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Douglas Clark

ARIZONA CORPORATION COMMISSION

September 10, 2026

The Honorable Katie Hobbs
Governor of Arizona
1700 W. Washington St.
Phoenix, AZ 85007

Dear Governor Hobbs:

On September 10, 2026, the Arizona Corporation Commission voted to approve and transmit the enclosed Fiscal Year 2027 Supplemental Budget Request for consideration by your office and the Arizona State Legislature. The Commission respectfully requests an amendment to enacted FY27 budget legislation to reverse the $3.0 million legislative carve-out from the Utility Regulation Revolving Fund (URRF) for an external Attorney General grant program and eliminate the corresponding cash-transfer requirement.

URRF finances the Commission's constitutional and statutory regulation of investor-owned and privately owned electric, natural gas, water, wastewater, and telecommunications utilities, customer-owned cooperatives, and Pipeline and Railroad Safety responsibilities. The Commission currently has approximately 40 active rate cases on its docket. Because more than 79% of URRF operating expenditures support specialized personnel, this unadjusted cash transfer severely restricts our baseline capacity to conduct timely evidentiary proceedings, retain required technical experts, maintain mandated pipeline inspections, and adjudicate complex dockets without costly regulatory lag.

The Commission's submitted Sources and Uses projections demonstrate that, with the transfer in place, URRF will end FY27 approximately $23,300 below zero and FY28 approximately $2.77 million below zero. Reversing the $3.0 million grant transfer restores these projections to solvent operating balances of approximately $2.98 million in FY27 and $211,500 in FY28. This targeted correction stabilizes essential regulatory operations through FY28 without requiring a new General Fund appropriation or an increase in the statutory utility assessment.

Avoiding an assessment increase is vital to consumer affordability. Regulatory assessments imposed on utilities are passed directly to Arizona ratepayers, cascading across household electric, gas, and water bills. Restoring these dedicated revenues ensures that ratepayer-funded assessments are preserved exclusively for their constitutionally intended oversight purposes, preserves the Commission's capacity to protect public safety and reliable infrastructure, and avoids imposing unnecessary upward cost pressures on Arizona families and businesses.

The enclosed FY27 Supplemental Budget Request package includes the formal justification narrative and updated Sources and Uses financial schedules. The Commission appreciates your consideration and looks forward to collaborating with your office, the Office of Strategic Planning and Budgeting (OSPB), and the Legislature to implement this necessary mid-year correction.

Sincerely,

CHAIRMAN MYERS

VICE CHAIR WALDEN

COMMISSIONER MÁRQUEZ PETERSON

COMMISSIONER LÓPEZ

COMMISSIONER THOMPSON

cc:
Ben Henderson, Director, Governor's Office of Strategic Planning and Budgeting (OSPB)
Richard Stavneak, Director, Joint Legislative Budget Committee (JLBC)
Senator John Kavanagh, Chairman, Senate Appropriations Committee
Representative David Livingston, Chairman, House Appropriations Committee
Douglas Clark, Executive Director, Arizona Corporation Commission

FY 2027 SUPPLEMENTAL ISSUE NARRATIVE

FY27 Utility Regulation Revolving Fund Stabilization Plan

Supplemental issue | Current-year fund stabilization

LEGISLATIVE ACTION	REVISED FY27 BALANCE	REVISED FY28 BALANCE
$3.0 million	**$2.98 million**	**$211,500**

Description of issue*

The FY27 budget appropriates $3.0 million from the Utility Regulation Revolving Fund (URRF) to the Arizona Attorney General following a separate $3.4 million legislative cash sweep in FY26, creating an immediate structural deficit. External forecasting models (OSPB and JLBC) mistakenly assumed the fund held a substantial unencumbered surplus. In reality, this perceived surplus is an accounting artifact caused by a fundamental structural mismatch between the state fiscal-year cycle (July 1–June 30) and the statutory utility assessment collection schedule. Because annual utility assessments are billed on June 15th, revenue receipts routinely cross fiscal years through July, August, and the 13th month, appearing in state financial systems (AZ360) as surplus cash balances rather than committed operating liquidity.

