STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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TIMOTHY S. BEE
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HOUSE OF REPRESENTATIVES

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, February 28, 2006
8:00 a.m. and 3:30 p.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of December 20, 2005.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. STATE DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.

2. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Initial Telecommunications Contractor and Carrier Cost Rate Structure.

3. DEPARTMENT OF ECONOMIC SECURITY - Review of Options for Case Management Privatization in Child Protective Services.

4. ATTORNEY GENERAL
   A. Review of Intended Use of Monies in the Antitrust Enforcement Revolving Fund.
   B. Review of Allocation of Settlement Monies.

5. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

6. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Report.

7. ARIZONA BOARD OF REGENTS - Review of Progress Report on Phoenix Medical Campus and Report on Strategies to Prevent a State Doctor Storage.

8. ARIZONA DEPARTMENT OF EDUCATION - Review of Full Day Kindergarten Research.

The Chairman reserves the right to set the order of the agenda.
02/21/06

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 20, 2005

The Chairman called the meeting to order at 10:25 a.m., Tuesday, December 20, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Garcia
	Representative Burton Cahill	Senator Martin
	Representative Lopez	Senator Waring
	Representative Tully	
Absent:	Representative Boone	Senator Arzberger
	Representative Gorman	Senator Bee
	Representative Huffman	Senator Cannell
		Senator Harper

APPROVAL OF MINUTES

<u>Representative Pearce moved</u> that the Committee approve the minutes of November 29, 2005. The motion carried.

AHCCCS - Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

Mr. Richard Stavneak, Director, JLBC Staff, said these adjustments to the capitation rate total $70,000 in terms of what it would add over and above the FY 2007 budget. The JLBC Staff recommends a favorable review of these adjustments.

<u>Senator Burns moved</u> that the Committee give a favorable review as recommended by the JLBC Staff to the AHCCCS request for capitation rate changes to the Comprehensive Medical and Dental Program. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES)

A. Review of Long Term Care Capitation Rate Changes.

Mr. Richard Stavneak said they are adjusting the capitation rates for 2 reasons. Earlier in the year the Committee reviewed a proposal by DES who adjusted the provider rates for the Developmentally Disabled providers. The Committee actually looked at their expenditure plan and not the adjustment to the per-member per-month rate. The second adjustment has to do with the Medicare Prescription Drug Program. Under the federal program, as seniors are being given a chance to have their prescription drugs paid for by Medicare, there is a proportion of the long-term care population in DES who will be able to avail themselves of that same advantage. They are shifting the cost of the drug program to the Medicare program at the federal level where they will all be paid for by the federal government. That will allow them to reduce their capitation rates. A certain amount of that will be recaptured by the federal government. Technically what this item does is make the adjustment in the capitation rates for these 2 reasons: 1) the $13 million in additional funding that the Legislature approved in provider adjustments and 2) the new Medicare Prescription Drug Program. He said he views this as technical adjustments to the capitation rates.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the DES request for Long Term Care capitation rate changes. The motion carried.

B. Review of FY 2006 Expenditure Plan for Workforce Investment Act (WIA)Monies.

Mr. Eric Jorgensen, JLBC Staff, said this is a review of Workforce Investment Act monies. These are federal monies but by federal law are required to be appropriated by the Legislature. For FY 2006, the Legislature has appropriated $3.6 million and to date, the Committee has reviewed $2.3 million of that appropriation. The program today is a recommendation from the Governor's Council on Workforce Policy to fund the Pima Council on Aging for the Mature Worker Connection program at $77,000. That is half the total funding for that program. The JLBC Staff recommends a favorable review of this item. The JLBC Staff also recommends that DES, in conjunction with the Department of Commerce, provide a written explanation for their failure to provide performance measure information as requested for FY 2005 expenditures.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the expenditure plan for Workforce Investment Act monies. The motion carried.

AHCCCS – Review of Capitation Rate Changes for the Medicare Clawback Payment.

Mr. Russell Frandsen, JLBC Staff, said that AHCCCS is proposing its expenditure plan for the Medicare Clawback payment and this impacts the capitation rate. Effective January 1, 2006, the federal government will implement a new federal program. This results in savings to the state, however, the federal government will require the state to pay back most of these savings in what is called a "Clawback" payment. The total program savings is $26 million and the Clawback payment is $19.6 million, leaving $6.5 million for savings to the state. These savings take place in the Acute Care program and the Long Term Care (ALTCS) program. Within the ALTCS program the current distribution of the cost for FY 2006 between the state and counties is approximately 2 county dollars for every 1 state dollar. New money goes into the program at 50/50, 1 state dollar for every county dollar. A handout was used to show the distribution of drug program savings and Clawback payments (Attachment A). The ratios are county dollars to state dollars.

Senator Burns moved that the Committee give a favorable review of AHCCCS' capitation rate adjustment for Medicare Clawback payment, but defer consideration of the expenditure plan for the Medicare Clawback payment in the AHCCCS Long Term Care budget. The motion carried.

EXECUTIVE SESSION

Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 10:35 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 10:50 p.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the cases of:

1. *State vs. Northland Insurance*
2. *Brar vs. Arizona Board of Regents*

The motion carried.

Chairman Pearce adjourned the meeting at 10:53 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
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http://www.azleg.gov/jlbc.htm

DATE: February 21, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Kevin Bates, Fiscal Analyst KB

SUBJECT: Arizona Department of Corrections – Consider Approval of Requested Transfer of Appropriations

Request

Laws 2005, Chapter 286 requires that any transfer to or from the amounts appropriated for the Overtime/Compensatory Time or Private Prison Per Diem Special Line Items shall require review by the Joint Legislative Budget Committee.

The Arizona Department of Corrections (ADC) requests Committee approval to a) transfer $12 million from Personal Services and Employee Related Expenditures (ERE) to the Overtime/Compensatory Time Special Line Item to pay for higher-than-expected overtime and compensatory time expenses and b) to transfer $18.4 million from the Private Prison Per Diem Special Line Item to the All Other Operating Expenditures line item of the operating budget to pay for higher-than-expected inmate levels at out-of-state provisional beds.

Recommendation

JLBC Staff recommends that the Committee approve the $12 million Overtime/Compensatory Time transfer and $15.4 million of the $18.4 million Provisional Bed transfer. The request generally aligns the appropriation with the current spending pattern. Prior to considering any further requests, the JLBC Staff recommends:

1. The department submit monthly year-to-date expenditures for Personal Services, ERE and overtime and compensatory time, as well as monthly projections for the remainder of the fiscal year. The submission shall separately delineate overtime from compensatory time and split compensatory time payments between FY 2005 lump sum payments and FY 2006 payments. Some of this information was already requested in a January 31, 2006 letter to the department. This additional information would be submitted by March 3, 2006.

(Continued)

2. The department shall submit requests for transfers from Personal Services and ERE with the amount of each item separately delineated.

The recommended transfers would be as follows:

Overtime/Compensatory Time Transfer			
Transfer From:		Transfer To:	
Personal Services	$10,117,190	Overtime/Compensatory Time	$12,000,000
Employee Related Expenditures	1,882,810		
Total	$12,000,000	Total	$12,000,000
Private Prison Per Diem Transfer			
Transfer From:		Transfer To:	
Private Prison Per Diem	$15,400,000	All Other Operating Expenditures	$15,400,000
Total	$15,400,000	Total	$15,400,000

Analysis

Overtime/Compensatory Time Transfer

ADC requests the transfer of $12 million from Personal Services and ERE to the Overtime/Compensatory Time Special Line Item (SLI) to pay for increases in accrued overtime and compensatory time expenses resulting from increased employee vacancies. The department reports that $11 million had been expended for overtime and that $6 million in compensatory time had been accrued as of December 2, 2005. The department predicts that overtime and compensatory time costs could reach $37 million in FY 2006, exceeding the $18.3 million appropriated. With the $12 million transfer, the department will have $30.3 million available for overtime and compensatory time expenses. ADC also plans to request another transfer later in FY 2006 to cover the predicted overtime and compensatory time costs. The department did not provide information regarding how the $12 million requested transfer was split between Personal Services and ERE. As a result, JLBC Staff prorated the amount between Personal Services and ERE.

ADC reported that the monies in the Overtime/Compensatory Time Special Line Item would be depleted by February 10, 2006. In a February 2, 2006 letter to JLBC, ADC reported that the Governor's Office of Strategic Planning and Budgeting (OSPB) would ask the Arizona Department of Administration (ADOA) to temporarily cover ADC's overtime expenses with monies from the department's Personal Services appropriation. OSPB's instructions also stipulated that ADOA will adjust its internal accounting to reflect to the transfer following JLBC review.

ADC reported the transfer was made prior to Committee review because a JLBC meeting was not convened in time before the department's special line item appropriation was exhausted.

ADC reports that the doubling of the overtime and compensatory time need is a result of several factors, but the department attributes most of the additional requirement to the increased level of correctional officer vacancy rate. According to the department's January 16, 2006 weekly officer vacancy report, 21.2% of authorized positions were unfilled. The department expects this trend to increase throughout FY 2006 as officers continue to leave the department faster than the department can hire them.

Other reasons that overtime and compensatory time costs increased, according to ADC, included:

- The FY 2006 salary increase of $1,410 for correctional employees in turn increased the level of overtime pay, which is one and one-half times the employee's regular pay

(Continued)

- Costs incurred by ADC employees assisting in Hurricane Katrina relief
- Extra hours required because of power outages at 5 prison complexes in July and August 2005
- The implementation of a Blue Ribbon Panel recommendation that had sergeants remain in supervisory roles rather than filling unstaffed posts, which required other officers to work overtime

Provisional Bed Transfer
The department requests the transfer of $18,400,000 from the Private Prison Per Diem SLI to the All Other Operating Expenditures line item of the operating budget to pay for costs accrued by housing more inmates than previously expected at out-of-state provisional beds.

The FY 2006 budget anticipated a reduction of 888 privately-operated provisional beds and an increase of 1,000 privately-operated beds, for a net increase of 112 beds. These bed changes were not implemented, in part, as a result of the unforeseen cancellation of a 645-bed contract with a privately-operated facility in Newton County, Texas.

As a result of not implementing the original FY 2006 bed plan, the department has generated savings of $4.5 million from the cancelled Newton County contract and $11.7 million from not opening 1,000 private beds, for a total savings of $16.2 million. The department estimates that these private beds will open in December 2006.

By not eliminating 888 provisional beds in the FY 2006 bed plan, the department now requires additional monies for the beds. JLBC Staff estimates the cost of these beds to be $15.4 million, as opposed to the $18.4 million requested by the department.

The transfer of $15.4 million to the operating budget for provisional beds would provide a total of $36.2 million for 2,064 provisional beds and leave $58.7 million in the Private Prison Per Diem SLI for 3,745 private beds in FY 2006.

RS/KB:ss

Arizona Department of Corrections

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007

JANET NAPOLITANO
GOVERNOR

DORA B. SCHRIRO
DIRECTOR

December 21, 2005

The Honorable Russell Pearce
Chair, Joint Legislative Budget Committee
Arizona Legislature
1700 West Washington
Phoenix, Arizona 85007

Dear Mr. Chair:

The purpose of this letter is to request placement on the agenda of the next meeting of the Joint Legislative Budget Committee to consider a transfer between the Personal Services and Employee Related Expenditures Appropriations and the Compensatory Time/Overtime Appropriation and to review a transfer between the Private Prison Per Diem Appropriation and the All Other Operating Appropriation.

Overtime/Compensatory Time Appropriation Shortfall

The Department's vacancy rate climbed from 11.5 percent to 18.6 percent during FY 2005, reaching 19.35 percent at the end of November 2005. The marked increase in correctional officer vacancies and the time it now takes to fill those vacancies has resulted in a significant accrual of overtime and compensatory time, outstripping previous projections. Year to date, $11 million has been expended for overtime and $6 million has accrued in compensatory time liability through December 2, 2005. At this time it appears that overtime and compensatory time may reach $37 million including Employee Related Expenditures during FY 2006, exceeding the $18,227,700 in this year's Overtime/Compensatory Time appropriation. Accordingly ADC requests approval to transfer $12 million into the Overtime/Compensatory Time appropriation from the Personal Services and Employee Related Expenditures appropriations. ADC currently plans on making at least one additional line item transfer request later this fiscal year to ensure sufficient funding is available in the compensatory/overtime line item appropriation to cover anticipated overtime expenditures.

Private Prison Payments Shortfall

The department is keeping more inmates in more provision beds in Watonga, Oklahoma and Pecos, Texas than planned because of the unforeseen cancellation of the Newton, Texas contract by the vendor, creating a shortage in the All Other Operating Expenses appropriation.

Currently, the Private Prison Per Diem line includes funding for private prison beds in Newton, Texas as well as private prison beds in five facilities in Arizona – Marana, Kingman, Phoenix West, Florence West, and the new 1,000 bed level-3 facility in Florence previously expected to open in December 2005. Funding for provisional out-of-state private prison beds in Watonga, Oklahoma and Pecos, Texas and in-state at the Coconino and Navajo County Jails is provided in the Professional and Outside Services line of the All Other Operating Expenses appropriation for the Department.

