.

In April 2023, AHCCCS extended postpartum coverage from 60 days to 12 months pursuant to a temporary (five-year) federal approval. Shortly after Arizona received approval to implement this coverage extension, Congress voted to make permanent the 12-month postpartum coverage option; however, without renewal and a sustained funding commitment by the State, Arizona's approval will expire in 2027. To date, only two states have chosen not to take full advantage of this lifesaving coverage.

In Arizona, nearly 60% of maternal deaths occur between 43 days and one year postpartum, and nearly 90% of these deaths could have been prevented with appropriate medical intervention. Extended postpartum AHCCCS coverage helps ensure that new mothers can stay connected to the care and services they need during the critical postpartum period.

## Keeping Arizona Competitive

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### BRINGING JOBS TO ARIZONA

Arizona has been at the cornerstone of job creation by attracting businesses to the state and providing high-paying jobs to Arizonans. To continue this momentum, the Executive Budget includes a \$10 million one-time deposit from the General Fund to the Arizona Competes Fund (ACF), under the Arizona Commerce Authority (ACA), to further invest in maintaining Arizona's desirability as a destination for businesses and economic activity.

The ACF is utilized to provide economic development grants that help Arizona companies expand within the state and to attract out-of-state companies to Arizona. In FY 2024, grants issued by the ACA led to the creation of 24,251 jobs with an average salary of \$75,701, exceeding Arizona's average wage of \$40,736.

Along with the one-time deposit, the Executive Budget includes \$1.8 million ongoing from the Lottery Fund to the ACF, restoring the annual waterfall deposit to \$3.5 million in FY 2026. This restoration enhances the sustainability of the Fund and will equip the ACA to help Arizona endure as a competitive business destination.

### SPURRING ECONOMIC DEVELOPMENT

Major events generate substantial economic activity for the state. Nearly \$1 billion has been contributed to the State's GDP through the attraction of events such as the 2024 NCAA Final Four and the 2023 Super Bowl.

To keep Arizona competitive in attracting major events, the Executive Budget includes a \$5 million one-time deposit from the General Fund to the Major Events Fund.

The ACA uses Major Events Fund monies to provide grants to local organizing committees to support the competitive bid process and operation of major events.

# Public Safety, Border Security, and Corrections

## Keeping Arizona Safe and Securing the Border

"Arizona's strength lies in our ability to work together and invest in the safety and security of our communities. By properly equipping and investing in law enforcement, tackling the fentanyl crisis, supporting crime survivors, we're ensuring that every Arizonan can feel safe in their communities. We're committed to real solutions that protect our state and strengthen our border security."

Gov. Katie Hobbs

The Executive is committed to investing in targeted, multi-agency initiatives to enhance public safety, strengthen border security, and reduce recidivism through modern, effective correctional practices.

Prioritizing investments across law enforcement, community support services, crime prevention initiatives, and survivor assistance programs addresses the most pressing challenges facing our state. These efforts require a holistic approach, which includes:

- Equipping law enforcement with the necessary tools to combat fentanyl and other illicit drugs;
- Securing our borders to disrupt transnational criminal organizations and human trafficking; and
- Supporting survivors of crime through access to essential services such as crisis intervention, case management, and victim compensation programs.

A holistic approach also prioritizes minimizing future victimization by reducing recidivism rates for those reentering society after incarceration and includes being good stewards of taxpayer dollars by ensuring compliance with constitutional rights for persons who are incarcerated.

Through these efforts, the Executive is advancing Arizona's security, protecting vulnerable populations, and fostering safer communities statewide.

## Multi-Agency Initiatives

### STOPPING ARIZONA'S FENTANYL EPIDEMIC (SAFE)

To combat the spread of fentanyl and mitigate the public health crisis, the Executive Budget includes \$20 million for the SAFE initiative. These funds – \$5 million ongoing and \$15 million one-time – go toward strengthening law enforcement's efforts to reduce the flow of fentanyl and other illegal drugs into the state.

The funding will also be used to expand access to treatment and harm-reduction services, particularly in rural communities.

This comprehensive approach includes targeted investments toward public safety initiatives and a statewide fentanyl awareness campaign that highlights the dangers of using and transporting fentanyl and provides education on substance use.

This funding will be invested as follows:

### Public Safety, Border Security, and Drug Interdiction

- \$5 million in ongoing funding and \$5 million in one-time funding from the General Fund to the Department of Public Safety's (DPS) Local Border Support special line item (SLI). The funding will be used to provide grants to law enforcement agencies to fund drug interdiction efforts in border communities, bringing the FY 2026 investment to \$23.2 million and the ongoing investment from \$13.2 million to \$18.2 million.
- \$5 million in one-time funding from the General Fund to the Arizona Department of Emergency and Military Affairs (DEMA). The funding will expand existing drug-interdiction efforts under the Counterdrug Task Force (CDTF) to curtail drug trafficking activities throughout the state and reduce threats posed by transnational criminal organizations, with a focus on assisting law enforcement agencies in combating fentanyl.

### Prevention and Treatment

- \$2 million in one-time funding from the General Fund to the Department of Health Services (DHS) to continue the Executive's 2024 effort to equip first responders with naloxone and related overdose reversal medications
- \$2 million in one-time funding from the General Fund to the Arizona Health Care Cost Containment System (AHCCCS) to expand access to medication-assisted treatment (MAT) in underserved rural communities.

### Education, Awareness, and Data Coordination

- \$1 million one-time from American Rescue Plan Act (ARPA) funds to DPS to launch a statewide fentanyl awareness and education campaign in collaboration with DHS, the Governor's Office of Youth, Faith, and Family (GOYFF), the Department of Homeland Security (DOHS), the Department of Transportation (ADOT), and DEMA to improve the safety of children and awareness for parents.

### SUPPORTING VICTIMS AND SURVIVORS OF CRIME

Crime victims and their families encounter substantial physical, emotional, and financial challenges due to their experiences. The budget reflects the State's ongoing commitment to providing support for crime victims and their families as they navigate the recovery and healing process. The Executive Budget allocates resources to programs to assist individuals who are at heightened risk of victimization.

The Executive Budget includes \$20.7 million ongoing from the General Fund starting in FY 2027. For FY 2026, \$20.7 million will be provided by the Executive using ARPA dollars, to backfill an ongoing loss of federal Victims of Crime Act (VOCA) funding.

- \$9.3 million to DPS for grants to local entities that offer services for victims of crime;
- \$9.1 million to the Department of Economic Security (DES) to continue to provide essential services, including case



management and crisis intervention, to vulnerable adults who have been a victim of a crime; and

- \$2.3 million to the Criminal Justice Commission (ACJC) to cover victim compensation and victim assistance program operating costs.

#### **FRONT LINE LAW ENFORCEMENT AND CORRECTIONAL PAY PACKAGE**

Law enforcement and corrections agencies across the country are experiencing difficulties in recruiting and retaining officers due to several factors, including a tightening labor market and high turnover rates. To improve recruitment and retention efforts, competitive compensation and benefits are critical.

The Executive Budget allocates funding to hire, recruit, and retain more State 911 call takers, State troopers, and correctional officers. This investment will improve response times, enhance highway and roadway safety, reduce crime rates, and ensure adequate resourcing for law enforcement and correctional officers.

As our State troopers and State law enforcement officers are increasingly called upon to provide services in partnership with local law enforcement agencies across the state, it is the State's responsibility to ensure they have the tools, flexibility, and qualified personnel to succeed.

This investment includes a 5% pay increase for State troopers and law enforcement and correctional officers across State agencies. This pay increase will enhance the State's competitiveness, encourage officers to stay in State service, improve retention in these critical fields, and reduce the costly impacts of turnover.

This package includes the following:

- \$26.8 million from the General Fund ongoing and \$13,500 from other funds ongoing for the Department of Corrections, Rehabilitation, and Reentry;
- \$623,200 from the General Fund ongoing for the Department of Juvenile Corrections;
- \$30,800 from the General Fund ongoing for the Department of Agriculture;
- \$4,700 from the General Fund ongoing and \$251,300 from other funds ongoing for the Attorney General;
- \$9,300 from other funds ongoing for the Corporation Commission;
- \$4,400 from the General Fund ongoing and \$9,100 from other funds ongoing for the Department of Economic Security;
- \$267,400 from other funds ongoing for the Game and Fish Department;
- \$68,200 from other funds ongoing for the Department of Gaming;
- \$39,800 from the General Fund ongoing for the Department of Insurance and Financial Institutions;
- \$57,900 from other funds ongoing for the Department of Liquor Licenses and Control;
- \$39,000 from other funds ongoing for the Parks Board;
- \$5.7 million from the General Fund ongoing and \$286,500 from other funds ongoing for the Department of Public Safety;
- \$1,200 from the General Fund ongoing and \$14,300 from other funds ongoing for the Department of Revenue; and
- \$646,500 from other funds ongoing for the Department of Transportation.

## **Department of Public Safety**

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The Executive remains committed to support the dedicated men and women who keep Arizona communities safe. The Executive Budget includes key funding initiatives intended to enhance benefits, retention, recruitment, and overall wellbeing of the DPS workforce.

#### **BOLSTERING THE 911 WORKFORCE, IMPROVING RESPONSE TIMES**

The National Emergency Number Association has set a 911 call response standard for 911 call centers nationwide. The standard provides that 90% of 911 calls made should be answered within 15 seconds and 95% of 911 calls answered within 20 seconds. Last year, 82% of 911 calls were answered within 15 seconds, and 90% were answered within 20 seconds.

DPS has two dispatch centers, in Phoenix and Tucson, each of which is staffed by both dispatchers and call takers. These two position types are responsible for receiving every 911 and emergency call across the state. Last fiscal year, 220,722 911 calls that should have been received by call takers were instead answered by dispatchers. Dispatchers are responding to officers at an emergency while also taking 911 calls, which means the response time to the 220,722 callers is increased, with some even being placed on hold.

The budget includes \$788,200 ongoing from the General Fund and an increase in 9.0 FTE positions to expand the call taker team. These new positions will be able to help alleviate call volume workload from either the Phoenix or Tucson dispatch center. Additional call takers will ensure there is enough capacity at dispatch centers to quickly receive and process reports and minimize potential public harm.

#### **ADDITIONAL EMPLOYEE SUPPORT**

DPS employees are regularly exposed to graphic and stressful emergency situations, which can lead to burnout, anxiety, PTSD, and depression. To combat these possible outcomes, the Department maintains the Employee Assistance Program (EAP). Without sufficient staffing, connecting employees with EAP services to get the help they need can be a challenge.

The Executive Budget includes \$259,400 ongoing from the General Fund for an increase in 2.0 FTE positions and ongoing funding to help quickly and effectively connect DPS employees with EAP services.

#### **UNIFORM ALLOWANCE INCREASE**

DPS uniform allowances have not increased on an ongoing basis since FY 2006. Since the FY 2006 increase went into effect, the general rate of inflation has been approximately 52%. Employees have been paying the difference between the uniform allowance and the cost to purchase and maintain uniforms out of their personal funds.

To decrease employee out-of-pocket expenses and to support retention and recruitment, the Executive Budget dedicates close to \$1.2 million to fully fund the cost of uniforms. This includes ongoing funding of \$585,521 from the Parity Compensation Fund and \$585,521 from the Arizona Highway Patrol Fund.

Funding will provide the following increases to uniform allowances:

- Sworn officers: Increase from \$1,000 to \$1,897 for 1,291 positions;
- Roadside Motorist Assistant: Increase from \$700 to \$1,222 for 17 positions;
- Detention Transport Officer: Increase from \$500 to \$664 for eight positions; and
- Telecommunication Technician: Increase from \$250 to \$326 for 35 positions.



This will be the first time in 20 years that the uniform costs for these positions will be fully funded, relieving public safety personnel of out-of-pocket costs to maintain and replace their uniforms.

### **REPLACEMENT VEHICLES**

The DPS vehicle fleet includes over 2,000 Highway Patrol and non-patrol vehicles. Of that total, 43 Highway Patrol vehicles are 10 years old or older, and 59 non-patrol vehicles have been in service for 15 years or more and are past useful life.

Highway Patrol vehicles deteriorate more quickly than average and are held to a higher safety standard for use at the high speeds and heavy braking to which they are subjected.

To update the fleet and keep officers in reliable and safe vehicles, the Executive Budget includes an \$8.7 million increase in one-time funding from the General Fund to replace patrol vehicles 10 years or older and non-patrol vehicles 15 years or older.

### **UPGRADING THE PUBLIC SAFETY COMMUNICATIONS BACKBONE**

Public safety personnel depend on communication to effectively respond to emergencies, and the DPS Microwave Backbone is integral to that communication.

The Department is upgrading the North Loop Microwave Backbone from analog to digital, with completion expected in FY 2026. The replacement of analog to digital is essential to avoid catastrophic failure of the analog network. Without the upgrade, emergency communications for first responders to call for help and/or for first responders to be dispatched to help the general public would be put at risk in a large portion of the State.

The towers that relay the radio signals were originally built to support the analog system, with roughly 110 miles separating them. To function properly, the digital system requires towers to be roughly 50 miles apart. This has necessitated the construction of several new towers to complete the digital conversion and the upgrades for existing towers.

The Executive Budget includes one-time funding of \$1.3 million from the Arizona Highway Patrol Fund for increased materials and labor rates for the towers still needing construction.

Also included is \$190,000 in ongoing funding from the Arizona Highway Patrol Fund for increased lease and utility costs.

The microwave system is used as a communication network not only for DPS law enforcement and professional services, but also for the Department of Game and Fish, Department of Forestry and Fire Management, Department of Corrections, the Arizona Department of Transportation, and the National Guard. This network is imperative to maintain communication for both emergency and non-emergency situations.

### **AIRCRAFT MAINTENANCE**

The Executive Budget includes \$693,000 one-time from the Arizona Highway Patrol Fund for air fleet maintenance.

Funding will be used to cover extensive maintenance in FY 2026 that is needed beyond routine maintenance for DPS' air fleet. Projects include turbine overhaul, oil cooler overhaul, and bleed valve overhaul for the rotary wing division, and hot-section inspections, 2,500-cycle inspections, and phase inspections for the fixed wing division.

DPS' aircraft fleet includes five helicopters and two airplanes and is used in the provision of medical, patrol, search and rescue, training, and firefighting services.

### **ENSURING OCCUPATIONAL SAFETY**

DPS maintains 24-hour vigilance, 365 days per year. The Department's primary complex in Phoenix comprises the compound building, criminal investigations building, crime lab, and headquarters

building. Not only does DPS rely on these buildings to carry out their mission, but these buildings also receive members of the public. For sworn and civilian occupants, it is important that the buildings maintain safe, efficient electrical systems and reduce their vulnerability to a shutdown resulting from a power surge or short circuit.

The FY 2026 Executive Budget includes \$11.2 million from the General Fund to upgrade the electrical system at the DPS Phoenix Headquarters compound.

Funding will be used to replace faulty, dangerous, and inefficient electrical equipment across the compound that, due to an average equipment age of 47 years and a lack of available parts, is difficult to repair. Equipment to be replaced includes switchboards, step-down transformers, panel boards, and associated feeders.

### **CRITICAL OFFICE REPLACEMENTS**

DPS is responsible for maintaining public safety throughout the State. While troopers operating in major cities have regular access to facilities for criminal investigations, processing, public reception, and other services, DPS must have a presence in more remote parts of the state as well.

Modular / pre-engineered offices are essential to ensuring DPS staff have facilities regardless of location. However, some offices currently in use are over 60 years old, do not comply with Americans with Disabilities Act (ADA) guidelines, and are too small to meet current operational needs.

The FY 2026 Executive Budget includes \$2 million from the General Fund to replace modular / pre-engineered office buildings at Payson and Sanders.

The existing offices will be replaced with modern units that are ADA compliant, more efficient, and large enough to meet Department needs.

### **PROTECTING NORTHERN ARIZONA RESIDENTS**

Compared to many other parts of the State, northern Arizona faces more hazardous conditions in the winter months. Harsh, inclement weather can spur increased accidents and injuries to residents of this area.

To increase protection and responsiveness in some of the northernmost areas of Arizona, ADOT, in collaboration with the Department of Public Safety, will obtain and upgrade office space at Little Antelope and Gray Mountain.

In FY 2026, the Executive Budget includes \$6.9 million from the State Highway Fund to construct two 3,500-square-foot buildings, one in each location, to provide sufficient space for ADOT and DPS employees to work. Each building will include 1,000 square feet dedicated specifically to public safety personnel.

## **Department of Emergency and Military Affairs**

### **READY, SET, GO!**

When residents are informed on evacuation protocols prior to an incident, it leads to better response times, more orderly evacuations, and a quicker return to normalcy when the disaster is over. Arizona's 15 county sheriffs have adopted this protocol to educate residents about proactive measures to take before an emergency and actions to follow when a community is threatened.

The Executive Budget includes \$300,000 one-time from the General Fund for a statewide "Ready, Set, Go!" awareness campaign to educate residents and visitors about evacuation protocols in the event of an emergency.

DEMA provides support to local partners to help ensure that all communities understand and implement the Ready, Set, Go! campaign protocols effectively. This funding will allow DEMA to develop and

distribute outreach products and social media toolkits to ensure consistent messaging statewide.

### EFFECTIVE DEPLOYMENT OF GRANTS

The Executive Budget includes \$491,080 from the General Fund and an additional 5.0 FTE positions to provide grants support in the DEMA Emergency Management Division.

The positions will provide support for grants application processing, administration, reporting, coordination, programmatic needs, and other related functions.

DEMA's goal is to reduce, by June 2029, the average time to process reimbursement grants from 14 months to 4.5 months. The FTE positions will play a critical role in the reduction of both workload, processing time, and staff turnover.

Included is \$14,250 in one-time funding for equipment costs.

### SAFEGUARDING TOMORROW THROUGH ONGOING RISK MITIGATION (STORM) ACT

As weather patterns become more severe, natural disasters become more common. Proactive mitigation against natural disasters leads to less damage, less risk to human life, and quicker recovery.

To support local governments in emergency preparedness and hazard mitigation, the Executive Budget includes \$200,000 one-time from the General Fund to draw down \$9 million in federal Safeguarding Tomorrow Through Ongoing Risk Mitigation (STORM) Act funding from the Federal Emergency Management Agency (FEMA). This continues the FY 2024 three-year budget plan of \$200,000 in funding each year from FY 2024 to FY 2028 for the Hazard Mitigation Revolving Fund Deposit SLI, which will provide total State and federal funding of \$10 million.

These funds enable the State to provide hazard mitigation assistance via loans to local governments, State agencies, and Tribal communities, helping to safeguard communities against disaster.

## Department of Corrections, Rehabilitation, and Reentry

### HEALTH CARE FEDERAL COURT INJUNCTION

After nearly 10 years of litigation, the federal court issued a permanent injunction in April 2023 in the *Jensen v. Thornell* case. This ruling came after the court found, in 2022, that the Arizona Department of Corrections, Rehabilitation, and Reentry (ADCRR) had violated constitutional standards related to persons who are incarcerated in health care and the housing of those in isolation. The injunction mandates specific standards that the Department must meet to ensure compliance with constitutional requirements for people receiving care through the justice system's health care services.

Since Governor Katie Hobbs took office, the Department has made significant progress in addressing the requirements outlined in a federal injunction. With a focus on prioritizing compliance, ADCRR has made substantial financial investments and implemented operational improvements. Each month, millions of dollars are allocated to address inadequacies from deferred and forgone investments and maintenance in prior years. Approximately \$4 million is invested monthly on ADCRR-contracted monitors, court monitors, and plaintiff fees to ensure transparency and accountability in meeting federal mandates.

In the FY 2025 Enacted Budget, over \$179 million in new ongoing funding was secured to administer necessary changes to health care services and improve conditions for incarcerated persons, including providing funding for electronic record management, radio frequency identification, medications, and 388 new medical and mental health positions through the NaphCare Correctional Health contract. These

ongoing investments demonstrate the Department's commitment to enhancing conditions of care and confinement and maintaining compliance with State and federal requirements.

However, additional appropriations are necessary to cover the costs of implementing all standards mandated in the injunction.

As a result, the FY 2026 Executive Budget includes:

- one-time FY 2025 supplemental funding of \$6 million from the General Fund; and
- FY 2026 funding of \$6 million from the General Fund.

This funding issue may increase, pending the result of a court-mandated staffing study. The Executive will inform the Legislature as additional information becomes available.

### CONTRABAND INTERDICTION VIA ENHANCED MAIL SCANNING

The Office of Inspector General (OIG) acts as the Department's internal law enforcement service and represents the Department in collaboration with external law enforcement partners. Responsibilities include investigating cases where illegal contraband, such as drugs, infiltrates prisons and preventing such contraband from entering.

Enhanced mail scanning is becoming a nationwide method for intercepting and reducing introduction of contraband via physical mail. Without mail scanning, persons who are incarcerated and correctional officers are at risk for coming into contact with drug-soaked paper without their knowledge, as the letter is designed to look like a regular letter. In addition to this workplace safety hazard, the drugs can be extracted from the paper and ingested or trafficked, posing a health and safety risk to those within Department facilities. This initiative aims to reduce the risks associated with contraband introduction, including substance abuse and drug trafficking; increase the safety of persons who are incarcerated and correctional staff; and improve recidivism.

The Executive Budget includes an increase of \$3.1 million from the General Fund – \$2.7 million ongoing and \$392,200 one-time – to expand mail scanning of client-lawyer correspondence and establish a contract for off-site processing and digitization of general correspondence to reduce contraband risks in prisons.

This initiative includes two key components: offsite mail scanning and onsite mail scanning.

- Offsite scanning allows for, via a vendor contract, confidential scanning of incoming mail at a secure facility where contraband can be intercepted before reaching prisons. Correspondence is then digitized and provided to persons who are incarcerated without risk of contraband introduction.
- Onsite scanning of incoming client-lawyer correspondence at prisons will be expanded to provide each prison with its own scanner, which will ensure that mail is efficiently and effectively scanned for contraband while remaining in compliance with State and federal laws, and protecting the correspondence rights of persons who are incarcerated.

### ADDRESSING COST INCREASES TO CRITICAL CONTRACTS

In recent years, the Department has faced an increase in contractual costs, driven largely by evolving market trends and the effects of increased population and utilization.

To sustain these critical contracted services, the FY 2026 Executive Budget includes an increase in ongoing funding of \$20.3 million from the General Fund and \$3.2 million from other appropriated funds for the following:

- \$111,000 for increased food service costs at the Correctional Officer Training Academy;

- \$286,000 for anticipated rent increases at privately leased correctional office spaces that primarily serve individuals who are preparing to or have already reentered the community;
- \$508,300 for the increased cost of wastewater services at the Perryville prison;
- \$1 million for an increase to the Department’s perimeter security system maintenance contract to enhance and uphold prison and community security;
- \$3.2 million for increased costs of utilizing various software applications;
- \$3.8 million for an increase to the Department’s telecommunications contract to ensure that communications both within prisons and with those in the community can continue without hindrance; and
- \$14.5 million for food services for persons who are incarcerated, which includes continuing \$12.6 million in one-time funding from the FY 2025 Enacted Budget and a \$1.9 million increase to provide sufficient funding for anticipated rises in meal participation.

**OPERATIONAL IMPROVEMENTS TO STRENGTHEN SECURITY AND SAFETY**

The Department has significant equipment and IT infrastructure that require one-time replacement and ongoing maintenance in order to sustain operating prison facilities safely and securely.

Strategic investments in effective equipment and technology, as well as continued maintenance, represent responsible uses of taxpayer dollars that will ensure that the Department can fulfill its mission and mandatory duties to provide proper security measures to protect the safety of both staff and the incarcerated population.

To address the increased costs for replacing and maintaining the Department’s crucial non-capital infrastructure and operations, the FY 2026 Executive Budget includes an increase in ongoing funding of \$4.8 million from the General Fund and \$344,800 from other appropriated funds in FY 2026 for the following:

- \$510,700 (\$165,900 one-time) to implement and maintain two new software applications that will enhance the integration and latency of IT functions;
- \$1.3 million for ongoing maintenance of newly replaced fire and life safety systems to enhance efficiency and reduce long-term costs for emergency repairs;
- \$1.5 million (one-time) to replace inoperable kitchen equipment to provide a safe environment for food preparation;
- \$2 million (one-time) to eliminate a backlog of updates to the Arizona Correctional Information System (ACIS), which is home to significant individual sentencing data; and
- \$3.5 million to continue fully funding the cost of correctional officer uniforms to support recruitment and retention.

**TUCSON HVAC REPLACEMENT PROJECT**

Historically, many State-run prisons relied on evaporative cooling systems (or “swamp coolers”), which are less effective in Arizona’s extreme heat. Some prison cells have recorded temperatures exceeding 100 degrees Fahrenheit, creating dangerous living conditions for persons who are incarcerated.

Providing adequate air conditioning in State prisons, especially during the extreme summer heat, is integral to providing a safe and healthy environment for correctional staff to work and for individuals in custody to be rehabilitated and prepare for reentry.

Since FY 2023, \$57.4 million has been provided from the General Fund to begin converting prison units from evaporative coolers to HVAC. Funding has been used to design and install HVAC systems at the Perryville and Eyman prisons, demonstrating the Department’s commitment to modernizing facilities and improving conditions for both staff and persons who are incarcerated. Key accomplishments so far include:

- Full HVAC conversion of the Piestewa, Santa Rosa, San Carlos, Lumley, and Santa Cruz units at the Perryville Prison;
- Progress on the conversion of the San Pedro unit at the Perryville prison, which is on track to be completed in June 2025; and
- Progress on all Eyman prison units (Cook, Rynning, Meadows, Browning, and SMU 1), which are on track for full completion by December 2025.

To support continued implementation, the FY 2026 Executive Budget includes \$21.9 million one-time from the General Fund to replace outdated evaporative cooling systems with HVAC at the Tucson State Prison.

The Tucson prison is operated by the Department of Corrections, Rehabilitation and Reentry. It spans 640 acres and consists of eight separate prison units, with a total bed capacity of 5,403 and 1,608 authorized staff members. Arizona’s prison air conditioning systems have suffered from years of inadequate attention, i.e., failure to upgrade facilities to HVAC systems and to properly maintain the systems that have been converted. Funding will be used to design and install HVAC systems in the Manzanita, Winchester, Rincon, Santa Rita, and Cimarron units.

Looking ahead, the Department will continue to prioritize conversion of the remaining prison units statewide as funding is made available. Future investments will allow ADCRR to further its long-term goal of creating safer, healthier environments and modernizing its facilities to meet evolving operational and sustainability needs.

The following prisons and facilities still have units that require conversion from evaporative cooling to HVAC: Yuma, Safford, Lewis, the Pima Reentry Center, Phoenix West, Kingman, Douglas, and Winslow.

**YUMA FIRE ALARM SYSTEM REPLACEMENT**

The Yuma State Prison can house up to 4,690 incarcerated persons across its minimum-, medium-, and high-custody facilities. The prison currently employs 960 full-time staff members.

Over the last several years, strategic investments have been made to repair and replace fire alarm and suppression systems at eight of the nine State-operated prisons. Replacement of the fire alarm and suppression system at the Yuma prison is part of the State’s initiative to invest in the maintenance and restoration of aging and failing infrastructure.

To complete replacement of inadequate fire and alarm suppression systems at all nine prisons, the FY 2026 Executive Budget includes \$8.5 million one-time from the General Fund to purchase and install a new fire alarm and suppression system in the Yuma State Prison. Replacement is crucial to ensure fire and life safety within the facility for both persons who are incarcerated and staff.

**Department of Juvenile Corrections**

**MAINTAINING SAFE YOUTH CONDITIONS**

Ensuring the safety and well-being of youth in juvenile correction facilities is a crucial responsibility that requires ongoing attention and investment. These environments must offer secure, functional, and

supportive conditions for both youth and staff to thrive. Over time, aging infrastructure and outdated systems can create significant challenges, making it essential to prioritize upgrades and repairs.

As with the Department of Corrections, Rehabilitation and Reentry, it is imperative that housing and working conditions for youth and staff are maintained.

The FY 2026 Executive Budget includes the following one-time increases from other appropriated fund sources:

- \$641,000 to replace critical kitchen HVAC equipment;
- \$536,600 to replace inadequate fire pumps and pump controllers; and
- \$303,100 to begin replacing outdated door locking systems on housing units.

## Attorney General

### CRACKING DOWN ON THE SALE OF ILLEGAL MARIJUANA AND HEMP PRODUCTS

Unsafe, untested, and intoxicating products containing synthetic or chemically derived cannabis derivatives are being freely sold by shops, convenience stores, and other retailers across the State.

By labeling their ingredients as “hemp-derived,” retailers are selling products containing levels of tetrahydrocannabinol (THC) well above the legal thresholds established under the Smart and Safe Arizona Act approved by voters in 2020. Illegal transactions include sales to individuals who are underage and sales of products that do not comply with the marijuana packaging or purity testing standards that keep consumers safe.

Arizonans pay the price for this lack of accountability: Data from the State’s poison control hotlines show hundreds of calls and hospitalizations, including several children each year who require emergency hospitalization and treatment in intensive care units after ingesting unregulated, unsafe products.

In March 2024, the Attorney General opined that these intoxicating hemp-derived and synthetic cannabis products cannot legally be sold outside of dispensaries licensed by the Department of Health Services.

To reduce youth access to these intoxicants, and to enforce retailer compliance with State law prohibiting the sale of illegal hemp-derived and synthetic marijuana products, the Executive includes \$1 million one-time from the Consumer Protection Consumer Revolving Fund to the Attorney General’s Office. The funding will be used solely to enforce retailer compliance with the State’s voter-approved marijuana laws and will not be used to criminalize purchasers of these products.

The Attorney General shall use the monies to:

- Issue a statewide notice to retailers informing them of the illegal status of these products; and
- Fund grants for local law enforcement to promote compliance with State marijuana laws.

This may include issuing cease and desist letters to retailers, conducting public awareness campaigns, and conducting other enforcement activities necessary to enforce retailer compliance.

### SOBER LIVING HOME TRIBAL RESPONSE FUND

To assist tribes as part of the ongoing response to the Sober Living Home crisis, the Executive Budget includes a \$7 million one-time General Fund appropriation to the Attorney General to establish the Sober Living Home Tribal Response Fund.

