

## Office of Economic Opportunity

|                                      | FY 2015<br>ACTUAL | FY 2016<br>ESTIMATE | FY 2017<br>APPROVED     |
|--------------------------------------|-------------------|---------------------|-------------------------|
| <b>OPERATING BUDGET</b>              |                   |                     |                         |
| Personal Services                    | 0                 | 0                   | 306,200                 |
| Employee Related Expenditures        | 0                 | 0                   | 132,300                 |
| Travel - Out of State                | 0                 | 0                   | 4,000                   |
| Other Operating Expenditures         | 0                 | 0                   | 126,200                 |
| <b>OPERATING SUBTOTAL</b>            | <b>0</b>          | <b>0</b>            | <b>568,700</b>          |
| <b>SPECIAL LINE ITEMS</b>            |                   |                     |                         |
| Small Water Systems Fund Deposit     | 0                 | 0                   | 500,000 <sup>1/2/</sup> |
| <b>AGENCY TOTAL</b>                  | <b>0</b>          | <b>0</b>            | <b>1,068,700</b>        |
| <b>FUND SOURCES</b>                  |                   |                     |                         |
| General Fund                         | 0                 | 0                   | 1,068,700               |
| <b>SUBTOTAL - Appropriated Funds</b> | <b>0</b>          | <b>0</b>            | <b>1,068,700</b>        |
| Other Non-Appropriated Funds         | 0                 | 0                   | 244,131,700             |
| Federal Funds                        | 0                 | 0                   | 39,270,200              |
| <b>TOTAL - ALL SOURCES</b>           | <b>0</b>          | <b>0</b>            | <b>284,470,600</b>      |

**AGENCY DESCRIPTION** — Laws 2016, Chapter 372 created the Office of Economic Opportunity (OEO), which is responsible for monitoring the state's tax competitiveness, evaluating the effectiveness of state incentive programs, analyzing state and local regulatory costs to businesses, serving as the state's workforce planning coordinator, and providing economic and demographic research and analysis. Also established within OEO is the Arizona Finance Authority, which oversees the Water Infrastructure Finance Authority (WIFA) and the Greater Arizona Development Authority (GADA) in addition to being the state recipient of private activity bonding authority. Additionally, OEO oversees the Arizona Industrial Development Authority which is the sole state issuer of private activity bonds.

### Operating Budget

The budget includes \$568,700 from the General Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

#### Agency Creation

The budget includes an increase of \$568,700 from the General Fund in FY 2017 for transfer of the Office of Employment and Population Statistics and Governor's Regulatory Review Council resources from the Department of Administration (ADOA) to OEO. Laws 2016, Chapter 372 created the Office of Economic Opportunity through the consolidation of various components of existing state agencies. *(Please see the Other Issues section for more information.)*

### Small Water Systems Fund Deposit

The budget includes \$500,000 from the General Fund in FY 2017 for a one-time deposit into the Small Water Systems Fund.

The FY 2017 General Appropriation Act included provisions exempting this appropriation from procurement code law, making the appropriation non-lapsing, and requiring the Corporation Commission and WIFA to report to JLBC by August 1, 2017 on the amount of emergency grants made to interim operators of small water systems during FY 2017.

On recommendation of the Corporation Commission, WIFA may approve a grant to repair a small water system or replace infrastructure of a small water system that serves 500 or fewer connections.

<sup>1/</sup> This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)

<sup>2/</sup> On or before August 1, 2017, the Corporation Commission and the Water Infrastructure Finance Authority shall jointly report the total amount of expenditures from the Small Water Systems Fund established by A.R.S. § 49-355, for emergency grants to interim operators of small water systems during FY 2017 to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)

**Other Issues**

**Office of Economic Opportunity Creation**

Laws 2016, Chapter 372 creates 3 new governmental entities: the Office of Economic Opportunity (OEO), the Arizona Finance Authority (AFA), and the Arizona Industrial Development Authority (AIDA). AFA is established in OEO and the AFA board serves as the board of AIDA, thus OEO has supervision over all 3 entities. Table 1 below displays the FY 2017 estimated FTE allocations and administrative expenditures for each of the 3 newly-created entities.

| <u>Recipient</u> | <u>FTE Positions</u> | <u>Total Funds</u>  |
|------------------|----------------------|---------------------|
| OEO              | 30.6                 | \$ 4,891,700        |
| AFA              | 19.0                 | 2,707,500           |
| AIDA             | 3.5                  | 3,120,200           |
| <b>Total</b>     | <b>53.1</b>          | <b>\$10,719,400</b> |

Table 2 displays the estimated fund balances that the newly-created entities will administer in FY 2017 as a result of these shifts.

| <u>Transferring Agency</u> | <u>Recipient Agency</u> |                    |
|----------------------------|-------------------------|--------------------|
|                            | <u>AFA</u>              | <u>AIDA</u>        |
| WIFA                       | \$ 205,982,900          | \$ 0               |
| GADA                       | 13,290,900              | 0                  |
| Housing/Health Authorities | 0                       | 5,929,400          |
| <b>Total</b>               | <b>\$ 219,273,800</b>   | <b>\$5,929,400</b> |

**OEO**

OEO is the central state agency for economic, population, and unemployment statistical analysis, the administering agency for the Workforce Arizona Council, and oversees the newly-created Workforce Data Task Force.