As of December 6, 2005, approximately $17 million had been expended for private prison beds from the Private Prison Per Diem appropriation and approximately $600 thousand from the All Other Operating Expenses appropriation for contract county jail beds. Federal VOI/TIS funds have been used to offset $15.6 million of expenses that would have otherwise been paid by the All Other Operating appropriation.

To ensure the department is able to continue to pay for provisional out-of-state beds, the agency requires a transfer before February 2006 and requests JLBC to review an $18.4 million transfer from the Private Prison Per Diem appropriation to the All Other Operating Expense appropriation.

Thank you for your consideration of these two matters.

Sincerely yours,

Dora Schriro

Dora Schriro
Director

cc: Gary Yaquinto, Director, Governor's Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee

- The department was required to pay an unfunded increase, including the ($3,100,000) from FY 2004, to employee health and dental insurance of ($7,656,000).

How the Shortages Were Covered

- Compensatory Time Pay – The FY 2004 compensatory time balance was paid in October 2004 from the FY 2005 Appropriation. The department later received a supplemental to cover these expenses.
- Health Care – The department utilized all available funding including inmate health services vacancy savings and a one-time balance of $2,600,000 from non-appropriated funds to offset the deficit.

FY 2006

Shortages

- A compensatory time balance from FY 2005 of ($7.0 million) carried over into FY 2006.
- The $88,125,400 health services portion of the FY 2006 appropriation is ($26.6 million) less than the projected expenditures of $114,775,400.
- The appropriation also left the health and dental insurance premium funding ($4,436,100) short. JLBC attempted to correct this problem by shifting that much from the rest of the department's base budget to the ERE line. While this provided enough in the ERE line to pay the insurance premiums, it shorted the rest of the budget.
- The vacancy rate increased markedly during FY 2005 from 11.5% in July 2004 to 18.6% in June 2005. This increase in vacancies and the time to backfill them resulted in more critical posts being covered by staff working overtime. The current FY 2006 overtime/compensatory time projections is $37,000,000, double the amount spent in FY 2005.

How the Shortages Were Covered

- The department continues to implement efficiencies in the area of inmate health services to offset the increasing cost of health care as much as possible. See attachment 2 for a detailed listing.
- The department implemented 12-hour shifts at ASPC-Lewis and Winslow.
- The department instituted paid overtime to enhance staff retention efforts and to reduce dollars spent recruiting and training new staff.

Janet Napolitano
Governor

GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING
1700 West Washington, Suite 500, Phoenix, Arizona 85007
(602) 542-5381 • FAX: (602) 542-0868

Gary Yaquinto
Director

February 2, 2006

The Honorable Robert L. Burns
Chair, Joint Legislative Budget Committee
Arizona Legislature
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

As part of the FY 2006 modified lump-sum appropriation for the Department of Corrections, $18.2 million was moved from personal services to a new special line for overtime pay.

Due to very high vacancy rates, the Department is experiencing overtime costs every two weeks of about $1.4 million. At that rate, the appropriation in the overtime special line will be depleted by February 10, 2006.

In December, the Department requested that the a transfer of $12 million from personal services to the overtime special line be considered by the Joint Legislative Budget Committee in a January 2006 meeting. However, we have been advised that the tentative date for the next JLBC meeting is February 28, 2006.

In an effort to maintain prison operations between February 10th and the time when the Committee can consider the transfer request, OSPB plans to ask the Department of Administration to temporarily cover overtime expenses with monies from the Department of Corrections' personal services appropriation.

The instructions to the Department of Administration will also stipulate that after the Committee considers the transfer, DOA is to adjust the accounting of those overtime expenditures to align with the Committee's actions.

The cost of overtime during the 18-day period in February is estimated at $1.8 million.

Our intention with this action is to simply cover expenses until the Committee can consider the transfer.

If you have questions, please contact Bill Greeney at 542-5822.

Sincerely,

Gary Yaquinto
Director

c: Honorable Russell K. Pearce
Richard Stavneak, JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: February 21, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Shelli Carol, Fiscal Analyst SC

SUBJECT: Arizona Department of Administration – Review of Initial Telecommunications Contractor and Carrier Cost Rate Structure

Request

The Arizona Department of Administration (ADOA) requests Committee review of the initial contractor and carrier cost rate structure of the Statewide Telecommunications Management Contract, as required by A.R.S. § 41-712, amended in Laws 2005, Chapter 301.

Laws 2003, Chapter 263 required ADOA to contract for the privatization of the state's telecommunication services. ADOA signed the Statewide Telecommunications Management Contract in January 2005. A.R.S. § 41-712 requires all Executive agencies to participate in the new Arizona Network (AZNet).

ADOA is recommending a rate structure that would increase the state's overall telecommunications budget in FY 2007 by $16.8 million from all funds, including $10 million from the General Fund, over FY 2005.

Recommendation

The Committee has, at least, the following 3 options. With any of these options, the JLBC Staff recommends amending statute to require an annual rate structure report from ADOA to facilitate the budgeting process.

1) A favorable review of the rate structure. Unless the Legislature requires agencies to absorb the cost increases, this option would add $10 million from the General Fund to the FY 2007 JLBC baseline budget.

2) A deferred review, until the Legislature finalizes its budget decisions.

(Continued)

3) A favorable review, with the Committee recommendation that the full Legislature implement any or all of the following cost saving measures:

   a. Do not pay off the 5-year lease that funded the transition to AZNet in FY 2007; rather than a General Fund cost of $3.6 million in FY 2007, ADOA would pay around $850,000 annually, or $4.3 million from the General Fund over 5 years.
   b. Do not expand the staff or budget of the ADOA Telecommunications Program Office (TPO), which manages the statewide contract, reducing charges to agencies by approximately $0.6 million from the General Fund and $0.7 million from all other funds.
   c. Do not create a General Fund reserve of $0.9 million, proposed to reconcile any discrepancies in the ADOA estimates.

Analysis

Originally, ADOA reported the Statewide Telecommunications Management Contract would cost the state approximately $179 million over a 5-year term. The agency anticipated that the state might also spend $36 million for associated upgrades and service requests over the 5 years. ADOA further believed the state might avoid up to $9.7 million of telecommunications cost increases during that period.

However, as TPO began implementing individual department transitions to AZNet, the office discovered that total state spending on telecommunication services in FY 2005 was $35.2 million, or $4.6 million below that for FY 2004, the year on which the Statewide Telecommunications Management Contract based its pricing. General Fund spending declined by $(0.8) million, while all other statewide telecommunications spending declined by $(3.9) million between FY 2004 and FY 2005. Part of the discrepancy was due to the limitations of the original spending estimates.

In FY 2006, ADOA originally estimated that total statewide telecommunication costs would rise to $42.9 million. To prevent substantial cost increases to any agency for FY 2006, the primary contractor and TPO put short-term redistributions in place. TPO also negotiated changes to the Statewide Telecommunications Management Contract that:

- Reduced the cost of internet-based telephone service to match that of regular telephone service under the contract.
- Provided some free dial-tone only phone service just in FY 2006.
- Allowed financing for the $3.5 million transition to AZNet through a 5-year, 5.5% lease.
- Increased the term of the contract from 5 to 7 years.
- Delayed upgrade of the state's core network infrastructure by 6 months, without reducing the scope of the upgrade.

Therefore, as compared to earlier estimates, ADOA now reports the Statewide Telecommunications Management Contract will cost the state approximately $172 million over the first 5 years of its term. The agency anticipates that the state might also spend $52 million for associated upgrades and service requests, including the transition itself, over 5 years. ADOA also believes that the state now faces similar telecommunications cost increases to those existing prior to the contract, although the increases will fund telecommunications infrastructure improvements under the contract.

The table on the following page summarizes the entire ADOA proposal for FY 2007, using FY 2005 as a baseline. The proposal calls for a $16.8 million budget increase, including $10 million from the General Fund and $4.3 million from other appropriated funds.

(Continued)

AZNet Rate Structure Summary FY 2005 to FY 2007 Comparison ($ in thousands)			
	FY 2005	**FY 2007**	**Increase**
Operations / Contract Costs	$11,760.5	$26,037.8	$14,277.3
Carrier Charges	20,836.9	17,670.9	(3,166.0)
Lease Repayment	-	3,578.9	3,578.9
ADOA Administration	2,588.1	3,824.1	1,236.0
Reserve	-	895.6	895.6
Total	**$35,185.5**	**$52,007.3**	**$16,821.8**
Fund Sources			
General Fund	$12,014.5	$22,014.5	$10,000.0
Other Appropriated Funds	16,058.9	20,351.8	4,292.9
Non-Appropriated Funds	7,112.1	9,641.0	2,528.9
Total	**$35,185.5**	**$52,007.3**	**$16,821.8**

Options

If the Committee chooses to propose cost saving measures, it has several options. ADOA delayed certain costs of the transition to the contract through a 5-year lease. ADOA is requesting a one-time appropriation of $3.6 million from the General Fund to repay the lease immediately. Since all funds benefited from the lease, it is unclear why the General Fund should bear the full expense of its repayment. If paid over 5 years instead, the lease would cost $850,000 annually, reducing the FY 2007 General Fund cost impact by $2.7 million. However, over the term of the lease, the state would pay an additional $0.7 million in interest charges.

Furthermore, in calculating the rate structure above, ADOA has assumed growth of $1.3 million in the FY 2007 TPO budget. To the extent that the TPO budget does not include these changes, it would somewhat reduce administrative charges to individual agencies. ADOA seeks $0.7 million to provide the contractor with space, equipment, and supplies, as required by the Statewide Telecommunications Management Contract. The agency admits that it neglected to include these requirements in its original budget request for the TPO in FY 2006.

Additionally, in response to a recommendation by the Auditor General for greater scrutiny over the primary contractor's information technology inventory across state agencies, ADOA wishes to add 3 inventory and engineering auditors at a cost of $0.3 million. This expense would be in addition to the $0.4 million already in the TPO base budget for professional and outside services. Lastly, ADOA requests $0.3 million to shift funding for 3 help desk operators from the ADOA data center to TPO, to match the distribution of call volumes. Currently, the large agencies that utilize the ADOA data center are bearing this cost.

Finally, ADOA requests a reserve of $0.9 million from the General Fund, which the Committee could recommend against creating. It is unclear why ADOA believes the General Fund should bear all the expense of inconsistencies between the estimates of the proposed rate structure and actual bills. ADOA has expressed its willingness for such an appropriation to include a reversion clause, in case part of the reserve remains unused.

RS/SC:ss

Janet Napolitano
Governor

William Bell
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 North 15th Avenue • ROOM 401
PHOENIX, ARIZONA 85007

(602) 542-1500

February 14, 2006

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Burns:

Pursuant to Laws 2005, Chapter 301, the Arizona Department of Administration is submitting its contractor and carrier costs rate structure by agency and fund type for review by the Joint Legislative Budget Committee (JLBC). We also are submitting new revisions to per-seat rates from the management contractor.

In a letter, dated October 3, 2005, JLBC Director, Richard Stavneak, provided guidance for the format of this submission and asked that it be provided by February 15, 2006. The following items are enclosed by summary tables and individual agency detail, in accordance to his guidance, for FY 2004, FY 2005, Estimated FY 2006, and Estimated FY 2007.

- Telecommunications expenditures shown by different operational costs requested.
- Funding sources for the telecommunication expenditures in the three categories requested (General Fund, Other Appropriated Funds, and Non-Appropriated Funds).

We projected the fiscal impact of the telecommunication outsourcing contract in an earlier document dated September 2005. That document, which was provided to the JLBC staff and is attached for your convenience, estimated a General Fund impact of $10,082,986. Our revised estimate shows a General Fund impact of $9,104,358, which is $978,628 less than originally reported.

Please call me at 602-542-1500 or Michael Totherow, Telecommunications Program Office Director at 602-542-2888, if you have any questions or need additional information.

The Honorable Robert Burns
February 14, 2006
Page Two

We appreciate your support and consideration in appropriating the requested funding.