In consultation with leadership from the 22 federally recognized Tribal Nations in the State, the Attorney General shall identify priorities and a process for allocating monies from this fund. Monies in the Fund may go toward grants to Tribal governments, Tribal health clinics,

Tribally operated health programs, urban Indian organizations, or other organizations or entities approved by Tribal leaders through consultation with the Attorney General.

The funds should be used to mitigate the impact of the Sober Living Home fraud crisis and assist in the creation and proliferation of culturally responsive behavioral health services for indigenous Arizonans.

### INTERNET CRIMES AGAINST CHILDREN TASK FORCE

The internet provides opportunities for connection and information access, but it also creates the space for bad actors to take advantage of children.

The Internet Crimes Against Children (ICAC) Task Force, led by the Phoenix Police Department, investigates and prosecutes perpetrators who intentionally exploit children and engage in cyber enticement and child pornography. Last fiscal year, the Attorney General’s Office received 82 cases from law enforcement agencies.

As of September 1, 2024, the ICAC Task Force has identified 96 suspects of committing an internet crime against children. At the end of FY 2024, the Attorney General’s Office had 26 cases in the investigative stage, charged 58 defendants, and had 19 defendants pending a stage of prosecution.

In supporting efforts to protect children from online threats, the Executive Budget includes \$335,000 in ongoing funding from the Consumer Protection Consumer Fraud Revolving Fund for one Special Agent, one Assistant Attorney General, and other operating expenses of the ICAC Task Force. The Special Agent will continue to investigate an estimated 50 cases per year, and the Assistant Attorney General will provide the capacity to prosecute between 40 and 60 cases per year.

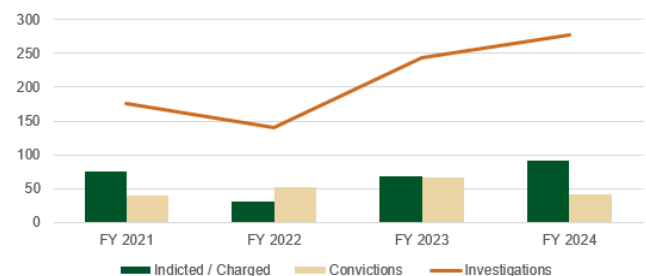
### MEDICAID FRAUD CONTROL UNIT EXPANSION

The Executive Budget includes \$204,100 in ongoing funding from the Consumer Protection Consumer Fraud Revolving Fund to expand the Medicaid Fraud Control Unit (MFCU) at the Attorney General’s Office. The funding will add two Special Agent positions, one Assistant Attorney General, and a Legal Secretary. The State’s investment in the MFCU will receive a 75% match from the federal government.

These additional staff members are necessary to help the MFCU respond to an increase in the number and complexity of fraud cases. The following chart illustrates the trend in investigation growth.

Figure 8

#### MCFU Investigations, Indictments / Charges, and Convictions



The MFCU is responsible for investigating and prosecuting fraudulent Medicaid billing, as well as abuse, neglect, and financial exploitation in healthcare facilities settings.

- The Special Agent positions will allow the unit to investigate an additional 30 cases per year.
- The Assistant Attorney General will assist in prosecuting an additional 40 to 60 cases (depending on the nature and complexity of the cases).



- The Legal Secretary will provide the necessary administrative support for the unit to carry out its investigations and prosecutions.

This investment in personnel will allow the MFCU to recover an estimated \$12 million per year in fraudulently obtained monies.

## Judiciary

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### PROTECTING VULNERABLE INDIVIDUALS

The Supreme Court’s Certification and Licensing Division (CLD) is responsible for licensing, auditing, and disciplining persons who provide professional services to vulnerable individuals.

Fiduciaries are responsible for acting in the best interests of individuals who, due to life circumstances, such as aging or injury, are no longer able to make personal and financial decisions for themselves. Unfortunately, some fiduciaries fail to execute their duties and responsibilities fairly and in the best interest of their wards.

When fiduciaries fail to adequately fulfill their job responsibilities, complaints are made to the CLD, which investigates and issues final orders on the complaint. Complaints alleged against fiduciaries can range from failing to timely close an estate and inadequate communication with a beneficiary to disobeying a decedent’s will for the fiduciary’s financial gain.

The Judiciary’s regulatory code requires that 98% of complaints be resolved within 22 months. The CLD has been out of compliance with this requirement for at least the last three fiscal years. For example, in FY 2024 the CLD resolved 55% of complaints within 22 months.

To support the work of the CLD, the Executive Budget includes ongoing funding of \$349,900, from the Court Appointed Special Advocate and Vulnerable Persons Fund, for an additional investigator, the case management system, and other operating expenses. The additional investigator will expand the CLD’s investigatory capacity and improve services for vulnerable Arizonans.

### PROBATION OFFICER SALARY INCREASES

For Probation Officer salary increases, the Executive Budget includes \$10.1 million ongoing from the General Fund starting in FY 2027, with \$10.1 million provided by the Executive using American Rescue Plan Act (ARPA) dollars for FY 2026.

Arizona’s probation system is a shared cost between the State and all counties, excluding Maricopa County, which funds its own probation costs. County boards of supervisors set the salary of probation officers.

When raises occur without State funding, positions are kept vacant to fund the raises.

There are currently approximately 260 non-Maricopa County probation officers, and this funding will allow each of these individuals to continue providing probation services to Arizona communities. Providing this funding will allow the State and counties to continue probation services to more than 87,000 individuals.

Providing the necessary funding to the probation system will help improve the recidivism rate. The probation system has a 75% 10-year average (2011-2020) success rate of an individual not reentering the criminal justice system after they exit probation.

The U.S. Department of Justice has found that, in Arizona, probation is the lowest-cost mode of rehabilitation. Failure to fund probation officers’ salaries would result in a halt in probation and an immediate return of probationers to custody. This would come at an extraordinary cost to Arizona taxpayers, as incarceration is far more costly than probation.

### JUVENILE MONETARY SANCTIONS BACKFILL

The Executive Budget includes a \$250,000 one-time increase from the General Fund for the Juvenile Monetary Sanctions Funding Backfill special line item (SLI).

The FY 2024 three-year budget plan continues this one-time appropriation in FY 2025 and FY 2026. Funding in the SLI is intended to backfill lost revenues from the repeal of juvenile monetary sanctions.

Juveniles and a parent or guardian may ask the court to cancel certain fees, costs, and court-ordered obligations, helping to reduce the financial burden on working-class families. Continuing this funding allows the Judiciary to continue operating without the revenue from these juvenile sanctions.



# Healthcare Access

## Affordable, Accessible, and Accountable Healthcare for All Arizonans

“The Arizona Promise also means freedom – the freedom and the ability to make your own medical decisions and access the healthcare you need, when you need it.”

Gov. Katie Hobbs

Arizona is a national leader in biomedical research and is at the epicenter of tremendous discoveries and advancements in health care. Patients from around the world come to Arizona for cutting-edge care for complex medical conditions and diseases. The Executive Budget makes strategic investments to help every Arizonan get that same high-quality care, in their community, and at a cost they can afford.

The Executive also continues several investments aimed at rebuilding, restoring, and upgrading health care systems. The Executive Budget takes steps to repair the harm done to Tribal communities by investing in traditional health services, building a representative health workforce, and assisting Tribes with impacts of the Sober Living Home crisis. Further, the Executive Budget builds on prior-year initiatives to prevent and address the fentanyl crisis and to ensure the State has appropriate resources in place to detect current and future threats to public safety and population health.

These evidence-based, patient-centered investments will help restore accountability, reduce barriers to care, and help ensure that everyone in Arizona has the opportunity to live well.

## Reproductive Health Care

### EXPANSION OF FAMILY PLANNING COVERAGE

This expansion of family planning coverage would help an estimated 5,616 individuals gain access to lifesaving detection of cancer, contraception, and other preventive care.

The Executive Budget includes \$344,000 ongoing from the General Fund and \$3.9 million in federal expenditure authority to the Arizona Health Care Cost Containment System (AHCCCS) to establish a family planning coverage category. The family planning-only option would allow an individual earning up to \$31,200 for a family of four (and no longer income-eligible for full coverage through AHCCCS) to receive critical reproductive health services, including birth control, as well as testing for breast and cervical cancer, pregnancy, and sexually transmitted infections.

### EXTENDING POSTPARTUM COVERAGE

AHCCCS, Arizona’s Medicaid program, covers half of all deliveries in the state. Compared to women with commercial insurance, women who participate in Medicaid are at an increased risk of pregnancy and birth complications that can contribute to maternal mortality and severe morbidity.

The Executive Budget includes \$263,000 General Fund and \$1 million in federal funds ongoing to permanently implement 12-month postpartum coverage. In April 2023, AHCCCS extended postpartum coverage from 60 days to 12 months pursuant to a temporary (five-year) federal approval. Shortly after Arizona received approval to implement

this coverage extension, Congress voted to make permanent the 12-month postpartum coverage option; however, without renewal and a sustained funding commitment by the State, Arizona’s approval will expire in 2027.

To date, only two states have chosen not to take full advantage of this lifesaving coverage.

In Arizona, nearly 60% of maternal deaths occur between 43 days and one year postpartum, and nearly 90% of these deaths could have been prevented with appropriate medical intervention. Extended postpartum AHCCCS coverage helps ensure that new mothers can stay connected to the care and services that they need during the critical postpartum period.

### 12 MONTH CONTRACEPTION DISPENSING

Medicaid patients who receive a one-year supply of contraceptives are 30% less likely than other dispensing methods to experience an unplanned pregnancy. At present, 53,615 AHCCCS members fill prescriptions for contraceptives.

The Executive Budget includes \$120,000 ongoing from the General Fund and \$560,000 in federal expenditure authority to allow for 12-month dispensing of contraceptive supplies to Medicaid members. Research shows that giving individuals a full year’s supply of birth control at a time reduces barriers to contraceptive access and use.

## Tribal Healthcare

### TRADITIONAL HEALING SERVICES

The Executive Budget includes \$1.3 million ongoing from the General Fund and \$221.5 million in ongoing federal expenditure authority to provide Traditional Healing services to individuals eligible for services through Indian Health Service (IHS) and Tribally operated health facilities.

The Executive recognizes the importance of culturally responsive services to address the physical, mental, and emotional health of members, using methods developed and practiced by generations of Tribal healers.

In response to requests for Traditional Healing services from Tribal leaders and health providers, AHCCCS first established a Traditional Healing workgroup in 2015. The group has worked for nearly a decade to advance this option. In October 2024, for the first time in Medicaid history, the Centers for Medicare and Medicaid Services (CMS) issued a two-year approval to several states, including Arizona, for a pilot program to cover Traditional Healing.

### TRIBAL HEALTHCARE EDUCATION AND WORKFORCE DEVELOPMENT

The Executive Budget includes \$226,900 ongoing from the General Fund and \$226,900 in ongoing federal expenditure authority to support 4.0 positions for the Arizona Advisory Council on Indian Health Care (AACIHC). These positions will continue to provide health education and related activities to Tribal members and healthcare providers.

Due to expiring grants, the Council is expected to lose seven positions in FY 2026, and State funding for these positions will help ensure their continued efforts.

Since 2023, AACIHC has provided training to 3,000 members of Tribal Nations on health-related topics, such as chronic disease

management and navigating the healthcare landscape. Additionally, the Council plays a critical role in training Community Health Representatives (CHRs).

**SOBER LIVING HOME CRISIS RESPONSE**

The Executive Budget includes \$7 million one-time from the General Fund to the Office of the Attorney General to establish the Sober Living Home Tribal Response Fund to assist tribes as part of the ongoing response to the Sober Living Home crisis.

In consultation with leadership from the 22 federally recognized Tribal Nations in the state, the Attorney General will identify priorities and a process for allocating monies from this fund. Monies in the Fund may go toward grants to Tribal governments, Tribal health clinics, Tribally operated health programs, urban Indian organizations, or other organizations or entities approved by Tribal leaders through consultation with the Attorney General. The funds should be used to mitigate the impact of the Sober Living Home fraud crisis and assist in the creation and proliferation of culturally responsive behavioral health services for indigenous Arizonans.

**Healthcare Workforce**

The Executive has prioritized developing Arizona’s healthcare workforce to meet the growing statewide need for doctors, nurses, allied health professionals, direct care workers, technicians and more. To champion these efforts, the Executive:

- Created the Governor’s Workforce Cabinet, which will develop initiatives to address shortages in targeted healthcare sectors;
- Invested in AZ Healthy Tomorrow, an initiative led by Arizona State University, Northern Arizona University, and the University of Arizona, to increase the number of physicians, nurses, allied health professionals, and other professions across the state; and
- Created the Community College Workforce Scholarship program to remove the cost of tuition as a barrier to a career in healthcare.

The Executive Budget continues to build on these successes through investments in nurse education and provider rates, which will ensure Arizona can develop, retain, and compete for these workers.

**ARIZONA NURSE EDUCATION INVESTMENT PROGRAM**

Ensuring that the State has an adequate supply of well-trained nurses is a key factor in improving health care delivery. The Executive Budget includes \$3 million one-time from the General Fund for the Arizona Nurse Education Investment Program at the Department of Health Services (DHS).

The funding will expand the capacity of Arizona nursing education programs at the State’s community colleges. The program also aims to address the State’s nursing shortage by increasing the number of nursing graduates. On average, more than 12,800 nursing students have been served each year through this program in FY 2023, FY 2024 and FY 2025.

**LONG TERM CARE PROVIDER PAY PACKAGE**

Direct support professionals provide long-term care and assistance to individuals enrolled in the Arizona Long-Term Care System (ALTCS), including people who are elderly, are living with a physical or developmental disability, or require assistance with daily living.

These caregivers provide support in people’s homes and communities as well as in residential and acute care settings.

These positions are critical to the health and welfare of Arizonans but are also demanding. A 2021 Developmental Disability Qualified Vendor Workforce Development Survey showed that providers who contract with AHCCCS and the Department of Economic Security (DES) have struggled to recruit and retain direct support professionals due to low wages.

Data shows that as caregiver wages increase, turnover decreases.<sup>1</sup> Higher provider rates will help direct care worker provider organizations maintain competitive wages to stabilize the provider network and workforce.

The Executive Budget includes \$92.1 million ongoing from the General Fund, \$193.0 million in ongoing expenditure authority, and \$14.3 million in other Non-Appropriated Funds to increase ALTCS-EPD and DDD provider rates by 6% over three years.

This funding will make provider rates more competitive, which in turn will alleviate workforce challenges and expand access to care.

**Preventing Fraud and Abuse**

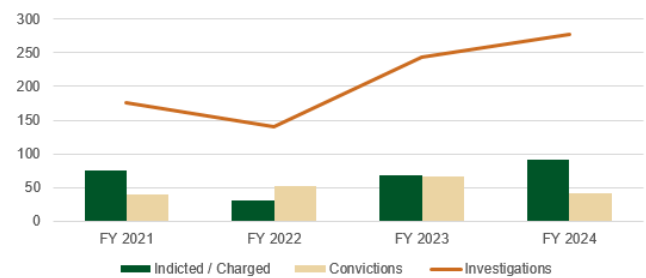
**MEDICAID FRAUD CONTROL UNIT EXPANSION**

The Executive Budget includes \$204,100 ongoing from the Consumer Protection Consumer Fraud Revolving Fund to expand the Medicaid Fraud Control Unit (MFCU) at the Attorney General’s Office. The funding will add two Special Agent positions, one Assistant Attorney General, and a Legal Secretary. The State’s investment in the MFCU will receive a 75% match from the federal government.

These additional staff members are necessary to help the MFCU respond to an increase in the number and complexity of fraud cases. The following chart illustrates the trend in investigation growth.

Figure 9

**MCFU Investigations, Indictments / Charges, and Convictions**



The MFCU is responsible for investigating and prosecuting fraudulent Medicaid billing, as well as abuse, neglect, and financial exploitation in healthcare facilities settings.

- The Special Agent positions will allow the Unit to investigate an additional 30 cases per year.
- The Assistant Attorney General will assist in prosecuting an additional 40 to 60 cases (depending on the nature and complexity of the cases).
- The Legal Secretary will provide the necessary administrative support for the Unit to carry out its investigations and prosecutions.

This investment in personnel will allow the MFCU to recover an estimated \$12 million per year in fraudulently obtained monies.

<sup>1</sup> <https://pmc.ncbi.nlm.nih.gov/articles/PMC10288864/>

## **DECREASING PROCESSING TIME FOR PROVIDER ENROLLMENT**

The Executive Budget includes \$481,900 ongoing from the General Fund and \$1.1 million ongoing in federal expenditure authority for 22.0 new full-time equivalent (FTE) positions to address growing provider enrollment and redetermination timelines.

These positions will supplement previous enhancements, allow for more hands-on support, and shorten processing times for providers enrolling in the system, while also allowing time for AHCCCS to utilize enhanced processes aimed at preventing fraud, waste, and abuse.

These positions will help enhance the provider redetermination process, which is required every five years. This investment will further ensure that AHCCCS has an adequate and high-quality provider network, by expediting provider application timeliness, decreasing turnaround times, and ensuring that providers can be appropriately validated, but still enter the market quickly.

Provider enrollment in Arizona is typically processed within 30 to 60 days and, with this investment, in most cases is expected to be cut in half to 30 days or less.

## **MEDICAID CASELOAD AND CAPITATION ADJUSTMENTS**

The Executive Budget includes the necessary resources to ensure that projected Medicaid caseload increases are funded.

The provided funding considers the following factors:

- A 0.55% decrease, beginning October 2025, in Arizona's federal match rate for Medicaid, driven by a multi-year rolling average of the state's per capita income compared to other states;
- 2.15% projected growth in AHCCCS membership (weighted average across all six AHCCCS populations); and
- A 4% projected increase in capitation rates.

To address these factors, the Executive Budget includes a total net ongoing funding increase of \$335 million:

- \$48.3 million from the General Fund;
- \$125 million from Prescription Drug Rebate Fund (PDRF); and
- \$161.6 million in Expenditure Authority.

## **MODERNIZING THE MEDICAID ENTERPRISE SYSTEM (MES)**

The Executive Budget includes funding for phase four of a vital, multi-year, six-phase project to replace the AHCCCS mainframe IT system.

The current legacy system is over 40 years old and operates on outdated coding language. This mainframe supports every essential AHCCCS function, from case management to provider payments, and both maintenance and modernization are critical to ensuring the ongoing function of the Medicaid program.

The replacement project began in FY 2022 and is scheduled to be finished by the end of FY 2028. To cover the costs of the project in FY 2026, the Executive Budget includes one-time funding of \$6.7 million from the General Fund and \$54.5 million in federal expenditure authority.

## **HOUSING AND HEALTH OPPORTUNITIES INITIATIVE**

The Executive Budget leverages existing fund sources at AHCCCS and the Department of Housing (ADOH) to draw down tens of millions of federal dollars for the Housing and Health Opportunities (H2O) pilot program.

For FY 2026, the State investment of \$5.3 million will draw down \$49.8 million in additional federal monies to provide housing and supportive services to Medicaid members who are experiencing both homelessness and one or more chronic diseases or conditions. In turn, H2O is anticipated to lower the total cost of member care by increasing participation in preventive and rehabilitative care, thereby reducing the need for costly emergency services, hospitalization, and crisis interventions.

The H2O program was approved in 2022, and services began on October 1, 2024. The program is federally authorized through FY 2027 to provide transitional housing, rental assistance, and tenancy support to unsheltered Medicaid members. During the first year, H2O will emphasize services for members living with a serious mental illness (SMI) diagnosis.

The Executive has directed AHCCCS and ADOH to contribute the State's share of the H2O investment in FY 2026 using the ADOH Housing Trust Fund and the AHCCCS SMI Housing Trust Fund.

## **STOPPING ARIZONA'S FENTANYL EPIDEMIC (SAFE) - AHCCCS**

Under this initiative, the Executive Budget includes \$2 million one-time from the General Fund for AHCCCS to expand access to medication-assisted treatment (MAT) in underserved and rural communities.

This investment will help ensure that these populations have access to MAT, which is a whole-person approach, utilizing medication in combination with counseling, behavioral therapies, and peer support for the treatment of substance use disorders.

## **ADDITIONAL STAFF FOR GROWTH IN ALTCS**

Membership in ALTCS programs hit an all-time high in calendar year 2024 with membership over 70,000 and 51,734 applications. AHCCCS has noted that 70% of application delays are a result of medical eligibility reviews.

To address the continued surge in applications and membership, improve processing timelines, and ensure continued adherence to federal timeliness requirements, the Executive Budget includes \$541,400 General Fund and \$1.6 million federal Expenditure Authority ongoing and \$28,700 General Fund and \$28,700 federal Expenditure Authority one-time for 28 Pre-Admission Assessors (PAS) that will directly assess Medical Eligibility when individuals apply for Arizona's Long Term Care System (ALTCS).

## **ACCELERATED PHASE DOWN OF HOSPITAL ASSESSMENT TRANSFER**

The FY 2025 Enacted Budget included one-time transfers of \$100 million from the Hospital Assessment Fund to the General Fund to offset Medicaid caseload costs in both FYs 2025 and 2026.

In FY 2026, the Executive Budget provides the hospitals an additional \$75 million by reducing the one-time transfer of Hospital Assessment Fund revenues to the General Fund to \$25 million, accelerating the phase down of the enacted one-time transfers.

# Department of Health Services

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## **NEWBORN SCREENING PROGRAM EXPANSION**

The DHS Newborn Screening Program tests Arizona newborns for congenital disorders, critical congenital heart defects, and hearing loss, within 36 hours of birth.

The Program tests for 36 conditions that, if identified early, can prevent more serious health problems and minimize developmental delays in children. It is modeled after the federal Department of Health and Human Services' Recommended Uniform Screening Panel

(RUSP). As new disorders are added to RUSP, Arizona’s Newborn Screening Program must adopt testing for those disorders within two years.

Recently, three disorders were added to the RUSP. To ensure that the Newborn Screening Program has capacity to conduct the required testing, the Executive Budget includes 5.0 new positions and \$2.8 million ongoing from the Newborn Screening Fund to add the following diseases or conditions to the Arizona Newborn Screening panel:

- Mucopolysaccharidosis type II (MPS II),
- Guanidinoacetate Methyltransferase (GAMT), and
- Infantile Krabbe Disease (Krabbe).

The increase in funding will be offset by an increase in the Newborn Screening Fee.

### **IMPROVING HEALTHCARE FACILITIES LICENSING**

DHS licenses and oversees more than 90 types of healthcare institutions, from large hospitals and nursing care institutions to small clinics and counseling centers. DHS is responsible for processing applications and license renewals, inspecting facilities, and responding to complaints at more than 8,000 licensed healthcare institutions each year.

The Executive has prioritized patient safety and has seen rapid returns on prior investments in licensing and inspection services. Building on these existing investments will help DHS further improve complaint response time and customer satisfaction and expedite licensing processing.

The Executive Budget includes an additional \$1.2 million one-time from the Health Services Licensing (HSL) Fund to continue the efforts begun in FY 2025 related to healthcare licensing reform. The \$1.2 million will allow DHS to restructure its IT systems and invest in community outreach and business analytics. With these investments, DHS will also improve public transparency surrounding its licensees by expanding the AZ Care Check Portal, which allows Arizonans to research and understand complaints against licensees. In addition, this investment includes one-time funding for an operational efficiency assessment, which will be used to provide a framework to streamline and strengthen the effectiveness of the division and identify areas for future improvement.

To further support patient safety and streamlined licensing, the Executive Budget includes \$4.9 million ongoing from the HSL Fund to add:

- Two new positions to provide continued improvement and maintenance to the division’s IT systems;
- Five new positions to build upon the community outreach network by strengthening relations with licensees and public safety officials; and
- Three new positions to enhance customer support available to licensees.

The funding will also support shifting 31 positions from the General Fund to the HSL Fund.

This multifaceted investment, will require an increase in health care facilities’ licensing fees, improves the effectiveness of issuing licenses to facilities and ensures that those facilities model a patient-centered approach.

### **STOPPING ARIZONA’S FENTANYL EPIDEMIC (SAFE) - DHS**

As part of the comprehensive approach toward addressing the fentanyl epidemic, the Executive Budget includes \$2 million in one-time funding from the General Fund to equip first responders with distributing naloxone and related overdose reversal medications.

This funding supports the expansion of evidence-based harm reduction and treatment services. It will ensure that more first responders have access to medications that can be lifesaving in the event of an overdose, minimizing the fatal impact of the fentanyl epidemic.

## **Arizona State Hospital**

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The Arizona State Hospital (ASH) is under the Arizona Department of Health Services and provides court-ordered inpatient psychiatric treatment to an average of 302 patients per day. ASH provides a full continuum of mental health and medical care and is the only State-operated psychiatric hospital in Arizona.

ASH was established in 1887, before Arizona was established as a state, and is located on State Trust Land.

Maintaining a safe and supportive atmosphere at ASH is critical to patient recovery and requires continual investment in repairs and renovations. Due to the hospital’s age, the facility is in need of frequent infrastructure and technology upgrades to ensure the continued safety of patients and staff and to provide a high standard of care.

### **FACILITY IMPROVEMENTS**

The Executive Budget includes \$1 million one-time from the ASH Land Fund for five technology-related ASH facility improvement projects. The funded projects include replacement of the:

- Public address system,
- Key card system,
- Fire control system,
- Network patch cable, and
- Perimeter detection system.

These systems are outdated and have reached the end of useful life. The completion of repairs will result in a more secure campus for patients and staff and help ensure that patients can complete treatment without interruption.

### **ABOVE-GROUND ISOLATION VALVE INSTALLATION**

ASH also needs investments in its water infrastructure to provide uninterrupted health services and food preparation.

Currently, making even minor repairs to the Hospital’s outdated system requires that water services be shut off to the entire campus. To address this issue and allow ASH to function optimally, the Executive Budget includes \$160,000 one-time from the ASH Land Fund to install four water-isolation valves. These valves will ensure that only the affected area of the campus is shut off when repairs are needed, allowing the remaining areas to continue to have water access.

### **ANTI-LIGATURE RENOVATIONS**

The Executive Budget includes \$695,000 one-time from the ASH Land Fund to upgrade anti-ligature safety systems in the patient care environments. This proactive upgrade to hospital infrastructure promotes patient safety and ensures that the hospital remains in full compliance with State and federal regulations as well as Joint Commission accreditation standards.

## **Ensuring Food Safety**

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### **AGRICULTURE MEAT INSPECTION AND FOOD SAFETY**

Food contamination can pose a significant threat to the health of individuals and families. To better protect Arizona’s food supply from contamination and facilitate detection of foodborne illness outbreaks,



the Executive Budget includes \$127,000 ongoing from the General Fund for a new food safety scientist at the Arizona Department of Agriculture.

The Department tests meat, dairy, feed, and fertilizer, and has the ability to test microbial and pesticide contamination.

The Department is seeking accreditation to perform high-level testing in the event of an outbreak, equivalent to that done by the U.S. Food and Drug Administration (FDA). This will allow Arizona to rapidly and effectively respond to contamination or foodborne illness outbreaks without having to wait for confirmation testing by the FDA.

With this new accreditation and the additional position, the Department will be better equipped to protect public health.

Additionally, the Executive Budget includes \$119,300 ongoing and \$45,000 one-time from the General Fund to expand State inspections of meat-processing facilities. This funding will provide the Department with enhanced capacity and help meat-processing plants in the State to expand operations and open new facilities.

## Health Care Licensing Boards

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The Executive Budget includes multiple initiatives to address licensure and investigations workload increases at the State's health care licensing boards. Total funding appropriated is \$344,200 ongoing and \$268,300 one-time from the respective board funds. The initiatives include:

- Board of Pharmacy: Add 1 Field Compliance Officer position to help the Board complete investigations within 180 days.
- Board of Psychologist Examiners: Add 0.5 Behavior Analyst position to address the Board's increased investigations workload.
- Board of Psychologist Examiners: Provide a targeted salary adjustment to the Board's leadership to bring their salaries to the midpoint range, in line with sister boards.
- Board of Osteopathic Examiners: Increase payment rates to outside medical experts to allow additional investigations to be covered and to help the Board meet the 180-day investigation completion target set by the Arizona Auditor General.
- Board of Osteopathic Examiners: Provide a targeted salary adjustment to bring various Board positions in line with other State health care boards.
- Board of Physical Therapy Examiners: Add 0.5 position to address a significant increase in annual license applications over several years.
- Board of Behavioral Health Examiners: Contract a consultant to complete the transition of historical documents to the Board's new e-licensing platform.
- Board of Behavioral Health Examiners: Renovate office space to accommodate 7 positions added in the FY 2025 Enacted Budget.

These funds will positively impact processing times for professional health licensing applications, investigation timelines, employee retention, and IT needs.

# Housing and Human Services

## Building Thriving and Supportive Communities Across Arizona

“During my time as Governor, we have lowered costs by cutting government red tape and making historic investments in affordable housing programs. But, make no mistake, we must do more to realize the Arizona Promise.”

Gov. Katie Hobbs

Arizona should be the best place to live, work, and raise a family, and the Executive has made significant progress in making that a reality for residents across the state and from all walks of life.

The past two enacted budgets have safeguarded and improved Arizonans’ physical, emotional, and economic well-being through significant investments to:

- Make housing more affordable for working-class families and individuals;
- Offer more affordable child care options for the state’s growing workforce; and
- Preserve vital human services for children, older adults, and persons with disabilities.

The Executive Budget continues to build thriving and supportive communities across Arizona through targeted program expansions and modernizations, without imposing damaging cuts to services.

### Housing Affordability Initiatives

#### LOW INCOME HOUSING TAX CREDIT EXPANSION

Housing affordability continues to be a challenge for many Arizonans, particularly the working class. To encourage the continued development of affordable housing, the Executive Budget includes an expansion of the State’s Low Income Housing Tax Credit (LIHTC).

The State LIHTC program began in FY 2022, and, without an extension, will sunset on December 31, 2025. The Executive Budget extends the program to December 31, 2031, and expands the State tax credit from \$4 million to \$10 million for each year.

To help offset the cost of developing affordable housing for working-class Arizonans, the State LIHTC program allows residential rental property developers to apply for and, if approved, claim tax credits against an insurance premium or income tax liability in equal amounts over a 10-year period. The State LIHTC works alongside the federal LIHTC to increase available credits that, in turn, promote investment in affordable housing throughout the state, reducing housing instability for Arizonans.