Furthermore, external projections improperly assumed natural upward revenue elasticities. Unlike general-fund revenue, URRF collections are not discretionary or consumption-driven; they are statutorily restricted and strictly governed by two pillars under A.R.S. § 40-401:

- **Appropriation-Driven Assessment:** The assessment is determined strictly by the joint annual appropriations for the Commission and RUCO, less the current fund balance. Assessments cannot legally be expanded to fund unauthorized non-utility programs.
- **Statutory Revenue Cap:** Assessments are hard-capped at 0.20% (two-tenths of 1%) of intrastate utility gross operating revenues exceeding $500,000. This caps total possible URRF collections at $25.65 million against a total statutory cash demand exceeding $31 million.

The Commission cannot simply "assess more" to absorb external legislative sweeps. To keep the fund nominally solvent, the Commission executed severe administrative triage: freezing recruitment across 8 authorized FTEs on July 1st, eliminating employee salary and performance adjustments, restricting non-lapsing audit contracts, and slashing operational travel. Despite these cuts, URRF is projected to close FY27 with a negative cash balance of approximately $23,300, cascading into an operational cash deficit of negative $2.77 million in FY28. Because over 79% of URRF expenditures are personnel-related, unaddressed deficits will compromise payroll solvency and force deep workforce reductions across frontline regulatory teams.

Proposal*

The Arizona Corporation Commission requests that the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) adopt a coordinated, two-part FY27 budget supplemental and statutory alignment package to stabilize the Utility Regulation Revolving Fund (URRF):

- **Part 1: Emergency Mid-Year Legislative Reversal of the $3.0 Million Transfer:** Enact an emergency mid-year supplemental appropriation in the opening weeks of the legislative session to reverse the FY27 $3.0 million appropriation and cash transfer from the URRF to the Arizona Attorney General. Eliminating this transfer obligation restores dedicated utility-regulatory monies to their statutory purpose. According to the Commission's Sources and Uses projections, this single action restores the projected FY27 ending balance from a negative $23,300 deficit to a positive $2.98 million, carrying forward to transform the projected FY28 deficit from negative $2.77 million to an operational balance of positive $211,500. It stabilizes operating liquidity through FY28 without requiring a new General Fund appropriation or an increase in the utility assessment.

- **Part 2: Statutory Assessment Date Realignment (A.R.S. § 40-401):** Enact statutory budget reconciliation language amending A.R.S. § 40-401(D) to shift the annual assessment levy and issuance date from June 15th to July 1st. Moving this date anchors assessment billing and subsequent receipts entirely within the active state fiscal year. This eliminates the structural mismatch between calendar-year revenues and fiscal-year accounting in AZ360, preventing external forecasting models from misinterpreting June/July operating float as an unencumbered "surplus". To function effectively, the statute must formally preserve a baseline carry-forward operating reserve to cover July and August obligations prior to annual assessment deposits.

Alternatives considered*

Four principal alternatives were evaluated to address the projected structural deficit in the Utility Regulation Revolving Fund (URRF):

- **Increase Utility Assessments or Statutory Caps:** The Commission evaluated seeking legislative authority to amend A.R.S. § 40-401 to lift the statutory 0.20% (two-tenths of 1%) gross operating revenue ceiling. While this would theoretically permit the collection of additional funds from regulated utilities, it directly shifts external governmental costs onto utility customers, increasing household utility bills by roughly 12 cents per month per customer for every $1.0 million assessed and cascading across multiple electric, gas, and water accounts.
- **Impose Deeper Workforce Reductions and Freezes:** Operating costs in URRF are overwhelmingly fixed, with Personal Services and Employee-Related Expenditures (ERE) accounting for nearly 80% of authorized spending, alongside non-discretionary statewide charges for rent, risk management, and state IT services. Meaningful savings cannot be achieved through administrative overhead alone; closing the cash deficit through operational cuts would require freezing or eliminating frontline Administrative Law Judges (ALJs), financial analysts, rate accountants, engineers, and pipeline-safety personnel. This would compromise judicial capacity across the 40 pending utility rate dockets, exacerbate regulatory lag, and trigger costly utility carry-over surcharges passed on to ratepayers.
- **Shift Costs to Other Commission Funds:** Redirecting expenses to other agency funds, such as the Public Access Fund (PAF) or the Securities Regulatory and Enforcement Fund (SREF), was evaluated and determined to be legally impermissible. These funds support distinct constitutional and statutory mandates, are not interchangeable with the URRF, and cannot subsidize public utility oversight unless the specific underlying activity is legally eligible under statute.
- **Defer Technology, Operational Contracts, Training, and Equipment:** The Commission evaluated deferring software modernization, specialized rate-case audit contracts under the Audits and Studies appropriation, workforce training, and fleet support. Beyond providing negligible, one-time cash relief, deferring these items creates acute operational bottlenecks, elevates cybersecurity exposure, and impairs mandatory field safety inspections across pipeline and railroad corridors.