Sincerely,

William Bell
Director

CC: The Honorable Russell Pearce, Vice-Chairman
Joint Legislative Budget Committee
1700 W. Washington
Phoenix, Arizona 85007

Summary All AZNet Agencies - Total Costs Original and Revised Estimates

All AZNet State Agencies	FY 2004 Est. Actual	FY 2005* Original Est.	FY 2005 Revised Est.	FY 2006* Original Est.	FY 2006 Revised Est.	FY 2007* Original Est.	FY 2007 Revised Est.	Difference Revised FY07/FY05
Expenditure Category:								
Personnel Expenses	$4,262,656	$2,588,112	$2,588,112	$790,485	$862,183	$0	$0	($2,588,112)
Carrier Charges	21,871,746	22,084,176	20,836,901	22,448,601	20,836,909	23,342,657	20,836,909	8
WAN/Voice Maintenance Contracts	1,858,798	1,516,315	1,653,393	449,080	725,281	0	0	(1,653,393)
Operations - ATS or Before Transition to AZNet	7,834,881	8,198,826	8,472,718	2,689,367	2,661,410	52,867	0	(8,472,718)
Capital/Non-Capital Expenditures	4,004,522	2,021,713	1,634,407	1,106,406	543,206	0	0	(1,634,407)
Seats	0	0	0	13,188,973	13,564,379	22,640,021	25,687,167	25,687,167
Moves/Adds/Changes Costs	0	0	0	53,723	348,680	1,307,907	350,659	350,659
Rate Adjustment By Contract	0	0	0	117,464	99,888	24,346	0	0
FY 2006 Budget Impact Offset	0	0	0	0	0	3,273,600	3,578,854	3,578,854
Carrier Savings - Projection	0	0	0	0	(558,817)	0	(3,166,026)	(3,166,026)
TPO/Admin costs	0	0	0	2,084,714	2,243,869	2,500,025	3,824,127	3,824,127
Total	$39,832,603	$36,409,142	$35,185,531	$42,928,813	$41,326,988	$53,141,423	$51,111,689	$15,926,158
Funding Breakout:								
General Fund	$12,778,746	$20,534,859	$12,014,470	$21,755,497	$12,937,943	$31,791,236	$21,118,828	$9,104,358
Other Appropriated Funds	19,117,770	11,747,089	16,058,944	13,591,836	17,191,882	15,809,266	20,351,880	4,292,936
Non-Appropriated Funds	7,936,087	4,127,194	7,112,117	4,481,480	7,697,163	5,540,921	9,640,981	2,528,865
One-Time Offset	0	0	0	3,100,000	3,500,000	0	0	0
Total	$39,832,603	$36,409,142	$35,185,531	$42,928,813	$41,326,988	$53,141,423	$51,111,689	$15,926,158

* Amounts shown include the telecommunications cost estimates for judicial agencies and Library and Archives that were not displayed in the September 25, 2005 document. These agencies had services provided by the Arizona Telecommunications System. Those services were transitioned to AZNet in March 2005.

Due to rounding from numerous formulas used in creating this table, whole dollar amounts in the table may vary slightly from the totals shown.

Comparison Revised Estimates to Original Estimates - Difference

All State Agencies	FY 2005	FY 2006	FY 2007
Expenditure Category:			
Personnel Expenses	$0	$71,698	$0
Carrier Charges	(1,247,275)	(1,611,692)	(2,505,748)
WAN/Voice Maintenance Contracts	137,078	276,201	0
ATS Operations	273,892	(27,957)	(52,867)
Capital/Non-Capital Expenditures	(387,306)	(563,200)	0
Seats	0	375,406	3,047,146
Moves/Adds/Changes Costs	0	294,957	(957,248)
Rate Adjustment By Contract	0	(17,576)	(24,346)
FY 2006 Budget Impact Offset	0	0	305,254
Carrier Savings - Projection	0	(558,817)	(3,166,026)
TPO/Admin costs	0	159,155	1,324,102
Total	($1,223,611)	($1,601,825)	($2,029,733)
Funding Breakout:			
General Fund	($8,520,389)	($8,817,554)	($10,672,408)
Other Appropriated Funds	4,311,855	3,600,046	4,542,614
Non-Appropriated Funds	2,984,923	3,215,683	4,100,060
One-Time Offset	0	400,000	0
Total	($1,223,611)	($1,601,825)	($2,029,733)

Summary of Funding Source by Category

(FY 2004 through FY 2007)

State Agencies	FY 2004 Estimated Actual General Fund	FY 2004 Estimated Actual Other Approp.	FY 2004 Estimated Actual Non-Approp.	FY 2004 Estimated Actual Total	FY 2005 Revised Base Estimate General Fund	FY 2005 Revised Base Estimate Other Approp.	FY 2005 Revised Base Estimate Non-Approp.	FY 2005 Revised Base Estimate Total	FY 2006 Revised Estimate General Fund	FY 2006 Revised Estimate Other Approp.	FY 2006 Revised Estimate Non-Approp.	FY 2006 Revised Estimate One Time Offset	FY 2006 Revised Estimate Total	FY 2007 Revised Estimate General Fund	FY 2007 Revised Estimate Other Approp.	FY 2007 Revised Estimate Non-Approp.	FY 2007 Revised Estimate Total
EXECUTIVE AGENCIES - NOT 100% ATS																	
ADMINISTRATION - DEPARTMENT OF	281,504	398,238	74,354	754,096	266,941	672,347	49,749	989,037	203,851	513,442	37,991	3,500,000	4,255,284	3,869,090	543,694	40,229	4,453,013
ADMINISTRATIVE HEARINGS	0	0	48,104	48,104	0	0	35,986	35,986	0	0	36,535	0	36,535	0	0	46,220	46,220
AGRICULTURE - DEPARTMENT OF	128,146	20,599	141,376	290,121	151,501	21,913	53,895	227,309	167,280	24,195	59,508	0	250,982	151,064	21,849	53,739	226,653
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM	1,453,468	3,011,271	51,942	4,516,681	608,437	1,412,690	16,505	2,037,631	637,626	1,480,462	17,297	0	2,135,385	696,960	1,618,226	18,906	2,334,091
ARTS - COMMISSION OF THE	0	0	16,847	16,847	0	0	16,482	16,482	0	0	19,580	0	19,580	0	0	31,212	31,212
ATTORNEY GENERAL - OFFICE OF THE	352,077	223,833	33,325	609,235	312,594	217,676	33,368	563,638	325,297	226,522	34,585	0	586,404	373,491	260,082	39,619	673,192
BANKING - DEPARTMENT OF	55,904	0	0	55,904	24,252	0	0	24,252	37,444	0	0	0	37,444	80,156	0	0	80,156
BUILDING AND FIRE SAFETY - DEPARTMENT OF	47,675	0	0	47,675	38,902	0	0	38,902	39,651	0	0	0	39,651	48,895	0	0	48,895
CHIROPRACTIC EXAMINERS BOARD	0	5,392	0	5,392	0	5,495	0	5,495	0	6,110	0	0	6,110	0	9,262	0	9,262
CITIZENS CLEAN ELECTIONS COMMISSION	0	0	20,478	20,478	0	0	14,753	14,753	0	0	14,848	0	14,848	0	0	11,457	11,457
COLISEUM, EXPOSITION CENTER AND STATE FAIR	0	0	0	0	0	59,967	0	59,967	0	63,873	0	0	63,873	0	93,407	0	93,407
COMMERCE - DEPARTMENT OF	9,714	1,138	63,531	74,383	6,996	5,312	63,573	75,881	8,605	6,533	78,187	0	93,325	9,373	7,116	85,170	101,659
CORPORATION COMMISSION	64,303	261,420	3,024	328,747	63,381	274,291	0	337,672	68,688	297,257	0	0	365,945	64,943	281,051	0	345,994
CORRECTIONS - DEPARTMENT OF	2,792,793	0	65,746	2,858,539	2,325,089	0	104,217	2,429,306	2,506,582	0	112,352	0	2,618,934	4,778,100	0	214,168	4,992,268
COSMETOLOGY - BOARD OF	0	29,203	0	29,203	0	32,604	0	32,604	0	34,805	0	0	34,805	0	48,887	0	48,887
DEAF AND BLIND, SCHOOL FOR THE	326,178	0	196	326,374	207,003	0	1,627	208,630	265,158	0	2,084	0	267,242	410,040	0	3,223	413,263
DENTAL EXAMINERS - BOARD OF	0	9,684	0	9,684	0	10,606	0	10,606	0	12,278	0	0	12,278	0	15,798	0	15,798
ECONOMIC SECURITY - DEPARTMENT OF	2,512,832	4,421,955	5,163,585	12,098,371	2,862,807	4,091,593	4,362,224	11,316,624	3,138,173	4,485,154	4,781,816	0	12,405,144	4,044,637	5,780,695	6,163,048	15,988,379
EDUCATION - DEPARTMENT OF	221,567	0	290,016	511,583	224,318	0	333,964	558,282	228,126	0	339,634	0	567,760	237,465	0	353,538	591,004
EMERGENCY AND MILITARY AFFAIRS - DEPARTMENT OF	92,971	0	163,147	256,118	70,496	0	506,396	576,892	71,774	0	515,574	0	587,348	82,735	0	594,309	677,043
ENVIRONMENTAL QUALITY - DEPARTMENT OF	0	586,322	8,506	594,828	529	646,523	14,555	661,608	557	680,540	15,321	0	696,418	624	761,609	17,146	779,379
EXECUTIVE CLEMENCY - BOARD OF	11,819	0	0	11,819	8,795	0	0	8,795	11,924	0	0	0	11,924	15,991	0	0	15,991
GAME AND FISH - DEPARTMENT OF	0	462,804	514,814	977,618	0	391,197	365,470	756,667	0	421,175	393,476	0	814,651	0	469,433	438,562	907,995
GAMING - DEPARTMENT OF	0	106,096	0	106,096	0	87,691	0	87,691	0	100,803	0	0	100,803	0	104,390	0	104,390
GEOLOGICAL SURVEY	10,752	0	0	10,752	10,270	0	0	10,270	11,205	0	0	0	11,205	9,435	0	0	9,435
HEALTH SERVICES - DEPARTMENT OF	864,809	127,747	580,682	1,573,238	825,988	125,709	435,819	1,387,516	885,197	134,720	467,059	0	1,486,976	1,077,920	164,051	568,746	1,810,717
HIGHWAY SAFETY - OFFICE OF	0	0	45,206	45,206	0	0	46,913	46,913	0	0	49,839	0	49,839	0	0	63,086	63,086
HISTORICAL SOCIETY, ARIZONA	34,799	0	238	35,037	35,358	0	1,161	36,519	43,461	0	1,427	0	44,888	69,467	0	2,282	71,749
HISTORICAL SOCIETY, PRESCOTT	2,146	0	0	2,146	1,895	0	0	1,895	4,915	0	0	0	4,915	18,765	0	0	18,765
INDUSTRIAL COMMISSION	0	10,635	3,829	14,464	0	211,846	86,991	298,837	0	226,997	93,213	0	320,210	0	221,028	90,762	311,790
INSURANCE - DEPARTMENT OF	129,035	0	43,403	172,438	105,833	0	38,255	144,088	132,319	0	47,829	0	180,148	196,566	0	71,053	267,619
JUVENILE CORRECTIONS - DEPARTMENT OF	421,369	6,243	0	427,612	391,037	0	7,087	398,124	468,315	0	8,487	0	476,802	735,146	0	13,323	748,469
LAND - DEPARTMENT OF	168,695	0	81,371	250,066	150,358	0	63,401	213,759	164,856	0	69,514	0	234,370	207,252	0	87,391	294,644
LAW ENFORCEMENT MERIT COUNCIL	0	0	0	0	0	0	0	0	381	0	0	0	381	2,290	0	0	2,290
LOTTERY	0	468,906	0	468,906	0	108,804	0	108,804	0	117,883	0	0	117,883	0	182,497	0	182,497
MEDICAL EXAMINERS - BOARD OF	0	58,896	0	58,896	0	52,066	0	52,066	0	58,311	0	0	58,311	0	102,736	0	102,736
MINE INSPECTOR	13,019	0	1,988	15,007	9,587	0	3,749	13,336	13,922	0	5,444	0	19,365	10,361	0	4,051	14,412
MINES AND MINERAL RESOURCES - DEPARTMENT OF	5,727	0	2,916	8,643	8,823	0	110	8,933	9,486	0	118	0	9,604	12,833	0	160	12,993
NURSING - BOARD OF	0	65,543	72	65,615	0	30,389	1,385	31,774	0	36,048	1,643	0	37,691	0	72,813	3,319	76,133
OCCUPATIONAL THERAPY EXAMINERS, BOARD OF	0	6,418	0	6,418	0	4,331	0	4,331	0	4,570	0	0	4,570	0	5,641	0	5,641
OSTEOPATHIC EXAMINERS - BOARD OF	0	5,692	0	5,692	0	5,265	0	5,265	0	7,002	0	0	7,002	0	9,566	0	9,566
PARKS - BOARD OF STATE	35,118	142,233	131,784	309,134	37,663	90,107	87,077	214,847	42,364	101,354	97,946	0	241,664	49,705	118,917	114,919	283,541
PEACE OFFICER STANDARDS AND TRAINING BOARD	0	0	0	0	0	0	29,279	29,279	0	0	32,497	0	32,497	0	0	55,391	55,391
PHARMACY BOARD	0	9,331	0	9,331	0	7,198	0	7,198	0	9,519	0	0	9,519	0	16,712	0	16,712
PIONEERS' HOME, ARIZONA	12,989	8,378	0	21,367	4,017	15,698	3,831	23,546	4,990	19,499	4,759	0	29,247	9,344	36,517	8,912	54,773
POST-SECONDARY EDUCATION - ARIZONA COMMISSION FOR	0	4,413	0	4,413	0	3,238	0	3,238	0	4,009	0	0	4,009	0	9,495	0	9,495
POWER AUTHORITY	0	0	0	0	0	0	0	0	0	0	1,864	0	1,864	0	0	8,103	8,103
PUBLIC SAFETY - DEPARTMENT OF	356,344	834,396	63,991	1,254,731	98,873	1,097,890	57,969	1,254,731	108,437	1,204,095	63,576	0	1,376,109	133,929	1,487,158	78,522	1,699,609
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM	0	0	0	0	0	0	0	0	0	0	1,877	0	1,877	0	0	20,871	20,871
RACING - DEPARTMENT OF	29,665	593	0	30,258	26,228	335	0	26,563	26,388	337	0	0	26,725	24,399	311	0	24,710
RADIATION REGULATORY AGENCY	6,553	4,824	4,482	15,859	8,006	4,248	3,089	15,343	9,903	5,255	3,820	0	18,978	21,298	11,302	8,216	40,815
REAL ESTATE - DEPARTMENT OF	70,070	0	0	70,070	32,975	0	0	32,975	44,473	0	0	0	44,473	69,967	0	0	69,967
REGISTRAR OF CONTRACTORS	0	133,619	0	133,619	0	140,337	0	140,337	0	164,113	0	0	164,113	0	157,707	0	157,707
RETIREMENT SYSTEM, STATE	0	795,999	0	795,999	0	263,782	0	263,782	0	291,677	0	0	291,677	0	389,981	0	389,981
REVENUE - DEPARTMENT OF	1,504,949	12,290	0	1,517,239	1,097,015	2,749	0	1,099,764	1,200,769	3,009	0	0	1,203,778	1,318,382	3,304	0	1,321,686
STRUCTURAL PEST CONTROL COMMISSION	0	31,786	0	31,786	0	33,614	0	33,614	0	39,954	0	0	39,954	0	54,255	0	54,255
TOURISM - OFFICE OF	0	0	80,797	80,797	0	0	39,661	39,661	0	0	43,251	0	43,251	0	0	40,509	40,509
TRANSPORTATION - DEPARTMENT OF	0	8,464,501	69,258	8,533,759	0	5,533,732	62,114	5,595,846	0	5,994,364	67,284	0	6,061,648	0	6,821,181	76,565	6,897,746
TREASURER - OFFICE OF	44,667	0	0	44,667	25,743	0	0	25,743	28,687	0	0	0	28,687	47,086	0	0	47,086
VETERANS' SERVICES - DEPARTMENT OF	70,557	167,406	50,023	287,986	52,906	126,405	48,733	228,045	57,389	137,116	52,862	0	247,368	84,955	202,976	78,254	366,184
WATER RESOURCES - DEPARTMENT OF	184,124	0	2,368	186,492	149,058	0	524	149,582	188,764	0	663	0	189,427	309,742	0	1,088	310,830
WEIGHTS AND MEASURES - DEPARTMENT OF	27,036	18,857	0	45,893	15,216	14,957	0	30,173	16,589	16,306	0	0	32,895	26,566	26,113	0	52,679
SUBTOTAL - EXECUTIVE AGENCIES NOT 100% ATS	$12,343,371	$18,916,661	$7,821,400	$39,081,432	$10,258,880	$15,802,604	$6,989,913	$33,051,407	$11,173,545	$16,929,286	$7,573,784	$3,500,000	39,176,597	$19,298,970	$20,109,760	$9,506,069	$48,914,799
100% ATS AGENCIES																	
ACCOUNTANCY BOARD	0	14,613	0	14,613	0	16,814	0	16,814	0	16,852	0	0	16,852	0	14,876	0	14,876
APPRAISAL - BOARD OF	0	6,100	0	6,100	0	4,704	0	4,704	0	8,781	0	0	8,781	0	7,669	0	7,669
AUTOMOBILE THEFT AUTHORITY	0	15,742	0	15,742	0	11,167	0	11,167	0	11,213	0	0	11,213	0	6,793	0	6,793
BARBERS - BOARD OF	0	2,208	0	2,208	0	2,053	0	2,053	0	2,068	0	0	2,068	0	3,238	0	3,238
BEHAVIORAL HEALTH EXAMINERS - BOARD OF	0	16,108	0	16,108	0	15,449	0	15,449	0	17,361	0	0	17,361	0	12,213	0	12,213
BIOMEDICAL RESEARCH COMMISSION	0	0	7,436	7,436	0	0	6,360	6,360	0	0	6,411	0	6,411	0	0	4,842	4,842
CHARTER SCHOOLS - BOARD OF	10,181	0	0	10,181	10,356	0	0	10,356	10,244	0	0	0	10,244	8,348	0	0	8,348
CRIMINAL JUSTICE COMMISSION	0	14,034	12,446	26,480	0	13,649	12,104	25,753	0	13,803	12,241	0	26,044	0	13,547	12,013	25,560
DEAF AND HARD OF HEARING - COMMISSION FOR THE	0	29,921	0	29,921	0	26,709	0	26,709	0	25,977	0	0	25,977	0	23,368	0	23,368
EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF	5,020	0	965	5,985	4,692	0	431	5,123	5,703	0	524	0	6,226	5,361	0	492	5,853
EQUALIZATION - BOARD OF	9,490	0	0	9,490	10,389	0	0	10,389	10,097	0	0	0	10,097	8,372	0	0	8,372
FINGERPRINTING - BOARD OF	0	0	9,273	9,273	0	0	8,292	8,292	0	0	8,254	0	8,254	0	0	7,552	7,552
GOVERNMENT INFORMATION TECHNOLOGY AGENCY	0	34,671	0	34,671	0	32,042	0	32,042	0	32,811	0	0	32,811	0	28,793	0	28,793
GOVERNOR, OFFICE OF	220,078	0	27,534	247,612	180,205	0	14,611	194,817	186,207	0	15,098	0	201,305	166,841	0	13,528	180,369
GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING	0	0	0	0	20,026	0	0	20,026	18,636	0	0	0	18,636	17,535	0	0	17,535
HOUSING - DEPARTMENT OF	0	1,868	32,099	33,967	0	1,450	34,261	35,711	0	1,530	36,152	0	37,682	0	2,203	52,065	54,268
INDIAN AFFAIRS - COMMISSION OF	6,516	0	0	6,516	3,593	0	0	3,593	4,193	0	0	0	4,193	4,803	0	0	4,803
JUDICIAL CONDUCT - COMMISSION ON	0	0	0	0	0	0	3,955	3,955	0	0	3,701	0	3,701	0	0	5,554	5,554