The current State LIHTC program has allocated \$13.8 million in credits over four years, resulting in the Department of Housing (ADOH) approving 1,600 units to be constructed, with half of the 14 projects awarded outside Maricopa and Pima counties.

Under the extension, the projected fiscal impact to the State is a \$10 million reduction in General Fund revenue that accumulates each year from FY 2026 through FY 2031. The Executive Budget contemplates a revenue reduction of \$10 million in FY 2026 and \$20 million in FY

2027, with the projected revenue reduction peaking at \$76 million in FY 2031.

The total new investment over the lifetime of the extended program is estimated at \$600 million. This \$600 million will not only provide affordable housing options for working-class families; it will also be an investment that results in positive economic impacts, including new jobs and increases in construction-related tax revenue.

#### HOUSING TRUST FUND DEPOSIT

To continue and expand the work being done to combat housing insecurity across the continuum, the Executive Budget includes a one-time deposit of \$15 million from the General Fund into the Housing Trust Fund (HTF). This deposit will be utilized to create and scale housing solutions targeted at working-class families.

The historic investments totaling \$165 million over the past two years have provided for more than 80 grants issued by ADOH for multiple housing affordability initiatives, including but not limited to:

- Financing affordable housing construction;
- Rehousing and assisting individuals at risk of homelessness;
- Providing relief from extreme weather events in counties across Arizona; and
- Contributing to homeownership assistance.

ADOH continues to release competitive award opportunities and work with stakeholders and housing practitioners to identify areas of greatest need. ADOH has prioritized significant portions of recent HTF allocations for gap financing, particularly for LIHTC projects.

Of the FY 2024 HTF allocation, \$46 million was awarded across 12 projects to generate nearly 2,400 units of affordable housing.

#### “ARIZONA IS HOME” MORTGAGE ASSISTANCE PROGRAM

In FY 2024, the Arizona Is Home mortgage assistance program was created as a collaboration between ADOH and the Arizona Industrial Development Authority (AZIDA). Arizona Is Home extends homeownership opportunities for qualifying middle-income homebuyers through enhanced down payment assistance and mortgage interest rate relief.

To date, over 400 households have participated in the program and closed on the purchase of a home. The new Executive allocation will expand the program to reach upwards of 1,000 households by renewing the Arizona Is Home offering for households in rural counties, and enhance homebuyer assistance through a new partnership among ADOH, the Arizona Finance Authority, and IDAs in Maricopa and Pima counties.

In FY 2025, the Executive has invested \$5 million of federal American Rescue Plan Act (ARPA) monies to the Arizona Is Home mortgage assistance program. This investment is in addition to \$13 million – \$3 million in ARPA funds and \$10 million from the Housing Trust Fund – directed to the program in FY 2024, bringing the total investment to date to \$18 million.

#### HOUSING AND HEALTH OPPORTUNITIES INITIATIVE

The Executive Budget leverages existing fund sources at the Arizona Health Care Cost Containment System (AHCCCS) and ADOH to draw down tens of millions of federal dollars for the Housing and Health Opportunities (H2O) pilot program.

For FY 2026, the State investment of \$5.3 million will draw down \$49.8 million in additional federal monies to provide housing and supportive services to Medicaid members who are experiencing both homelessness and one or more chronic diseases or conditions.

In turn, H2O is anticipated to lower the total cost of member care by increasing participation in preventive and habilitative care, thereby reducing the need for costly emergency services, hospitalization, and crisis interventions.

The H2O program was approved in 2022, and services began on October 1, 2024. The program is federally authorized through FY 2027 to provide to unsheltered Medicaid members transitional housing, rental assistance, and tenancy support. During the first year, H2O will emphasize services for members living with a serious mental illness (SMI) diagnosis.

The Executive has directed AHCCCS and ADOH to contribute the State’s share of the H2O investment in FY 2026 using the ADOH Housing Trust Fund and the AHCCCS SMI Housing Trust Fund.

## Resources for Repatriation

The Executive Budget includes \$7 million one-time from the General Fund to the Arizona State Museum (ASM) under the University of Arizona to fully comply with the Native American Graves Protection and Repatriation Act (NAGPRA). The Act requires universities and museums to return Indigenous human remains and artifacts to the Native American tribes from which they were taken.

ASM serves as the State’s archeological repository for artifacts and human remains discovered on State land. Due to inadequate funding, ASM has been unable to fully comply with NAGPRA, resulting in delays for Indigenous human remains and artifacts to be repatriated to the respective Native American Tribe.

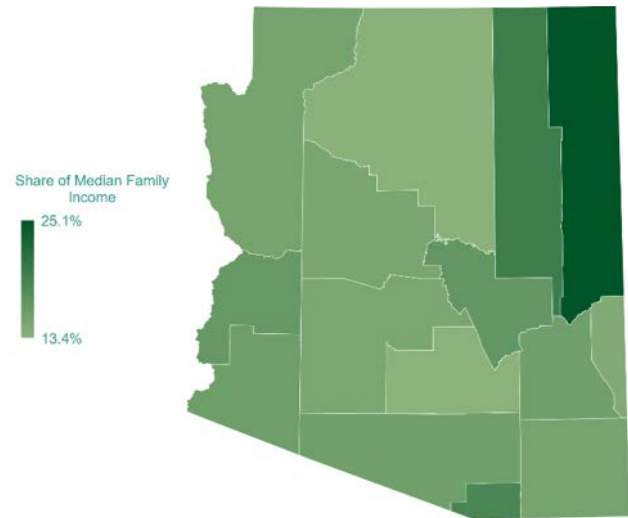
## Child Care Solutions to Meet Arizona’s Workforce Needs

### BRIGHT FUTURES AZ

Providing families access to child care not only improves children’s development and well-being; it is foundational to a thriving economy and available workforce. When families have access to affordable and available child care, they are able to work and businesses have a more reliable workforce.

Figure 10

### Price of Infant Center-Based Child Care as a Share of Median Family Income in Arizona



However, many families in Arizona struggle with finding available care that they can afford.

- Disruptions in child care cause a \$4.7 billion economic disruption to Arizona’s families, employers, and state economy each year, with families losing \$3 billion in lost earnings, and businesses losing \$958 million in reduced revenue and increased hiring costs.<sup>1</sup>
- As many as 25% of Arizona children need child care, but do not have access.<sup>2</sup>
- Over the next 10 years, the need for child care is expected to grow by 20%.
- Child care costs should not exceed 7% of a family’s income, but in Arizona the average family pays 17%.

The economic impact of disruptions in child care is significant to Arizona businesses, employees, and the economy:

- Without reliable access to child care, parents and other caregivers may miss work, skip opportunities for promotion, or leave the workforce altogether.
- Child care helps employers prosper from having employees on whose time and attendance they can depend, which leads to stronger earnings, greater tax revenues, and employment gains.

The FY 2026 Executive Budget includes a \$7 million ongoing investment from the General Fund, \$159,800 from other funds, and \$5.5 million already invested by the Executive through American Rescue Plan Act (ARPA) dollars, to decrease child care costs for Arizona families, increase child care availability, address early childhood education workforce needs, and support child care providers. This funding will be invested in the Bright Futures AZ initiative as follows:

### Decrease Child Care Costs for Arizona Families

- \$3 million ongoing from the General Fund to the Early Childhood Development and Health Board (First Things First) to develop a public-private partnership among the State,

<sup>1</sup> <https://www.strongnation.org/articles/2290-the-economic-impacts-of-insufficient-child-care-cost-arizona-4-7-billion-annually>

<sup>2</sup> [https://bipartisanpolicy.org/download/?file=/wp-](https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2021/09/BPC_Data_By_State_AZ_RV2.pdf)

[content/uploads/2021/09/BPC\\_Data\\_By\\_State\\_AZ\\_RV2.pdf](https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2021/09/BPC_Data_By_State_AZ_RV2.pdf)

employers, and families that reduces the cost of child care for working-class families; and

- \$3 million ongoing from the General Fund to DES to create a grant program for youth ages 5-12 for afterschool and summer programming for working-class families.

#### **Increase Child Care Availability**

- \$3.5 million one-time from ARPA to DHS to provide coaching to grow the number of licensed child care providers and child care slots;
- \$159,800 ongoing from the Health Services Licenses Fund to DHS for 3.0 childcare licensing FTEs to expand support to providers who wish to become licensed;
- \$1 million ongoing from the General Fund to create a corporate tax credit with a sunset date after five years for businesses that provide child care for employees; and
- \$500,000 one-time from ARPA to DES to develop a web tool to provide information to families on child care availability.

#### **Address Early Childhood Education Workforce Needs**

- \$1 million one-time from ARPA to DES to support early childhood educators with child care scholarships.

#### **Support Child Care Providers**

- \$500,000 one-time from ARPA to the Office of Economic Opportunity to expand the Microbusiness Loan Program to include child care providers to upgrade their facilities and support their operations.

## **Department of Economic Security**

### **EXPANDING ACCESS AND AFFORDABILITY OF CHILD CARE**

The Department of Economic Security (DES) Child Care Assistance program helps working-class families pay for care in provider or home settings. Assistance is available for parents whose annual incomes are at or below \$51,480 for a family of four, as well as qualifying grandparents and guardians with children from birth through age 12.

The Executive Budget includes \$191.1 million - \$112.4 million ongoing General Fund, \$30 million ongoing other funds, and \$48.7 million one-time from other funds - to support the Child Care Assistance program and help ensure that Arizona families have access to affordable, high-quality child care.

This investment in child care will:

- Expand families' access to high-quality settings by continuing to offer special incentives to child care providers, including a 50% high-quality enhancement rate, increasing the payment made to providers that meet certain criteria;
- Help child care providers recruit and retain educators and sustain operations;
- Implement system updates and conduct research to ensure compliance with federal 2024 Child Care and Development Fund Final Rule timelines; and
- Admit households from the child care waitlist, which is projected to be reduced by half with this investment, subject to attrition and available funds.

<sup>3</sup> <https://www.feedingamerica.org/hunger-in-america/arizona#:~:text=In%20Arizona%2C%20963%2C130%20people%20are,of%20them%20293%2C950%20are%20children.&text=face%20hunger,.to%20meet%20their%20food%20needs>.

### **SUPPORTING AGING ARIZONANS**

Area Agencies on Aging (AAAs) play a pivotal role in the State, addressing the needs of older adults and those living with disabilities. These agencies help Arizonans age in place and stay in their homes by connecting them to the care and services they need to do so safely.

The Executive Budget includes \$2 million one-time and \$500,000 ongoing from the General Fund for the AAAs to continue to keep individuals stably housed and deliver critical aid, including housing assistance, meals, and home and community based services.

### **SUN BUCKS**

As of 2022, one in eight Arizonans, or 963,130 individuals, were considered food insecure. Food insecurity disproportionately impacts children in Arizona since 1 in 5 children are considered food insecure.<sup>3</sup> <sup>4</sup> Food insecurity can harm children's mental health, reduce learning and productivity, and increase the risk for adverse health outcomes. Food insecurity for children is often exacerbated in the summer months when schools close and children lose access to the meals that are provided during the school year.

The Executive Budget includes a \$3.1 million General Fund FY 2025 supplemental for DES and the Arizona Department of Education (ADE) to serve SUN Bucks summer 2024 participants, whose benefits were delayed, and to address an increase in the number of children projected to be served in FY 2025.

The SUN Bucks program offers families with eligible school-aged children a \$120 grocery benefit during the summer months. When support is unavailable in the summer, working-class families may experience greater financial strain and a greater risk of food insecurity.

The Executive Budget also includes \$2.3 million in ongoing funding to DES and ADE in FY 2026 to address an increase in the number of children participating in the program.

This program allows the State to draw down a significant amount of federal funding. Participating states must cover 50% of administrative costs, while the federal government covers the other 50% of administrative costs and 100% of benefit costs.

With approximately 772,200 Arizona children projected to be served in FY 2026, the \$2.3 million from the General Fund is expected to bring in over \$90 million in federal funding.

### **ADULT PROTECTIVE SERVICES REPORTING GROWTH**

The Adult Protective Services (APS) program is statutorily mandated, pursuant to A.R.S. § 46-452, to investigate all reports of abuse, exploitation, and neglect of Arizona vulnerable adults.

Since FY 2020, the number of maltreatment allegations reported to APS has grown substantially to 42,422 annually, or an increase of 84%. Over the same period, the number of new APS cases has increased considerably, from 20,165 annually to 33,907 annually — an increase of 68%.

The number of new APS cases is projected to increase by 10% in FY 2026, to 39,825.

The Executive Budget includes \$7 million from the General Fund, of which \$270,000 is one-time, for the APS program. This funding will address reporting growth by funding 76.0 FTE positions to help DES maintain the investigator best-practice caseload ratio of 1:25 recommended by the National Adult Protective Services Association (NAPSA).

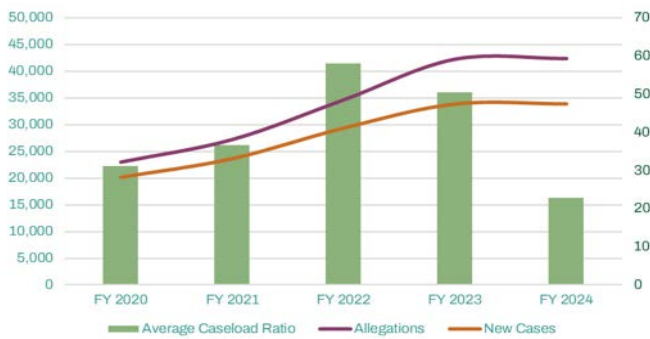
Inadequate staffing levels can result in investigation delays as seen in reducing witness availability and negatively impact evidence preservation, to the detriment of the vulnerable adult being abused, exploited, and/or neglected.

<sup>4</sup> <https://mapazdashboard.arizona.edu/article/concern-about-tackling-food-insecurity-tucson-arizona-msa#:~:text=The%20Map%20the%20Meal%20Gap,considered%20food%20insecure%20during%202022>.



Figure 11

**APS Allegations, Cases, and Caseload Ratio  
FY 2020 - FY 2024**



**ADULT PROTECTIVE SERVICES  
VICTIMS OF CRIME ACT FUNDING**

The Executive Budget includes \$9.1 million ongoing from the General Fund starting in FY 2027 to backfill an ongoing loss of federal Victims of Crime Act (VOCA) funding.

For FY 2026, the Executive has allocated \$9.1 million from the American Rescue Plan Act to address the shortfall. The distribution of VOCA funding from the federal government has decreased in recent years. The funding will allow DES to continue to provide essential services, including case management and crisis intervention, to vulnerable adults who have been a victim of a crime.

**DIVISION OF DEVELOPMENTAL DISABILITIES  
CASELOAD AND CAPITATION GROWTH**

The Executive Budget includes \$109.2 million General Fund and \$403 million Department Long Term Care System Fund expenditure authority in supplemental funding to address higher-than-budgeted Division of Developmental Disabilities (DDD) caseload and capitation growth.

The DDD program is projected to begin facing cash flow challenges in late April or early May of 2025. If additional funding for FY 2025 is not provided by then, DES will be unable to reimburse vendors for medically necessary services, which will result in significant operational disruptions in direct care staffing and cause delays in critical services for DDD members.

In addition, the Executive Budget includes an ongoing increase of \$321.7 million from the General Fund and \$782.8 million in Department Long Term Care System Fund expenditure authority in FY 2026 for caseload adjustments for DDD. Of the General Fund portion, \$32.3 million is one-time, related to a federal reconciliation requirement.

The additional funding in FY 2026 will maintain the current level of service and help ensure that DDD members' needs are being met.

The provided funding considers the following factors:

- An increase in the capitation rate for Arizona Long Term Care System (ALTCS) and Targeted Case Management (TCM);
- A decrease, beginning October 2025, in Arizona's federal match rate, driven by a multi-year rolling average of the state's per capita income compared to other states;
- Substantial growth in ALTCS, TCM, and State-only membership; and
- A Contract Year 2024 reconciliation shortfall due to DDD medical expenses exceeding the net capitation paid in the Long Term Support Services.

**HOMELESS YOUTH ASSISTANCE PROGRAM**

The Executive Budget includes \$1 million ongoing from the General Fund to continue the Homeless Youth Assistance program, which supports organizations that aid 18- to 24-year-olds experiencing homelessness.

DES distributes funding to multiple organizations for street outreach services, providing basic needs and service connection for unsheltered youth experiencing homelessness, and drop-in center services, providing temporary day shelter and respite along with case management and supportive services. On average, 407 youth per quarter have been served since the program began.

The program was initially funded with federal monies in FY 2023. The FY 2022 three-year spending plan included \$1 million in ongoing funding beginning in FY 2024 to backfill the federal funding with General Fund monies. The backfill was delayed until FY 2026, while federal dollars continued to be spent down.

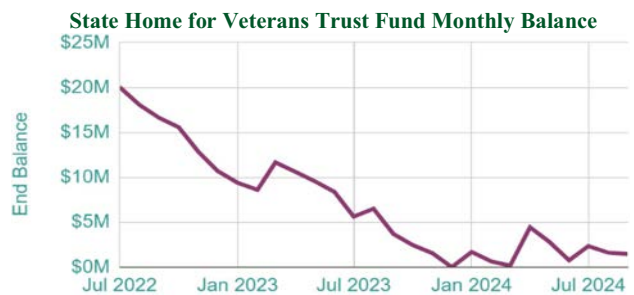
**Department of Veterans' Services**

**STATE HOME FOR VETERANS TRUST FUND**

The Arizona Department of Veterans' Services (ADVS) operates four veterans' homes, in Phoenix, Tucson, Yuma, and Flagstaff. These institutions provide residential care for qualified veterans, using revenues from the U.S. Department of Veterans Affairs and other insurance providers to fund operations.

In recent years, the State Home for Veterans Trust Fund has experienced a declining balance due to multiple factors, including a decrease in census during the pandemic. The Executive has allocated \$1 million in ARPA monies, and the Executive Budget includes a \$1 million supplemental from the General Fund in FY 2025.

Figure 12



These investments will fortify the State Home for Veterans Trust Fund balance, ensuring that ADVS can continue to serve and provide care to Arizona's veterans. It is expected that revenues will increase in FY 2026, as the newly opened Flagstaff Home begins to grow its census, which will result in additional federal dollars flowing to the home for its operations.

**TUCSON VETERANS' HOME HVAC REPLACEMENT**

The Executive Budget includes \$1.9 million from the General Fund to serve as a State match to draw down an additional \$3.5 million in federal monies to replace the HVAC system at the Tucson Veterans' Home.

The Tucson Home serves 115 veterans, with a capacity of 120.

Failures to the system can cause discomfort to residents and, if the system is not repaired quickly enough, could result in having to relocate residents while repairs are made.

This funding will allow ADVS to proactively replace the system while also reducing the anticipated cost of future repairs.

## HOMES FOR HEROES

The Executive Budget includes \$5 million one-time from the General Fund to the newly established Homes for Heroes Fund at the ADVS. This investment will facilitate the development of a statewide, cross-jurisdictional plan by the end of FY 2026, with the goal of effectively reducing veteran homelessness in Arizona over the next decade. Implementation of the state plan will begin in FY 2027, with an emphasis on housing solutions (including rental assistance), social services, counseling, veteran treatment courts, and other evidence-based programs designed to effectively address and reduce veteran homelessness. In addition to coordinating the initiative at ADVS, funds would be used for grants to partner with community-based organizations to build capacity to offer services and execute on this work through FY27.

Aligned with the Department’s strategic goal of reaching near-functional zero for unsheltered homelessness among veterans, these funds will allow cross-jurisdictional collaboration with other state agencies and initiatives - including the Arizona Department of Housing, Arizona Department of Economic Security, and the Governor’s Interagency and Community Council on Homelessness and Housing - tribal governments, local jurisdictions, and federal partners.

## VETERANS HOME PAY PACKAGE

The Executive Budget includes \$1.2 million ongoing at ADVS from the State Home for Veterans Trust Fund to provide a targeted 10% salary increase for Nursing Assistants, Licensed Practical Nurses, Geriatric Licensed Practical Nurses, Nursing Supervisors, and Geriatric Veterans Services Nurses.

## Department of Child Safety

### CONGREGATE CARE IV-E FUNDING LOSS BACKFILL

The Department of Child Safety (DCS) contracted congregate care providers serve as placements for:

- Children, youth, and sibling groups for whom family-like settings are not immediately available, and
- Youth who require additional help prior to transitioning to a family-like setting.

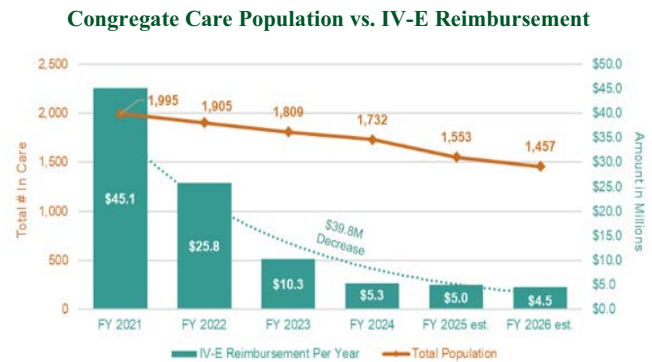
The 2018 Families First Prevention Services Act (FFPSA) changed the structure of Title IV-E federal funding (Social Security Act) for congregate care placements beginning in FY 2021 to encourage expanded use of family-like settings. Congregate care placements previously received unlimited federal reimbursement, but, under FFPSA, reimbursement is limited to only the first 14 days of care.

This change has resulted in a 90% decrease in federal funding for congregate care, equal to a \$39.8 million ongoing loss in funding at DCS.

DCS has successfully reduced the number of children in congregate care settings, which has led to some savings, but congregate care on a longer-term basis is the best fit in certain circumstances, and a shortage of kinship or community foster homes often limits options for placement.

Many teenagers under the Department’s care choose to stay in congregate care settings for greater stability. Also, congregate care settings allow sibling groups to stay together, preventing them from having to be separated.

Figure 13



Some children in DCS care require higher levels of service through Behavior Health and Qualified Residential Treatment Programs that fall under congregate care settings. DCS relies on these placement options to ensure each child is provided with the services they need.

The Executive Budget includes \$23.2 million ongoing from the General Fund for FY 2026, along with \$29.4 million from the General Fund in FY 2025 supplemental funding, to cover the costs associated with IV-E reimbursement reductions in congregate care funding.

## FAMILY CONNECTIONS AND NURTURING PARENTING PROGRAMS

In response to the FFPSA, DCS has introduced multiple initiatives to increase placements in kin-like settings, including the Nurturing Parenting and Family Connections programs. The benefits of these initiatives include reducing the number of children in congregate care and providing family support services that prevent neglect, promote safety, and address problems that may affect family reunification.

The Nurturing Parenting Program is designed for families at risk of abuse or neglect and features activities that:

- Foster positive parenting skills with nurturing behaviors,
- Promote healthy physical and emotional development, and
- Teach appropriate role and developmental expectations.

The Family Connections Program provides change-focused interventions to achieve core outcomes of improved social support, family functioning, family resources, child well-being, parenting attitudes and behaviors, and management of parenting stress.

To help states implement the FFPSA, in 2019 Congress passed the Family First Transition Act (FFTA). The FFTA provided one-time funding to reduce the adverse fiscal impacts associated with implementation of the FFPSA, and DCS used the funds to pay for the Nurturing Parenting and Family Connections programs in their initial years.

The Executive Budget includes \$1.4 million ongoing from the General Fund to replace expiring FFTA funding and continue supporting families and children through the Nurturing Parenting and Family Connections programs.

## PERMANENT GUARDIANSHIP CASELOAD INCREASE

When a child has been removed from their home and cannot be safely returned, the Permanent Guardianship program promotes permanent placement alternatives to severance and adoption, reducing the number of children in out-of-home care and providing a preferred family-like setting.

Through the program, DCS provides a partial reimbursement for expenses involved in the care of the child. This subsidy helps stabilize permanent placements, reduce ongoing case management needs, and provide for children who are not adopted or reunited with parents.

The number of permanent guardianship participants is projected to increase by 10.5%, to a monthly average of 4,110 children. The Executive Budget includes \$2.2 million ongoing from the General Fund to address the caseload increase in permanent guardianship subsidies.

**FEDERAL IV-B FUNDING BACKFILL**

The Arizona Child Abuse Hotline is the primary mechanism through which DCS receives reports of abuse and neglect of a child. The hotline serves as the first point of contact for school personnel, law enforcement, relatives, private citizens, and anonymous sources to share concerns. The hotline is vital to ensure that these reports are taken and that DCS can investigate as needed.

The Executive Budget includes \$560,000 ongoing from the General Fund to backfill reduced federal IV-B funding to support the hotline. Each state receives IV-B funding on a formula basis that varies with the total allotment passed by the federal government each fiscal year. Since FY 2023, DCS has seen the amount of IV-B funding decrease by over \$500,000.

The hotline receives communications through its 24/7 toll free reporting line and online reporting service. On average, the hotline receives over 13,000 calls a month, with 48% resulting in a formal DCS report being filed. When a DCS report is filed, the report is immediately transmitted to a field office to begin investigation.

Backfilling the reduced federal funding will ensure that the hotline can remain fully staffed and respond to the thousands of calls received each month.

**CONTINUED SUPPORT FOR YOUTH TRANSITIONING TO ADULTHOOD**

To support youth transitioning to adulthood, DCS provides the option for young adults in its care to voluntarily enroll into Extended Foster Care until age 21. This option provides stable and supportive housing while youth prepare to live outside of foster care. This program directly aids in the prevention of homelessness among young adults who are in DCS care, and promotes their transitioning to adulthood.

DCS expects a 13% increase in placements as a result of more youth enrolling in the program.

The Executive Budget includes \$1.9 million ongoing from the General Fund and \$217,300 ongoing federal expenditure authority for caseload and cost increases in Extended Foster Care placements.

**SECURITY ENHANCEMENTS FOR FIELD OFFICES**

When necessary, DCS field offices facilitate visits between children and parents, programs for families, and caseworker meetings to support child welfare. The safety and security of children and all who enter DCS field offices is at the forefront of its mission.

DCS is working to make improvements to security at field offices. That need was identified in a recent threat analysis conducted by DCS in collaboration with the Department of Public Safety and local law enforcement.

DCS plans to implement several of the threat analysis findings, including new security technology, employee preparedness training, and, when threats are identified, security services on an as-needed basis. Security improvements will continue DCS’ investment in the safety of children, families, and staff at field offices.

The Executive Budget includes \$300,000 one-time from the General Fund to support the implementation of security preparedness and improvements across field offices.

**CHILD SAFETY INFORMATION SYSTEM (GUARDIAN)**

The Executive Budget includes a one-time increase of \$16 million in FY 2026 – \$11 million from the General Fund and \$5 million from the DCS Expenditure Authority Fund – along with \$15.6 million federal expenditure authority in FY 2025 supplemental funding, to be used for

maintenance, operations, and system enhancements for Guardian, the State’s child safety information system.

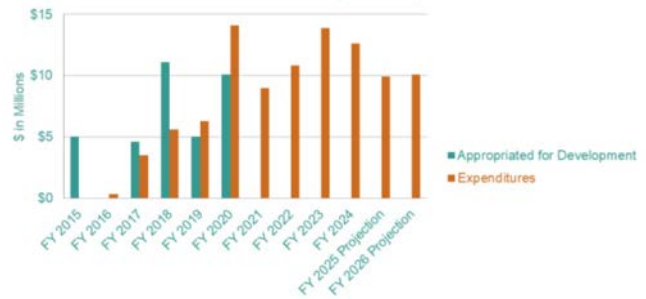
A cloud-based system, Guardian covers all aspects of the Department’s operations, encompassing caseworker management for a variety of interactions with families, courts, the provider network, schools, Medicaid, and other stakeholders.

Guardian was implemented in February 2021 with a one-time General Fund appropriation of approximately \$35 million for development of the system, which replaced the Department’s outdated and inefficient CHILDS system.

Guardian maintenance, operations, and improvements have been funded from a variety of one-time sources, including federal COVID funding, enhanced FMAP savings, and one-time grants, none of which are now available. Since system rollout, DCS has not received ongoing funding for system operations and necessary improvements.

Figure 14

**Guardian GF Funding vs. Expenditure**



Funding the Guardian system will allow DCS to continue to optimize it to collaborate seamlessly with various State agencies (including AHCCCS, DES, and the Courts), enhance the system’s reporting and tracking capabilities, and better serve children and families.

# Improving Education

## Ensuring Quality Education for Every Arizonan and Building a Workforce Pipeline

“Public education is the key to opportunity, security, and freedom. It is the Arizona Promise.”

Gov. Katie Hobbs

The data is clear that increased levels of education improve family outcomes, lift families out of generational poverty, and transform communities by serving as the foundation for Arizona’s economic and workforce development.

For too long, Arizona’s education priorities have not focused on what matters most: supporting the 90% of students, educators, and families who choose a public school. Now is the time to change that and reinvest in public schools, public school educators, and lifelong learning. These investments are crucial to ensure that all Arizona children have access to a quality public education and a safe learning environment in which they can thrive.

There also exists an opportunity to advance education attainment: the degrees and credentials earned by Arizonans after high school. Increasing education attainment benefits individuals and families, strengthens our workforce, supports business growth, and uplifts our economy.

However, just 48% of Arizonans have a degree or certificate. This is why partners came together to create the Achieve60AZ goal: to increase education attainment to 60% by 2030 and remove barriers that students and adults face with postsecondary education.

The Executive Budget makes targeted investments to achieve these goals.

## Department of Education

### PROPOSITION 123

The Executive Budget includes \$285.6 million ongoing funding to Basic State Aid from the General Fund to ensure that there will be no reduction in education funding for public schools associated with the expiration of Proposition 123.

Approved by Arizona voters in May 2016, Prop. 123 increased the distributions from the Public Institution Permanent School Earnings Fund from 2.5% to 6.9%. The additional 4.4% authorized by Prop. 123 offsets General Fund requirements for increases to Basic State Aid. Distributions from the Fund are made from the five-year average of the Fund’s monthly market values.