Reversing the $3.0 million appropriation to the Attorney General remains the only viable alternative that directly eliminates the transaction causing the structural cash deficit without raising utility customer rates, compromising core regulatory and safety programs, or requesting a new General Fund appropriation.

Impact of not funding this year*

Continued fund attrition threatens the Commission's ability to execute core constitutional and public-safety mandates:

- **Hearings Division & Administrative Law Judges (ALJs):** The Commission currently carries over 40 complex utility rate applications on its active docket. The issue is administrative and judicial capacity: without funding to recruit and retain ALJs, staff attorneys, and rate accountants, evidentiary hearings stall, ex parte separation is strained, and Recommended Opinions and Orders (ROOs) cannot be drafted.
- **Loss of Specialized Forensic Audits:** Under A.R.S. § 40-246, complex dockets require sophisticated cost-of-capital analyses, engineering audits, and rate-base verifications. Cash exhaustion restricts the Commission's

ability to engage independent third-party expert witnesses needed to counter multi-million-dollar utility filings, eroding the defensibility of the regulatory record.

- **Cascading Ratepayer Costs via Regulatory Lag:** Stalled procedural schedules do not generate consumer savings. Delays prolong interim balancing surcharges and allow capital financing carrying costs to accumulate. Under statutory cost-of-service ratemaking, utilities can recover financing and litigated defense costs and pass them directly to consumers in subsequent rate base reconciliations.
- **Regressive Rate Impacts:** Sweeping URRF cash forces higher assessments on remaining utility margins. Every $1.0 million diverted increases utility bills by roughly 12 cents per customer per month. For households served by separate regulated electric, natural gas, and water utilities, these assessments stack across three to four individual utility bills each month.
- **Pipeline Safety & Federal Compliance:** Continued travel and fleet restrictions threaten mandatory field safety inspection cycles across pipeline and railroad corridors, risking non-compliance with federal partnership agreements under PHMSA and the FRA.

Statutory reference

Arizona Constitution, Article XV; A.R.S. §§ 40-202 and 40-203 (Commission authority and regulation of public service corporations); A.R.S. § 40-401 (annual utility assessment calculation, limitation, and levy); A.R.S. § 40-401.01 (Residential Utility Consumer Office assessment and combined assessment limitation); A.R.S. § 40-408 (Utility Regulation Revolving Fund); and Laws 2026, Chapter 126, Section 13 (S.B. 1847), which appropriates $3,000,000 from the Utility Regulation Revolving Fund as a fund source for the Attorney General–Department of Law in FY 2026-2027.

Equipment to be purchased (if applicable)

Not applicable. The proposal does not request equipment or establish a new purchasing authority.

Classification of new positions

Not applicable. The proposal does not request new positions or increase the Commission's authorized FTE count. The restored URRF capacity would help preserve the Commission's ability to recruit, retain, and support authorized positions performing utility-regulatory work.

Annualization(s)

No annualization is requested. The proposal is a one-time legislative correction to the FY27 appropriation and corresponding cash-transfer requirement. The restored cash is projected to carry forward within URRF and support fund stability through FY28. Any longer-term changes to the utility assessment or Commission funding structure would be evaluated separately.