Summary of Funding Source by Category

(FY 2004 through FY 2007)

State Agencies	FY 2004 Estimated Actual General Fund	FY 2004 Other Approp.	FY 2004 Non-Approp.	FY 2004 Total	FY 2005 Revised Base Estimate General Fund	FY 2005 Other Approp.	FY 2005 Non-Approp.	FY 2005 Total	FY 2006 Revised Estimate General Fund	FY 2006 Other Approp.	FY 2006 Non-Approp.	FY 2006 One Time Offset	FY 2006 Total	FY 2007 Revised Estimate General Fund	FY 2007 Other Approp.	FY 2007 Non-Approp.	FY 2007 Total
LIQUOR LICENSES AND CONTROL - DEPARTMENT OF	42,252	0	3,525	45,777	42,715	0	4,014	46,729	44,288	0	4,162	0	48,450	48,287	0	4,538	52,825
NAVIGABLE STREAM ADJUDICATION COMMISSION	2,053	0	0	2,053	1,461	0	0	1,461	1,477	0	0	0	1,477	2,470	0	0	2,470
PERSONNEL BOARD	3,270	0	0	3,270	2,803	0	0	2,803	2,817	0	0	0	2,817	3,099	0	0	3,099
PRIVATE POSTSECONDARY EDUCATION - BOARD FOR	0	4,782	0	4,782	0	4,104	0	4,104	0	4,285	0	0	4,285	0	3,280	0	3,280
PSYCHOLOGIST EXAMINERS - BOARD OF	0	3,723	0	3,723	0	2,937	0	2,937	0	2,838	0	0	2,838	0	3,237	0	3,237
RESIDENTIAL UTILITY CONSUMER OFFICE	0	11,323	0	11,323	0	11,205	0	11,205	0	11,278	0	0	11,278	0	8,789	0	8,789
RESPIRATORY CARE EXAMINERS - BOARD OF	0	3,587	0	3,587	0	3,529	0	3,529	0	3,523	0	0	3,523	0	3,210	0	3,210
SCHOOL FACILITIES BOARD	33,929	0	0	33,929	29,121	0	0	29,121	27,817	0	0	0	27,817	16,770	0	0	16,770
SECRETARY OF STATE	92,154	0	0	92,154	101,241	0	0	101,241	100,513	0	0	0	100,513	73,329	0	0	73,329
STATE BOARDS AND ADMINISTRATION OFFICE																	
ADMINISTRATIVE OFFICE - DEPARTMENT OF ADMINISTRATION	0	0	0	0	0	4,945	0	4,945	0	4,332	0	0	4,332	0	4,399	0	4,399
ACUPUNCTURE - BOARD OF EXAMINERS	0	0	0	0	0	635	0	635	0	631	0	0	631	0	895	0	895
FUNERAL DIRECTORS AND EMBALMERS - BOARD OF	0	1,323	0	1,323	0	3,455	0	3,455	0	3,443	0	0	3,443	0	3,579	0	3,579
HOMEOPATHIC MEDICAL EXAMINERS - BOARD OF	0	285	0	285	0	788	0	788	0	786	0	0	786	0	879	0	879
NATUROPATHIC PHYSICIANS BOARD OF MEDICAL EXAMINERS	0	3,579	0	3,579	0	4,105	0	4,105	0	4,000	0	0	4,000	0	5,086	0	5,086
NURSING CARE ADMINISTRATORS - BOARD OF EXAMINERS OF	0	4,596	0	4,596	0	3,695	0	3,695	0	3,948	0	0	3,948	0	3,513	0	3,513
OPTICIANS - BOARD OF DISPENSING	0	0	0	0	0	1,053	0	1,053	0	1,048	0	0	1,048	0	1,600	0	1,600
OPTOMETRY - BOARD OF	0	1,817	0	1,817	0	1,400	0	1,400	0	1,648	0	0	1,648	0	1,649	0	1,649
PHYSICAL THERAPY - BOARD OF	0	0	0	0	0	1,872	0	1,872	0	1,864	0	0	1,864	0	2,440	0	2,440
PODIATRY EXAMINERS - BOARD OF	0	0	0	0	0	619	0	619	0	617	0	0	617	0	849	0	849
VETERINARY MEDICAL EXAMINING BOARD	0	0	0	0	0	3,812	0	3,812	0	3,872	0	0	3,872	0	4,622	0	4,622
TAX APPEALS - BOARD OF	3,161	0	0	3,161	3,196	0	0	3,196	3,267	0	0	0	3,267	5,600	0	0	5,600
TECHNICAL REGISTRATION - BOARD OF	0	30,828	0	30,828	0	26,258	0	26,258	0	26,189	0	0	26,189	0	20,226	0	20,226
WATER INFRASTRUCTURE FINANCE AUTHORITY	0	0	21,409	21,409	0	0	17,970	17,970	0	0	16,537	0	16,537	0	0	13,113	13,113
SUBTOTAL - 100% ATS EXECUTIVE AGENCIES	$428,104	$201,109	$114,686	$743,899	$409,797	$198,448	$101,998	$710,243	$415,259	$204,700	$103,078	$0	$723,036	$358,815	$180,753	$113,697	$653,265
NON-EXECUTIVE AGENCIES																	
INDEPENDENT REDISTRICTING COMMISSION	7,272	0	0	7,272	5,924	0	0	5,924	5,964	0	0	0	5,964	2,524	0	0	2,524
JUDICIAL																	
COURT OF APPEALS - DIVISION ONE	0	0	0	0	54,108	0	0	54,108	54,619	0	0	0	54,619	98,509	0	0	98,509
COURT OF APPEALS - DIVISION TWO	0	0	0	0	34,925	0	0	34,925	35,825	0	0	0	35,825	37,427	0	0	37,427
SUPREME COURT	0	0	0	0	1,113,200	57,133	12,538	1,182,871	1,113,007	57,123	12,536	0	1,182,666	1,180,438	60,584	13,296	1,254,318
LIBRARY, ARCHIVES AND PUBLIC RECORDS	0	0	0	0	137,626	759	7,668	146,054	139,724	771	7,785	0	148,280	142,144	784	7,919	150,848
SUBTOTAL - NON-EXECUTIVE AGENCIES	$7,272	$0	$0	$7,272	$1,345,783	$57,892	$20,206	$1,423,881	$1,349,140	$57,894	$20,321	$0	$1,427,354	$1,461,042	$61,368	$21,215	$1,543,625
GRAND TOTAL - All AGENCIES	$12,778,746	$18,117,770	$7,936,087	$39,832,603	$12,014,470	$16,058,944	$7,112,117	$35,185,531	$12,937,943	$17,191,882	$7,697,163	$3,500,000	$41,326,988	$21,118,828	$20,351,880	$9,640,981	$51,111,689

FY 2004 and FY 2005 were fund sourced from data in the Arizona Financial Information System (AFIS) except for the Department of Public Safety and the Department of Economic Security, which pool their fund sources. The Department of Public Safety was fund sourced from data provided by agency staff. The JLBC Appropriations Report was used to fund source the Department of Economic Security. For FY 2006, and FY 2007, the fund source percentages of FY 2005 were used.