With no action from the Legislature, Prop. 123 will expire on June 30, 2025, reducing Land Trust distributions from the current 6.9% rate to the base rate of 2.5%.

Over the past decade, the Land Trust has demonstrated the viability of an increased distribution to the beneficiaries and currently sits at a balance of almost \$9 billion, far outpacing projections from the enactment of Prop 123.

Reauthorizing Prop. 123 by referring a new measure to the ballot provides a once-in-a-decade opportunity to increase funding for public education without raising taxes.

### FREE OR REDUCED PRICE LUNCH - EARLY REINSTATEMENT

The Free or Reduced Price Lunch (FRPL) Group B weight was introduced in FY 2023 to provide additional support to schools serving students from working families and included an advance appropriation of \$37 million ongoing in FY 2025 to account for the final phase of funding.

The FY 2025 Enacted Budget included \$37 million on a one-time basis for the final phase, and it delayed ongoing funding to FY 2028. The Executive Budget provides continuity to the program by providing \$37 million ongoing starting in FY 2026.

The weight is applied to every student who qualifies for FRPL. As of FY 2024, a total student population of 598,835, from a total of 1,795 district and charter schools, qualified for FRPL. With the Executive’s early reinstatement of the FRPL weight in FY 2026, public schools will be equipped to provide additional resources in working-class communities, and every eligible Arizona child will continue to benefit from this valuable resource.

### ADDITIONAL ASSISTANCE - EARLY REINSTATEMENT

Increases to District Additional Assistance and Charter Additional Assistance were introduced in FY 2023 to strengthen support to public schools. The FY 2023 Enacted Budget included an advanced appropriation of \$29 million ongoing in FY 2025. The FY 2025 Enacted Budget included \$29 million on a one-time basis for the final phase and delayed ongoing funding to FY 2028.

The Executive Budget continues this ongoing funding in FY 2026 for additional assistance increases that will allow public schools to continue to procure critical educational resources, including unrestricted capital or soft capital purchases such as school transportation, technology purchases, and textbooks.

### SCHOOL MEALS GRANTS

Through a \$3.8 million one-time General Fund investment, the Executive Budget funds the School Meals Grants program, which reduces or eliminates the school meal copay for students from working families that are eligible for reduced-price meals.

Prior investments have increased access to healthy school meals for Arizona students, providing up to 10 million lunches and breakfasts for students from working families that do not qualify for free meals and are required to pay a reduced price.

Based on a family of four, these working families earn between \$40,560 and \$57,720 annually. This investment will cover the \$0.40 copay for reduced-price lunches and \$0.30 copay for reduced-price breakfasts, which equates to a cost of about \$126 per school year for each qualifying child.

### NATIVE AMERICAN CODE WRITERS PROGRAM

The Native American Code Writers Program (NACWP) supports the development of computer science courses and computer labs for students in Tribal-serving districts and charters.



The NACWP began in FY 2017 and received a series of nonlapsing one-time appropriations from the State Web Portal Fund and General Fund in fiscal years 2017, 2019, and 2023.

In FY 2019, the program reported a 10% increase in students interested in pursuing a STEM<sup>1</sup> major in college from school years 2017 to 2019. Also, 108 Native American students participating in the program were enrolled in an advanced placement computer science course for school year 2020.

This data shows measurable increases in schools participating, offerings of advanced placement (AP) computer science courses, and student engagement in computer science coursework.

The Executive Budget includes \$1 million one-time from the General Fund to continue to support the NACWP.

### TEACHER CERTIFICATION SYSTEM

The Teacher Certification System is the software solution that supports the Teacher Certification Unit at the Department of Education. The Teacher Certification Unit provides services to educators to assist them in obtaining and maintaining their Arizona Educator Certification.

The Certification Unit is funded via the Teacher Certification Fund which receives reviews on service fees on processing applications. Legislative changes impacting certification requirements have led to forecasted revenue shortfalls in the fund. The Certification Unit processes approximately 44,000 services per year and the current certification system lacks automated features to operate efficiently within the declining revenue structure of the fund.

To support the Teacher Certification Unit, the Executive Budget includes \$250,000 one-time from the General Fund to modernize the Teacher Certification System which will allow for automation of the issuance of Emergency Teaching, Substitute, and Adult Education certificates, as well as automating the process of downloading and matching official transcripts, and processing of certificate renewals.

### ENROLLMENT TRENDS AND ESA COSTS

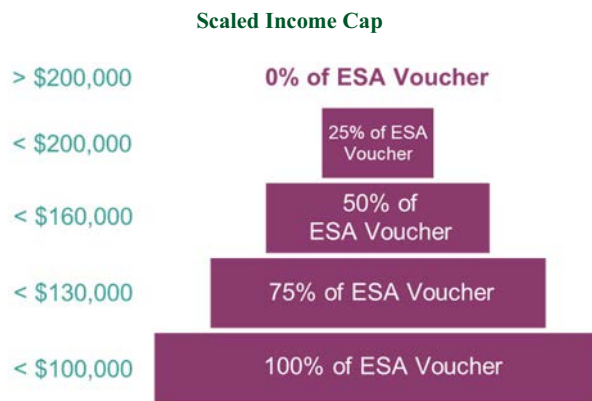
The Arizona Department of Education (ADE) reports that, since universal expansion of the Empowerment Scholarship Account (ESA) program occurred in school year 2023, 73% of ESA vouchers have been awarded to participants with no history in the public school system or at a school district that receives State aid, thus generating a new cost to the General Fund.<sup>2</sup>

Universal ESA program costs are projected to outpace Pre-Universal program costs in fiscal years 2025 and 2026. In FY 2026, enrollment for Pre-Universal is projected at 24,008, with Universal at 70,833, and Pre-Universal costing \$448 million and Universal costing \$516 million, for a total ESA program cost of almost \$1 billion.

### UNIVERSAL ESA REFORM

The Executive Budget implements a scaled income cap that modifies Universal ESA voucher amounts and repeals prior-year eligibility for Universal ESAs beginning in FY 2026. The projected annual General Fund savings generated by this reform is \$150 million.

Figure 15



The Executive estimates that, without Universal ESA reform, the State will incur an ESA enrollment increase of over 12,000 students in FY 2026, raising total program enrollment to over 94,000 students and total program costs to \$964 million.

Implementation of Universal ESA reform is projected to yield a net increase of 2,900 students in FY 2026, raising total program enrollment to over 85,000 students and limiting total program costs to \$814 million. Prior to the Universal expansion of ESAs, total enrollment under the program was 11,699.

This reform fully protects the Pre-Universal ESA program and provides that families will continue to have access if their child:

- Has special needs;
- Attended a school or school district that was assigned a letter grade of D or F;
- Resides on a Native American reservation;
- Is a ward of the juvenile court and has been placed or has a pending placement in permanent adoption or guardianship;
- Has parents who are legally blind or deaf; or
- Has parents who are in active service of the U.S. armed forces.

### INFLATION ADJUSTMENT

A.R.S. § 15-901.01 requires the base support level to increase by the lesser of 2% or the change in the gross domestic product (GDP) price deflator. The GDP price deflator was 2.6% for the 12-month period that ended in October 2024.

The Executive Budget includes an increase in ongoing funding from the General Fund, for a 2% inflation adjustment in the FY 2025 base level amount, transportation route-mile factor, and charter school additional assistance.

The 2% inflation adjustment will add \$100.26 to the FY 2025 per-pupil amount of \$5,013, for a total of \$5,113.26. The total dollar investment in accordance with the inflation adjustment is \$173.2 million.

### PUBLIC SCHOOL ENROLLMENT ADJUSTMENT

The Executive Budget projects an overall decrease of 0.61% in Average Daily Membership (ADM) in FY 2026, starting from an estimated FY 2025 population of 1,080,587 unweighted ADM.

This decline consists of a decrease of (0.88)% for district schools and an increase of 0.43% for charter schools. Enrollment growth costs are based on the average cost per pupil in FY 2025 for both districts and charters, adjusted for inflation.

<sup>1</sup> Science, Technology, Engineering and Mathematics

<sup>2</sup>

<https://www.azed.gov/sites/default/files/2024/08/ESA%20FY24%20Q4%20Executive%20Legislative%20Report.pdf>

The projected net FY 2026 enrollment changes will result in a \$27.7 million ongoing decrease for the State’s requirements for public school Basic State Aid.

**BASIC STATE AID SUPPLEMENTAL**

The Executive Budget includes an FY 2025 supplemental increase to cover a projected shortfall resulting from formula expenditures that exceed the FY 2025 Enacted Budget.

Formula expenditures in FY 2025 are higher than the Enacted Budget estimates, due to:

- a larger statewide ADM recalculation,
- impacts from the *Qasimyar v. Maricopa County* property tax litigation, and
- ESA costs increasing beyond Enacted Budget estimates.

Per these differences from the Enacted Budget, a supplemental appropriation of \$100.9 million from the General Fund is needed for FY 2025.

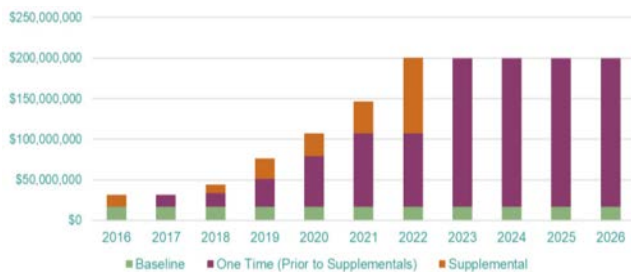
**School Facilities Division**

**BUILDING RENEWAL GRANTS**

The Executive Budget includes \$200 million in total funding from the General Fund for Building Renewal grants: \$183.3 million one-time and \$16.7 million in baseline, ongoing funding.

Figure 16

**Building Renewal Grant Funding  
FY 2016 - FY 2026**



**NEW SCHOOL CONSTRUCTION**

Funding is required for new school construction when population projections indicate that a new school, or additional space at an existing school, will be needed within two years.

The Executive Budget includes one-time funding of \$45.1 million from the General Fund for new school construction already in progress at five schools:

School District	Funding
Maricopa 6-8	\$ 16,503,500
Queen Creek 9-12	12,576,000
Queen Creek 9-12	7,545,600
Sahuarita 9-12	5,743,700
Valentine K-8	2,708,300

The Executive Budget also includes \$113.7 million one-time for (a) year-one construction costs at seven schools, (b) land acquisition at Laveen and a Land Donation Credit at Nadaburg, and (c) site condition projects at Queen Creek and Pima.

The following new school construction projects were reviewed and approved at the December 2024 School Facilities Oversight Board meeting:

School District	Funding
Tolleson 9-12	\$ 65,318,800
Laveen K-8	16,010,600
Nadaburg K-8	12,808,500
Chino Valley 9-12	4,038,300
Holbrook K-8	2,281,500
Snowflake 7-8	2,161,400
St. David 9-12	1,797,600

**Talent Ready AZ**

The Executive launched the Talent Ready AZ initiative in September 2024, with the goal of providing increased access to postsecondary education and training that leads to good jobs in high-demand and high-growth industries.

By 2031, nearly seven out of 10 jobs in Arizona will require some type of postsecondary education or training; however, only 48% of Arizonans have attained a degree or certification.

Increases in education attainment lead to increased individual lifetime earnings and a stronger state workforce. Arizonans with some level of college education have higher earnings and are better positioned to prosper in all sectors of the Arizona economy.

Investments in the Arizona Promise program, dual enrollment, adult education, the Arizona Teachers Academy, and the Nurse Education Investment program will increase education attainment and move the State closer to the Achieve60AZ education attainment goal, which is to reach 60% of Arizona working adults with a postsecondary degree or credential by 2030.

**UNIVERSITY OPERATIONAL FUNDING RESTORATION**

The Executive Budget includes an ongoing restoration of \$23.2 million from the General Fund to support State university operations, including

- \$109,200 for the Arizona Board of Regents,
- \$11 million for Arizona State University (ASU),
- \$4.1 million for Northern Arizona University (NAU), and
- \$8 million for the University of Arizona (UofA).

The State universities are Arizona’s research, workforce development, and economic development hubs. ASU, NAU and UofA provide a world-class learning experience for more than 250,000 students annually.

Additionally, the universities play an important role in educating the health workforce through AZ Healthy Tomorrow, creating pipelines of educators for Arizona classrooms, and leading critical research projects to secure Arizona’s position on the leading edge of microelectronics, quantum computing, forestry, and more.

**UNIVERSITY SPEED BOND AUTHORITY**

For FY 2026, the Executive Budget provides a one-time infusion of \$325 million to improve infrastructure at State universities.

To achieve this, the budget increases one-time bonding authority up to \$1.125 billion – an increase above the current \$800 million – from the University Capital Improvement Lease-to-Own and Bond Fund. This provides Arizona universities with an additional \$325 million in Stimulus Plan for Economic and Educational Development (SPEED) bonding authority.

To address the debt service, the Executive Budget includes \$16.2 million, starting in FY 2027, from the State Lottery Revenue Bond Debt Fund for the State’s portion of 80% of the estimated annual payments on debt service of \$325 million over 30 years. The actual annual payment amount is subject to interest rates and payment terms at the time of bonding.

**ARIZONA TEACHERS ACADEMY**

Ensuring that Arizona’s students have excellent educators in classrooms remains an important priority.

The Arizona Teachers Academy offers students at the State’s universities and community colleges an affordable pathway to become educators and meet the ongoing needs for teachers in schools across the State. The program offers scholarships to college students who agree to teach in Arizona schools once they complete their education. Students in the Academy agree to teach in an Arizona public school for each academic year they received the scholarship. Over the past three years, the program has provided scholarships to more than 3,000 students.

The Executive Budget includes a one-time investment of \$15 million from the General Fund for the Arizona Teachers Academy to address the state’s teacher workforce needs. The investment in the Teacher’s Academy will provide total funding of \$30 million in FY 2026. The Arizona Teachers Academy serves students at ASU, NAU, UofA, Scottsdale Community College, Rio Salado College, Pima Community College, and Central Arizona College.

**ARIZONA PROMISE PROGRAM**

Postsecondary education pays dividends in growing individual earnings, a strong State workforce, and the economy. As was previously noted, by 2031, nearly seven out of 10 Arizona jobs will require some type of postsecondary education, but less than half of Arizonans have a degree or credential.

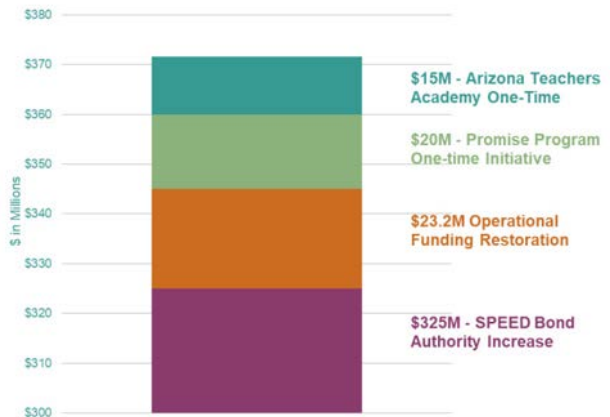
Increasing opportunities for students to pursue and complete a postsecondary credential is critical to the state’s future, but many students and families struggle with the cost of higher education. The Arizona Promise program provides scholarships to make a degree more affordable and accessible to Arizona students from working families.

As a State-based financial aid program, the Arizona Promise program provides scholarships to students who reside in Arizona and graduate from high school with a 2.5 GPA or higher, receive a federal Pell Grant, complete the Free Application for Federal Student Aid (FAFSA), and enroll at ASU, NAU, or UofA. In FY 2024, the Arizona Promise program served more than 9,000 students.

The Executive Budget includes a one-time investment of \$20 million from the General Fund for the Arizona Promise program. The investment in the program will provide total funding of \$40 million in FY 2026, increasing accessibility to higher education for students from working families.

Figure 17

**Higher Education Funding**



**DUAL ENROLLMENT**

Providing affordable pathways to higher education for Arizona students is integral to advancing educational attainment and maintaining a thriving economy.

Dual enrollment accelerates the pathway to college by offering college courses to students while they are in high school. Dual enrollment saves students time and reduces the cost of completing a college degree or credential.

In FY 2024, nearly 26,000 Arizona students participated in a dual-enrollment course, a jump from 17,500 from the previous year.

The Executive Budget includes a one-time investment of \$3 million from the General Fund to support the Dual Enrollment Student Development program at the Office of Economic Opportunity. The program:

- Gives high school students the opportunity to earn community college credits;
- Increases the affordability and accessibility of a postsecondary education; and
- Supports the operational expense of dual-enrollment courses.

**ARIZONA NURSE EDUCATION INVESTMENT PROGRAM**

Addressing the State’s nursing shortage is a key factor in improving health care delivery. The FY 2026 Executive Budget includes \$3 million one-time from the General Fund for the Arizona Nurse Education Investment program.

The funding will expand the capacity of nursing education programs at the State’s community colleges. The program also aims to address the nursing shortage by increasing the number of nursing graduates.

On average, more than 12,800 nursing students have been served each year through this program in FY 2023, FY 2024, and FY 2025.

**ADULT EDUCATION**

Supporting avenues for adults to complete their education and pursue skill attainment strengthens the workforce, fortifies economic growth, and improves the quality of life for individuals and families. In Arizona, nearly 700,000 adults have less than a high school education.<sup>3</sup>

The Executive Budget supports three adult education programs that provide pathways to earn a high school diploma, a high school

<sup>3</sup> <https://data.census.gov/table/ACSST5Y2020.S1501?t=Educational%20Attainm>

ent&g=040XX00US04&tid=ACSST5Y2020.S1501

equivalency diploma, industry credentials, and/or a community college degree.

The Executive Budget includes:

- \$2 million one-time from the General Fund to continue the Community College Adult Education Workforce Development program. This program provides opportunities for Arizonans to earn a high school diploma, an equivalency degree, industry-recognized credential, or a community college degree. The Executive Budget appropriates this funding through the Office of Economic Opportunity (OEO), transferring this program from ADE to OEO.
- \$2 million one-time from the General Fund for the Continuing High School and Workforce Training program, which leads to the issuance of a high school diploma and industry-recognized credentials. The Executive Budget appropriates this funding to ADE.
- \$2 million one-time from the General Fund for the Adult Workforce Diploma program, which helps individuals who are at least 21 years of age earn a high school diploma and develop critical employability and career technical skills. The Executive Budget appropriates this funding through the OEO, transferring this program from ADE to OEO.

**COMMUNITY COLLEGE FORMULA FUNDING**

The Executive Budget includes the following ongoing statutory formula funding adjustments from the General Fund for FY 2026:

- \$626,000 Equalization Aid to Cochise, Graham, Navajo, and Yuma/La Paz counties. Equalization aid supports community college districts that have an insufficient property tax base compared to the minimum assessed value as described in A.R.S. § 15-1402.
- \$871,100 STEM and Workforce Aid. STEM and Workforce Aid is based on each community college district’s enrollment changes from the previous year and district size. Full-time student equivalent (FTSE) grew by 3,798 students in FY 2024.
- \$424,600 Operating State Aid Formula increase. Operating State Aid is based on community college district enrollment changes from the previous year, excluding Maricopa and Pima counties.

Statewide community college FTSE increased by 4.22% with Maricopa and Pima counties included.

Figure 18

**Community College Funding**





# Resilience, Water, and the Environment

## Protecting the Future of Arizona’s Natural Resources

“Securing our water future is essential to preserving our way of life. I have taken decisive actions to ensure Arizona’s water future and defend our state’s groundwater from irresponsible developers who are focused only on short-term profits. I remain committed to true, bipartisan reform to protect our groundwater.”

Gov. Katie Hobbs

Arizona’s natural resources are key to the state’s thriving economy and way of life. A commitment to securing clean air, reliable water, healthy forests, and resilient lands is critical in maintaining the quality of life for Arizona families, businesses, and communities.

## Department of Water Resources

### COLORADO RIVER LITIGATION FUND

The current guidelines for the operation and management of the Colorado River system will expire at the end of calendar year 2026. Arizona and the six other basin states are negotiating the post-2026 guidelines with the federal Bureau of Reclamation in order to develop a framework that more sustainably manages the Colorado River system. These new guidelines are expected to be announced in 2026.

The Department of Water Resources (ADWR) serves as Arizona’s lead negotiator and is charged with protecting the State’s current 2.8 million acre-feet entitlement of Colorado River water. While Arizona is committed to being a collaborative and cooperative partner with the other basin states, it is possible that new guidelines or the absence of a negotiated outcome could result in litigation among the basin states.

While Arizona will continue to pursue good-faith negotiations that result in a consensus outcome for more sustainable Colorado River management, this appropriation ensures that ADWR has the resources to defend Arizona’s interests and water users who depend on the State’s precious Colorado River entitlement.

The Executive Budget creates a Colorado River Litigation Fund with a \$1 million General Fund deposit and a transfer of \$2 million from prior non-lapsing special line items for Colorado River legal expenses, for a total investment of \$3 million.

### FUNDING ARIZONA’S WATER PROTECTION AGENCY

Arizona faces sustained drought, stressed groundwater supplies, Colorado River shortages, and more. These issues place heavy strains on ADWR’s workforce, a corps of hydrologists, engineers, planners, attorneys, geographers, and policy experts who work to protect the water supplies on which Arizonans rely.

While managing the current pressures, ADWR has taken on the state’s next generation of water challenges:

- More Arizonans in rural communities have groundwater protections for the first time ever.

- In Arizona’s urban centers, builders have a path to build more homes while reducing reliance on groundwater.
- Tribes who have fought for more than half a century for their water rights have now reached agreement with the State and local parties.

In 2025, ADWR will continue complex negotiations to protect Arizona’s Colorado River entitlement. The Department will work with water providers to ensure that their communities have secure water for their residents for the next 100 years.

Across the state, ADWR will monitor and model vital aquifers and administer the new groundwater management programs in the rural Douglas and Willcox groundwater basins.

To keep up with this work on behalf of Arizonans, ADWR must strengthen its team of highly skilled, technical professionals. The Executive Budget includes \$741,300 ongoing from the General Fund to add 6.0 FTE positions across the agency to meet the demanding water policy challenges facing Arizona.

Figure 19

### Colorado River System and Basin States



Figure 20

**Current Groundwater Management Areas in Arizona**



**Department of Forestry and Fire Management**

**WILDFIRE SUPPRESSION FUNDING**

The Executive Budget includes \$30 million one-time from the General Fund for wildfire suppression.

Arizona wildland firefighting costs have been much higher in recent years, compared to the average cost of \$5.8 million for fiscal years 2010 through 2020.

Figure 21

**Fire Suppression History**



The rise in wildland firefighting costs is not isolated to Arizona, as 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 multi-jurisdictional wildfires.

The Department of Forestry and Fire Management (DFFM) has received intermittent funding infusions that have not kept pace with spending.

**PAY INCREASE FOR STATE FIREFIGHTING POSITIONS**

The Executive budget includes \$303,300 from the General Fund ongoing and \$578,700 from other funds ongoing to provide a targeted 15% salary increase for firefighting staff. These staff perform critical and extremely dangerous functions in support of public safety.

This package includes the following:

- \$346,500 from other funds ongoing for the Department of Emergency and Military Affairs
- \$303,300 from the General Fund ongoing and \$196,500 from other funds ongoing for the Department of Forestry and Fire Management
- \$35,800 from other funds ongoing for the Department of Transportation

**Historical and Cultural Preservation**

**ARTS TRUST FUND DEPOSIT**

Arizona’s arts and culture sector produces a very significant economic impact. According to the US Bureau of Economic Analysis, arts and culture industries contribute more than \$14 billion to the State’s economy and support more than 80,000 jobs in Arizona. Nonprofit arts organizations alone bring in more than \$15 million in annual State tax revenue, based on research from Americans for the Arts.

Investing in arts, local organizations, and communities across the state will ensure that the sector and the overall economy continue to grow and provide opportunities for residents while supporting Arizona’s rich artistic and cultural heritage.

The Arts Trust Fund under the Arizona Arts Commission is designed to provide grants to organizations and individual artists with the purpose of advancing and fostering the arts in Arizona. As of October 30, 2024, the Commission has awarded 477 grants, totaling \$2.5 million, to 62 cities and towns across the state for the current grant cycle.

The Executive Budget includes an ongoing \$1 million General Fund deposit into the Arizona Arts Trust Fund. The Fund has been supported by one-time General Fund deposits in recent years and will now be permanently supported in FY 2026 and into the future.

In addition, this funding will ensure the Arts Commission is able to fully match federal dollars from the National Endowment for the Arts grant every year. The FY 2026 grant is estimated to be \$1.2 million.

**HERITAGE FUND DEPOSIT**

The Executive Budget includes a one-time \$2.5 million General Fund deposit into the State Parks Heritage Fund.

The Heritage Fund is designed to provide grants to local entities for park development, historic preservation, nonmotorized trails, and outdoor education. It has been utilized as a catalyst by grant recipients to draw down additional funding from other public and private entities.

- Of the \$5 million deposited in FY 2022, Arizona State Parks and Trails (ASPT) awarded \$4.9 million in grants for 29 projects across the state. The State’s investment was matched with an additional \$5.5 million, for a total investment of \$10.4 million.
- Of the \$2.5 million deposited in FY 2023, ASPT awarded \$2.5 million in grants for 24 projects. The State’s investment was matched with an additional \$2.7 million, for a total investment of \$5.2 million.
- Of the \$6 million deposited in FY 2024, plus amounts carried over from FY 2022 and FY 2023 deposits, ASPT has awarded \$6.1 million in grants for 40 projects. The State’s investment

was matched with an additional \$6.3 million, for a total current investment of \$12.4 million.

## Parks and Trails

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### FAMILY CAMPOUT PROGRAM EXPANSION

The ASPT Family Campout Program teaches families that have little or no camping experience the basics of tent camping and various outdoor skills. Since the program's inception in 2012, 189 campouts have been conducted, with 1,657 families participating.

Expanding the program will provide more opportunities for families to experience and learn about camping and outdoor activities while encouraging more people to visit State parks.

The Executive Budget includes \$217,200 ongoing and \$231,000 one-time from the State Parks Revenue Fund to expand the Family Campout program. The funding will add two positions and pay for additional camping equipment to support the program. This investment will double the number of annual campouts, from 16 to 32, and increase the total maximum number of families participating from 160 per year to 320.

## Game and Fish

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In FY 2025, the Game and Fish Department paused or reduced funding for multiple projects, due to rising operational costs.

The Executive Budget includes a total of \$4.4 million ongoing from the Game and Fish Fund to ensure the following projects continue in FY 2026.

### WILDLIFE HABITAT ENHANCEMENT PROJECTS

These projects include habitat enhancement activities to maintain and/or expand wildlife species distribution, to promote resilient populations and maximize wildlife-related recreational opportunities.

### WILDLIFE AND BIG GAME SURVEYS AND TRANSLOCATIONS

The supported activities include the translocation of wildlife for reintroduction or augmentation / expansion of wildlife species distributions, to promote resilient populations and maximize wildlife-related recreational opportunities.

### FEDERALLY LISTED SPECIES MANAGEMENT ACTIVITIES

Management activities for federally listed species include fish and wildlife surveys. These surveys enhance conservation and threat mitigation of "species of greatest conservation need" under the Department's State Wildlife Action Plan and/or species listed under the Endangered Species Act.

### WILDLIFE AREA OPERATIONS AND MANAGEMENT

Funding will support wildlife area property management and enhancement activities to maintain infrastructure and wildlife habitat conditions and maximize wildlife-related recreational opportunities.

### GAME AND FISH ANNUAL OUTDOOR EXPO

The Executive Budget includes \$200,000 ongoing from the Game and Fish Fund to support the Game and Fish Annual Outdoor Expo, which introduces attendees to outdoor opportunities in the state.

The two-day Outdoor Expo is Game and Fish's largest outreach event. It is provided free of charge and attracts 35,000-50,000 attendees each year.

Funding for the Expo was reduced by 30% in FY 2025. This funding will allow the Expo to operate at full capacity in FY 2026.

### DAM REMEDIATION STATE MATCH

Legacy earthen dams owned by the Game and Fish Department can pose an ongoing risk to the safety of residents downstream. Reducing the risk of dam failure also ensures that Arizonans can enjoy outdoor recreation in a safe environment.

The Department owns two high-hazard and unsafe dams, at Black Canyon Lake and Fool Hollow Lake. Dam failure in the event of a 500-year storm event poses a danger to residents. In addition, dam failure raises the potential for flooding in nearby areas, creating safety risks and reducing recreational opportunities.

The FY 2026 Executive Budget includes \$6.9 million one-time from the Game and Fish Fund to remediate the high-hazard, Department-owned Black Canyon and Fool Hollow dams.

This appropriation acts as the state match to draw down \$11.6 million in funding from the Federal Emergency Management Agency, which provides 63% of the funding required for the project.

Remediation of the dams will include assessment, design, and rehabilitation costs to mitigate downstream hazards.

### HATCHERY RENOVATIONS PHASE 2

The Game and Fish Department owns six fish hatcheries, at Page Springs, Canyon Creek, Tonto Creek, Silver Creek, Sterling Pond, and Bubbling Ponds.

These hatcheries grow seven species of trout and various other fishes that are stocked in 118 locations across the state. The operation of these hatcheries support anglers by providing 450,000 pounds of sportfish annually and contribute a \$1.4 billion fisheries-related impact to Arizona's economy.

Most of the fish hatcheries were last renovated in the 1990s and have fallen into disrepair. A multi-phase renovation project began in 2022 to ensure the hatcheries could continue providing sufficient levels of sportfish.

The FY 2022 Enacted Budget appropriated \$2.6 million for the first phase of the multi-phase renovation project for the six hatcheries. The funding was used to reduce disease outbreaks at the Silver Creek Hatchery and begin to renovate the Bubbling Ponds Hatchery.

The FY 2026 Executive Budget includes \$4.7 million one-time from the Game and Fish Fund for the second phase of renovations at Department-maintained fish hatcheries. This phase includes the development of design concept plans for maintenance and modification projects at the Page Springs, Tonto Creek, Canyon Creek, and Silver Creek hatcheries; completion of the design for the Cold Springs Hatchery; and continued renovations at the Bubbling Ponds Hatchery.