OEO's statistical analysis arm is comprised of the Employment and Population Statistics unit from the Arizona Department of Administration (ADOA) and an economist from the Governor's Regulatory Review Council (GRRC). OEO is also required to enter into a memorandum of understanding with the Department of Economic Security (DES) to access unemployment insurance data for research purposes. The employment, population, and unemployment insurance data will be used to help develop analyses that evaluate the state's

competitiveness regarding incentive, tax, and regulatory policy.

The Workforce Arizona Council, transferred from the Arizona Commerce Authority (ACA), will develop a state workforce plan, review statewide policies and programs that affect workforce development, and develop allocation formulas for employment and training grants.

The newly-created Workforce Data Task Force will oversee the development and maintenance of the state workforce evaluation data system. The data collected on the workforce programs will be used by the task force to determine the most efficient ways to allocate funds and enhance performance of existing programs.

OEO's funding is provided through the transfer of resources tied to the functions shifting to OEO and fees paid to the Corporation Commission for securities filings that were previously deposited into the Arizona Competes Fund. Of these amounts, only the Corporation Commission fees will be deposited into the newly-created OEO Operations Fund. Remaining monies are either appropriated (General Fund), Federal monies that will be accounted for separately, or are being transferred to OEO's IGA & ISA Fund. In total, \$568,700 from the General Fund and \$4,891,700 in total funds is being transferred to OEO (see Table 3). Of that amount, ADOA is transferring \$568,700 from the General Fund and \$2,361,400 in total funds. This transfer reflects the following shifts:

**ADOA**

- Office of Employment and Statistics – The entire office is moved to OEO including its 16.6 FTE Positions and funding of \$362,100 General Fund, \$104,600 IGA and ISA Fund, and \$1,688,100 Federal Funds.
- Governor's Regulatory Review Council – 1 FTE Position and \$206,600 General Fund (\$84,600 of this amount is one-time to help develop a regulatory cost model).

Also included in the \$4,871,900 in total funds transferred to OEO are shifts of \$2,426,300 from ACA and \$104,000 from the Department of Economic Security (DES). These shifts are as follows:

**ACA**

- Workforce Arizona Council and Workforce Division – The entire Workforce Arizona Council and Workforce Division of ACA are transferred along with 4 FTE Positions and \$458,000 in Federal Funds for the operation of these programs.
- Corporation Commission Fees – \$1,968,300 in Corporation Commission filings fees for securities

that were previously deposited into the Arizona Competes Fund. These monies will fund an estimated 8 FTE Positions.

**DES**

- Workforce Innovation Opportunity Act Resources – 1 FTE Position and \$104,000 in Federal Funds.

Table 3 includes OEO’s estimated expenditures for FY 2017 by fund source and transferring agency.

| <b>Transferring Agency Fund Source</b> | <b>FY 2017</b>                  |
|--|---------------------------------|
| <b>ADOA</b>                            |                                 |
| General Fund                           | \$ 568,700                      |
| IGA & ISA Fund                         | 104,600                         |
| Federal Funds                          | <u>1,688,100</u>                |
| <b>Total ADOA</b>                      | <b>\$2,361,400</b>              |
| <b>ACA</b>                             |                                 |
| Corporation Commission Fees            | \$1,968,300                     |
| Federal Funds                          | <u>458,000</u>                  |
| <b>Total ACA</b>                       | <b>\$2,426,300</b>              |
| <b>DES</b>                             |                                 |
| Federal Funds                          | <u>\$104,000</u>                |
| <b>Total DES</b>                       | <b>\$104,000</b>                |
| <b>OEO TOTAL</b>                       | <b>\$4,891,700<sup>1/</sup></b> |

<sup>1/</sup> This amount funds an estimated 30.6 FTE Positions.

The bill also establishes the Economic Development Fund consisting of any remaining monies in the AFA Operations Fund or AIDA at the end of each prior fiscal year. The Economic Development Fund is estimated to receive a total of \$5,710,500 in FY 2018. Since these monies represent excess balances from state Industrial Development Authorities (IDAs) that were folded into the AIDA, it is estimated that any transfers beyond FY 2018 into the Economic Development Fund will be minimal.

**AFA**

Additionally, the bill creates AFA by consolidating the functions of WIFA and the Greater Arizona Development Authority (GADA) under the authority of the AFA Board and tasking AFA with the administration of the state’s Private Activity Bond (PAB) authorization.

WIFA finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities or projects.

GADA helps local governments obtain lower than market interest rates on debt incurred for infrastructure

development and construction by using the GADA Revolving Fund to guarantee loans.