Telecommunications Fund Budget - FY 2007

SUMMARY - ALL FOUR COMPONENTS*									
Object	**Title**	**FY 2006 Appropriation**	**Operating Supplies**	**ISD Charges**	**Rent**	**Help Desk Shift**	**Architectural Staff**	**One Time Equipment**	**Totals**
	FTE Positions	22.0	-	-	-	3.0	3.0	-	28.0
6000	PERSONAL SERVICES	1,194,200	-	-	-	171,300	232,000	-	1,597,500
6100	EMPLOYEE RELATED EXPENDITURES	329,200	-	-	-	51,400	69,600	-	450,200
6200	PROFESSIONAL & OUTSIDE	350,000	-	-	-	-	-	-	350,000
6500	TRAVEL - IN STATE	1,000	-	-	-	-	-	-	1,000
6600	TRAVEL - OUT OF STATE	300	-	-	-	-	-	-	300
7000	OTHER OPERATING EXPENSES	268,300	275,600	145,900	275,800	42,900	42,900	-	1,051,400
8400	CAPITAL EQUIPMENT	-	-	-	-	-	-	-	-
8500	OTHER EQUIPMENT	9,000	-	-	-	-	1,200	28,300	38,500
9000	COST ALLOCATIONS	17,000	-	-	-	-	-	-	17,000
9100	OPERATING TRANSFERS OUT	-	-	-	-	-	-	-	-
	TOTALS	$2,169,000	$275,600	$145,900	$275,800	$265,600	$345,700	$28,300	$3,505,900

* See attached information for request on General Appropriation Act footnote and expenditure authority for Professional and Outside Services.

2. Seats

State Telecommunications Outsourcing Pricing Worksheets

	Seats	Pricing Basis	Year 1*	Year 2*	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
1			Accenture								
2			Prices per Month								
3			Base Contract Period (5 Years)					Option 1 (Exercised)		Option 2	
5	**1. Voice Seats:**										
6	**A. Price per Seat**										
7	1 Limited	seat	$50.76	$50.76	$50.76	$50.76	$50.76	$36.29	$36.29	$36.29	$36.29
8	2 Basic	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
9	3 Receptionist/Operator	seat	$58.78	$58.78	$58.78	$58.78	$58.78	$42.02	$42.02	$42.02	$42.02
10	4 Executive	seat	$56.11	$56.11	$56.11	$56.11	$56.11	$40.11	$40.11	$40.11	$40.11
11	5 Call Center Basic Agent	seat	$86.29	$86.29	$86.29	$86.29	$86.29	$72.04	$72.04	$72.04	$72.04
12	6 Call Center Enhanced Agent	seat	$86.29	$86.29	$86.29	$86.29	$86.29	$72.04	$72.04	$72.04	$72.04
13	7 Call Center Supervisor	seat	$91.64	$91.64	$91.64	$91.64	$91.64	$75.86	$75.86	$75.86	$75.86
14	8 Elevator	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
15	9 Emergency	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
16	10 Guest	seat	$11.00	$11.00	$11.00	$11.00	$11.00	$12.00	$12.00	$13.00	$13.00
17	11 Centrex	seat	$11.00	$11.00	$11.00	$11.00	$11.00	$12.00	$12.00	$13.00	$13.00
18	**B. Per Seat Price Adjustments**										
19	1 Additional Lines	line	$3.00	$3.00	$3.00	$3.00	$3.00	$4.00	$4.00	$4.00	$4.00
20	2 22 Button Add-On Modules	module	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
21	3 Additional MACs	MAC	$15.00	$15.00	$16.00	$16.00	$17.00	$18.00	$18.00	$19.00	$20.00
22	4 Predictive Dialers (Call Centers)	seat	$8.00	$8.00	$8.00	$8.00	$8.00	$10.00	$10.00	$10.00	$10.00
23	5 IVR (Call Centers)	seat	$5.00	$5.00	$5.00	$5.00	$5.00	$8.00	$8.00	$8.00	$8.00
24	6 CTI (Call Centers)	seats	$20.00	$20.00	$20.00	$20.00	$20.00	$25.00	$25.00	$25.00	$25.00
25	7 Per seat adjustment for each 10% increase in seat volume[a/]	10% seat increase			-$0.02	-$0.02	-$0.02	-$0.02	-$0.02	-$0.02	-$0.02
26	8 Per seat adjustment for each 10% decrease in seat volume[a/]	10% seat decrease			$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
27											
28	**C. Shared Infrastructure Investment Charge (IIC)*** **	seat		**	**	**	*				
29	1 Limited Seat IIC (as an example--difference between CY1 rate and current planned rate)	seat									
30											
31											
32											
33	**2. IPT/VoIP Seats:**										
34	**A. Price per Seat**										
35	1 Limited	seat	$50.76	$50.76	$50.76	$50.76	$50.76	$36.29	$36.29	$36.29	$36.29
36	2 Basic	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
37	3 Receptionist/Operator	seat	$58.78	$58.78	$58.78	$58.78	$58.78	$42.02	$42.02	$42.02	$42.02
38	4 Executive	seat	$56.11	$56.11	$56.11	$56.11	$56.11	$40.11	$40.11	$40.11	$40.11
39	5 Call Center Basic Agent	seat	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01
40	6 Call Center Enhanced Agent	seat	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01	$89.01
41	7 Call Center Supervisor	seat	$91.64	$91.64	$91.64	$91.64	$91.64	$91.64	$91.64	$91.64	$91.64
42	8 Elevator	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
43	9 Emergency	seat	$53.43	$53.43	$53.43	$53.43	$53.43	$38.20	$38.20	$38.20	$38.20
44	10 Guest	seat	$11.00	$11.00	$11.00	$11.00	$11.00	$12.00	$12.00	$13.00	$13.00
45		seat									
46	**B. Per Seat Price Adjustments**										
47	1 Additional Lines/Phone Numbers	line	$3.00	$3.00	$3.00	$3.00	$3.00	$4.00	$4.00	$4.00	$4.00
48	2 22 Button Add-On Modules	module	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
49	3 Additional MACs	MAC	$15.00	$15.00	$16.00	$16.00	$17.00	$18.00	$18.00	$19.00	$20.00
50	4 Predictive Dialers (Call Centers)	seat	$8.00	$8.00	$8.00	$8.00	$8.00	$10.00	$10.00	$10.00	$10.00
51	5 IVR (Call Centers)	seat	$5.00	$5.00	$5.00	$5.00	$5.00	$8.00	$8.00	$8.00	$8.00
52	6 CTI (Call Centers)	seat	$20.00	$20.00	$20.00	$20.00	$20.00	$25.00	$25.00	$25.00	$25.00
53	7 Unified Messaging	seat	$3.77	$3.77	$3.77	$3.77	$3.77	$4.00	$4.00	$4.00	$4.00
54	8 Per seat adjustment for each 10% increase in seat volume[a/]	10% seat increase			-$0.02	-$0.02	-$0.02	-$0.02	$0.02	-$0.02	-$0.02
55	9 Per seat adjustment for each 10% decrease in seat volume[a/]	10% seat decrease			$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
56	10 New IPT Service (estimate)	seat	$19.14	$19.14	$19.14	$19.14	$19.14	$19.14	$19.14	$19.14	$19.14
57											
58	**C. Shared Infrastructure Investment Charge*** **	seat		**	**	**					
59	1 Limited Seat IIC (as an example--difference between CY1 rate and current planned rate)	seat									
60											
61											
62	**3. Per Occurrence Charges**										
63	1 Fax Line	line	$3.00	$3.00	$3.00	$3.00	$3.00	$4.00	$4.00	$4.00	$4.00
64	2 Remote Access Account	account	$7.24	$7.24	$7.24	$7.24	$7.24	$8.00	$8.00	$8.00	$8.00
65	3 VPN Only Account	account	$0.32	$0.32	$0.32	$0.32	$0.32	$0.40	$0.40	$0.40	$0.40
66	4 Video Conferencing Security	conference	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
67	5 Out of State Conference Call	call	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
68	6 Security-Email Protection/seat	seat	$0.48	$0.48	$0.48	$0.48	$0.48	$0.60	$0.60	$0.60	$0.60
69	7 Security-Web Browsing per seat	seat	$1.18	$1.18	$1.18	$1.18	$1.18	$1.25	$1.25	$1.25	$1.25
70	8 Security-Web Hosting per seat	seat	$0.04	$0.04	$0.04	$0.04	$0.04	$0.05	$0.05	$0.05	$0.05
71	9 Data Only Port	line	$1.00	$1.00	$1.00	$1.00	$1.00	$1.05	$1.05	$1.10	$1.10
72	10 LAN Service	LAN Port	$3.00	$3.00	$3.00	$3.00	$3.00	$3.15	$3.15	$3.30	$3.30
73	11 Router Maintenance & Monitoring	router	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
74	**4. Charges for Increased Data Capacity**										
75											
76	* For seat pricing purposes, Year 1 ends March 31, 2005, and each succeeding year ends March 31st.										
77	** A Shared Infrastructure Investment Charge (IIC) shall be assessed on a per seat basis for all seat types except Restricted and Guest seats, as directed by the TEGC. For Q4 FY05 and CY's 2 through 5, the IIC shall be the difference between Accenture's seat price originally bid and their CY1 seat rates for all seat types. Thus, the seat prices will remain constant using the first 5 years of the Contract.										
78	*** Assuming approval from TEGC.										

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: February 21, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Options for Case Management Privatization in Child Protective Services

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) has submitted for review options for privatization of portions of the case management duties in Child Protective Services (CPS). The submitted report was contracted by DES and prepared by McCullough and Associates, Inc.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the report.
2. A favorable review of the report with the following provisions:
    - DES establish a Public/Private Partnership Workgroup as recommended by the report to continue to explore options for privatization, including the identification of parameters for a pilot program, and report by the end of each calendar quarter to the Committee on the actions and discussions of the workgroup, beginning June 30, 2006.
    - DES report back to the Committee on how it is addressing the issues identified in the report regarding current internal procurement and contract monitoring by June 30, 2006.
    - DES identify the potential legal, financial and risk impacts of privatization, as recommended in the report, and report these to the Committee by June 30, 2006.

Analysis

The report prepared by McCullough and Associates, Inc. used research and document review, interviews, surveys and focus groups with key stakeholders, including DES staff, providers, clients, and other participants in the CPS system. The report found that nationally, privatization "produced mixed results

(Continued)

regarding both effectiveness ... and cost efficiency." The report identified 4 main findings specific to Arizona.

1. *Arizona already provides several services through public/private partnerships and has considerable reforms underway in CPS.* The contractor concluded that while these reforms do not preclude privatization, they do present a challenge as well as an opportunity to the effort. Resources used to implement current reforms and privatization efforts will also be needed to privatize any portion of CPS case management. At the same time, this experience has also helped prepare DES for the privatization process.

2. *There is not a clear consensus among stakeholders as to the direction privatization should take.* In surveys conducted by the contractor, 92% of providers supported privatizing in-home case management, while 58% of CPS staff opposed that option. Similarly, 89% of provider responses supported privatizing out-of-home case management, while 77% of CPS staff were opposed. There was some consensus on the issue of intake, with 70% of all respondents (79% of providers) opposed to privatization of the CPS Hotline and 89% of respondents (86% of providers) opposed to privatizing investigations. There was also overall support for privatization of independent living and adoption services, with about 75% of respondents supporting this option.

   There is some concern as to the validity of the responses. While overall survey size was significant at 205 respondents, the breakout of different stakeholder groups was somewhat skewed. Of the respondents, 107 were CPS staff, 42 were providers, and 56 were other stakeholders representing several different groups, including 5 parents, 1 judge, and 10 foster or adoptive parents. The scoring of neutral responses and survey construction are also problematic.

3. *The current system does show some indicators of "readiness to plan and implement a future privatization initiative."* Specifically, the report sites clear goals and objectives for current reforms and privatization efforts, good relationships between CPS, providers and the community, CPS familiarity with the contracting process and financing, and current technological capacity.

4. *Arizona still faces significant challenges to privatization.* The first challenge the report cites is lack of contract monitoring and management. While CPS does have experience issuing contracts, the study notes that it falters in making sure that contractors properly execute services. The report does indicate that there are current initiatives aimed at improving this situation. A second challenge in the report is the inability to access current services or appropriate placements, specifically in the behavioral health system. The report asserts that these barriers need to be resolved prior to privatization. The report also cited concerns that CPS respondents identified high caseload, turnover, and the stress of implementing current reforms as creating low morale.

   Finally, the report found "wide differences in private agencies' ... readiness for privatization," according to provider self-assessments. To develop sufficient capacity and ensure capability, the study suggests that CPS would need to create readiness criteria, conduct systematic evaluations, and provide technical support. The report states that this "would be difficult if not impossible" for CPS to provide with current staffing capacity. Adequate communication between CPS and private and community stakeholders was also cited as a concern of stakeholders.