### HATCHERY, PROPERTY, AND DAM MAINTENANCE

The FY 2026 Executive Budget includes the following one-time investments from the Capital Improvement Fund to maintain Department-owned and -operated facilities:

- \$400,000 for fish hatcheries;
- \$300,000 for wildlife area infrastructure and properties; and
- \$150,000 for dam maintenance.

These maintenance projects will allow Game and Fish to continue to provide adequate sportfish production, wildlife protections, and dam safety across the Department's properties.

## Department of Environmental Quality

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### CERCLA STATE ASSURANCE COST

The Iron King Mine - Humboldt Smelter site, located near Dewey-Humboldt in central Arizona, contains hazardous waste from two

independent facilities that left behind high levels of arsenic, lead, and other metals.

In 2004, the Department of Environmental Quality (DEQ) referred the site to the U.S. Environmental Protection Agency (EPA) for listing as a Superfund site. Listing as a Superfund site under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) provides the EPA with the funds and authority to clean up a contaminated site. The EPA listed the site as a Superfund site in 2008.

Since then, the EPA has performed various interim actions and achieved CERCLA-related milestones, such as residential soil cleanups, various studies and reports documenting health risks and cleanup alternatives, and temporary seals preventing contaminants from spreading.

In 2023, the EPA issued a Record of Decision for the site, which finalizes the selection of the remedy and estimated cost. The remedy will include, among other remedial actions, excavation and containment of the hazardous waste at on-site repositories.

As part of the contract signed between DEQ and the EPA, the State is obligated to pay 10% of the total cleanup costs. The Executive Budget includes \$2 million in one-time funding from the General Fund to pay for the first installment of the State's share, as specified by the contract. DEQ will be required to make payments of at least \$2 million every 12 months, for a total of \$8.3 million.

### AIR QUALITY INITIATIVES

The DEQ Air Quality Division is responsible for protecting Arizona's public health and the environment by monitoring and regulating present and future sources of air pollution.

The Executive Budget includes \$1.2 million one-time funding from the Air Quality Fund for air quality initiatives at DEQ, including:

- contractor work to support State Implementation Plan development;
- State match funding for the federal Diesel Emissions Reduction Act (DERA) grant; and
- IT and contractor work to update DEQ's Combined Air Emissions Reporting System (CAERS).

A State Implementation Plan (SIP) is used by a state, territory, or local air district to implement, maintain, and enforce the National Ambient Air Quality Standards (NAAQS) and to fulfill other requirements of the Clean Air Act. If a state does not submit, or the EPA disapproves, a required SIP, the state can face multiple federal sanctions. The additional funding will allow DEQ to hire contractors for technical projects that support the timely completion of the State's SIPs.

The federal DERA grant supports Maricopa County's Clean Diesel program. This program provides grants to local fleets to replace, repower, or retrofit older, higher-emitting diesel engines with newer diesels or newer vehicles with alternative fuels. The State match funding will enable the program to draw down an additional \$250,000 from the DERA grant.

DEQ's CAERS tool is used by facilities in the state to report federally required air emission data. This data is used for performing air quality and risk analyses that inform federal and state air quality regulations. The EPA is expected to release new federal air emissions reporting requirements in FY 2026. The funding will ensure that the CAERS tool is up to date, so that facilities in Arizona can continue to report accurate air emissions data and meet federal reporting requirements.

### RIGHTSIZING THE SOLID WASTE PROGRAM

The Executive Budget includes \$1.3 million ongoing from the Solid Waste Fee Fund (SWFF), utilizing fee revenue to shift Solid Waste Program expenses from the Recycling Fund to the SWFF and providing capacity to fill positions previously held vacant.

The Solid Waste Program is responsible for permitting, inspecting, and providing compliance assistance to solid waste facilities. Since the establishment of fees for the Solid Waste Program in FY 2012, the SWFF has not had sufficient revenue to cover annual expenditures. The Department has mitigated this issue by utilizing the Recycling Fund.

Funding for the program remains insufficient due to an imbalance of fee revenue and an increase in regulated solid waste facilities. In FY 2026, Solid Waste fees will be rightsized to:

- Align with the costs of inspecting regulated solid waste facilities;
- Promulgate statutorily mandated solid waste rules; and
- Address emerging contaminants, such as Polyfluoralkyl substances (PFAS), that may be present in solid waste facilities.

The funding provided by the Executive Budget will allow DEQ to utilize the revenue to sufficiently fund the Solid Waste Program with the SWFF and provide additional funding to sufficiently inspect, permit, and regulate solid waste facilities in the state.

### HAZARDOUS WASTE PROGRAM OPERATIONS

The Executive Budget includes \$717,500 ongoing from the Hazardous Waste Management Fund (HWMF) to utilize increased fee revenue for operating expenses.

The Hazardous Waste Program implements standards for safe generation, management, treatment, storage, and disposal of hazardous waste. In FY 2024, the program issued nine permits for, and conducted 153 inspections of, hazardous waste facilities.

DEQ rightsized fees for the Fund to align with the current program costs related to activities such as facility inspections, permit reviews, and outreach and compliance assistance. This appropriation increase provides the spending authority to apply incoming revenue to these needs.

### CONTINUATION OF RECYCLING FUND GRANTS PROGRAM

The Recycling Grants Program is designed to:

- Reduce solid waste;
- Provide public education and outreach regarding recycling and source reduction; and
- Provide resources for recycling research and development through grants that support recycling initiatives across the state.

The FY 2024 Enacted Budget included one-time funding to pilot a restart of the program for the first time since it was eliminated in the FY 2010 Enacted Budget. This resulted in the establishment of the Arizona Recycling Advisory Committee and \$1 million in recycling grants being awarded to 12 recipients, out of \$8.4 million requested from 61 applicants.

The largest grant, of \$208,000, was awarded to Bold Reuse, which created a regional reuse wash hub in the Phoenix Metro region that seeks to decrease the volume of waste and environmental impacts of single-use food and beverage items served at large-scale entertainment and sports venues, events, grade schools, and corporate campuses.

Within the first month, this project resulted in the reuse of 11,383 cups, investment in company expansion, and the building of



partnerships with entities such as Arizona State University, Athletes Unlimited, and the Arizona Diamondbacks.

The Executive Budget includes \$2 million ongoing from the Recycling Fund to continue the Recycling Grants Program on an ongoing basis. In addition to the funding, the Executive Budget initiative for removing the Solid Waste Program from the Recycling Fund frees up capacity in the Recycling Fund to support these grants programs.

With the additional funding and freed-up capacity, DEQ will be able to award up to \$2.4 million in grants annually and fill 3.0 FTE positions in support of the grant program.

## State Land Department

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### **SUPPORTING THE TRUST**

The Executive Budget includes \$2 million ongoing for additional positions and contract work to support State Land Department teams as they perform due diligence in processing applications and bringing land parcels to auction.

These positions play key roles in the Department's efforts to manage the Trust and generate revenue for the Trust's beneficiaries, such as K-12 education. By enhancing project execution and compliance monitoring, the Department will be positioned to meet current demands and readily address opportunities.

# Infrastructure & Good Governance

## Promoting Economic Vitality Through Safe, Accessible, and Cost-Effective Infrastructure

“Revitalizing our infrastructure will strengthen Arizona’s economy and create pathways to work and education, and help people across the state live the Arizona Promise of opportunity, freedom, and security.”

Gov. Katie Hobbs

In FY 2026, the Executive continues its commitment to supporting safe, cost-effective infrastructure through investments in State employee compensation and benefits, capital projects, information technology systems, and public roadways.

The proposed funding enables the State to attract and retain talented workers and equip them with the necessary skills, tools, and workspaces to serve Arizona families.

Furthermore, these investments promote accountability and transparency in ensuring that public information is safely stored, easily accessible, and securely shared among State agencies.

Additionally, ongoing improvements to the State’s roads and highways provide for safer travel and better service delivery across Arizona’s communities.

## Multi-Agency Initiatives

### STATE EMPLOYEE RETENTION PACKAGE

The Executive Budget includes a targeted statewide retention package aimed at reducing waste of government resources, improving government efficiency, and reducing costs.

According to Gallup Workplace, the cost of replacing an employee can range from one half to two times the employee’s annual salary. In FY 2024, the cost of turnover for State employees earning less than \$40,000 annually ranged from \$30 million to \$120.2 million and, in calendar year 2024, State employees earning less than \$40,000 annually made up 10% of the workforce, but accounted for 25% of turnover.

The Executive Budget makes the following investments, prioritizing front line law enforcement and correctional officers, state firefighters, veterans’ healthcare providers, roles making \$40,000 or less, and overall workforce retention:

- \$33.3 million from the General Fund ongoing and \$1.7 million from other funds ongoing for a 5% pay increase for law enforcement and correctional positions;
- \$11.6 million from the General Fund ongoing and \$31.8 million from other funds ongoing to provide State employees with a 2% pay increase;
- \$303,300 from the General Fund ongoing and \$578,700 from other funds ongoing for a 15% increase for firefighting roles;
- \$1.2 million from other funds ongoing for a 10% increase from the Department of Veterans’ Services for nursing positions at Veterans’ homes;

- \$533,900 from other funds ongoing for a 10% increase at the Pioneers Home;
- \$821,200 from the General Fund ongoing and \$6.2 million from other funds ongoing for a 10% increase for the Customer Service job series;
- \$502,200 from the General Fund ongoing and \$906,300 from other funds ongoing for a 5% increase for skilled trade roles; and
- \$549,000 from the General Fund ongoing and \$1.6 million from other funds ongoing to bring the lower limit threshold for State employee salaries to \$17 / hour.

### STATE EMPLOYEE CHILD CARE AND PROFESSIONAL DEVELOPMENT

The Executive Budget includes \$100,000 in one-time funding from the Personnel Division Fund to engage in a study on providing child care for State employees. The study would analyze the options available to the State – including private, public, and intergovernmental partnerships – to determine which are most attractive, effective, and cost efficient.

In addition, the Executive Budget includes \$1 million in one-time funding from the Personnel Division Fund for the Department of Administration (ADOA) to develop a State employee professional development pilot program. For the benefit of State employees seeking to upskill or gain new degrees or certifications, this program seeks to partner with State universities to provide job training and access to new job-relevant skills and courses.

Results from the aforementioned Gallup survey indicate that this is one of the most cost-effective means of retaining employees.

### AUDIT SUPPORT PACKAGE

ADOA prepares the State’s Annual Comprehensive Report (ACFR) as directed by A.R.S. § 35-131. The ACFR supplements the State’s basic financial statements with background, data, statistics, and expense schedules and, per national standards, is due within 180 days of the end of the fiscal year.

The Single Audit, conducted by the State Auditor General, compares State and federally funded programs against Generally Accepted Accounting Principles (GAAP) standards, relying on data from the ACFR, and, per federal requirements, is due March 31 of each year.

Many states have experienced delays in reporting due to additional reporting requirements related to federal pandemic aid monies. Arizona continues to be delayed due to the additional federal reporting requirements and delays by agencies submitting audit-related information to ADOA or the Auditor General’s Office.

In an effort to ramp up resources and continue the progress in meeting these critical reporting deadlines, the Executive Budget provides the following funding allocations:

- \$24,000 General Fund and \$550,000 Other Funds ongoing at ADOA;

- \$422,400 General Fund and \$1.7 million Non-Appropriated Fund ongoing at the Department of Economic Security (DES); and
- \$108,000 General Fund and 108,800 EA ongoing at the Arizona Health Care Cost Containment System (AHCCCS).

**STATE EMPLOYEE HEALTH INSURANCE TRUST FUND**

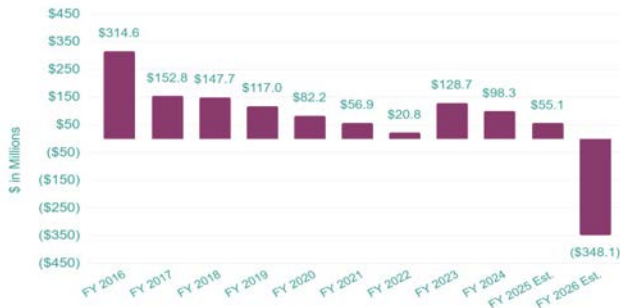
The Executive Budget includes one-time funding for employer premium increases to the Health Insurance Trust Fund (HITF). Composed of employer and employee contributions, the HITF supports the State’s self-insured medical, pharmacy, and dental insurance for employees.

Since FY 2018, the State has made infusions into HITF from the General Fund and other appropriated and non-appropriated sources to address expected shortfalls between premium revenues and medical expenses.

The table below demonstrates the financial position of the fund from FY 2016 through FY 2026.

Figure 22

**HITF Ending Balance by Fiscal Year**



In FY 2016 and FY 2017, the General Appropriations Act transferred \$78.9 million from the HITF to the General Fund, along with another \$4.1 million to backfill adjustments to State university contribution rates. A statewide ongoing employer premium increase was adopted in FY 2022, with revenues from that increase realized in FY 2023. Since that time, the State has provided one-time funding to maintain the HITF’s solvency.

In FY 2026, the Fund is expected to generate revenues of \$857 million and incur expenditures of \$1.3 billion. In anticipation of the potential shortfall, the Executive Budget proposes one-time employer premium increases in FY 2026 that will have the following impacts:

- General Fund: \$197.8 million;
- Other Appropriated Funds: \$32.9 million; and
- Non-Appropriated Funds: \$192.6 million.

A detailed breakdown of agency and fund impacts as a result of this premium increase is included in the Statewide Adjustments section of the Executive Budget.

In addition, the Executive Budget proposes an annual transfer of \$25 million from the General Fund into HITF. This transfer, coupled with one-time employer premium increases, maintains the fund’s health, enables the ADOA Benefits Services Division (BSD) to meet rising costs of State employee healthcare, and puts the State in a proactive position when it comes to ongoing funding needs for the HITF. Together, the measures result in a FY 2026 projected ending balance of approximately \$100 million.

**Maintaining Statewide Building Systems**

The ADOA State building system includes 4,791 structures having a calculated replacement value of over \$6.6 billion. Additionally, the Department of Transportation and State universities maintain their own building systems.

State buildings require ongoing maintenance and improvements to address deficiencies, fire and life safety issues; maintain mission-critical services; and preserve the State’s assets.

**BUILDING RENEWAL**

The Executive Budget recognizes the continued importance of addressing fire and life safety needs as well as emergency repairs at State facilities. It provides appropriation authority for building renewal from a variety of fund sources to the following agencies:

Agency	Funding	Source
Dept. of Transportation	\$23,385,300	State Highway Fund / State Aviation Fund
Dept. of Corrections	\$5,864,300	DOC Building Renewal and Preventive Maintenance Fund
Dept. of Administration	\$19,120,500	Legislative, Executive, and Judicial Public Land Fund / General Fund
Dept. of Public Safety	\$1,591,200	General Fund
Schools for the Deaf and the Blind	\$393,000	ASDB Telecommunications for the Deaf Fund
Dept. of Emergency and Military Affairs	\$350,000	General Fund
Arizona Historical Society	\$338,900	General Fund
Dept. of Economic Security	\$225,000	Economic Security Capital Investments Fund
Prescott Historical Society	\$120,500	General Fund

**CAPITAL IMPROVEMENTS**

Certain State agencies engage in major maintenance using agency-maintained fund sources. Projects of this sort are referred to as “capital improvements” and often likewise focus on critical repairs and fire, life, and safety needs.

Alternatively, these projects may represent multi-year or multi-phase replacement or renovation projects for which a specific appropriation is deemed necessary.

The Executive Budget provides appropriation authority for capital improvements from a variety of fund sources to the following agencies:

Agency	Funding	Source
Exposition and State Fair	\$3,815,100	Arizona Exposition and State Fair Fund
State Parks and Trails	\$3,633,300	State Parks Revenue Fund
Pioneers’ Home	\$470,400	Pioneers’ Home Miners’ Hospital Fund
Dept. of Game and Fish	\$1,780,900	Game and Fish Fund

**CAPITAL PROJECTS**

Lastly, the Executive Budget recommends the following capital projects:

Project	Funding	Source
Tucson State Prison HVAC and Yuma State Prison Fire Alarms	\$30,360,700	General Fund
Avondale Repair Shop, Little Antelope and Gray Mountain Maintenance Yards, and Grand Canyon Airport Renovation	\$14,617,300	State Highway and State Aviation Funds

Phoenix DPS Headquarters Electrical Upgrades and Pre-Built Office Replacement	\$13,227,000	General Fund
Statewide Dams and Hatcheries Maintenance	\$12,400,000	Capital Improvement and Game and Fish Funds
ADJC Water Storage, Fire Suppression, HVAC, and Personnel Safety improvements	\$4,030,600	Juvenile Corrections CJEF Distribution Fund, Local Cost Sharing Fund, and Federal Sources
Tucson Veterans' Home HVAC Replacement	\$1,887,800	General Fund
Arizona Pioneers' Home Historic Restoration	\$1,515,000	Pioneers' Home Miners' Hospital Fund
Arizona State Hospital Water Line and Staff and Patient Safety Improvements	\$938,000	State Hospital Land Earnings Fund

## Maintaining State Information Technology Systems

The State's information technology landscape encompasses eight enterprise programs and seven service classes, covering more than 140 active and monitored projects across all State agencies, and representing nearly \$40.4 million in annual investments.

ADOA's Arizona Strategic Enterprise Technology (ASET) Division serves as the central pillar of State IT, working with agencies to develop, onboard, and maintain technology solutions on behalf of State Government and members of the public.

In FY 2026, several enterprise applications will reach end of life and require replacement, while others approach the end of development and start of their service lives.

Investments included in the Executive Budget demonstrate a continued dedication to data resilience, cybersecurity, and service efficiency, ensuring that all Arizonans have access to human-centered digital resources that enrich their lives and businesses.

### STATEWIDE IT PROJECT PLANNING & OVERSIGHT

The ASET Oversight Team reports that, in recent years, its workload has exceeded its available capacity amid a 290% increase in Project Investment Justification (PIJ) Portal usage. The PIJ Portal is the system used by State agencies to submit proposed IT projects.

To reduce the weekly and annual per-person workload and address increased use of the PIJ Portal, the Executive Budget includes \$103,500 ongoing from the Information Technology Fund to provide the ASET Oversight Team with one additional Oversight Analyst. The additional position is intended to reduce weekly and annual per-person workload and address recent increases in use of the PIJ Portal.

### AZ360 / HRIS MODERNIZATION PROJECT COMPLETION

ADOA manages State human resources operations through an online platform developed in 2003. This platform will reach end of life in calendar year 2026, and its continued use poses security, compliance, and technical challenges.

To address these risks, the Executive Budget includes a one-time increase of \$5.9 million from the General Fund to complete the replacement and modernization of the ADOA Human Resource Information System (HRIS).

Replacing the outdated platform will provide greater efficiency and effectiveness in supporting human resources, payroll, benefits, and time-and-attendance systems for State employees.

Further, the replacement system will reduce outyear costs traditionally associated with software updates. Built-in developer

support and routine packaged updates should provide a service life of at least 10 years, with greater longevity expected given ASET staff oversight.

Replacement project costs in FY 2023 and FY 2024 were achieved via charges to State agencies, allocated through statewide adjustments. These adjustments were removed in FY 2025. Additional one-time funding realigns the project budget with initial projections made in FY 2023 and represents a reduction in overall cost from an expected \$68 million to \$62.3 million over the project's three-year development lifespan.

The AZ360 / HRIS Modernization Project is expected to be completed by April 30, 2026.

### AZ360 / HRIS MAINTENANCE AND OPERATIONS

In FY 2025, ADOA will complete the HRIS replacement. Upon this project's conclusion, project budgets that support the development of the new system will be exhausted.

The Executive Budget includes \$1.8 million ongoing from the Personnel Division Fund to transition hosting and system support costs of the HRIS modernization project from the current project budgets to the division operating budgets.

The requested funding authority bolsters the Human Resources Division's operating budget, enabling it to meet hosting and ongoing maintenance costs of the new human resources system in FY 2026 and beyond.

### BUSINESS ONE STOP (BIS) MAINTENANCE AND OPERATIONS

In FY 2025, the ASET Division will complete development of a portal that provides a single online location to facilitate the completion of tasks and requirements of multiple agencies in planning, starting, growing, and relocating businesses in Arizona.

The Executive Budget includes an ongoing increase of \$2.1 million from the Information Technology Fund to maintain and operate the Business One Stop Portal.

Upon project completion, remaining monies appropriated from the Automation Projects Fund will be used to maintain the system through the end of FY 2025. Additional monies will support the program into the future, ensuring that new and existing Arizona businesses have continued access to these resources.

### A TO Z ARIZONA PORTAL IMPLEMENTATION

The A to Z Arizona Portal represents the first step in the State's efforts to improve public digital access and reduce fraud, waste, and abuse by promoting data sharing among State agencies. The Portal aims to strengthen security measures to ensure that benefits are provided efficiently and only to eligible Arizona residents.

Safe, effective data sharing not only protects public information; it also removes service roadblocks. Currently, Arizonans must sign in on separate websites to apply for a hunting or fishing license, access vital records, renew or change motor vehicle registrations, start a business, and apply for nutrition assistance.

In FY 2024, DES began development of its portion of the A to Z Arizona Portal, which will serve as the primary digital platform for individuals and families receiving DES services.

The Executive Budget includes \$1.2 million in ongoing funding from the General Fund, which is expected to draw down \$3.2 million in federal funding to continue portal implementation with existing State services.

DES will use the provided funding to strengthen foundational data systems in the form of Master Data Management, ensuring data integrity and reducing duplication across systems. A portion of this funding will also cover the cost of critical licenses that are directly tied to the continued implementation of the Portal.



Additionally, the Executive Budget includes \$3.4 million from the State Web Portal Fund to develop, adopting the A to Z Arizona name, a new front-end “connector” portal that will serve as the single public access to State services. The portal will provide seamless handoffs to existing State portals, passing along authentication credentials, streamlining the user experience, and improving service delivery.

**MODERNIZING THE MEDICAID ENTERPRISE SYSTEM (MES)**

The Executive Budget includes funding for phase four of a vital, multi-year, six-phase project to replace the AHCCCS mainframe IT system.

The current legacy system is over 40 years old and operates on outdated coding language. This mainframe supports every essential AHCCCS function, from case management to provider payments, and both maintenance and modernization are critical to ensuring the ongoing function of the Medicaid program.

The replacement project began in FY 2022 and is scheduled to be finished by the end of FY 2028. To cover the costs of the project in FY 2026, the Executive Budget includes one-time funding of \$6.7 million from the General Fund and \$54.5 million in federal expenditure authority.

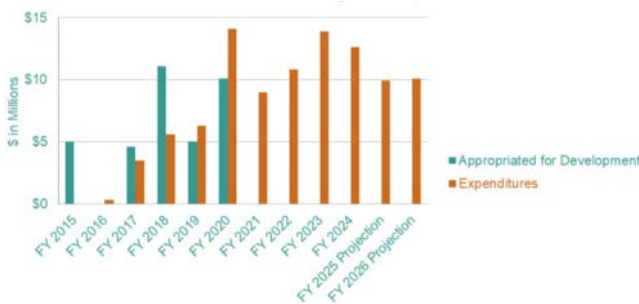
**CHILD SAFETY INFORMATION SYSTEM (GUARDIAN)**

The Executive Budget includes a one-time increase of \$16 million in FY 2026 – \$11 million from the General Fund and \$5 million from the Department of Child Safety (DCS) Expenditure Authority Fund – along with \$15.6 million federal expenditure authority in FY 2025 supplemental funding, to be used for maintenance, operations, and system enhancements for Guardian, the State’s child safety information system.

A cloud-based system, Guardian covers all aspects of the Department’s operations, encompassing caseworker management for a variety of interactions with families, courts, the provider network, schools, Medicaid, and other stakeholders.

Figure 23

**Guardian Funding (General Fund) vs. Expenditure**



Guardian was implemented in February 2021 with a one-time General Fund appropriation of approximately \$35 million for development of the system, which replaced the Department’s outdated and inefficient CHILDS system.

Guardian maintenance, operations, and improvements have been funded from a variety of one-time sources, including federal COVID funding, enhanced FMAP savings, and one-time grants, none of which are now available. Since system roll-out, DCS has not received ongoing funding for system operations and necessary improvements.

Funding the Guardian system will allow DCS to continue to optimize it to collaborate seamlessly with various State agencies (including AHCCCS, DES, and the Courts), enhance the system’s reporting and tracking capabilities, and better serve children and families.

**REAL ESTATE SYSTEM MODERNIZATION**

The 28-year-old integrated licensing system used by the Department of Real Estate was designed and is maintained by a single Department employee who will soon retire.

To support the implementation of a new software system, the Executive Budget includes a one-time General Fund appropriation of \$1.96 million.

The new system will allow the Department to continue to provide license management, continuing education for licensees, and an accessible database with realtor information to the public to make informed decisions.

The Department operates on a 95/110 model, and revenues are deposited into the General Fund. As the Department’s appropriation increases, fees will be adjusted administratively to ensure that revenues match the increased appropriation; thus, this appropriation will have a net-zero impact on the General Fund.

**Department of Transportation**

**INVESTING IN RURAL TRANSPORTATION INFRASTRUCTURE**

The Executive Budget includes a one-time deposit of \$13 million from the General Fund to the State Match Advantage for Rural Transportation (SMART) Fund administered by the Arizona Department of Transportation (ADOT) to ensure that the rural communities of Arizona remain competitive in drawing down federal transportation grants.

Grants may be used for one of the following: (1) shovel-ready costs for a project that meets federal requirements; (2) application fees to apply for the competitive grant; and (3) the matching portion to draw down the competitive federal funding. Monies within the SMART Fund are available only to political subdivisions outside of Maricopa and Pima counties as follows:

- 40% to counties, with half going to counties with populations of more than 100,000 and half to smaller counties;
- 40% to municipalities, with half going to municipalities with populations of more than 10,000 persons and half to smaller municipalities; and
- 20% to ADOT for projects outside of Maricopa and Pima counties.

Since creation in FY 2023, the State Transportation Board has awarded \$48.9 million from the SMART Fund, resulting in an additional \$138.6 million in competitive federal transportation awards.

**MAINTAINING TRANSPORTATION OPERATIONS**

ADOT processes payments of \$1.7 billion per year for the more than a hundred construction projects it oversees at a given time. ADOT uses the Field Office Automated System (FAST), a three-decade-old system developed in-house, to manage payments, contract initiation, administration, and material management associated with all construction projects.

The FAST system no longer meets construction management needs and is at risk of failure. To continue fulfilling the Department’s mandate to develop safe and reliable transportation infrastructure, starting in FY 2024 ADOT began a five-year replacement plan for the FAST system.

To sustain this initiative, the Executive Budget provides an increase of \$6.3 million one-time from the State Highway Fund to support the third phase for FAST replacement. The replacement will occur over five fiscal years, with the project expected to be completed in FY 2028.

Further, ADOT is required to track and ensure proper maintenance and operation of newly constructed roadways as they are added to the State’s inventory of assets. To comply with this requirement, ADOT uses four outdated systems, known collectively as the Maintenance Management Systems (MMS), that lack integration.

To ensure a seamless transition from managing a construction project to managing the maintenance of the newly created roadway, the FY 2026 Executive Budget provides \$3.2 million one-time from the State Highway Fund to begin the first of three phases to replace the MMS with a new system that fully integrates and centralizes all four disparate systems and the Construction Management System (CMS).

Concurrent MMS and CMS replacement is anticipated to yield cost savings and eliminate inefficient process redundancies instead of replacing each system independently. Mirroring the CMS replacement, MMS replacement will be completed in FY 2028.

**IMPROVING ARIZONA ROADWAY CONDITIONS**

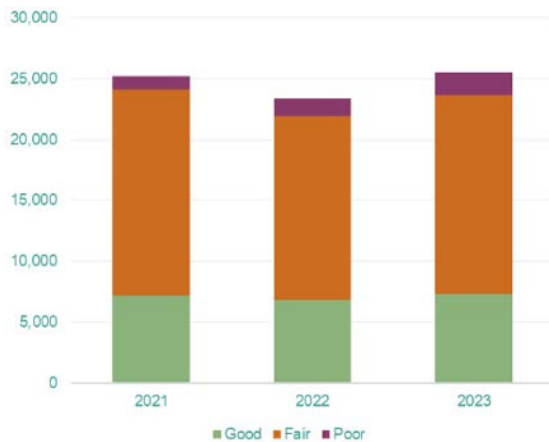
The National Highway Construction Cost Index indicates that, from FY 2021 to FY 2023, the cost of materials needed to perform highway maintenance increased by 63.7%.

Rising costs of materials have caused total project costs to rise, reducing the number of roadway projects that can be completed in a given year. Additionally, as of 2023, only 29% of Arizona roadways were rated in good condition; 64% were rated as fair, leaving 7% in poor condition, which can put drivers at risk.

To counteract the effect of rising prices and promote motorist safety, the FY 2026 Executive Budget provides \$15.8 million ongoing from the State Highway Fund to begin addressing the backlog of highway maintenance projects, specifically targeting lane miles that are in poor or fair condition.

Figure 24

**Lane Miles Annual Trend**



Additionally, the Executive Budget includes \$1.7 million from the State Highway Fund to ensure that full funding for baseline maintenance is provided for the following:

- 38.16 new lane miles,
- South Mountain Freeway, and
- I-17 flex lanes.

**RESTORE THE AVONDALE VEHICLE REPAIR SHOP**

ADOT’s Avondale vehicle repair shop operated out of an open truck-port metal shade structure and serviced all classes of vehicles and equipment for ADOT and other State agencies.

The shop lacked doors, restrooms, and administrative areas. Additionally, demand for repairs at the Avondale shop increased beyond the shop’s capacities, leading to its closure.

With the shop unable to operate, ADOT must utilize, at a significantly higher cost, private-sector vendors to repair State vehicles in the Avondale and nearby areas.

ADOT vehicle repair shops ensure that State vehicles are in usable condition and ready to be deployed for incident response.

To equip ADOT to reopen the Avondale repair shop, and to repair vehicles in-house instead of using costly outside vendors, the Executive Budget includes \$7 million one-time from the State Highway Fund for capital improvements to construct a 10,000-square-foot shop facility with six vehicle service stations capable of maintaining over 265 vehicles and heavy equipment.

**PROTECTING NORTHERN ARIZONA RESIDENTS**

In the winter months, northern Arizona faces more hazardous weather and road conditions than most other areas of the state, raising the risk of accidents and injuries to motorists.