Alignment with agency's strategic plan or statutory responsibilities

The proposal directly preserves the institutional and administrative capacity required for the Commission to exercise its constitutional authority over public service corporations under Article XV of the Arizona Constitution and fulfill its statutory safety mandates under A.R.S. Title 40. Dedicated URRF assessment revenues are statutorily restricted under A.R.S. § 40-401 to fund utility oversight, administrative hearings, and statutory pass-throughs to the Residential Utility Consumer Office (RUCO). Sustaining adequate URRF liquidity ensures the Commission can:

- **Maintain Quasi-Judicial Integrity:** Support Administrative Law Judges (ALJs), staff attorneys, and specialized rate accountants within the Hearing and Utilities Divisions to conduct formal evidentiary hearings, protect ex parte separation, and issue timely Recommended Opinions and Orders (ROOs).
- **Ensure Robust Technical & Forensic Auditing:** Retain expert testimony and forensic accounting capabilities under A.R.S. § 40-246, preventing utility filings from proceeding without rigorous, independent examination.

- **Fulfill Mandatory Safety Partnerships:** Maintain field inspection quotas and certifications across statewide natural gas pipelines and hazardous liquid systems under federal partnership agreements with the Pipeline and Hazardous Materials Safety Administration (PHMSA).

Reversing the $3.0 million transfer restores fundamental statutory alignment by ensuring fees levied on regulated utilities remain dedicated exclusively to constitutional utility regulation and public safety rather than non-statutory external programs.

Impact on historically underserved, marginalized, or adversely affected groups*

Low-income households, fixed-income seniors, rural and tribal communities, and small commercial customers are uniquely vulnerable to utility rate spikes, service disruptions, and regulatory cost shifts:

- **Preventing Compounding, Regressive Bill Surcharges:** Forcing the Commission to absorb external budget sweeps by levying higher utility assessments functions as a regressive monthly tax. Every $1.0 million diverted increases utility bills by roughly 12 cents per month per customer. In communities where households receive service from separate electric, gas, and water utilities, these assessments stack across three to four individual statements each month, creating an acute financial burden for families living paycheck to paycheck.
- **Safeguarding Extreme-Heat Reliability & Life Safety:** For vulnerable and medically fragile residents, reliable electric service during extreme summer demand is a matter of basic life safety. Regulatory delays in reviewing utility grid infrastructure and capital dockets elevate system reliability risks during peak heat events.
- **Protecting Public Participation & Consumer Representation:** Residential and small commercial ratepayers lack the specialized financial and legal resources available to large utilities. Maintaining internal Commission technical staff and preserving timely pass-through funding to RUCO guarantees that consumer affordability, rate design fairness, and small-water infrastructure challenges (such as Class D and E systems in rural Arizona) receive thorough, independent scrutiny.

How has feedback been incorporated from groups directly impacted by proposal*

This proposal directly incorporates operational data, statutory timelines, and recurring stakeholder feedback gathered across active administrative and public dockets:

- **Operational & Division Leadership:** The proposal was shaped by detailed workload assessments across the Utilities, Hearing, Safety, and Administrative Services Divisions, incorporating AZ360 cash-flow models, vacancy rates across 24 authorized FTEs, and federal grant compliance schedules (PHMSA and FRA).
- **Consumer & Ratepayer Priorities:** Public comment in ongoing rate proceedings consistently highlights opposition to escalating utility bills, hidden balancing surcharges, and service reliability concerns. This proposal directly addresses ratepayer input by resolving the cash deficit without raising the utility assessment rate or passing regulatory carrying costs to consumers.
- **Regulated Utilities & Commercial Stakeholders:** Regulated utilities and business consumers require predictable procedural schedules, timely financing authorizations, and regulatory certainty to plan capital investments and maintain system reliability. Eliminating the docket backlog and preserving judicial staffing prevents the multi-month continuances and procedural lag that drive up external litigation expenses.
- **Legislative & Budget Oversight:** Feedback from discussions with JLBC and OSPB analysts highlighted the need to clearly delineate the calendar-year assessment intake cycle from state fiscal-year operations, demonstrating why an apparent June cash balance is committed operating float rather than unencumbered surplus.

The proposal remains subject to public evaluation and formal action during Commission open meetings and subsequent legislative appropriations hearings.