The report also recommended actions to move the state closer to privatizing portions of the case management activities of CPS. These recommendations included the creation of a Public/Private Partnership Workgroup, which would expand upon current efforts between CPS and providers to improve procurement. This group should be made of internal and external stakeholders, including providers, and

(Continued)

be charged with addressing concerns cited in the report. In addition to the report's recommendation, JLBC Staff recommends involving the Legislature as a financial and policy stakeholder in the process.

The report recommends that DES continue its improvements to the procurement system. Finally, the report recommends that DES explore the legal and financial ramifications of privatization. This includes making sure that federal reimbursements would still be available. Legal issues include how private entities can present the state's recommendations in court and to what extent the Attorney General's office can represent private case managers.

RS/EJ:ss

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

JAN 1 3 2006
JOINT BUDGET COMMITTEE

JAN 1 1 2006

The Honorable Robert Burns, Chairman 2006
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns:

Pursuant to Laws 2005, Chapter 286 (S.B. 1513), by December 31, 2005 the Department of Economic Security (DES) is to submit to the Joint Legislative Budget Committee options for the privatization of portions of the case management duties for child protective services.

To accomplish this requirement, the DES secured the services of McCullough and Associates, Inc., to assess potential privatization options for Arizona through research and document reviews, and through interviews, surveys and focus groups with key stakeholders in the State.

We are pleased to submit the final report prepared by McCullough and Associates, Inc., which includes an Executive Summary, Final Report and Appendix.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns

Attachment

cc: Richard Stavneak, JLBC Director

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
Division of Children, Youth, and Families

Child Welfare Privatization
Executive Summary

A report prepared by McCullough & Associates, Inc.

December 2005

EXECUTIVE SUMMARY

The Arizona Legislature required in Laws 2005, Chapter 286 (SB1513) that the Department of Economic Security "submit for review by the Joint Legislature Budget Committee options for the privatization of the case management duties for child protective services." In response to this requirement, the Department (DES) secured the services of McCullough and Associates, Inc. to assess privatization options for Arizona through research and document reviews, and through interviews, surveys and focus groups with key stakeholders in the State. This report provides the results of that analysis.

National Trends in Privatization

Any consideration of options for the privatization of child protective service case management in Arizona requires an understanding of the national context of child welfare privatization. Privatization, generally defined as, "the provision of publicly funded services and activities by non-governmental entities," has been widely used by child welfare systems across the United States. Three dynamics have characterized the great majority of these efforts to privatize child welfare case management services: 1) a focus on quality through the purchasing of results rather than services, 2) the development of outcomes related to state and federal mandates, and, 3) financing mechanisms that link implicit or explicit incentives to performance. The specific features of these privatization initiatives, however, have varied considerably. Wide differences exist in the geographical reach of these efforts, the range of services privatized, the population served, the degree of public agency involvement in ongoing case management, the structural design of these initiatives, the funding approaches utilized, and the specific mechanisms used to align financing with desired results.

When privatized initiatives are well designed with adequate funds, promising practices and innovations may emerge. For example, independent evaluations have noted that in some initiatives, the privatized case management system introduced best practice strategies that were not always apparent in the previous public system including: system of care designs that reflected Wraparound values/principles, family team conferencing for the development and revision of all case plans, the introduction of evidence-based practices and decision support tools, added supports for case managers and new case management approaches that ensure frequent contact and continuity in care for children and families, requirements that agencies meet national accreditation standards, expanded services created through community service networks, improved use of technology, and added training and supports for caregivers.

In spite of innovations in some initiatives, the privatization of case management services in child welfare has generally produced mixed results regarding both the effectiveness of these efforts in achieving improved outcomes for children and families and cost efficiency. Evaluations of existing privatization efforts demonstrate great variability in the extent to which these initiatives have succeeded in improving the safety, well-being, and permanency of children served by child welfare systems and the well-being of their families. When compared to non-privatized systems, the results have in some cases been far better and in some cases, poorer.

Research studies consistently describe a number of challenges that must be overcome in privatizing case management services in child welfare. In case studies, public child welfare agencies and private case management agencies most often cite difficulties in: developing an adequate data collection and analysis capacity; appropriately defining the roles of private agency case managers and public agency staff; developing needed service capacity; developing the "right" outcomes and appropriately aligning resources with expectations; crafting effective financing strategies; ensuring that private agencies have the requisite practice and business expertise; recruiting and retaining quality staff; and, ensuring that private agencies have an understanding of legal issues and are able to create and sustain effective relationships with the courts. Researchers have also noted other barriers that appear to be correlated with the lack of success of some privatization efforts including: limited funding, rigidity in procedures, problematically drafted contracts, overdone or underdone monitoring, limited consumer involvement, and lack of attention to cultural and linguistic issues.

Based upon national research findings and the interviews with private agency executives conducted as part of this study, key factors for success, across different designs, appear to relate to the sophistication of the purchaser in planning, procurement, and contract oversight; the alignment of resources with requirements; the adequacy of funding and contractor rates; the buy-in from stakeholders; the care with which system designs were developed; the clarity and appropriateness of the expected outcomes; and the infrastructure, leadership, and innovation of the contractor and the public purchaser. Successful privatization initiatives share a number of essential characteristics in common with effective public agency programs, including the following:

- Strong, steady and committed leadership
- Clear vision, goals, objectives, and performance criteria
- Sufficient staffing and other resources to implement the vision
- Continuous and meaningful performance monitoring
- Specific, measurable outcomes
- State-of-the-art information systems that allow private and public service providers to track progress and outcomes
- Resilient interpersonal working relationships between public and private agencies
- Strong ties to the communities they serve
- New business tools and innovative practices

It seems clear that privatization is best implemented through a broad-based planning process that engages stakeholders in a sustained dialogue for the purpose of reaching consensus on the goals of the privatization initiative. In summary, although privatization of child welfare services has been widely used throughout the nation, the privatization of case management services specifically is a much more recent phenomena and has had mixed results - both for its effectiveness in improving outcomes for children and families and in cost efficiency. Not surprisingly, many of the factors that are necessary for successful privatization are the same factors that characterize an effective public sector case management system. Although privatization of case management has in some instances improved results, privatization is not a panacea for an under funded or understaffed delivery system.

Current Performance, Capacity and Interest in Privatization

This assessment of the range of privatization options available to Arizona utilized two major methods: a review of documents relevant to privatization (procurement procedures, performance reports, the Governor's Child Protection Reform Initiative, the Blue Print for Realigning Arizona's Child Welfare Program, the 2005 Auditor General reports, and other internal and external evaluations of DES) and the conducting of focus groups, stakeholder surveys, and interviews with three major stakeholder groups: (1) DCYF staff (CPS specialists, supervisors, assistant program managers, and district program managers), (2) child welfare and behavioral health providers, and (3) external stakeholders (including CASAs, members of the Foster Care Review Board, parents [birth, kin, foster and adoptive], representatives from other state agencies and the judiciary, advocates, and tribal leaders).

Several key findings emerged from the assessment:

1. *Arizona already has privatized a number of services and has many important reform initiatives underway.* Arizona has privatized significant services through contracts with private providers, including but not limited to the following programs and services: Healthy Families Arizona; Family Support and Preservation; Intensive Family Services; Family Group Decision Making, meeting coordination and support; Parent Aide; Family Reunification; Intensive In-Home; Counseling, including individual and group for non-Title XIX clients; Arizona Families F.I.R.S.T., substance abuse treatment; non-therapeutic group homes and residential treatment; foster and adoptive home recruitment, home study, training and supervision; and, Independent and Transitional Independent Living.

   DCYF is also partnering with the private sector on implementation of Arizona's Title IV-E Waiver Demonstration Project, Expedited Family Reunification, approved by the U.S. Department of Health and Human Services (DHHS). This Project will enable children with a case plan goal of "return home" to be reunified to a safe home much sooner, with intensive support and wrap-around services and connections to family and community support systems. This project will initially begin in selected sites within Maricopa County (District I). DCYF and community contract providers will partner in providing a wide array of services, including counseling, family centered assessments, team decision making, parenting skills training, home management skills, referral to other services such as substance abuse treatment, supportive links to community resources, discharge and aftercare planning, and the availability of flexible funding to meet the individual needs of families.

   In addition, Arizona has made significant system improvements over recent years in the areas of intake and investigation and case planning. Reform efforts include implementation of the Annie E. Casey's "Family to Family" Team Decision Making process in selected sites in Maricopa Country; creation of Family Connection Teams to integrate services across DES' Divisions; participation in the Casey Family Programs "Breakthrough Services" on Kinship Foster Care and Reducing Disproportionality and Disparate Outcomes for Children and Families of Color; implementation of child safety assessment and family strengths based risk assessment tools; provision of family centered practice skills training for CPS supervisors and case managers; and significant revisions to new case manager training provided by the Child Welfare Training Institute.

2. *Consensus is lacking as to the direction for future privatization efforts.* It was clear from the interviews, surveys, and focus groups that a true consensus about the privatization of case management in Arizona does not currently exist. Views were divergent about privatization itself and about the specific case management functions that lend themselves most effectively to privatization. In connection with the direction for potential future privatization efforts:

   - There was broadest agreement in the rejection of any proposal to privatize the centralized Child Protective Services (CPS) report intake function (Hotline) and CPS investigations. After eliminating blank and neutral responses, the majority of all respondents (70%) believe that Hotline functions should not be privatized. Providers overwhelmingly "disagreed" or "strongly disagreed" with the privatization of the Hotline function (79%). Approximately two-thirds of external stakeholders (67%) and of DCYF staff (66%) "disagreed" or "strongly disagreed" with privatization of the Hotline. There was even greater opposition in response to the privatization of CPS investigations. After eliminating blank and neutral responses, the vast majority (89%) of all respondents "disagreed" or "strongly disagreed" with the option of privatizing CPS investigations. DCYF staff were most opposed (93%); followed by providers (86%); and then external stakeholders (80%).

   - After eliminating blank and neutral responses, the privatization of in-home case management elicited very divided responses. Whereas the vast majority of providers (92%) "agreed" or "strongly agreed" with privatizing in-home case management, the majority of DCYF staff (58%) "disagreed" or "strongly disagreed" with that option. The opinion of external stakeholders represented the middle ground between providers and DCYF staff, with the majority (63%) "agreeing" or "strongly agreeing" to the privatization of in-home case management.

   - After eliminating blank and neutral responses, the privatization of out-of-home case management elicited almost equal responses at opposite ends of the spectrum. A slim majority (53%) of all respondents "agreed" or "strongly agreed" with the privatization of out-of-home case management while slightly less than half (47%) of all respondents "disagreed" or "strongly disagreed" with the option. Clear differences were evident across the different types of respondents. External stakeholders were somewhat evenly divided in their opinions, with more respondents agreeing (58%) than disagreeing (42%). Providers and DCYF staff expressed diametrically opposite opinions. Eighty-nine percent (89%) of providers "agreed" or "strongly agreed" with privatization of out-of-home case management and 77% of DCYF staff "disagreed" or "strongly disagreed" with that option. Case management for out-of-home care proved to be an uneasy target for privatization, particularly for DCYF staff.

- After eliminating blank and neutral responses, there was general endorsement of privatizing independent living, adoption and adoption subsidies, with approximately three-quarters of all respondents stating that they "strongly agreed" or "agreed" with privatizing these functions. There was also greater consensus among the stakeholder groups regarding the privatization of these areas than was the case with other potential areas for privatization. Caution is needed, however, in interpreting these findings. Many respondents indicated in the focus groups that they chose these areas for privatization simply because they felt the populations would be relatively small and easily identifiable or because they felt the case management privatization transition might be less disruptive to the overall system if these clearly defined functions, as opposed to others, were privatized.

- Not all possible options for the privatization of case management were fully explored. Some respondents noted in the focus groups that rather than being asked to choose functions as they currently exist, they would have preferred a discussion about possible benefits of privatizing case management across service areas to improve overall coordination and provide continuity for children and families from entry to exit from the system.

3. *There are strengths in the current system's business practices indicating readiness to plan and implement a future privatization initiative.* Strengths include:

   - Clearly articulated goals and objectives for the major improvement efforts underway.
   - Positive relationships among DCYF, the private agencies, and community leaders.
   - Familiarity on the part of DCYF with structuring contracts and aligning financing to achieve improved results.
   - The ability of CHILDS, the child welfare information technology system, to support many contract and payment functions.
   - An ability to track data on key indicators and aggregate data in the form of performance reports.

4. *Arizona faces significant challenges in improving current services and in moving to privatize case management for any portion of its child welfare service areas.*

   The assessment revealed that both DCYF and the private providers would need to invest time and money to prepare for the privatization of case management. Several areas needing remediation were identified:

   - Procurement, negotiation and monitoring for compliance. Several challenges were identified in this area: problems with DCYF's contract negotiation process; the absence of adequate contract monitoring; and DCYF's failure to hold providers accountable for contract compliance, including requiring the development and completion of corrective action plans when problems are identified. DCYF currently lacks adequate administrative staff and an infrastructure to fully remedy these challenges. In addition, there was agreement that DCYF would need to reassess its approach to procurement to reward contractors who meet or exceed performance expectations.