ADOT operates modular maintenance buildings at Little Antelope and Gray Mountain. Both facilities are more than 35 years old and, due to their small size and poor condition, are unable to support current operational needs. Due to their age and the expected cost of asbestos remediation, renovation of the buildings is not practical.

In collaboration with ADOT, the Department of Public Safety is interested in obtaining and upgrading office space at, respectively, Little Antelope and Gray Mountain.

This funding will allow ADOT to construct 3,500-square-foot modular buildings that provide offices, meeting rooms, computer work areas, and working restrooms. Each building will include 1,000 square feet of space dedicated specifically to DPS personnel. The renovated and upgraded facilities will allow for ADOT and DPS to more adequately respond to emergency weather incidents, vehicle accidents, and other activities.

**GRAND CANYON NATIONAL AIRPORT RENOVATION**

Grand Canyon National Park is a top tourist destination, supporting over 10,000 jobs and, in 2023, making a cumulative impact of \$1 billion to the local economy.

To support tourism and economic development statewide, the Executive Budget includes \$850,300 from the State Aviation Fund to provide the state match portion for renovating and expanding the Grand Canyon National Airport terminal.

Renovations will include adding a newly constructed airline gate, with passenger processing and airline operation accommodations that are sized for 737-class aircraft.

Visitors will have additional, more direct access to the Park, which will increase air travel and enhance economic benefits to the area.

The State Aviation Fund appropriation is contingent on ADOT receiving an Airport Terminal Program grant from the Federal Aviation Administration. If awarded, the grant will provide \$16.2M, 95% of the funding required for the project, with a 5% commitment from the State.

# Executive Budget In-A-Flash



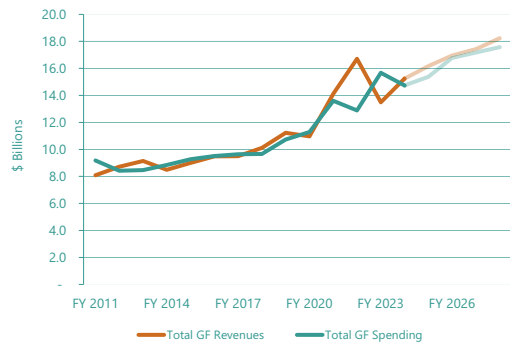
## GENERAL FUND CASH FLOW

	Prior Enacted Budget FY 2024	Executive Budget FY 2025	Executive Budget FY 2026	Executive Budget FY 2027	Executive Budget FY 2028	YOY % growth
Beginning Balance	\$ 2,527,233,000	\$ 1,023,933,675	\$ 831,851,065	\$ 146,899,956	\$ 100,776,278	
Adj. Base Revenues	\$ 15,245,515,475	\$ 16,053,312,183	\$ 16,787,530,800	\$ 17,462,158,988	\$ 18,271,304,846	
Revenue Changes	-	-	-	-	-	
One-time Revenues	\$ 567,976,100	176,991,800	182,411,657	(22,250,000)	(38,350,000)	
<b>Total Sources of Funds</b>	<b>\$ 18,340,724,575</b>	<b>\$ 17,254,237,658</b>	<b>\$ 17,801,793,522</b>	<b>\$ 17,586,808,944</b>	<b>\$ 18,333,731,125</b>	
Enacted Spending	\$ 17,316,790,900	\$ 16,082,456,600	\$ 16,082,456,600	\$ 17,654,893,566	\$ 17,486,032,666	
Baseline Changes	-	0	778,109,330	(240,660,500)	409,581,800	
Net New Initiatives	-	339,929,993	794,327,636	71,799,600	27,628,100	
<b>Total Uses of Funds</b>	<b>\$ 17,316,790,900</b>	<b>\$ 16,422,386,593</b>	<b>\$ 17,654,893,566</b>	<b>\$ 17,486,032,666</b>	<b>\$ 17,923,242,566</b>	2.5%
BSF Deposit	-	0	0	0	0	
<b>Ending Balance</b>	<b>\$ 1,023,933,675</b>	<b>\$ 831,851,065</b>	<b>\$ 146,899,956</b>	<b>\$ 100,776,278</b>	<b>\$ 410,488,559</b>	

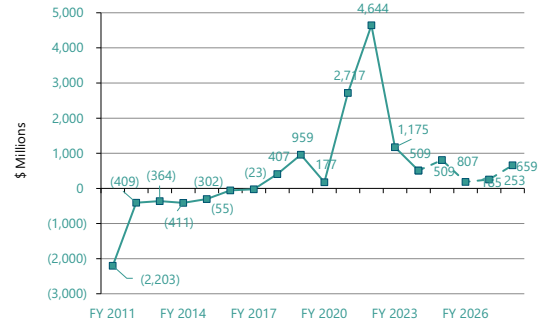
## GENERAL FUND STRUCTURAL BALANCE

	Prelim Actual FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	YOY % growth
Ongoing Revenues	\$ 15,245,515,475	\$ 16,174,512,183	\$ 16,954,642,457	\$ 17,433,608,988	\$ 18,232,754,846	4.6%
Ongoing Spending	14,735,573,600	15,367,154,600	16,768,859,066	17,180,353,266	17,572,906,966	2.3%
<b>Structural Balance</b>	<b>\$ 509,941,875</b>	<b>\$ 807,357,583</b>	<b>\$ 185,783,391</b>	<b>\$ 253,255,722</b>	<b>\$ 659,847,880</b>	

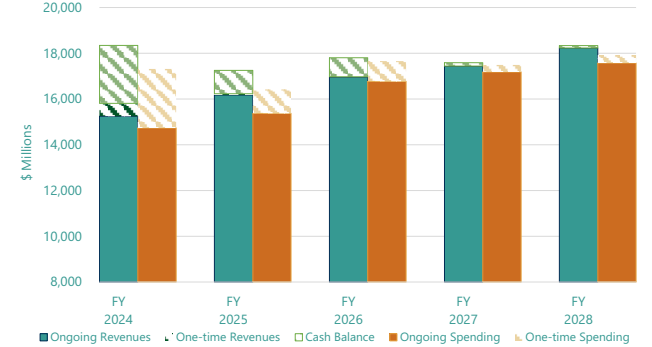
## HISTORICAL REVENUES TO SPENDING



## GENERAL FUND STRUCTURAL BALANCE



## COMPARISON OF REVENUES TO SPENDING





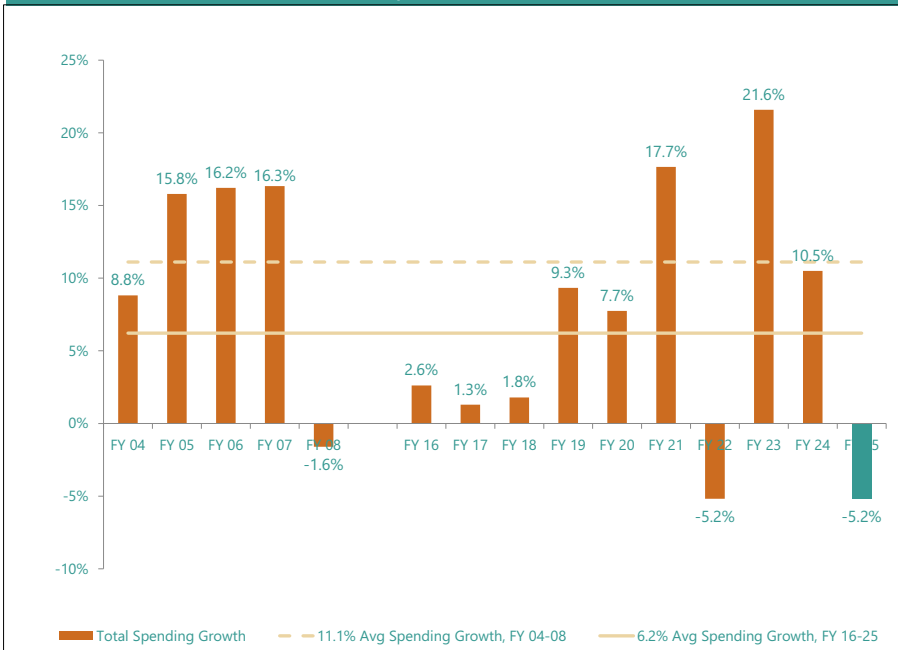
**GENERAL FUND SPENDING**

New FY 2025 Spending: \$ 339,929,993  
 New FY 2026 Spending: \$ 1,572,436,966

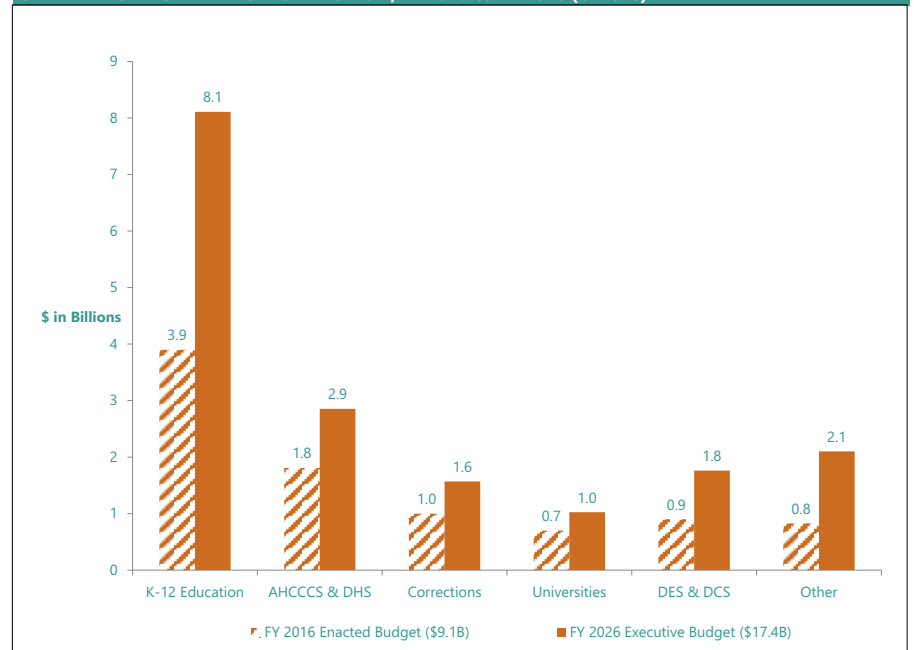
	Prior Enacted Budget	Executive Budget	Baseline Adjustments <sup>2</sup>	New Initiatives <sup>3</sup>	Executive Budget	YOY % growth
	FY 2024	FY 2025	FY 2026	FY 2026	FY 2026	
Education	7,761,079	7,777,717	509,227	(76,255)	8,109,642	4.3%
AHCCCS	2,515,402	2,671,564	43,062	15,314	2,728,108	2.1%
Economic Security	1,211,416	1,470,431	302,738	174,172	1,821,441	23.9%
Corrections	1,491,650	1,543,461	(7,610)	40,230	1,570,053	1.7%
Child Safety	512,739	487,481	(8,643)	38,370	487,817	0.1%
Administration	401,307	396,066	48,402	25,024	404,492	2.1%
Health Services	166,361	125,429	(5,102)	9,296	126,660	1.0%
ASU - Tempe - Baseline	411,202	408,638	261	10,996	419,895	2.8%
U of A - Baseline	302,897	295,914	236	13,562	309,712	4.7%
NAU - Baseline	138,926	134,294	100	4,070	138,464	3.1%
Other <sup>1</sup>	2,403,813	1,111,390	(104,560)	539,548	1,538,609	38.4%
<b>Total</b>	<b>\$ 17,316,790.90</b>	<b>\$ 16,422,387</b>	<b>\$ 778,109</b>	<b>\$ 794,328</b>	<b>\$ 17,654,894</b>	<b>7.5%</b>

<sup>1</sup> Other spending includes 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 2025**



**GENERAL FUND SPENDING DISTRIBUTION, FY 2016 to FY 2026 (billions)**





**GENERAL FUND SPENDING BREAKDOWN  
KEY HIGHLIGHTS**

Arizona's economy is exceeding the US and many other states due to rapid business growth, population expansion, and positive labor conditions. Governor Hobbs has cultivated an environment that attracts substantial interest from businesses and individuals seeking a thriving environment.

After resolving the budget shortfall of the last fiscal year, which was done without using the State's Rainy Day Fund and while ensuring that critical services were uninterrupted, Arizona's State revenue outlook is positive. The FY2026 Executive Budget makes targeted investments in lowering the costs of, and expanding access to, housing, child care, education, groceries, and healthcare and in creating more jobs for Arizonans. The Executive Budget also makes critical investments in reducing veteran homelessness, K-12 public education, local border support, pay raises for front line law enforcement, correctional officers, and firefighters, reproductive healthcare, and securing the State's long-term water supplies. The Executive Budget is focused on bringing more affordability and opportunity to Arizonans, expanding pathways to good jobs with good wages, and ensuring a strong, thriving economy.

**K-12 AND HIGHER EDUCATION**

**DEPARTMENT OF EDUCATION**

**\$509.2M FY 2026 Baseline**

\$46.9M	Pre Universal ESA Growth
(\$98.9M)	Remove One-Time FY 2025 Appropriation(s)
\$285.6M	Proposition 123
(\$48M)	New Construction
\$15.8M	Homeowner's Rebate
\$173.2M	Inflation Adjustment
\$61.4M	Universal ESA Growth
(\$27.7M)	Public School Enrollment Adjustment
\$100.9M	Basic State Aid - Prior Year Base Adjustment

**(\$76.3M) FY 2026 Initiatives**

\$3.8M	School Meals Grants
\$2M	Continuing High School Workforce Education Program
(\$149.5M)	Universal ESA Reform
\$37M	Free or Reduced Price Lunch - Early Reinstatement
\$0.2M	SUN Bucks - FY 2026
\$1M	Native American Code Writers Program
\$29M	Additional Assistance - Early Reinstatement

**SCHOOL FACILITIES BOARD (NOW WITHIN ADOA)**

**\$342.1M FY 2026 Baseline**

\$45.1M	School Facilities - New Construction in Progress
\$113.7M	School Facilities - New School Construction Projects
\$183.3M	School Facilities: Building Renewal Grants

**UNIVERSITIES**

**\$0.6M FY 2026 Baseline**

**\$65.2M FY 2026 Initiatives**

\$0.1M	Operational Funding Restoration
\$15M	Arizona Teachers Academy
\$20M	Arizona Promise Program
(\$0M)	2017 Capital Infrastructure Financing
(\$0M)	2003 Research Infrastructure Refinancing
\$11M	Operational Funding Restoration
(\$0M)	2017 Capital Infrastructure Financing
(\$0M)	2003 Research Infrastructure Refinancing
\$4.1M	Operational Funding Restoration
(\$0M)	2017 Capital Infrastructure Financing
(\$0M)	2003 Research Infrastructure Refinancing
\$6.6M	Operational Funding Restoration
\$1.5M	Operational Funding Restoration
\$7M	Resources for Repatriation

**COMMUNITY COLLEGES**

**\$1.9M FY 2026 Baseline**

\$0.6M	Equalization Aid
--------	------------------

\$0.9M	STEM and Workforce Aid
\$0.4M	Operating State Aid

**HEALTH AND WELFARE**

**ECONOMIC SECURITY**

**\$302.7M FY 2026 Baseline**

\$1M	Homeless Youth Assistance Program
\$321.7M	DDD Caseload and Capitation Growth
(\$20M)	Remove One-Time FY 2025 Appropriation(s)

**\$174.2M FY 2026 Initiatives**

\$1.2M	A to Z Arizona Portal Implementation
\$4M	Mainframe as a Service
\$3M	Bright Futures AZ - Decrease Child Care Costs for Arizona Families
\$14.8M	Keeping DDD Members in Home and Community Based Settings
\$1M	Eligibility Income Verification - Caseload Growth
\$0.1M	Integrated Workplace Management System Upgrade and Support
\$1.3M	Increased Costs for Existing Software Contracts
\$7M	Adult Protective Services Reporting Growth
\$2.1M	SUN Bucks - FY 2026
\$112.5M	Child Care - Improving Affordability, Expanding Access, Reducing Waitlist
\$24.4M	Long Term Care Provider Pay Package
\$2.5M	Supporting Aging Arizonans
\$0.4M	Audit Support Package

**AHCCCS**

**\$43.1M FY 2026 Baseline**

\$31.9M	ALTCS Caseload and Capitation Adjustments
\$7.2M	KidsCare Services Caseload and Capitation Adjustments
\$1.5M	DCS CHP Caseload and Capitation Adjustments
\$0.5M	Affordable Care Act (ACA) Caseload and Capitation Adjustments
\$6.7M	Proposition 204 Caseload and Capitation Adjustments
\$0.4M	Traditional Caseload and Capitation Adjustments
(\$5.2M)	Remove One-Time FY 2025 Appropriation(s)

**\$15.3M FY 2026 Initiatives**

\$1.1M	Increased Costs for Existing Software Contracts
\$2.2M	Eligibility Income Verification - Federal Backfill
\$2M	Stopping Arizona's Fentanyl Epidemic (SAFE) - Medication-Assisted Treatment
\$0.7M	Reproductive Health Care
\$0.8M	Reporting and Support for "Access to Care" Federal Requirements
\$1.3M	Traditional Healing Services
\$0.2M	Tribal Healthcare Education and Workforce Development
\$0.1M	Single Audit Package
\$0.5M	Decreasing Processing Time for Provider Enrollment
\$5.7M	Long Term Care Provider Pay Package
\$0.6M	Additional Staff for Growth In ALTCS

**DEPARTMENT OF CHILD SAFETY**

**(\$8.6M) FY 2026 Baseline**

\$1.6M	Federal Medical Assistance Percentage Adjustment
\$2.2M	Permanent Guardianship Caseload Increase
(\$12.5M)	Remove One-Time FY 2025 Appropriation(s)

**\$38.4M FY 2026 Initiatives**

\$0.3M	Security Enhancements for Field Offices
\$1.4M	Family Connections and Nurturing Parenting Programs
\$0.6M	Federal IV-B Funding Backfill
\$23.2M	Congregate Care IV-E Funding Loss Backfill
\$1.9M	Continued Support for Youth Transitioning to Adulthood
\$11M	Child Safety Information System (Guardian)

**PUBLIC SAFETY**

**DEPARTMENT OF PUBLIC SAFETY**

**\$23.7M FY 2026 Baseline**

\$27.7M	Reverse One-Time Budget Shift
(\$4.2M)	Remove One-Time FY 2025 Appropriation(s)
\$0.2M	Crime Lab Assistance

**\$21.4M FY 2026 Initiatives**

\$0.3M	Additional Employee Support
\$10M	Stopping Arizona's Fentanyl Epidemic (SAFE)
\$0.2M	Integrated Workplace Management System Upgrade and Support
\$0.8M	Bolstering the 911 Workforce, Improving Response Times
\$8.7M	Replacement Vehicles
\$1.5M	Increased Vehicle Fuel Costs

**DEPARTMENT OF CORRECTIONS**

**(\$7.6M) FY 2026 Baseline**

\$54.3M	Private Prison Rate Increases
(\$63.8M)	Remove One-Time FY 2025 Appropriation(s)
\$1.9M	Increased Vehicle Fuel Costs

**\$40.2M FY 2026 Initiatives**

\$3.5M	Uniform Allowance Increase
(\$0M)	Increased Vehicle Fuel Costs
\$3.8M	Telecommunications Contract Increase
\$0.3M	Private Lease Cost Increases
\$0.5M	Perryville Wastewater Cost Increase
\$1.3M	Fire and Life Safety System Maintenance
\$1M	Perimeter Security Fence Contract Increase
\$14.5M	Incarcerated Persons' Food Services Contract Increase
\$3.1M	Contraband Interdiction via Enhanced Mail Scanning
\$6M	Health Care Federal Court Injunction
\$0.1M	COTA Food Services Contract Increase

**OTHER CHANGES**

**(\$429M) FY 2025 Net Baseline**

**\$515.9M FY 2026 Net Initiatives**

\$15M	Housing Trust Fund Deposit
\$10M	Bringing Jobs to Arizona
\$5M	Spurring Economic Development
\$5M	Homes for Heroes
\$2M	Community College Adult Education Workforce Development Program
\$2M	Adult Workforce Diploma Program
\$3M	Dual Enrollment Student Development Program
\$473.9M	All Other Initiatives

**OVERALL SPENDING**

**\$778.1M FY 2026 Net Baseline**

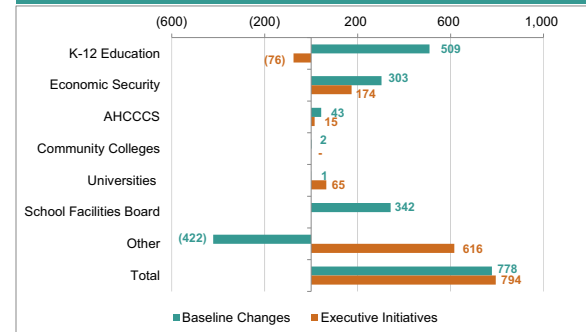
\$931.8M	Baseline Increases
(\$153.7M)	Baseline Decreases

**\$794.3M FY 2026 Net Initiatives**

\$870.6M	Initiative Increases
(\$76.3M)	Initiative Decreases

**\$1572.4M Total New Spending**

**NEW GENERAL FUND SPENDING PROFILE FY 2026**



# General Fund Sources and Uses

* In thousands	FY 24	FY 25	FY 25	FY 25	FY 26	FY 26	FY 27	FY 27	FY 28	FY 28
	Prelim Actual	Enacted Base	Net Changes	Executive Budget	Net Changes	Executive Budget	Net Changes	Executive Budget	Net Changes	Executive Budget
<b>SOURCES OF FUNDS</b>										
Beginning Balance	2,527,233	1,023,934		1,023,934		831,851		146,900		100,776
Ongoing Revenues										
Base Revenues	16,810,334	16,876,245		17,321,568		17,973,727		18,735,331		19,608,114
<i>Urban Revenue Sharing</i>	<i>(1,564,819)</i>	<i>(1,268,258)</i>		<i>(1,268,258)</i>		<i>(1,186,196)</i>		<i>(1,273,172)</i>		<i>(1,336,809)</i>
Adjusted Base Revenues	15,245,515	15,607,990		16,053,312		16,787,531		17,462,159		18,271,305
Transfers & Newly Enacted Changes	567,976	55,792		176,992		182,412		(22,250)		(38,350)
Income Tax Rebate	(273,550)	0		0		0		0		0
University SPEED Bond Increase	0	0		0		0		(16,200)		(16,200)
LIHTC Extension	0	0		0		(10,000)		(20,000)		(30,000)
Corporate Child Care Tax Credit	0	0		0		(1,000)		(1,000)		(1,000)
Lottery Advertising Adjustment	0	0		0		10,000		10,000		10,000
Lottery Vendor Fee Savings	0	0		0		800		800		800
Restore Lottery Waterfall to Competes Fund	0	0		0		(1,750)		(1,750)		(1,750)
Liquor IT project	0	0		0		(3,500)		(400)		(400)
Real Estate IT Modernization	0	0		0		1,962		0		0
FMAP Disaster Recovery	0	0		121,200		95,600		0		0
Prescription Drug Rebate	0	0		0		75,000		0		0
Newly Enacted Tax Reductions	0	0		0		0		0		0
Other One-Time Revenue Changes	0	0		0		0		0		0
New Fund Transfers	0	0		0		0		0		0
Prior Fund Transfers	841,526	55,792		55,792		15,300		6,300		200
Subtotal Revenues	15,813,492	15,663,782		16,230,304		16,969,942		17,439,909		18,232,955
<b>TOTAL SOURCES OF FUNDS</b>	<b>18,340,725</b>	<b>16,687,715</b>		<b>17,254,238</b>		<b>17,801,794</b>		<b>17,586,809</b>		<b>18,393,731</b>
<b>USES OF FUNDS</b>										
Operating Budget Appropriations	17,455,890	18,186,580	399,930	16,506,509	1,098,027	17,542,537	1,884	17,544,421	497,210	17,981,630
Other Expenses/(Revenues)	(139,139)	(84,123)	0	(84,123)	186,480	112,357	(170,745)	(58,388)	0	(58,388)
Arts Commission	5,000	2,000	0	2,000	(1,000)	1,000	0	1,000	0	1,000
Homeland Security Funding	25,000	10,200	0	10,200	(92)	10,108	(108)	10,000	0	10,000
Ombudsman-Citizens Aide Office	1,561	1,578	0	1,578	0	1,578	0	1,578	0	1,578
Arizona State Parks Board	11,700	100	0	100	2,400	2,500	(2,500)	0	0	0
State Board of Nursing	0	0	0	0	0	0	0	0	0	0
Arizona Power Authority	1,000	0	0	0	0	0	0	0	0	0
Phoenix Convention Center Payment	25,999	25,999	0	25,999	0	25,999	0	25,999	0	25,999
Rio Nuevo District	16,000	16,000	0	16,000	0	16,000	0	16,000	0	16,000
Hospital Assessment Savings	0	(100,000)	0	(100,000)	75,000	(25,000)	25,000	0	0	0
Bright Futures AZ - Decrease Child Care Costs for Arizona Families	0	0	0	0	3,000	3,000	0	3,000	0	3,000
Unallocated FY 2024 Health Insurance Adjustments	0	0	0	0	0	0	0	0	0	0
Unallocated FY 2024 Retirement Adjustments	0	0	0	0	0	0	0	0	0	0
Medicaid Federal Match Reversion	0	0	0	0	0	0	0	0	0	0
HITF Employer Premium Increase	0	0	0	0	57,845	57,845	(197,845)	(140,000)	0	(140,000)
FY 2026 Statewide Adjustments - State Fleet - Operating	0	0	0	0	5,334	5,334	0	5,334	0	5,334
FY 2026 Statewide Adjustments - State Fleet - Replacement	0	0	0	0	5,891	5,891	(5,891)	0	0	0
FY 2026 Statewide Adjustments - Rent	0	0	0	0	1,651	1,651	0	1,651	0	1,651
FY 2026 Statewide Adjustments - Retirement	0	0	0	0	(4,121)	(4,121)	0	(4,121)	0	(4,121)
FY 2026 Statewide Adjustments - Risks	0	0	0	0	14,594	14,594	0	14,594	0	14,594
FY 2026 Statewide Adjustments - AZ360	0	0	0	0	(200)	(200)	0	(200)	0	(200)
FY 2026 Statewide Adjustments - State Employee Salary Increase	0	0	0	0	46,778	46,778	0	46,778	0	46,778
Administrative Adjustments	90,000	130,000	0	130,000	0	130,000	0	130,000	0	130,000
Reversions	(314,899)	(170,000)	0	(170,000)	(10,600)	(180,600)	10,600	(170,000)	0	(170,000)
<b>TOTAL USES OF FUNDS</b>	<b>17,316,761</b>	<b>18,082,457</b>	<b>399,930</b>	<b>16,422,387</b>	<b>1,232,607</b>	<b>17,654,894</b>	<b>(168,861)</b>	<b>17,486,033</b>	<b>497,210</b>	<b>17,923,243</b>
Transfer to Rainy Day Fund	0	0	0	0	0	0	0	0	0	0
<b>ENDING BALANCE</b>	<b>1,023,884</b>	<b>805,259</b>		<b>831,851</b>		<b>146,900</b>		<b>100,776</b>		<b>410,489</b>
Ongoing Revenues	15,245,515	15,607,990		16,174,512		16,954,642		17,433,609		18,232,755
Ongoing Expenditures	14,735,574	15,367,155		15,367,155		16,768,859		17,180,353		17,572,907
<b>STRUCTURAL BALANCE</b>	<b>509,942</b>	<b>240,835</b>		<b>807,358</b>		<b>185,783</b>		<b>253,256</b>		<b>659,848</b>

Note: FY 2025 to FY 2028 Net Changes columns include baseline and initiative issues.