Description of how this furthers the Governor's priorities

This proposal directly advances the Governor’s core executive priorities—lowering household costs, safeguarding critical infrastructure and public safety, ensuring economic competitiveness, and practicing responsible fiscal stewardship:

- **Protecting Household Affordability & Preventing Regressive Cost Shifts:** The Governor has established consumer affordability and utility bill relief as signature administration priorities (including the *Power AZ* affordability initiative). Reversing the $3.0 million cash transfer prevents an artificial, regressive increase in utility bills. Shifting general-government expenses onto public utility assessments directly inflates customer statements by approximately 12 cents per month per customer for every $1.0 million assessed. For Arizona households served by separate regulated electric, natural gas, and water utilities, unaddressed sweeps force these surcharges to stack across three to four individual utility bills each month, disproportionately burdening working families living paycheck to paycheck.
- **Preserving Reliable Infrastructure & Extreme-Heat Resilience:** Ensuring energy reliability during extreme summer demand is a matter of basic public health and life safety across Arizona. Over 40 major utility rate filings and capital infrastructure dockets are currently before the Commission. Retaining judicial and engineering capacity prevents procedural gridlock and regulatory lag, which otherwise allows utility financing carrying costs and temporary surcharges to compound before being transferred directly to ratepayers.
- **Maintaining Mandated Public Safety Oversight:** Restoring operational liquidity ensures the Safety Division can sustain federally certified inspection quotas under PHMSA and FRA partnership agreements. Adequate funding guarantees field mobility and specialized staff presence to oversee expanding critical infrastructure corridors, from municipal gas networks and state prison utility rebuilds to interstate railroad crossings.
- **Fostering Economic Competitiveness:** Predictable, transparent utility regulation gives businesses, employers, and capital investors the certainty required to locate and expand in Arizona. Timely administrative orders ensure infrastructure modernizations proceed without prolonged litigation or regulatory paralysis.
- **Responsible, Transparent Government:** The proposal upholds sound fiscal principles by properly realigning an existing dedicated fee structure with its statutory utility-regulatory purpose under A.R.S. § 40-401. It completely resolves the structural deficit without requesting a new General Fund appropriation or burdening Arizona taxpayers.

If requesting GF, why is it critical to continued operations? *

Not applicable. No General Fund appropriation is requested. The proposal reverses an FY27 appropriation from URRF and eliminates the corresponding $3 million cash-transfer requirement.

If requesting GF, why can't existing funding fully or partially meet the need?*

Not applicable. Existing URRF revenues are sufficient to maintain a projected positive balance through FY28 if the appropriation and transfer requirement are reversed.

If requesting GF, why can't other funds fully or partially meet the need?

Not applicable. Other Commission funds support separate statutory purposes and are not interchangeable with URRF. Redirecting them would shift the shortfall to other required Commission programs rather than resolve it.

Sources and Uses

Adjusted with Supplimental Results

Agency: **Corporation Commission**

Fund: **CC2172** **Utility Regulation Revolving Fund**

Revenues consist of annual assessments against public utilities regulated by the Commission. Funds are used to conduct research and analysis to the elected commissioners on all matters relating to the regulation of public service corporations.

Cash Flow Summary

	FY 2026 Actuals	FY 2027 Estimate	FY 2028 Request
Beginning Balance	18,594.5	3,816.1	2,976.7 ~~(23.3)~~
Revenue (from Revenue Schedule)	9,912.1	23,776.8	21,000.0
Total Available	**28,506.6**	**27,592.9**	**20,976.7**
Total Appropriated Disbursements	24,690.5	~~27,616.2~~ 24,616.2	23,741.9
Total Non-Appropriated Disbursements	-	-	-
Balance Forward to Next Year	3,816.1	~~(23.3)~~ 2,976.7	~~(2,765.2)~~ 211.5

Explanation for Negative Ending Balance(s):

**See FY2027 URRF Stablization Plan

Pursuant to A.R.S. § 40-401.01, the annual utility assessment is subject to a statutory maximum assessment rate, which limits the amount of revenue the Commission can generate through the assessment. The FY 2027 assessment was calculated at the maximum allowable rate; however, available revenues are insufficient to fully support authorized expenditures and transfers, including the $3 million legislative fund transfer to the Attorney General's Office required by SB 1847. As a result, the current Sources and Uses report reflects a projected negative ending fund balance for FY 2027.