The state’s PAB authorization, transferred from ACA, is the annual amount of tax exempt bonds issued by the federal government to the state for certain private industry use. As the state’s recipient of the PAB authorization, AFA will issue PAB authority to local IDAs to allow the IDAs to issue bonds on behalf of a private entity that will utilize the proceeds for projects such as school or multi-family home construction, mortgage revenue bonds, manufacturing projects, and qualified student loan projects.

Funding for the operational costs of AFA is derived from unrestricted and available monies of WIFA and GADA, bond proceeds from issuances of the AIDA, and gifts and grants. Monies received from these sources are to be deposited into the newly-created AFA Operations Fund.

AFA is expected to oversee \$276,458,600 in expenditures (see Table 4). Of this amount, \$500,000 is from the General Fund for the deposit to the Small Water Systems Fund.

The AFA is also responsible for the Clean Water Revolving Fund (\$171,371,400) and the Drinking Water Revolving Fund (\$67,353,900). These 2 funds provide loans to political subdivisions and Indian tribes for drinking water facilities and capital improvements at wastewater treatment facilities. Additionally, AFA will also administer Federal Funds (\$37,020,100) that provide water infrastructure loans to local governments and Indian tribes.

AFA will also expend an estimated \$213,200 for 1.4 FTE Positions from the GADA Revolving Fund to oversee the loan and bonding operations of GADA. This amount is small relative to the amounts expended from the Clean Water Revolving and Drinking Water Revolving Funds since the vast majority of the fund balance in the GADA Revolving Fund is used as collateral for the bonds they issue and is only directly loaned out in small amounts. Currently, the fund balance allows locals to bond at a rate of 30:1 while also providing a lower-than-market rate of interest. The FY 2016 estimated ending balance for the GADA Revolving Fund is \$13,290,900 which will allow for bonding of up to \$398,727,000 at the current leverage ratio.

Of the total \$276,458,600 in estimated FY 2017 AFA expenditures, an estimated \$2,707,500 will be deposited into the AFA Operations Fund to pay the administrative costs of AFA. Laws 2016, Chapter 372 requires that all costs and expenses of the AFA shall be paid from bond

proceeds, other AFA monies, and available monies of WIFA and GADA. It is unclear what level of bonding activity will occur in FY 2017; the only monies not federally restricted or already obligated within WIFA and GADA are their administrative expenditures. The \$2,707,500 FY 2017 deposit estimate represents the estimated administrative expenditures for WIFA and GADA that may be transferred to the AFA Operations Fund in FY 2017.

| <u>Agency/Fund Source</u>     | <u>FY 2017</u>                          |
|-------------------------------|---|
| <u>WIFA</u>                   |   |
| General Fund                  | \$ 500,000                              |
| Clean Water Revolving Fund    | 171,371,400                             |
| Drinking Water Revolving Fund | 67,353,900                              |
| Federal Funds                 | <u>37,020,100</u>                       |
| <b>Total WIFA</b>             | <b>\$276,245,400</b>                    |
| <u>GADA</u>                   |   |
| GADA Revolving Fund           | <u>\$213,200</u>                        |
| <b>Total GADA</b>             | <b>\$213,200</b>                        |
| <br><b>AFA TOTAL</b>          | <br><b>\$276,458,600<sup>1/2/</sup></b> |

<sup>1/</sup> This amount funds an estimated 19 FTE Positions.  
<sup>2/</sup> Of this amount, an estimated \$2,707,500 will be deposited into the AFA Operations Fund to pay the administrative costs of AFA. The remaining monies will predominately be used for loans to local governments for water infrastructure improvements.

more information). Table 5 summarizes the estimated FY 2017 expenditures of AIDA.

| <u>Fund Source</u> | <u>FY 2017</u>                  |
|--------------------|---------------------------------|
| <u>AIDA</u>        |                                 |
| IGA & ISA Fund     | <u>\$3,120,300</u>              |
| <b>Total AIDA</b>  | <b>\$3,120,300<sup>1/</sup></b> |

<sup>1/</sup> This amount funds an estimated 3.5 FTE Positions.

AIDA

Lastly, the bill also authorizes AFA to establish and govern the AIDA, which will consolidate the activities of the Arizona Housing Finance Authority, Arizona Health Facilities Authority, and Arizona International Development Authority in addition to issuing PABs for allowable projects not otherwise covered by the other state IDAs. As a result of the consolidation, all of the existing assets of the 3 state IDAs become assets of AIDA. The shifting of resources from the 3 consolidated IDAs to AIDA will allow for 3.5 FTE Positions and estimated expenditures of \$3,120,300 in FY 2017. Additionally, AIDA will receive a one-time transfer of \$5,929,400 in unobligated monies in FY 2017 from the 3 consolidated state IDAs. We estimate that revenues to AIDA will not fully cover expenditures in FY 2017 which will result in AIDA having an estimated FY 2017 ending balance of \$5,710,500. Laws 2016, Chapter 372 requires that any unobligated monies within AIDA be transferred to the Economic Development Fund at the end of each fiscal year. As a result, we estimate that all of the \$5,710,500 FY 2017 ending balance within AIDA would be transferred to the OEO-administered Economic Development Fund in FY 2018. (Please see the OEO section of this narrative for