# General Fund Revenue Summary

<i>(Dollars in Thousands)</i>	FY 2024	FY 2025	FY 2026	FY 2026	FY 2028
	Actual	Estimated	Estimated	Estimated	Estimated
<b>Tax Revenues</b>					
Individual Income	4,845,756.7	5,244,818.2	5,525,569.6	5,826,508.1	6,145,907.1
Corporate Income	1,744,221.2	1,828,358.2	1,901,147.7	1,973,651.4	2,047,844.8
Sales and Use	7,933,914.2	8,208,899.5	8,555,601.0	8,943,185.9	9,376,231.1
Property Taxes	25,955.0	26,169.4	25,211.9	24,974.7	25,112.0
Luxury Taxes	64,461.0	65,454.8	65,928.2	67,565.9	68,737.7
Insurance Premium Taxes	820,435.1	879,293.6	938,150.5	977,100.3	1,015,921.1
Other Taxes	17,196.5	17,360.0	17,130.0	17,030.0	16,990.0
<b>Total Taxes</b>	<b>15,451,939.7</b>	<b>16,270,353.6</b>	<b>17,028,738.9</b>	<b>17,830,018.3</b>	<b>18,696,743.9</b>
<b>Other Revenues</b>					
Lottery	222,285.2	234,640.0	186,033.0	197,022.2	210,604.6
Gaming Revenue	36,477.3	38,210.3	40,009.1	41,743.0	43,662.3
Lic, Fees & Permits	52,664.5	55,110.0	56,740.0	58,430.0	59,860.0
Interest Earnings	371,165.8	273,411.5	217,640.4	148,756.1	122,300.9
Sales and Services	30,757.0	32,857.1	33,768.2	35,075.0	36,325.7
Miscellaneous	226,979.6	222,925.2	231,457.2	242,678.1	254,736.6
Transfers & Reimbursements	328,017.4	105,060.0	86,340.0	88,610.0	90,880.0
Medicaid Hospital Revenue	90,048.0	89,000.0	93,000.0	93,000.0	93,000.0
<b>Total Other Revenues</b>	<b>1,358,394.8</b>	<b>1,051,214.2</b>	<b>944,987.9</b>	<b>905,314.4</b>	<b>911,370.1</b>
<b>Total Revenues</b>	<b>16,810,334.5</b>	<b>17,321,567.8</b>	<b>17,973,726.8</b>	<b>18,735,330.7</b>	<b>19,608,114.0</b>
<b>Adjustments</b>					
Urban Revenue Sharing (URS)	(1,564,819.0)	(1,268,255.6)	(1,186,196.0)	(1,273,171.8)	(1,336,809.1)
Income Tax Rebate	(273,550.1)	-	-	-	-
University SPEED Bond Increase	-	-	-	(16,200.0)	(16,200.0)
LIHTC Extension	-	-	(10,000.0)	(20,000.0)	(30,000.0)
Corporate Child Care Tax Credit	-	-	(1,000.0)	(1,000.0)	(1,000.0)
Lottery Advertising Adjustment	-	-	10,000.0	10,000.0	10,000.0
Lottery Vendor Fee Savings	-	-	800.0	800.0	800.0
Restore Lottery Waterfall to Competes Fund	-	-	(1,750.0)	(1,750.0)	(1,750.0)
Liquor IT project	-	-	(3,500.0)	(400.0)	(400.0)
Real Estate IT Modernization	-	-	1,961.7	-	-
FMAP Disaster Recovery	-	121,200.0	95,600.0	-	-
Prescription Drug Rebate	-	-	75,000.0	-	-
Newly Enacted Tax Reductions	-	-	-	-	-
Other One-Time Revenue Changes	-	-	-	-	-
New Fund Transfers	-	-	-	-	-
Prior Fund Transfers	841,526.2	55,791.8	15,300.0	6,300.0	200.0
<b>Total</b>	<b>15,813,491.6</b>	<b>16,230,304.0</b>	<b>16,969,942.5</b>	<b>17,439,909.0</b>	<b>18,232,954.8</b>

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

# Other Fund Revenue Summary

(Dollars in Thousands)

	FY 2024 Actual	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate
<b>Taxes</b>					
Property Taxes	9,761.3	10,693.7	12,650.0	0.0	0.0
Sales & Use	1,072,189.2	1,072,265.3	875,001.8	556,911.0	556,911.0
Luxury Taxes	280,101.9	289,411.0	282,285.7	222,563.3	222,563.3
Ins. Premium	58,551.0	46,209.0	47,109.0	(4,641.0)	(4,641.0)
Other Taxes	66,652.7	65,740.5	65,596.3	41,203.4	41,231.7
Motor Carrier Tax	24,441.3	27,126.0	27,562.5	0.0	0.0
Motor Vehicle Fuel Tax	758,360.4	838,260.3	851,707.5	3,485.3	3,485.3
Vehicle License Tax	547,817.5	553,778.2	563,854.4	3,622.3	3,722.3
<b>Total Taxes</b>	<b>2,817,875.4</b>	<b>2,903,484.0</b>	<b>2,725,767.2</b>	<b>823,144.3</b>	<b>823,272.6</b>
<b>Other Revenues</b>					
Lic, Fees & Prm	1,775,753.8	2,321,915.3	2,281,659.5	1,847,042.5	1,845,904.6
Sales & Services	4,511,214.5	4,424,019.5	4,550,562.7	1,188,750.0	1,308,539.7
Interest Earnings	806,520.8	1,552,646.8	1,501,400.5	1,379,928.1	1,380,011.6
Misc. Revenues	6,714,300.4	6,455,355.1	6,522,241.7	5,689,213.9	5,690,107.3
Gaming Revenue	4,124.6	4,501.3	4,762.5	4,947.1	5,043.1
Lottery	28,762,901.3	30,829,361.1	31,595,416.5	23,822,026.1	23,844,706.7
<b>Total Other Revenues</b>	<b>42,574,815.2</b>	<b>45,587,799.1</b>	<b>46,456,043.4</b>	<b>33,931,907.7</b>	<b>34,074,313.0</b>
<b>Other Financing Sources</b>					
Transfers & Reimbursements	7,650,400.6	6,938,201.8	7,259,975.6	3,333,978.3	3,335,009.1
<b>Total Other Financing Sources</b>	<b>7,650,400.6</b>	<b>6,938,201.8</b>	<b>7,259,975.6</b>	<b>3,333,978.3</b>	<b>3,335,009.1</b>
<b>Total</b>	<b>53,043,091.2</b>	<b>55,429,484.9</b>	<b>56,441,786.2</b>	<b>38,089,030.3</b>	<b>38,232,594.7</b>

\*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.



# FY 2026 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Board of Accountancy	0.0	2,258.1	0.0	2,258.1
Acupuncture Board of Examiners	0.0	199.7	0.0	199.7
Department of Administration	404,492.0	242,100.7	1,482,487.5	2,129,080.2
Office of Administrative Hearings	970.0	0.0	1,124.8	2,094.8
Arizona Department of Agriculture	14,931.1	1,924.3	41,327.2	58,182.6
AHCCCS	2,728,107.5	581,675.2	22,364,509.5	25,674,292.2
Commission on the Arts	1,000.0	0.0	3,544.6	4,544.6
Board of Athletic Training	0.0	167.8	0.0	167.8
Attorney General - Department of Law	34,092.7	104,498.4	73,052.1	211,643.2
Barbering and Cosmetology Board	0.0	2,932.6	0.0	2,932.6
Board of Behavioral Health Examiners	0.0	2,929.4	0.0	2,929.4
State Board for Charter Schools	2,749.3	0.0	0.0	2,749.3
Department of Child Safety	487,816.6	831,783.0	0.0	1,319,599.6
Board of Chiropractic Examiners	0.0	643.7	0.0	643.7
Clean Elections Commission	0.0	0.0	13,610.4	13,610.4
Arizona Commerce Authority	28,050.0	0.0	270,531.4	298,581.4
Community Colleges	97,935.5	0.0	0.0	97,935.5
Constable Ethics Standards and Training	0.0	0.0	542.2	542.2
Registrar of Contractors	0.0	16,625.6	6,892.5	23,518.1
Corporation Commission	789.0	35,404.4	3,315.8	39,509.2
Department of Corrections	1,570,053.3	69,128.5	111,876.4	1,751,058.2
Criminal Justice Commission	4,600.0	7,318.8	22,099.0	34,017.8
Arizona State Schools for the Deaf and the Blind	25,291.3	34,970.9	9,743.6	70,005.8
Commission for the Deaf and Hard of Hearing	0.0	5,047.8	0.0	5,047.8
Board of Dental Examiners	0.0	2,120.5	0.0	2,120.5
Early Childhood Development and Health Board	3,000.0	0.0	140,871.0	143,871.0
Economic Opportunity	7,507.1	0.0	24,702.8	32,209.9
Department of Economic Security	1,821,441.4	496,980.5	6,737,650.2	9,056,072.1
Board of Education	3,342.4	0.0	0.0	3,342.4
Department of Education	8,109,641.8	82,135.0	3,558,092.5	11,749,869.3
Department of Emergency and Military Affairs	20,199.6	2,023.3	187,141.4	209,364.3
Department of Environmental Quality	11,000.0	99,660.9	100,277.6	210,938.5
Governor's Office of Equal Opportunity	0.0	311.7	0.0	311.7
State Board of Equalization	724.4	0.0	0.0	724.4
Board of Executive Clemency	1,489.0	0.0	28.0	1,517.0
Exposition and State Fair Board	0.0	19,927.3	0.0	19,927.3
Board of Fingerprinting	0.0	0.0	829.7	829.7
Forestry and Fire Management	76,471.6	0.0	75,890.7	152,362.3
Game and Fish Department	0.0	47,752.2	111,026.5	158,778.7
Department of Gaming	6,204.5	23,738.8	3,715.0	33,658.3

# FY 2026 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Governor's Office of Strategic Planning and Budgeting	2,852.5	0.0	0.0	2,852.5
Office of the Governor	8,996.8	0.0	608,474.7	617,471.5
Department of Health Services	126,660.2	72,204.8	339,429.3	538,294.3
Governor's Office of Highway Safety	0.0	0.0	15,519.5	15,519.5
Arizona Historical Society	2,978.7	0.0	598.5	3,577.2
Prescott Historical Society	995.3	0.0	1,317.2	2,312.5
Department of Homeland Security	20,903.5	11,094.4	32,855.6	64,853.5
Board of Homeopathic and Integrated Medicine Examiners	0.0	61.5	0.0	61.5
Arizona Department of Housing	15,000.0	388.8	247,536.3	262,925.1
Industrial Commission of Arizona	84.7	22,885.8	28,022.9	50,993.5
Department of Insurance and Financial Institutions	8,090.1	12,957.1	5,399.6	26,446.8
Court of Appeals	24,911.7	0.0	0.0	24,911.7
Superior Court	116,834.0	12,015.6	5,470.4	134,320.0
Supreme Court	29,710.3	35,199.2	34,112.3	99,021.8
Department of Juvenile Corrections	29,978.9	13,597.7	969.8	44,546.4
State Land Department	12,411.3	14,496.2	958.5	27,866.0
Legislative - Auditor General	26,722.7	0.0	1,289.2	28,011.9
House of Representatives	21,565.6	0.0	0.0	21,565.6
Joint Legislative Budget Committee	3,055.8	0.0	0.0	3,055.8
Legislative - Legislative Council	9,275.7	0.0	42.8	9,318.5
Ombudsman-Citizens' Aide	1,578.4	0.0	0.0	1,578.4
Senate	18,000.2	0.0	0.0	18,000.2
Department of Liquor Licenses and Control	0.0	6,126.8	2,705.4	8,832.2
Local Government	10,650.7	0.0	0.0	10,650.7
Lottery	0.0	200,930.2	1,812,561.6	2,013,491.8
Board of Massage Therapy	0.0	607.7	0.0	607.7
Arizona Medical Board	0.0	8,424.9	0.0	8,424.9
State Mine Inspector	2,299.3	112.9	554.6	2,966.8
Natural Resource Conservation Board	0.0	0.0	650.0	650.0
Naturopathic Physicians Board of Medical Examiners	0.0	220.0	0.0	220.0
Navigable Stream Adjudication Commission	140.5	200.0	0.0	340.5
Board of Examiners of Nursing Care Institution Administrators and Adult Care Home Managers	0.0	613.1	0.0	613.1
Board of Nursing	0.0	6,982.8	24,443.4	31,426.2
Board of Occupational Therapy Examiners	0.0	302.7	0.0	302.7
Board of Dispensing Opticians	0.0	198.5	0.0	198.5
Board of Optometry	0.0	295.6	0.0	295.6
Board of Osteopathic Examiners	0.0	1,494.1	0.0	1,494.1
State Parks Board	2,500.0	21,779.6	26,111.4	50,391.0
State Personnel Board	0.0	363.7	0.0	363.7

# FY 2026 Executive Budget

(Dollars in Thousands)

	General Fund	Other Appropriated	Non-Appropriated	All Funds Total
Board of Pharmacy	0.0	3,711.2	2,100.0	5,811.2
Board of Physical Therapy Examiners	0.0	619.2	0.0	619.2
Arizona Pioneers' Home	0.0	8,492.1	10.7	8,502.8
Board of Podiatry Examiners	0.0	202.7	0.0	202.7
Power Authority	0.0	0.0	20,927.7	20,927.7
State Board For Private Post-Secondary Education	0.0	553.0	262.0	815.0
Board of Psychologist Examiners	0.0	741.4	0.0	741.4
Public Safety Personnel Retirement System	6,000.0	0.0	32,416.5	38,416.5
Department of Public Safety	309,491.7	82,847.4	108,715.3	501,054.4
Department of Real Estate	3,111.8	0.0	0.0	3,111.8
Residential Utility Consumer Office	0.0	1,937.2	0.0	1,937.2
Board of Respiratory Care Examiners	0.0	426.7	0.0	426.7
State Retirement System	0.0	28,863.4	297,141.5	326,004.9
Department of Revenue	60,691.4	28,727.0	1,681.3	91,099.7
Secretary of State - Department of State	14,093.9	1,854.2	5,536.4	21,484.5
State Board of Tax Appeals	318.6	0.0	0.0	318.6
Board of Technical Registration	0.0	2,737.0	0.0	2,737.0
Office of Tourism	8,325.0	0.0	34,476.1	42,801.1
Department of Transportation	13,000.0	603,580.1	29,932.0	646,512.1
State Treasurer	4,639.7	6,518.4	2,345.5	13,503.6
Tribal Relations	67.1	0.0	49.5	116.6
Board of Regents	90,835.2	0.0	320,978.2	411,813.4
Arizona State University	419,894.6	854,407.1	3,616,787.9	4,891,089.6
Northern Arizona University	138,464.4	135,319.6	568,907.1	842,691.1
University of Arizona - Health Sciences Center	76,897.7	57,790.5	693,640.2	828,328.4
University of Arizona - Main Campus	309,712.3	347,232.7	2,427,709.4	3,084,654.4
Arizona Department of Veterans' Services	16,499.1	60,994.8	3,491.0	80,984.9
Veterinary Medical Examining Board	0.0	897.6	0.0	897.6
Water Infrastructure Finance Authority	0.0	0.0	277,461.4	277,461.4
Department of Water Resources	26,359.3	2,018.3	23,794.8	52,172.4
Statewide and Large Automation Projects	0.0	96,955.5	0.0	96,955.5
Capital Projects	63,876.2	73,683.7	0.0	137,559.9
<b>Total</b>	<b>17,520,375.1</b>	<b>5,558,923.7</b>	<b>47,002,269.9</b>	<b>70,081,568.6</b>

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 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Department of Administration	375,768.3	331,066.4	396,066.4	404,492.0	73,425.6
Office of Administrative Hearings	990.0	970.0	970.0	970.0	0.0
Arizona Department of Agriculture	16,294.6	14,639.8	14,639.8	14,931.1	291.3
AHCCCS	2,422,523.3	2,669,731.7	2,671,563.7	2,728,107.5	58,375.8
Commission on the Arts	5,000.0	2,000.0	2,000.0	1,000.0	(1,000.0)
Attorney General - Department of Law	26,761.1	27,092.7	27,092.7	34,092.7	7,000.0
Barbering and Cosmetology Board	0.0	0.0	0.0	0.0	0.0
State Board for Charter Schools	2,584.9	2,749.3	2,749.3	2,749.3	0.0
Department of Child Safety	420,203.6	458,089.5	487,481.0	487,816.6	29,727.1
Arizona Commerce Authority	62,650.0	13,550.0	13,550.0	28,050.0	14,500.0
Community Colleges	133,995.8	96,013.8	96,013.8	97,935.5	1,921.7
Registrar of Contractors	0.0	0.0	0.0	0.0	0.0
Corporation Commission	798.9	789.0	789.0	789.0	0.0
Department of Corrections	1,437,672.6	1,537,433.4	1,543,461.3	1,570,053.3	32,619.9
Criminal Justice Commission	14,404.6	4,600.0	4,600.0	4,600.0	0.0
Arizona State Schools for the Deaf and the Blind	26,184.5	25,291.3	25,291.3	25,291.3	0.0
Early Childhood Development and Health Board	0.0	0.0	0.0	3,000.0	3,000.0
Economic Opportunity	5,519.6	507.1	507.1	7,507.1	7,000.0
Department of Economic Security	1,181,466.8	1,344,531.1	1,470,431.3	1,821,441.4	476,910.3
Board of Education	3,245.2	3,342.4	3,342.4	3,342.4	0.0
Department of Education	7,699,668.6	7,676,669.8	7,777,717.5	8,109,641.8	432,972.0
Department of Emergency and Military Affairs	15,988.7	16,225.4	14,871.4	20,199.6	3,974.2
Department of Environmental Quality	11,105.7	16,000.0	1,000.0	11,000.0	(5,000.0)
State Board of Equalization	613.1	724.4	724.4	724.4	0.0
Board of Executive Clemency	1,346.6	1,377.6	1,377.6	1,489.0	111.4
Exposition and State Fair Board	0.0	0.0	0.0	0.0	0.0
Forestry and Fire Management	30,128.8	51,471.6	57,988.7	76,471.6	25,000.0
Game and Fish Department	0.0	0.0	0.0	0.0	0.0
Department of Gaming	13,051.6	11,704.5	11,704.5	6,204.5	(5,500.0)
Governor's Office of Strategic Planning and Budgeting	1,851.3	2,852.5	2,852.5	2,852.5	0.0
Office of the Governor	9,080.9	8,996.8	8,996.8	8,996.8	0.0
Department of Health Services	157,006.9	122,466.3	125,428.9	126,660.2	4,193.9
Arizona Historical Society	3,043.4	2,978.7	2,978.7	2,978.7	0.0
Prescott Historical Society	872.5	995.3	995.3	995.3	0.0
Department of Homeland Security	25,381.4	10,200.0	20,995.7	20,903.5	10,703.5
Arizona Department of Housing	214,279.5	15,000.0	15,000.0	15,000.0	0.0



# General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Industrial Commission of Arizona	75.1	84.7	84.7	84.7	0.0
Department of Insurance and Financial Institutions	8,132.5	8,090.1	8,090.1	8,090.1	0.0
Court of Appeals	24,715.5	24,407.4	24,407.4	24,911.7	504.3
Superior Court	120,362.2	115,194.8	115,194.8	116,834.0	1,639.2
Supreme Court	28,781.1	29,864.2	29,864.2	29,710.3	(153.9)
Department of Juvenile Corrections	29,595.7	29,978.9	29,978.9	29,978.9	0.0
State Land Department	12,372.2	12,411.3	12,411.3	12,411.3	0.0
Legislative - Auditor General	21,971.0	26,722.7	26,722.7	26,722.7	0.0
House of Representatives	20,176.5	21,565.6	21,565.6	21,565.6	0.0
Joint Legislative Budget Committee	0.8	3,055.8	3,055.8	3,055.8	0.0
Legislative - Legislative Council	7,075.4	9,275.7	9,275.7	9,275.7	0.0
Ombudsman-Citizens' Aide	1,425.9	1,578.4	1,578.4	1,578.4	0.0
Senate	14,163.5	18,000.2	18,000.2	18,000.2	0.0
Department of Liquor Licenses and Control	0.0	0.0	0.0	0.0	0.0
Local Government	17,650.7	0.0	10,650.7	10,650.7	10,650.7
Lottery	0.0	0.0	0.0	0.0	0.0
State Mine Inspector	1,919.6	2,299.3	2,299.3	2,299.3	0.0
Navigable Stream Adjudication Commission	137.2	140.5	140.5	140.5	0.0
Board of Examiners of Nursing Care Institution Administrators and Adult Care Home Managers	0.0	0.0	0.0	0.0	0.0
Board of Nursing	0.0	0.0	0.0	0.0	0.0
State Parks Board	11,700.0	100.0	100.0	2,500.0	2,400.0
Arizona Pioneers' Home	0.0	0.0	0.0	0.0	0.0
Power Authority	1,000.0	0.0	0.0	0.0	0.0
Public Safety Personnel Retirement System	6,000.0	6,000.0	6,000.0	6,000.0	0.0
Department of Public Safety	292,859.4	264,461.1	264,461.1	309,491.7	45,030.6
Department of Real Estate	2,909.0	3,111.8	3,111.8	3,111.8	0.0
Department of Revenue	59,358.1	59,677.7	59,677.7	60,691.4	1,013.7
Secretary of State - Department of State	19,629.4	22,993.9	22,993.9	14,093.9	(8,900.0)
State Board of Tax Appeals	285.6	318.6	318.6	318.6	0.0
Board of Technical Registration	0.0	0.0	0.0	0.0	0.0
Office of Tourism	8,876.2	8,325.0	8,325.0	8,325.0	0.0
Department of Transportation	550.0	0.0	0.0	13,000.0	13,000.0
State Treasurer	96,835.5	10,160.7	10,411.7	4,639.7	(5,521.0)
Tribal Relations	68.8	67.1	67.1	67.1	0.0
Board of Regents	98,807.1	55,726.0	55,726.0	90,835.2	35,109.2
Arizona State University	411,201.9	408,638.2	408,638.2	419,894.6	11,256.4
Northern Arizona University	138,925.5	134,294.4	134,294.4	138,464.4	4,170.0

# General Fund Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
University of Arizona - Health Sciences Center	80,397.7	75,428.4	75,428.4	76,897.7	1,469.3
University of Arizona - Main Campus	302,897.2	295,913.7	295,913.7	309,712.3	13,798.6
Arizona Department of Veterans' Services	13,747.3	11,999.1	12,999.1	16,499.1	4,500.0
Water Infrastructure Finance Authority	254,210.0	0.0	0.0	0.0	0.0
Department of Water Resources	26,226.0	24,618.2	24,618.2	26,359.3	1,741.1
Capital Projects	0.0	0.0	0.0	63,876.2	63,876.2
<b>Total</b>	<b>16,454,522.3</b>	<b>16,154,563.9</b>	<b>16,499,586.3</b>	<b>17,520,375.1</b>	<b>1,365,811.2</b>

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 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
<b>Board of Accountancy</b>					
Accountancy Board Fund	1,870.6	2,258.1	2,258.1	2,258.1	0.0
<b>Acupuncture Board of Examiners</b>					
Acupuncture Board of Examiners Fund	192.7	199.7	199.7	199.7	0.0
<b>Department of Administration</b>					
Admin - Special Services Fund	1,223.6	1,255.7	1,255.7	1,255.7	0.0
Air Quality Fund	400.2	929.9	929.9	929.9	0.0
Arizona Financial Information System Collections Fund	13,127.8	11,524.3	11,524.3	11,517.3	(7.0)
Automation Operations Fund	24,794.3	29,840.5	29,840.5	29,840.5	0.0
Automation Projects Fund	0.0	29,694.0	0.0	0.0	(29,694.0)
Capital Outlay Stabilization Fund	16,363.3	21,137.3	21,137.3	21,137.3	0.0
Corrections Fund	487.8	629.4	629.4	629.4	0.0
Cybersecurity Risk Management Fund	1,394.1	23,037.2	23,037.2	23,037.2	0.0
Federal Surplus Materials Revolving Fund	40.2	473.5	473.5	473.5	0.0
Information Technology Fund	2,023.5	3,956.5	3,956.5	6,174.3	2,217.8
Personnel Division Fund	12,902.4	14,046.2	14,046.2	18,610.6	4,564.4
Risk Management Fund	87,897.4	101,938.5	147,838.5	108,634.0	6,695.5
Risk Management Revolving Fund	0.0	0.0	0.0	0.0	0.0
Special Employee Health Fund	5,645.3	5,715.2	5,715.2	5,715.2	0.0
State Surplus Materials Revolving Fund	3,373.4	3,211.5	3,211.5	3,211.5	0.0
State Web Portal Fund	7,867.4	9,354.7	9,354.7	8,854.7	(500.0)
Telecommunications Fund	1,540.5	2,404.6	2,404.6	2,079.6	(325.0)
<b>Total</b>	<b>179,081.2</b>	<b>259,149.0</b>	<b>275,355.0</b>	<b>242,100.7</b>	<b>(17,048.3)</b>
<b>Arizona Department of Agriculture</b>					
Air Quality Fund	1,583.3	1,615.7	1,615.7	1,615.7	0.0
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Nuclear Emergency Management Fund	309.0	308.6	308.6	308.6	0.0
<b>Total</b>	<b>1,892.2</b>	<b>1,924.3</b>	<b>1,924.3</b>	<b>1,924.3</b>	<b>0.0</b>
<b>AHCCCS</b>					
AHCCCS Fund	0.0	0.0	0.0	0.0	0.0
Budget Neutrality Compliance Fund	4,669.3	4,914.3	4,914.3	4,914.3	0.0
Children's Health Insurance Program Fund	128,661.5	174,041.0	174,041.0	174,041.0	0.0
Long Term Care System Fund	0.0	0.0	0.0	0.0	0.0
Prescription Drug Rebate Fund	211,157.4	189,832.2	189,832.2	316,207.2	126,375.0
Seriously Mentally Ill Housing Trust Fund	423.3	217.7	217.7	217.7	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Substance Abuse Services Fund	2,250.2	2,250.2	2,250.2	2,250.2	0.0
Tobacco Products Tax Fund	16,123.0	17,458.5	17,458.5	17,458.5	0.0
Tobacco Tax and Health Care Fund - Medically Needy Account	0.0	0.0	0.0	0.0	0.0
Tobacco Tax and Health Care Fund MNA	58,714.0	66,586.3	66,586.3	66,586.3	0.0
<b>Total</b>	<b>421,998.7</b>	<b>455,300.2</b>	<b>455,300.2</b>	<b>581,675.2</b>	<b>126,375.0</b>
<b>Commission on the Arts</b>					
Arizona Arts Trust Fund	0.0	0.0	0.0	0.0	0.0
<b>Board of Athletic Training</b>					
Athletic Training Fund	124.2	167.8	167.8	167.8	0.0
<b>Attorney General - Department of Law</b>					
Antitrust Enforcement Revolving Fund	89.1	162.3	162.3	162.3	0.0
Attorney General Legal Services Cost Allocation Fund	1,784.7	2,343.2	2,343.2	2,343.2	0.0
Collection Enforcement Revolving Fund - Operating	7,144.5	7,339.5	7,339.5	7,339.5	0.0
Consumer Protection - Consumer Fraud Revolving Fund	10,504.2	14,886.0	14,886.0	18,425.1	3,539.1
Consumer Restitution and Remediation Revolving Fund - Remediation Subaccount	11.0	49,000.0	49,000.0	40,000.0	(9,000.0)
Interagency Service Agreements Fund	15,651.8	18,246.3	18,246.3	18,246.3	0.0
Internet Crimes Against Children Enforcement Fund	21.9	900.0	900.0	900.0	0.0
Risk Management Fund	10,519.7	13,266.6	13,266.6	13,266.6	0.0
Risk Management Revolving Fund	0.0	0.0	0.0	0.0	0.0
Victims Rights Fund	2,135.3	3,815.4	3,815.4	3,815.4	0.0
<b>Total</b>	<b>47,862.3</b>	<b>109,959.3</b>	<b>109,959.3</b>	<b>104,498.4</b>	<b>(5,460.9)</b>
<b>Barbering and Cosmetology Board</b>					
Barbering and Cosmetology Board Fund	2,684.8	3,230.9	3,230.9	2,932.6	(298.3)
<b>Board of Behavioral Health Examiners</b>					
Behavioral Health Examiner Fund	2,107.4	2,757.4	2,757.4	2,929.4	172.0
<b>Department of Child Safety</b>					
Child Abuse Prevention Fund	0.0	1,459.3	1,459.3	1,459.3	0.0
Child Care and Development Fund	40,516.0	40,516.0	40,516.0	40,516.0	0.0
Child Welfare Licensing Fee Fund	633.0	1,021.6	1,021.6	1,021.6	0.0
Children and Family Services Training Program Fund	0.0	207.5	207.5	207.5	0.0



# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Comprehensive Health Plan Expenditure Authority Fund	134,042.1	0.0	177,233.2	185,060.8	185,060.8
DCS Expenditure Authority Fund	320,018.2	0.0	438,921.4	442,441.5	442,441.5
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Temporary Assistance for Needy Families (TANF) Fund	160,582.2	161,076.3	176,634.0	161,076.3	0.0
<b>Total</b>	<b>655,791.5</b>	<b>204,280.7</b>	<b>835,993.0</b>	<b>831,783.0</b>	<b>627,502.3</b>
<b>Board of Chiropractic Examiners</b>					
Chiropractic Examiners Board Fund	526.0	643.7	643.7	643.7	0.0
<b>Arizona Commerce Authority</b>					
Arizona Commerce Authority Fund	0.0	0.0	0.0	0.0	0.0
<b>Registrar of Contractors</b>					
Registrar of Contractors Fund	10,950.6	13,925.6	13,925.6	13,925.6	0.0
Residential Contractors' Recovery Fund	0.0	0.0	0.0	2,700.0	2,700.0
<b>Total</b>	<b>10,950.6</b>	<b>13,925.6</b>	<b>13,925.6</b>	<b>16,625.6</b>	<b>2,700.0</b>
<b>Corporation Commission</b>					
Arizona Arts Trust Fund	57.7	60.0	60.0	60.0	0.0
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
IGA and ISA Fund	0.0	0.0	0.0	0.0	0.0
Public Access Fund	8,156.8	8,121.6	8,121.6	8,121.6	0.0
Securities Investment Management Fund	1,305.7	1,329.7	1,329.7	1,329.7	0.0
Securities Regulatory and Enforcement Fund	6,831.6	7,345.8	7,345.8	7,345.8	0.0
Utility Regulation Revolving Fund	15,638.6	18,547.3	18,547.3	18,547.3	0.0
<b>Total</b>	<b>31,990.5</b>	<b>35,404.4</b>	<b>35,404.4</b>	<b>35,404.4</b>	<b>0.0</b>
<b>Department of Corrections</b>					
Corrections Fund	31,312.5	31,312.5	31,312.5	35,787.6	4,475.1
DOC - Alcohol Abuse Treatment Fund	26.0	555.8	555.8	555.8	0.0
DOC Building Renewal & Preventive Maintenance Fund	2,084.5	0.0	5,864.3	5,864.3	5,864.3
IGA and ISA Fund	0.0	0.0	0.0	0.0	0.0
Inmate Store Proceeds Fund	149.4	1,280.8	1,280.8	4,084.9	2,804.1
Penitentiary Land Earnings Fund	5,208.8	3,466.0	3,466.0	3,466.0	0.0
Prison Construction and Operations Fund	14,106.8	12,500.1	12,576.1	12,500.1	0.0
State Charitable, Penal & Reformatory Land Earnings Fund	5,346.7	3,733.1	3,733.1	3,733.1	0.0
State Education Fund for Correctional Education Fund	112.3	736.4	736.4	736.4	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Transition Program Fund	496.0	15,048.6	15,048.6	2,400.3	(12,648.3)
<b>Total</b>	<b>58,843.1</b>	<b>68,633.3</b>	<b>74,573.6</b>	<b>69,128.5</b>	<b>495.2</b>
<b>Criminal Justice Commission</b>					
Criminal Justice Enhancement Fund	588.5	742.2	742.2	742.2	0.0
Drug and Gang Enforcement Fund	0.0	0.0	0.0	0.0	0.0
Resource Center Fund	417.5	647.1	647.1	647.1	0.0
State Aid to County Attorneys Fund	648.6	973.7	973.7	973.7	0.0
State Aid to Indigent Defense Fund	700.0	700.0	700.0	700.0	0.0
Victim Compensation and Assistance Fund	376.8	4,255.8	4,255.8	4,255.8	0.0
<b>Total</b>	<b>2,731.5</b>	<b>7,318.8</b>	<b>7,318.8</b>	<b>7,318.8</b>	<b>0.0</b>
<b>Arizona State Schools for the Deaf and the Blind</b>					
Cooperative Services Fund	15,421.0	20,092.4	20,092.4	20,092.4	0.0
Schools for the Deaf and the Blind Fund	14,544.9	14,878.5	14,878.5	14,878.5	0.0
Telecommunication for the Deaf Fund	0.0	168.0	168.0	0.0	(168.0)
<b>Total</b>	<b>29,965.9</b>	<b>35,138.9</b>	<b>35,138.9</b>	<b>34,970.9</b>	<b>(168.0)</b>
<b>Commission for the Deaf and Hard of Hearing</b>					
Telecommunication for the Deaf Fund	3,685.0	5,047.8	5,047.8	5,047.8	0.0
<b>Board of Dental Examiners</b>					
Dental Board Fund	1,881.9	2,129.8	2,129.8	2,120.5	(9.3)
<b>Economic Opportunity</b>					
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Microbusiness Loan Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Department of Economic Security</b>					
Child Care and Development Fund	200,029.3	331,027.9	331,027.9	278,680.9	(52,347.0)
Child Support Enforcement Administration Fund	21,331.8	17,678.4	17,678.4	17,678.4	0.0
Department Long-Term Care System Fund	33,864.2	34,429.2	34,429.2	34,429.2	0.0
Domestic Violence Services Fund	1,863.7	4,000.3	4,000.3	4,000.3	0.0
Long Term Care System Fund	0.0	0.0	0.0	0.0	0.0
Public Assistance Collections Fund	0.0	441.8	441.8	441.8	0.0
Special Administration Fund	4,637.9	4,654.6	4,654.6	4,654.6	0.0
Spinal and Head Injuries Trust Fund	1,615.5	2,390.2	2,390.2	2,390.2	0.0
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	66,591.2	66,588.9	66,588.9	66,588.9	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Workforce Investment Grant Fund	92,644.3	87,116.2	87,116.2	87,116.2	0.0
<b>Total</b>	<b>422,577.9</b>	<b>549,327.5</b>	<b>549,327.5</b>	<b>496,980.5</b>	<b>(52,347.0)</b>
<b>Department of Education</b>					
Broadband Expansion Fund	0.0	0.0	0.0	0.0	0.0
Character Education - 6/10th Sales Tax	0.0	0.0	0.0	0.0	0.0
Classroom Site Fund - 6/10th Sales Tax	0.0	0.0	0.0	0.0	0.0
Empowerment Scholarship Account Fund	0.0	359.0	0.0	0.0	(359.0)
Failing Schools Tutoring Fund - 6/10th Sales Tax	0.0	0.0	0.0	0.0	0.0
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Permanent State School Fund	342,797.3	357,889.0	357,889.0	72,263.0	(285,626.0)
School Accountability Fund - 6/10th Sales Tax	5,441.2	7,000.0	7,000.0	7,000.0	0.0
Teacher Certification Fund	1,809.7	2,547.0	2,547.0	2,547.0	0.0
Tribal College Dual Enrollment Program Fund	0.0	325.0	325.0	325.0	0.0
<b>Total</b>	<b>350,048.3</b>	<b>368,120.0</b>	<b>367,761.0</b>	<b>82,135.0</b>	<b>(285,985.0)</b>
<b>Department of Emergency and Military Affairs</b>					
Anti-Human Trafficking Grant Fund	0.0	0.0	0.0	0.0	0.0
Border Security Fund	6,672.1	0.0	1,354.0	1,354.0	1,354.0
Military Installation Fund	0.0	0.0	0.0	0.0	0.0
Nuclear Emergency Management Fund	645.1	2,176.0	669.3	669.3	(1,506.7)
<b>Total</b>	<b>7,317.2</b>	<b>2,176.0</b>	<b>2,023.3</b>	<b>2,023.3</b>	<b>(152.7)</b>
<b>Department of Environmental Quality</b>					
Air Quality Fund	5,170.7	9,207.2	9,207.2	7,477.3	(1,729.9)
DEQ Emissions Inspection Fund	28,352.4	33,012.7	33,012.7	33,012.7	0.0
Emergency Response Fund	131.3	132.8	132.8	132.8	0.0
Hazardous Waste Management Fund	1,613.7	1,960.1	1,960.1	2,677.6	717.5
Indirect Cost Fund	0.0	0.0	0.0	0.0	0.0
Indirect Cost Recovery Fund	19,072.3	18,788.1	18,788.1	18,788.1	0.0
Permit Administration Fund	5,200.6	7,333.9	7,333.9	7,333.9	0.0
Recycling Fund	2,521.9	2,484.1	2,484.1	3,491.4	1,007.3
Safe Drinking Water Program Fund	1,768.0	2,001.6	2,001.6	2,001.6	0.0
Solid Waste Fee Fund	1,068.6	2,592.7	2,592.7	3,892.7	1,300.0
Water Quality Assurance Revolving Fund	0.0	0.0	0.0	0.0	0.0
Water Quality Fee Fund	17,610.1	20,852.8	20,852.8	20,852.8	0.0
<b>Total</b>	<b>82,509.6</b>	<b>98,366.0</b>	<b>98,366.0</b>	<b>99,660.9</b>	<b>1,294.9</b>

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
<b>Governor's Office of Equal Opportunity</b>					
Personnel Division Fund	310.5	311.7	311.7	311.7	0.0
<b>Total</b>	<b>310.5</b>	<b>311.7</b>	<b>311.7</b>	<b>311.7</b>	<b>0.0</b>
<b>Exposition and State Fair Board</b>					
Arizona Exposition and State Fair Fund	14,879.4	23,698.7	23,698.7	19,927.3	(3,771.4)
<b>Board of Fingerprinting</b>					
Board of Fingerprinting Fund	0.0	0.0	0.0	0.0	0.0
<b>Game and Fish Department</b>					
Capital Improvement Fund	814.2	1,001.2	1,001.2	1,001.2	0.0
Game and Fish Federal Revolving Fund	0.0	0.0	0.0	0.0	0.0
Game and Fish Fund	34,957.6	36,079.8	36,079.8	41,279.8	5,200.0
Game, Non-Game, Fish and Endangered Species Fund	315.1	391.7	391.7	391.7	0.0
Heritage Fund - Identification, Inventory, Protection and Management	0.0	0.0	0.0	0.0	0.0
Watercraft Licensing Fund	3,993.7	5,063.3	5,063.3	5,063.3	0.0
Wildlife Endowment Fund	0.0	16.2	16.2	16.2	0.0
<b>Total</b>	<b>40,080.6</b>	<b>42,552.2</b>	<b>42,552.2</b>	<b>47,752.2</b>	<b>5,200.0</b>
<b>Department of Gaming</b>					
Arizona Benefits Fund	12,732.2	16,610.0	16,610.0	16,610.0	0.0
Fantasy Sports Contest Fund	150.1	150.1	150.1	150.1	0.0
Permanent Tribal-State Compact Fund	1,176.3	2,330.3	2,330.3	2,330.3	0.0
Racing Regulation Fund	2,234.3	3,948.4	3,948.4	3,948.4	0.0
Racing Regulations Fund - Unarmed Combat Subaccount	104.8	105.2	105.2	400.0	294.8
State Lottery Fund	300.0	300.0	300.0	300.0	0.0
<b>Total</b>	<b>16,697.7</b>	<b>23,444.0</b>	<b>23,444.0</b>	<b>23,738.8</b>	<b>294.8</b>
<b>Office of the Governor</b>					
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Foster Youth Education Success Fund	0.0	0.0	0.0	0.0	0.0
IGA and ISA Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Department of Health Services</b>					
Child Care and Development Fund	977.2	1,011.3	1,011.3	1,011.3	0.0
Child Fatality Review Fund	170.0	196.5	196.5	196.5	0.0
DHS State Hospital Land Earnings Fund	621.7	650.0	3,150.0	1,596.6	946.6



# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Disease Control Research Fund	893.6	1,000.0	1,000.0	1,000.0	0.0
Emergency Medical Operating Services Fund	3,445.9	4,260.7	4,260.7	4,260.7	0.0
Environmental Laboratory Licensure Revolving Fund	824.0	1,008.4	1,008.4	1,008.4	0.0
Health Research Fund	0.0	3,000.0	3,000.0	2,000.0	(1,000.0)
Health Services Licenses Fund	15,817.0	17,607.9	18,353.9	23,933.6	6,325.7
Health Services Lottery Fund	0.0	0.0	0.0	0.0	0.0
Indirect Cost Fund	12,131.8	13,323.7	13,323.7	13,318.3	(5.4)
Newborn Screening Program Fund	10,744.9	12,838.7	12,838.7	15,651.7	2,813.0
Nursing Care Institution Resident Protection Revolving Fund	44.2	238.2	238.2	238.2	0.0
Prescription Drug Rebate Fund	0.0	0.0	0.0	0.0	0.0
The Arizona State Hospital Fund	3,076.2	3,395.7	3,395.7	3,395.7	0.0
Tobacco Tax and Health Care Fund - Medically Needy Account	586.0	700.0	700.0	700.0	0.0
Vital Records Electronic Systems Fund	2,308.2	3,893.8	3,893.8	3,893.8	0.0
<b>Total</b>	<b>51,640.5</b>	<b>63,124.9</b>	<b>66,370.9</b>	<b>72,204.8</b>	<b>9,079.9</b>
<b>Arizona Historical Society</b>					
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
<b>Prescott Historical Society</b>					
Sharlot Hall Historical Society 501 (c)3 Fund	0.0	0.0	0.0	0.0	0.0
<b>Department of Homeland Security</b>					
Information Technology Fund	8,932.9	11,054.7	11,094.4	11,094.4	39.7
<b>Board of Homeopathic and Integrated Medicine Examiners</b>					
Homeopathic Medical Examiners Fund	57.8	61.5	61.5	61.5	0.0
<b>Arizona Department of Housing</b>					
Housing Shelter and Services Fund	0.0	0.0	0.0	0.0	0.0
Housing Trust Fund	371.1	388.8	388.8	388.8	0.0
<b>Total</b>	<b>371.1</b>	<b>388.8</b>	<b>388.8</b>	<b>388.8</b>	<b>0.0</b>
<b>Industrial Commission of Arizona</b>					
Industrial Commission Administration Fund	20,507.6	22,138.0	22,138.0	22,885.8	747.8
<b>Department of Insurance and Financial Institutions</b>					
Automobile Theft Authority Fund	6,483.2	6,749.3	6,749.3	6,849.3	100.0
Banking Department Revolving Fund	50.3	50.3	50.3	50.3	0.0
Financial Services Fund	5,467.9	6,057.5	6,057.5	6,057.5	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Health Care Appeals Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>12,001.4</b>	<b>12,857.1</b>	<b>12,857.1</b>	<b>12,957.1</b>	<b>100.0</b>
<b>Superior Court</b>					
Criminal Justice Enhancement Fund	0.0	0.0	0.0	0.0	0.0
Drug Treatment and Education Fund	500.2	504.2	504.2	504.2	0.0
Judicial Collection Enhancement Fund	2,923.9	6,015.4	6,015.4	6,015.4	0.0
Juvenile Probation Services Fund	0.0	0.0	0.0	0.0	0.0
Supreme Court CJEF Disbursements Fund	3,345.3	5,496.0	5,496.0	5,496.0	0.0
<b>Total</b>	<b>6,769.3</b>	<b>12,015.6</b>	<b>12,015.6</b>	<b>12,015.6</b>	<b>0.0</b>
<b>Supreme Court</b>					
Confidential Intermediary and Fiduciary Fund	479.3	690.6	690.6	690.6	0.0
Court Appointed Special Advocate and Vulnerable Persons Fund	5,208.0	6,793.7	6,793.7	6,972.5	178.8
Criminal Justice Enhancement Fund	0.0	0.0	0.0	0.0	0.0
Defensive Driving Fund	2,575.4	4,521.0	4,521.0	4,521.0	0.0
Judicial Collection Enhancement Fund	9,387.3	15,303.0	15,303.0	15,303.0	0.0
Juvenile Probation Services Fund	0.0	0.0	0.0	0.0	0.0
State Aid to Courts Fund	1,694.8	2,946.9	2,946.9	2,946.9	0.0
Supreme Court CJEF Disbursements Fund	3,999.7	4,765.2	4,765.2	4,765.2	0.0
<b>Total</b>	<b>23,344.4</b>	<b>35,020.4</b>	<b>35,020.4</b>	<b>35,199.2</b>	<b>178.8</b>
<b>Department of Juvenile Corrections</b>					
Criminal Justice Enhancement Fund	0.0	0.0	0.0	0.0	0.0
Juvenile Corrections CJEF Distribution Fund	421.8	528.9	528.9	528.9	0.0
Juvenile Education Fund	1,385.2	1,463.7	1,463.7	1,463.7	0.0
Local Cost Sharing Fund	6,724.0	6,724.0	6,724.0	6,724.0	0.0
State Charitable, Penal and Reformatory Land Fund	3,585.6	4,881.1	4,881.1	4,881.1	0.0
<b>Total</b>	<b>12,116.6</b>	<b>13,597.7</b>	<b>13,597.7</b>	<b>13,597.7</b>	<b>0.0</b>
<b>State Land Department</b>					
ADOA Risk Management Fund	0.0	0.0	0.0	0.0	0.0
Due Diligence Fund	626.2	5,000.0	5,000.0	5,000.0	0.0
Environmental Special Plate Fund	152.5	260.6	260.6	260.6	0.0
Off-highway Vehicle Recreation Fund	0.0	177.6	177.6	177.6	0.0
Trust Land Management Fund	5,748.2	7,058.0	7,058.0	9,058.0	2,000.0
<b>Total</b>	<b>6,526.8</b>	<b>12,496.2</b>	<b>12,496.2</b>	<b>14,496.2</b>	<b>2,000.0</b>

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
<b>Department of Liquor Licenses and Control</b>					
Liquor Licenses Fund	5,547.4	6,126.8	6,126.8	6,126.8	0.0
<b>Lottery</b>					
Lottery Fund	172,843.5	201,696.5	201,696.5	200,930.2	(766.3)
State Lottery Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>172,843.5</b>	<b>201,696.5</b>	<b>201,696.5</b>	<b>200,930.2</b>	<b>(766.3)</b>
<b>Board of Massage Therapy</b>					
Massage Therapy Board Fund	511.3	607.7	607.7	607.7	0.0
<b>Arizona Medical Board</b>					
Medical Examiners Board Fund	8,132.1	8,424.9	8,424.9	8,424.9	0.0
<b>State Mine Inspector</b>					
Aggregate Mining Reclamation Fund	100.6	112.9	112.9	112.9	0.0
<b>Natural Resource Conservation Board</b>					
Natural Resource Conservation District Fund	0.0	0.0	0.0	0.0	0.0
<b>Naturopathic Physicians Board of Medical Examiners</b>					
Naturopathic Board Fund	189.2	220.0	220.0	220.0	0.0
<b>Navigable Stream Adjudication Commission</b>					
Arizona Water Banking Fund	20.0	200.0	200.0	200.0	0.0
<b>Board of Examiners of Nursing Care Institution Administrators and Adult Care Home Managers</b>					
Nursing Care Institution Administrators/ACHMC Fund	586.2	613.1	613.1	613.1	0.0
<b>Board of Nursing</b>					
Nursing Board Fund	6,119.2	7,016.6	7,016.6	6,982.8	(33.8)
<b>Board of Occupational Therapy Examiners</b>					
Occupational Therapy Fund	225.7	306.7	306.7	302.7	(4.0)
<b>Board of Dispensing Opticians</b>					
Dispensing Opticians Board Fund	171.2	198.5	198.5	198.5	0.0
<b>Board of Optometry</b>					
Board of Optometry Fund	266.7	295.6	295.6	295.6	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
<b>Board of Osteopathic Examiners</b>					
Osteopathic Examiners Board Fund	1,110.6	1,403.1	1,403.1	1,494.1	91.0
<b>State Parks Board</b>					
Off-Highway Vehicle Recreation Fund	16.7	16.7	16.7	16.7	0.0
State Parks Revenue Fund	20,824.1	19,518.5	19,518.5	20,249.8	731.3
State Parks Store Fund	1,008.4	1,513.1	1,513.1	1,513.1	0.0
<b>Total</b>	<b>21,849.2</b>	<b>21,048.3</b>	<b>21,048.3</b>	<b>21,779.6</b>	<b>731.3</b>
<b>State Personnel Board</b>					
Personnel Division Fund	301.3	363.7	363.7	363.7	0.0
<b>Board of Pharmacy</b>					
Pharmacy Board Fund	4,851.9	3,568.6	3,568.6	3,711.2	142.6
<b>Board of Physical Therapy Examiners</b>					
Physical Therapy Fund	470.5	596.0	596.0	619.2	23.2
<b>Arizona Pioneers' Home</b>					
Pioneers' Home Miners' Hospital Fund	1,884.6	2,363.7	2,363.7	2,363.7	0.0
Pioneers' Home State Charitable Earnings Fund	6,072.1	6,128.4	6,128.4	6,128.4	0.0
<b>Total</b>	<b>7,956.7</b>	<b>8,492.1</b>	<b>8,492.1</b>	<b>8,492.1</b>	<b>0.0</b>
<b>Board of Podiatry Examiners</b>					
Podiatry Examiners Board Fund	169.7	202.7	202.7	202.7	0.0
<b>Power Authority</b>					
APA - General Fund	0.0	0.0	0.0	0.0	0.0
<b>State Board For Private Post-Secondary Education</b>					
Private Postsecondary Education Fund	366.3	453.0	453.0	553.0	100.0
<b>Board of Psychologist Examiners</b>					
Behavior Analyst Licensing & Regulation Account	106.9	0.0	216.1	294.9	294.9
Psychologist Examiners Board Fund	522.5	644.8	428.7	446.5	(198.3)
<b>Total</b>	<b>629.4</b>	<b>644.8</b>	<b>644.8</b>	<b>741.4</b>	<b>96.6</b>
<b>Department of Public Safety</b>					
Arizona Highway Patrol Fund	27,071.9	27,028.5	27,028.5	29,797.2	2,768.7
Automation Projects Fund	34.5	0.0	0.0	0.0	0.0
Concealed Weapons Permit Fund	2,955.1	3,388.4	3,388.4	3,388.4	0.0



# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Criminal Justice Enhancement Fund	0.0	0.0	0.0	0.0	0.0
DPS Criminal Justice Enhancement Fund	2,941.8	3,049.9	3,049.9	3,049.9	0.0
DPS Forensics Fund	19,276.2	23,198.8	23,198.8	23,198.8	0.0
Federal Grants Fund	0.0	0.0	0.0	0.0	0.0
Fingerprint Clearance Card Fund	1,376.9	2,036.1	2,036.1	2,036.1	0.0
Gang and Immigration Intelligence Team Enforcement Mission Fund	2,770.7	2,396.4	2,396.4	2,396.4	0.0
Motor Vehicle Liability Insurance Enforcement Fund	729.4	1,003.3	1,003.3	1,003.3	0.0
Motorcycle Safety Fund	124.0	198.9	198.9	198.9	0.0
Parity Compensation Fund	3,022.2	3,156.8	3,156.8	3,742.5	585.7
Public Safety Equipment Fund	1,699.3	3,664.0	3,664.0	2,894.0	(770.0)
Risk Management Revolving Fund	1,102.5	1,141.9	1,141.9	1,141.9	0.0
State Highway Fund	6,367.2	10,000.0	10,000.0	10,000.0	0.0
<b>Total</b>	<b>69,471.6</b>	<b>80,263.0</b>	<b>80,263.0</b>	<b>82,847.4</b>	<b>2,584.4</b>
<b>Residential Utility Consumer Office</b>					
Residential Utility Consumer Office Revolving Fund	1,323.5	1,606.5	1,606.5	1,937.2	330.7
<b>Total</b>	<b>1,323.5</b>	<b>1,606.5</b>	<b>1,606.5</b>	<b>1,937.2</b>	<b>330.7</b>
<b>Board of Respiratory Care Examiners</b>					
Board of Respiratory Care Examiners Fund	340.3	426.7	426.7	426.7	0.0
<b>State Retirement System</b>					
Arizona State Retirement System Appropriated Fund	25,542.1	27,063.4	27,063.4	27,063.4	0.0
LTD Trust Fund	1,330.0	1,800.0	1,800.0	1,800.0	0.0
<b>Total</b>	<b>26,872.1</b>	<b>28,863.4</b>	<b>28,863.4</b>	<b>28,863.4</b>	<b>0.0</b>
<b>Department of Revenue</b>					
Department of Revenue Administrative Fund	23,256.0	27,101.9	27,101.9	27,101.9	0.0
DOR Liability Setoff Fund	746.4	2,094.8	2,094.8	894.8	(1,200.0)
Integrated Tax System Project Fund	0.0	0.0	0.0	0.0	0.0
Tobacco Tax and Health Care Fund	649.0	730.3	730.3	730.3	0.0
<b>Total</b>	<b>24,651.4</b>	<b>29,927.0</b>	<b>29,927.0</b>	<b>28,727.0</b>	<b>(1,200.0)</b>
<b>Secretary of State - Department of State</b>					
Address Confidentiality Program Fund	0.0	0.0	0.0	0.0	0.0
Election Systems Improvement Fund	1,320.0	483.5	483.5	483.5	0.0
IGA and ISA Fund	0.0	0.0	0.0	0.0	0.0
Notary Bond Fund	0.0	0.0	0.0	0.0	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
Records Services Fund	1,397.6	1,820.7	1,820.7	1,370.7	(450.0)
State Library Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2,717.6</b>	<b>2,304.2</b>	<b>2,304.2</b>	<b>1,854.2</b>	<b>(450.0)</b>
<b>Board of Technical Registration</b>					
Technical Registration Board Fund	2,484.3	2,646.0	2,646.0	2,737.0	91.0
<b>Department of Transportation</b>					
ADOT Fleet Operations Fund	25,209.0	27,522.7	27,522.7	27,522.7	0.0
Air Quality Fund	706.8	1,078.3	1,078.3	1,078.3	0.0
Highway Damage Recovery Account Fund	6,423.9	7,999.3	7,999.3	7,999.3	0.0
Highway User Revenue Fund	779.6	951.5	951.5	951.5	0.0
Ignition Interlock Device Fund	324.4	365.6	365.6	365.6	0.0
Motor Vehicle Dealer Enforcement Fund	0.0	0.0	0.0	0.0	0.0
Motor Vehicle Liability Insurance Enforcement Fund	1,539.1	1,615.6	1,615.6	1,615.6	0.0
State Aviation Fund	2,153.9	2,289.3	2,289.3	2,289.3	0.0
State Fleet Operations Fund	23,090.7	29,146.9	29,146.9	32,697.6	3,550.7
State Fleet Vehicle Replacement Fund	13,967.1	11,370.0	11,370.0	15,146.0	3,776.0
State Highway Fund	430,778.6	488,489.3	488,489.3	512,267.8	23,778.5
State Match Advantage for Rural Transportation (SMART) Fund	0.0	0.0	0.0	0.0	0.0
Vehicle Inspection and Certificate of Title Enforcement Fund	1,627.1	1,646.4	1,646.4	1,646.4	0.0
<b>Total</b>	<b>506,600.2</b>	<b>572,474.9</b>	<b>572,474.9</b>	<b>603,580.1</b>	<b>31,105.2</b>
<b>State Treasurer</b>					
Boating Safety Fund	0.0	2,183.8	2,183.8	2,183.8	0.0
Budget Stabilization Fund	20,742.4	0.0	0.0	0.0	0.0
Peace Officer Training Equipment Fund	1,368.0	2,953.2	2,953.2	0.0	(2,953.2)
State Treasurer's Operating Fund	4,137.3	4,334.6	4,334.6	4,334.6	0.0
<b>Total</b>	<b>26,247.8</b>	<b>9,471.6</b>	<b>9,471.6</b>	<b>6,518.4</b>	<b>(2,953.2)</b>
<b>Tribal Relations</b>					
Donations Fund	0.0	0.0	0.0	0.0	0.0
<b>Board of Regents</b>					
Arizona Promise Program Fund	0.0	0.0	0.0	0.0	0.0
Spouses of Military Veterans Tuition Scholarship Fund	0.0	0.0	0.0	0.0	0.0
Teacher's Academy Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
<b>Arizona State University</b>					
ASU Collections Fund Tuition and Fees	826,715.3	856,998.8	854,407.1	854,407.1	(2,591.7)
<b>Northern Arizona University</b>					
Capital Infrastructure Fund	0.0	0.0	0.0	0.0	0.0
NAU Collections - Appropriated Fund	135,319.6	131,836.8	135,319.6	135,319.6	3,482.8
<b>Total</b>	<b>135,319.6</b>	<b>131,836.8</b>	<b>135,319.6</b>	<b>135,319.6</b>	<b>3,482.8</b>
<b>University of Arizona - Health Sciences Center</b>					
U of A Main Campus - Collections - Appropriated Fund	49,566.9	61,522.8	57,790.5	57,790.5	(3,732.3)
<b>University of Arizona - Main Campus</b>					
U of A Main Campus - Collections - Appropriated Fund	450,480.3	368,549.1	347,232.7	347,232.7	(21,316.4)
<b>Arizona Department of Veterans' Services</b>					
Homes for Heroes Fund	0.0	0.0	0.0	0.0	0.0
State Home for Veterans Trust Fund	44,170.6	60,994.8	60,994.8	60,994.8	0.0
State Veterans' Cemetery Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>44,170.6</b>	<b>60,994.8</b>	<b>60,994.8</b>	<b>60,994.8</b>	<b>0.0</b>
<b>Veterinary Medical Examining Board</b>					
Veterinary Medical Examiners Board Fund	723.8	787.9	787.9	897.6	109.7
<b>Water Infrastructure Finance Authority</b>					
Coronavirus State and Local Fiscal Recovery Fund	0.0	0.0	0.0	0.0	0.0
Water Supply Development Revolving Fund	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Department of Water Resources</b>					
Assured and Adequate Water Supply Administration Fund	231.6	291.8	291.8	291.8	0.0
Water Resources Fund	1,582.9	1,726.5	1,726.5	1,726.5	0.0
<b>Total</b>	<b>1,814.5</b>	<b>2,018.3</b>	<b>2,018.3</b>	<b>2,018.3</b>	<b>0.0</b>
<b>Statewide and Large Automation Projects</b>					
APF Subaccount - ADA Health and Human Services Information System Fund	1,000.4	0.0	0.0	0.0	0.0
APF Subaccount - ADA HRIS Modernization Fund	3,599.6	5,521.2	5,521.2	5,941.7	420.5
APF Subaccount - Arizona Health Care Cost Containment System Fund	0.0	0.0	0.0	0.0	0.0

# Other Appropriated Funds Operating Budgets Summary

(Dollars in Thousands)

	FY 2024 Expenditures	FY 2025 Appropriation	FY 2025 Executive Budget	FY 2026 Executive Budget	FY 2026 Changes and Adjustments
APF Subaccount - Corporation Commission Fund	792.0	0.0	0.0	0.0	0.0
APF Subaccount - Department of Administration Fund	0.0	0.0	0.0	5,495.0	5,495.0
APF Subaccount - Department of Public Safety Fund	0.0	0.0	0.0	0.0	0.0
APF Subaccount - Department of Real Estate Fund	0.0	0.0	0.0	1,962.0	1,962.0
APF Subaccount - Department of Revenue Fund	5,685.2	19,456.8	19,456.8	19,256.8	(200.0)
APF Subaccount - Medicaid Enterprise System Modernization	0.0	3,396.0	3,396.0	64,300.0	60,904.0
APF Subaccount - Supreme Court Fund	2,371.6	0.0	0.0	0.0	0.0
Automation Projects Fund	0.0	1,320.0	1,320.0	0.0	(1,320.0)
<b>Total</b>	<b>13,448.8</b>	<b>29,694.0</b>	<b>29,694.0</b>	<b>96,955.5</b>	<b>67,261.5</b>
<b>Capital Projects</b>					
Arizona Exposition and State Fair Fund	0.0	0.0	0.0	3,815.1	3,815.1
Capital Improvement Fund	0.0	0.0	0.0	850.0	850.0
Criminal Justice Enhancement Fund	0.0	0.0	0.0	0.0	0.0
DHS State Hospital Land Earnings Fund	0.0	0.0	0.0	938.0	938.0
DOC Building Renewal & Preventive Maintenance Fund	0.0	0.0	0.0	5,864.3	5,864.3
Economic Security Capital Investments Fund	0.0	0.0	0.0	225.0	225.0
Game and Fish Fund	0.0	0.0	0.0	13,330.9	13,330.9
Juvenile Corrections CJEF Distribution Fund	0.0	0.0	0.0	1,361.9	1,361.9
Legislative, Executive, Judicial Public Buildings Land Fund	0.0	0.0	0.0	3,120.5	3,120.5
Local Cost Sharing Fund	0.0	0.0	0.0	118.7	118.7
Pioneers' Home Miners' Hospital Fund	0.0	0.0	0.0	1,985.4	1,985.4
State Aviation Fund	0.0	0.0	0.0	1,245.2	1,245.2
State Highway Fund	0.0	0.0	0.0	36,802.4	36,802.4
State Parks Revenue Fund	0.0	0.0	0.0	3,633.3	3,633.3
Telecommunication for the Deaf Fund	0.0	0.0	0.0	393.0	393.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>73,683.7</b>	<b>73,683.7</b>
<b>Other Appropriated Funds Operating Total</b>	<b>4,946,237.0</b>	<b>5,001,198.1</b>	<b>5,633,673.1</b>	<b>5,558,923.7</b>	<b>557,725.6</b>

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

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## **Governor's Office of Strategic Planning and Budgeting**

[Website](#)

[Executive Budgets for FY 2026 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](#)

## **Other Helpful Links**

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[Governor's Website](#)

[State Agencies' Websites](#)

[Governor's Priorities](#)

[Openbooks](#)

[Arizona Labor Market Statistics](#)

[Arizona Population Statistics](#)

[FY 2026 Appropriations Report](#)



# Acknowledgement

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Governor Hobbs gratefully acknowledges the skilled and dedicated efforts of the staff of the Governor's Office of Strategic Planning and Budgeting.

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