Although these challenges were identified by all stakeholders (contracted providers, external stakeholders, and by DCYF staff) who participated in focus groups, it is important to note that over the last year DCYF has implemented several procurement improvement processes that include the following: (1) DCYF now conducts statewide Requests for Information (RFI) meetings to obtain potential provider comments and ideas about a proposed Scope of Work for a service prior to the official release of the Request for Proposals; and, (2) new or renewed requests for contracted services include performance-based contracting components.

To the extent possible with existing resources, DCYF does monitor contracts and attempts to hold providers accountable for contract compliance. DCYF acknowledges that this is an area that could be improved with additional staff capacity. Within the past several months in response to issues raised by the Protecting Arizona's Family Coalition (PAFCO) whose membership includes the Arizona Council of Human Service Providers, DES began a process to improve internal procurement and contract monitoring. The DES Office of Procurement and the Director's Office met with PAFCO and a number of providers, including DCYF providers, to discuss issues and provide education about the procurement process. This meeting resulted in implementation of a plan of Procurement Reform and Education, including further education of providers and DES staff. Planned DES Procurement improvements include the semi-centralization of the procurement solicitation process. By moving the solicitation responsibilities out of the program areas and into the centralized procurement office, some of the needed resources may be freed up to refocus the programmatic efforts on contract administration.

- Access to a full array of quality services and placement options, including behavioral health services. Privatization of case management will not remedy problems caused by inadequate or inappropriate services. Repeatedly, DCYF's performance difficulties were attributed to the inability to access services or appropriate placements that the RBHAs manage. There was agreement that the current access and capacity barriers would need to be addressed if a privatized DCYF case management initiative were to move forward.

- The current work environment. While internal and external stakeholders generally supported the many new DES reform initiatives, DCYF respondents also cited the difficulty in implementing so many reforms in such a short period of time. In addition, staffing shortages and higher caseloads have contributed to low morale and increased caseworker stress. The current DCYF work climate is not conducive to the implementation of any new privatization initiative.

- Communication. Ineffective or ill-timed communication was an issue of concern for all stakeholder groups. There was agreement that if privatization discussions continue, internal and external stakeholders must be kept informed as key decisions are made.

- Provider readiness. Because the private agencies are essential partners in any case management privatization initiative, it is essential that providers be ready to assume new responsibilities. The assessment revealed some wide differences in private agencies' self-assessments of their readiness for privatization of child welfare case management. Of importance to any privatization effort will be the development of readiness criteria, systematic evaluations of providers' readiness to assume responsibility for critical services, and the provision of adequate time and technical assistance, as needed, to ensure that providers have the infrastructure, personnel and competencies to proceed before cases are assigned. Given current DCYF staff capacity this type of support and technical assistance would be difficult if not impossible for DCYF to provide.

Recommendations for Next Steps

As evident throughout this report there are hurdles to overcome and no clear consensus on the best course of action. However, there is also strong support from the provider community and from some external stakeholders to plan and implement a pilot project to test the effectiveness of a privatized case management approach. Based upon this interest and the overall findings of the assessment, the following recommendations are made:

- Make this report widely available to internal and external stakeholders for comment, including those who participated in focus groups and completed surveys.

- Regardless of whether or not the State moves to privatize any case management duties, it is strongly recommended that a DCYF Public/Private Partnership Work Group be formed to build upon the previously described Procurement Reform and Education effort. The focus of the newly created Work Group would not only be to address the barriers identified in this report but also to improve current business practices. It is recommended that if a Work Group is created it be comprised of internal and external stakeholders, including providers, and that the work be organized through the creation of subgroups charged with responsibility for examining and crafting approaches to address the identified issues outlined in the report and in the following framework. Both DCYF and any potential future privatized case management system can benefit from such an effort.

- It is recommended that DES expand its current internal procurement and monitoring improvements to specifically address DCYF challenges. Given the amount of funds that currently support DCFY contracts and the number of children and families already served by private agencies, it is imperative that resources be allocated and plans implemented to address identified quality assurance and monitoring weaknesses. It would be ill advised to expand contracting efforts to include case management until capacity is adequate to monitor and enforce compliance of current and future contracts. Resources may be needed to support needed improvements, which may necessitate Legislative support.

- It is recommended that DES explore any potential legal, financial and risk impacts of privatizing any portion of case management services. Other states have privatized child welfare services, including case management, and have not encountered difficulties regarding their claims for reimbursement for foster care expenses under the federal Title IV-E program. Nonetheless, given the lack of explicit guidance from the U.S. Department of Health and Human Services regarding the impact of privatization on states' claims for reimbursement under Title IV-E, it would be prudent to seek clarification of federal policy in this area. There is also a lack of clarity in state law and court rules that may preclude the private agencies from presenting the "State's" recommendations to the courts as agents of the state. If DES is required to have a state employee present to represent the department in all court appearances, this would result in considerable duplication of effort and expense. It is not clear if the Office of the Assistant Attorney Generals' attorneys would be able to represent the private agency case manager in these court proceedings as this Office does for CPS staff.

A Framework for Arizona Decision Makers

If privatization is to move forward and if the intent of any future privatization of case management is improved results and cost efficiency, significant energy will need to be devoted to planning the effort and to overcoming the previously described challenges. This framework is provided as a technical assistance resource for decision makers and the recommended Public/Private Partnership Work Group to use in improving current practices and weighing privatization options. The following principles provide guidance and raise issues in ten areas that would need to be addressed:

1. *View privatization as a method to improve case management practices and recognize that planning for best practice takes time.* The process would need to acknowledge and expect that DCYF staff and providers need time to plan and perhaps additional resources to implement any case management privatization initiative. Any privatization plan that may emerge from the Public/Private Partnership Work Group would need to be supportive of and consistent with other State reform goals, strategies and initiatives. Key Central Office and District DCYF staff, providers and other external stakeholders would need to be included in the planning process.

2. *Define success.* DCYF staff, provider agencies and external stakeholders ›uld need to be engaged in dialogue to reach agreement on the purpose of any privatization effort and to determine how private agency performance would be measured over time.

3. *Have a clear rationale for selecting the target population and the case management model.* Planners would need to take into consideration current initiatives and examine a range of options for serving the target population, including the development of an integrated system of care. Once the target population and focus are clear, decisions would need to be made about the size of the population to be served and the geographical area(s) for the initiative(s). Pilots in several regions can provide critical information on effectiveness in serving children and families in both urban and rural areas.

4. *Define the roles of DCYF staff, RBHA caseworkers, and the private providers.* Planners would need to look at case management functions throughout the life of a case and, depending on the target population and the case management model, clearly define the respective roles of DCYF workers and private agency case managers, including the RBHAs.

5. *Ensure service capacity.* Gaps in service capacity and access barriers, including those in behavioral health services, must be eliminated prior to the launch of any privatized child welfare case management initiative. Many of the problems faced in child welfare result from a lack of resources and supports for children and families. Privatization will not solve these resource problems.

6. *Design and implement a Quality Assurance/Quality Improvement (QA/QI) and contract monitoring system.* Decision makers would need to draw upon the "lessons leaned" from other communities that have struggled to find the right balance in monitoring contracts. DCYF would need to develop standards and quality assurance processes that promote contract compliance and the private agencies' achievement of defined results without stifling the providers' ability to innovate.

7. *Assess data technology needs.* Decision makers would need to examine the State's current information technology capacity and identify enhancements that may be required. Steps would need to be taken to ensure that private providers have the technological and human resource capacity to meet specified data collection and reporting requirements.

8. *Identify funding sources and financing options.* Decision makers would need to determine the funding sources and level of resources that would be needed to support a privatized case management initiative. DCYF would need to work with providers to assess current provider capacity in relation to risk-based financing approaches and carefully weigh the pros and cons of different financing models with that capacity in mind. It would be essential for planners to ensure that control over key case management decisions be balanced with the level of risk assumed by the provider.

9. *Consider staffing and training issues.* Planners would need to assess the impact of any future case management privatization on the DCYF and private agency staff perceptions regarding job security and job satisfaction and the effects of privatization on issues related to salary, benefits, pensions, staff qualifications and training needs.

10. *Chart the course from planning to implementation.* Planners would need to have a process for translating the vision for a privatized case management initiative into a sound procurement and implementation strategy. DCYF would need to determine the best means of engaging district offices and community stakeholders in planning for the transition, without jeopardizing the integrity of a competitive procurement process, and engaging them in the ongoing evaluation and continual refinement of the initiative. A detailed transition plan would need to address the impact of privatization on current DCYF operations (including its capacity to recruit and retain staff), and assess the additional supports, if any, that might be needed in the short term to successfully transition to a privatized system.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: February 20, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Leah Ruggieri, Fiscal Analyst LR

SUBJECT: Attorney General – Review of Intended Use of Monies in the Antitrust Enforcement Revolving Fund

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of its intended use of Antitrust Enforcement Revolving Fund monies in excess of $208,200.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the intended expenditures as they are consistent with the statutorily allowed usage of Antitrust Enforcement Revolving Fund monies.

Analysis

The General Appropriation Act contains a footnote that states all revenues received by the Antitrust Fund in excess of $208,200 are appropriated. Expenditures from the fund, however, are limited to $750,000 in FY 2006. The footnote further requires that the AG shall not expend monies from the fund in excess of $208,200 prior to review by the Joint Legislative Budget Committee.

The agency reports that available monies in FY 2006 from the Antitrust Enforcement Revolving Fund will be $375,000 due to a recent settlement agreement in the El Paso Natural Gas,

(Continued)

Buspirone, and Cardizem antitrust litigation. The AG estimates that FY 2006 expenditures will be $375,000 for the following purposes:

- $245,000 for personnel costs. This will fund Personal Services and Employee Related Expenses for 5 existing staff positions.
- $75,000 for multi-state cases. This represents Arizona's share of the investigative and court costs associated with participating in multi-state antitrust cases.
- $55,000 for operating costs. The operating costs are for the support of the Antitrust Unit.

RS/LR:ym

Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

DEC 2 7 2005

December 23, 2005

The Honorable Russell Pearce
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Pearce:

This letter is written to report the intended use of expenditures from the antitrust Enforcement Revolving Fund (ATRF). All revenues received by the ATRF are appropriated. However, a footnote to the general appropriations act states, "Before the expenditure of any Antitrust Enforcement Revolving Fund receipts in excess of $208,200 in FY 2006, the Attorney General shall submit the intended uses of the monies for review by the Joint Legislative Budget Committee."

With the recent settlement agreement in the El Paso Natural Gas, Buspirone, and Cardizem antitrust litigation, the estimated funds available for FY06 will exceed $375,000. The Office of the Attorney General estimates that the FY06 expenditures will be $325,000 for the following purposes:

- Personnel costs - $245,000
- Multi-state cases - $75,000
- Operating costs - $55,000

These expenses represent the costs allowed by A.R.S. § 41-191.02. They include such items as filing fees, court costs, travel, depositions, transcripts, reproduction costs, expert witness fees, and investigation expenses.

If additional information would be helpful, please let me know.

Sincerely,

Terry Goddard
Attorney General

cc: The Honorable Robert Burns
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Office of Strategic Planning and Budget

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE:	February 20, 2006
TO:	Senator Bob Burns, Chairman Members, Joint Legislative Budget Committee
THRU:	Richard Stavneak, Director RS
FROM:	Leah Ruggieri, Fiscal Analyst LR
SUBJECT:	Attorney General – Review of Allocation of Settlement Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies received from the Auto Connection settlement agreement.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the allocation plan from the Auto Connection settlement agreement. The allocation plan is consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the AG or any other person on behalf of the State of Arizona, and it specifies that the AG shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The AG recently settled a case that will result in the receipt of settlement monies over $100,000.

The settlement is the result of the AG's investigation of Auto Connection in response to dozens of complaints from consumers who paid for automobile service agreements. Auto Connection sold the agreements as an independent agent for companies that were to administer the agreements and pay claims filed under them. The settlement agreement alleges that over a period of nearly 6 years, Auto Connection violated the Arizona Consumer Fraud Act by failing to forward service agreements or any of the money paid for them to administering companies, and by failing to disclose this fact to consumers. Because administering companies were not forwarded the agreements, claims filed under them were denied, resulting in consumers having to pay for expensive repairs that should have been covered by the agreements they bought from Auto Connection.

In November 2005, the AG settled the claims against Auto Connection for \$170,000. Of this amount, \$120,000 will provide restitution to eligible consumers. Monies remaining after the distribution of restitution, if any, will be allocated to the AG for attorneys' fees and costs of investigation. The remaining \$50,000 will be deposited into the Consumer Fraud Revolving Fund for costs and attorneys' fees.

RS/LR:ym

Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Rene Rebillot
Consumer Protection &
Advocacy Section

February 13, 2006

RECEIVED
FEB 14 2006
JOINT BUDGET COMMITTEE

The Honorable Ken Bennett
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable James P. Weiers
Speaker of the House
1700 West Washington
Phoenix, Arizona 85007

The Honorable Robert L. Burns
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: *In re Gail Oleaga, Auto Connection and Auto Connection, LLC*

Dear Gentlemen:

The Attorney General obtained an Assurance of Discontinuance from Auto Connection and its owner, Gail Oleaga. The Assurance was subsequently approved by the Maricopa County Superior Court. This Assurance was the result of the Attorney General's investigation of Auto Connection that was prompted by dozens of complaints from consumers who paid Auto Connection thousands of dollars for automobile service agreements. Auto Connection sold the agreements as an independent agent for companies that were to administer the agreements and pay claims filed under them.