The projected FY 2027 balance includes cash carried forward from indirect cost recovery associated with the Commission's calendar-year 2025 Pipeline Safety federal grants. The related indirect cost recovery was received in FY 2026 and increased the fund balance carried into FY 2027, reducing the projected shortfall. Federal grant awards and associated indirect cost recoveries are dependent upon funding made available by the U.S. Department of Transportation and the amount ultimately awarded to the Commission. Because these amounts are not guaranteed and cannot be reliably forecasted, indirect cost recovery should not be considered an ongoing revenue source available to address future fund imbalances. Without this additional funding, the projected FY 2027 shortfall would be significantly larger.

Appropriated Expenditure

Expenditure Categories	FY 2026 Actuals	FY 2027 Estimate	FY 2028 Request
Personal Services	11,237.8	11,690.6	13,440.2
Employee Related Expenditures	4,484.5	4,676.4	5,284.1
Professional & Outside Services	938.3	1,273.4	1,273.4

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Sources and Uses

Agency:	**Corporation Commission**			
Fund:	**CC2172 Utility Regulation Revolving Fund**			
Travel In-State	635.1	505.5	505.5	
Travel Out-Of-State	140.6	235.0	235.0	
Food	-	-	-	
Aid To Organizations & Individuals	-	-	-	
Other Operating Expenditures	2,566.3	2,672.6	2,672.6	
Equipment	-	-	-	
Capital Outlay	-	-	-	
Capital Equipment	23.8	-	-	
Non-Capital Equipment	108.8	-	-	
Debt Service	-	-	-	
Cost Allocation & Indirect Costs	-	-	-	
Transfers-Out	0.3	331.1	331.1	
Appropriated Expenditure Sub-Total:	**20,135.5**	**21,384.6**	**23,741.9**	
Non-Lapsing Authority from Prior Years	-	-	-	
Administrative Adjustments	1,155.0	3,231.6	-	$2.7M in current SLI contract obligations
Capital Projects (Land, Bldgs, Improv)	-	-	-	
Appropriated 27th Pay Roll	-	-	-	
Legislative Fund Transfers	3,400.0	~~3,000.0~~	-	
IT Project Transfers	-	-	-	
Proposed Fund Transfer	-	-	-	
Residual Equity Transfer	-	-	-	
Transfer Due to Fund Balance Cap	-	-	-	
Prior Committed or Obligated Expenditures (no entry for AY)	-	-	-	
Non-Appropriated 27th Pay Roll	-	-	-	
Appropriated Expenditure Total:	24,690.5	24,616.2 ~~27,616.2~~	23,741.9	
Appropriated FTE	134.2	131.0	131.0	

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Sources and Uses

Agency: Corporation Commission

Fund: CC2172 Utility Regulation Revolving Fund

Non-Appropriated Expenditure

Expenditure Categories	FY 2026 Actuals	FY 2027 Estimate	FY 2028 Request
Personal Services	-	-	-
Employee Related Expenditures	-	-	-
Professional & Outside Services	-	-	-
Travel In-State	-	-	-
Travel Out-Of-State	-	-	-
Food	-	-	-
Aid To Organizations & Individuals	-	-	-
Other Operating Expenditures	-	-	-
Equipment	-	-	-
Capital Outlay	-	-	-
Capital Equipment	-	-	-
Non-Capital Equipment	-	-	-
Debt Service	-	-	-
Cost Allocation & Indirect Costs	-	-	-
Transfers-Out	-	-	-
Non-Appropriated Expenditure Sub-Total:	-	-	-
Non-Lapsing Authority from Prior Years	-	-	-
Administrative Adjustments	-	-	-
Capital Projects (Land, Bldgs, Improv)	-	-	-
Appropriated 27th Pay Roll	-	-	-
Legislative Fund Transfers	-	-	-
IT Project Transfers	-	-	-
Proposed Fund Transfer	-	-	-
Residual Equity Transfer	-	-	-
Transfer Due to Fund Balance Cap	-	-	-
Prior Committed or Obligated Expenditures (no entry for AY)	-	-	-
Non-Appropriated 27th Pay Roll	-	-	-
Non-Appropriated Expenditure Total:	-	-	-
Non-Appropriated FTE	-	-	-