The Assurance contains allegations that over a period of nearly six years Auto Connection violated the Arizona Consumer Fraud Act by failing to forward service agreements or any of the money paid for them to the administering companies, and by failing to disclose this fact to consumers. Because of Auto Connection's failure to forward the agreements, the administering companies had no record of the agreements and denied claims that were filed under them, resulting in consumers having to pay for expensive repairs that should have been covered by the agreements they bought from Auto Connection.

1275 West Washington, Phoenix, Arizona 85007-2926 • Phone 602-542-7701 • Fax 602 -542-4377

The terms of the Assurance prohibit Auto Connection or its owner, Gail Oleaga, from selling automobile warranty or insurance products for a period of six years. The agreement also requires Ms. Oleaga to pay restitution in the amount of $120,000.00, as well as $50,000.00 toward this office's costs and attorneys fees. The money for costs and attorney's fees will be placed in the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01.

Although the Assurance of Discontinuance was filed in November, 2005, the assurance was conditional. Ms. Oleaga was required to obtain a loan in order to pay off the restitution, costs and fees. The loan was completed on February 1, 2006. If Ms. Oleaga had been unable obtain the loan, a different assurance would have been negotiated or the case would have proceeded to trial.

Our notification to you of this settlement is made without prejudice to this office's long standing position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Rene Rebillot
Section Chief Counsel
Consumer Protection and Advocacy Section

Enclosure: Assurance of Discontinuance

cc: The Honorable Linda Aguirre
The Honorable Phil Lopes
Mr. Richard Stavneak
Ms. Leah Ruggieri
Mr. Timothy Nelson
Mr. Richard Travis
Mr. John Stevens

#946947

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DATE: February 20, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Martin Lorenzo, Assistant Fiscal Analyst ML

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC)

Request

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review, their FY 2006 second quarter expenditures and progress for the statewide interoperability design project.

Recommendation

The JLBC recommends that the Committee give a favorable review of the request. Additionally, the JLBC recommends the Committee request future quarterly reports include progress and activities relative to tasks identified in the Concept of Operations and timeline. Second quarter expenditures totaled $109,900 of nearly $4.1 million in available funding. Three Commission staff positions remain vacant. The PSCC continues to meet with stakeholders on interoperability issues and conducted a "short-term" pilot project, however, details on the pilot project's success were not provided.

Analysis

Background & Activities
The PSCC was established to develop a statewide standard based interoperability system that allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide interoperability communication system have been estimated to be as high as $300 million. The PSCC timeline (*see attachment A*) targets the establishment of a financing and development plan for the system by July 2008.

(Continued)

Progress in the second quarter (relative to the timeline) included the drafting and implementation of operational policies and procedures for first responders in an interoperable environment. These procedures were utilized at the Arizona Emergency Radio System (AERS) pilot project. The PSCC is providing technical oversight and direction to the Department of Emergency and Military Affairs on a "short-term" interoperability solution, AERS. The pilot project was conducted at Northern Arizona University and included participants from Northern Arizona University, Williams Police Department, Flagstaff Police Department and the Department of Public Safety. Details on the success and implementation of the pilot project were not provided.

In the review of the PSCC first quarter expenditures, the Committee requested answers to various questions on the Arizona Emergency Radio System (AERS) and federal funds received for interoperability enhancements (*see attachment B*). The following information was provided in response to these questions relating to AERS:

- Full deployment in Coconino County will be completed by the end of the third quarter and coverage along the U.S.-Mexico border and in Mohave County is scheduled to begin in the third quarter.
- Throughout the state, AERS will be phased in and statewide interoperability will be achieved by the end of FY 2009.
- The DPS microwave and land mobile radio system as well as shared use of communications sites from city, county, tribal and federal agencies would provide coverage to support the operational demands of the state.
- Past analysis indicates coverage is estimated to be available in 70% of the state. Areas not receiving coverage include federal parks and wilderness areas, military operating areas, as well as Tribal and state land where, operational, land-use, political, and economic circumstances have precluded coverage.
- Funding for the "short-term" solution is provided by the Arizona Office of Homeland Security, who is utilizing federal homeland security monies. The total cost is estimated to be $6.3 million.

With respect to federal funding, the Phoenix metropolitan area was one of 25 metropolitan areas to receive monies to expedite interoperable communication systems already underway. The United States Department of Justice, under the direction of Maricopa County public safety agencies, provided equipment (valued at $565,000) including:

- Portable radios for large scale incidents which will be stored at 3 locations across the valley.
- Desktop radio control stations for public safety answering points.
- Replacement base stations and electronic equipment for 4 communications sites serving Maricopa County.

Expenditures

Laws 2004, Chapter 275 appropriated $5 million from the General Fund (of which $3 million was non-lapsing) to DPS in FY 2005 for design costs of a statewide radio interoperability communication system. Of this amount, approximately $1.5 million reverted back to the General Fund and $3,000,000 is available in FY 2006 for expenditure. The FY 2006 General Appropriation Act appropriated an additional $1,258,100 from the General Fund to DPS for the PSCC through the Statewide Interoperability Special Line Item for a total of $4,258,100 in available monies for expenditure in FY 2006.

In the second quarter, the PSCC expended roughly $109,900 and filled none of the remaining 3 vacant FTE Positions (2 telecommunication engineer positions and the technical writer position). In

(Continued)

FY 2007, vacancy savings is estimated to be approximately $232,100. *Table 1* indicates FY 2006 monies available for expenditure as well as the first and second quarter expenditures.

Table 1

PSCC Appropriation & Expenditures

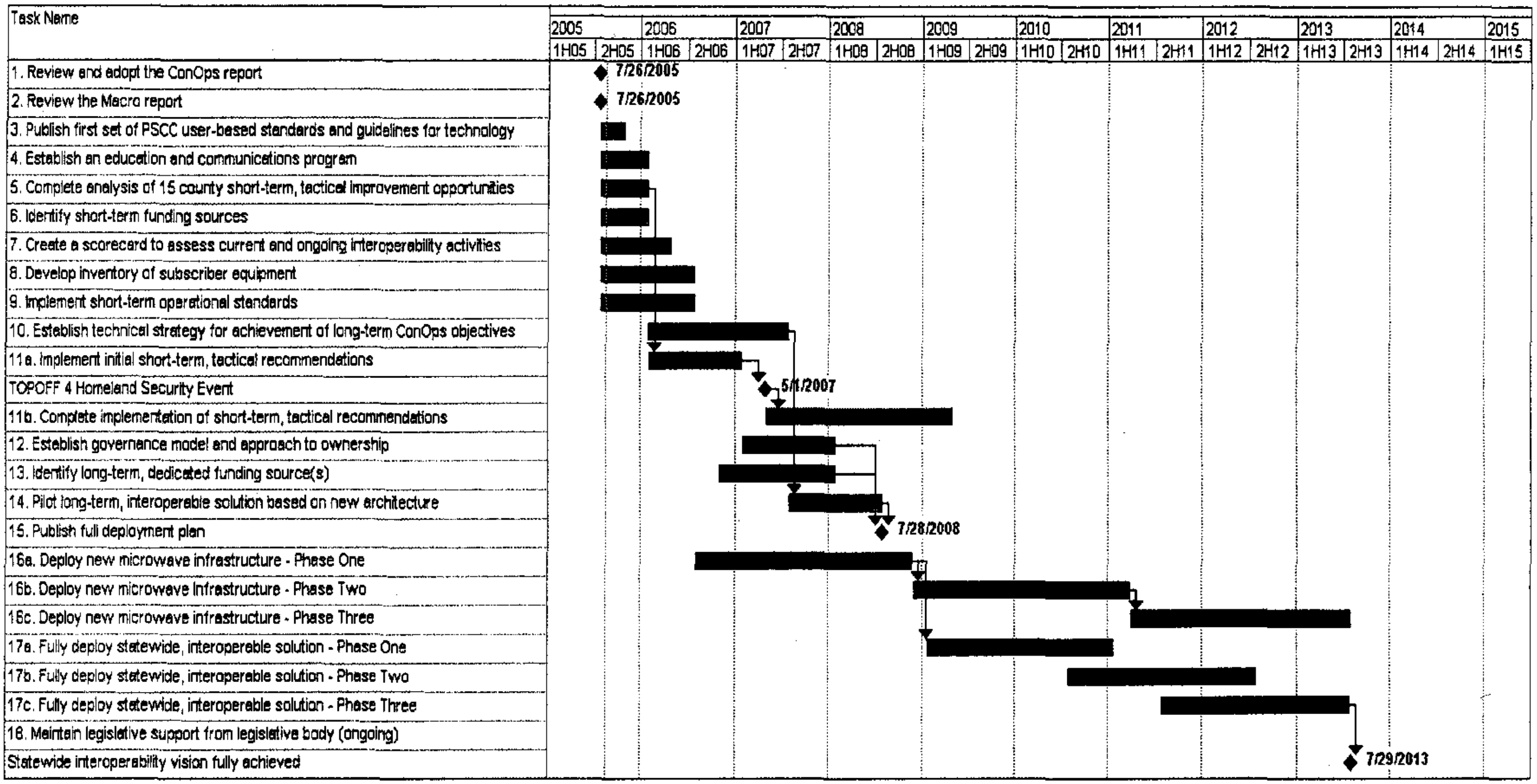
	FY 2006 Funding	**1st Quarter Expenditures**	**2nd Quarter Expenditures**
Personal Services	$ 672,500	$ 95,300	$ 90,600
Employee Related Expenditures	218,000	14,200	13,100
Professional & Outside Services	3,000,000 1/	-	-
Travel - In State	41,400	100	1,000
Travel - Out of State	26,600	1,500	-
Other Operating Expenditures	299,600	45,800	4,800
Equipment	-	3,300	400
Total Operating Expenditures	**$4,258,100**	**$160,200**	**$109,900**

1/ The additional $3 million in non-lapsing monies are included in the Professional & Outside Services line.

RS/ML:ym

The following project plan conveys the major components of the short- and long-term strategies for achieving statewide interoperability in the State of Arizona. Through execution of this plan, the State can address the critical communications issues facing public safety and realize the vision for radio interoperability shared by the PSCC and the State of Arizona.

Figure 2. Arizona Statewide Interoperability Project Plan



ATTACHMENT A

ATTACHMENT B

ARIZONA DEPARTMENT OF PUBLIC SAFETY

2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223-2000

JANET NAPOLITANO
GOVERNOR

ROGER VANDERPOOL
DIRECTOR

December 16, 2005

Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

Listed below are specific responses to your letter dated December 1, 2005 reference the Arizona Public Safety Communications Advisory Commission's (PSCC) FY 2006 first quarter expenditures and progress.

Question 1: "It is our understanding that the Federal Department of Justice provided funding for an interoperability communications system in the Phoenix Metropolitan area. Please indicate the amount of funding and how the monies were used. How will that system integrate into the statewide "short-term" and "long-term" solution?"

The Phoenix metropolitan area was one of 25 metropolitan areas where the U.S. Department of Justice (DOJ) was tasked to encourage and speed local interoperability improvements already underway. A rapid infusion of monies was expected to speed the development and deployment of technology and to further the development of operational plans to encourage the use of the technology. Existing radio networks, and those partially deployed, were provided equipment through DOJ. Equipment totaling approximately $565,000 was provided through DOJ purchases under the joint technical direction of Maricopa County public safety agencies. Three major categories of systems or programs were expanded or replaced in Maricopa County through the DOJ "25 Cities Program":

1) Purchased a cache of portable radios to be stored at three strategic locations across the valley. The cache is a resource to be deployed for large-scale events or critical incidents to support interoperability between agencies on different radio systems.

2) Purchased desktop radio control stations for installation at valley Public Safety Answering Points (PSAP's) to increase coordination between valley agencies on different radio systems.

3) Purchased replacement radio base stations and electronic control equipment for four Interagency Radio System (IARS) remote communication sites serving Maricopa County.

The three elements listed above all further short-term interoperability efforts, first, through the joint planning efforts for their deployment and use. Secondarily, all elements provide some measure of improved interoperability that can be implemented quickly at relatively low costs to apply short-term or stop-gap measures for public safety agencies to communicate between disparate radio systems. However, the primary integration between DOJ's funding effort and the short/long-term solution is the recognized common effort of revitalizing and expanding the IARS system into what is now the Arizona Emergency Radio System (AERS).

Question 2: "With respect to the Arizona Emergency Radio System (AERS), when will the pilot project in Coconino County be initiated and for how long will it last? When will the system be operational in other parts of the state, and when will the project be fully deployed and operational?"

The pilot project in Coconino County is planned to test operational policies and procedures as well as technology and systems as the original IARS network is modernized and becomes the AERS network. The pilot deployment of AERS, already in place in the Flagstaff metropolitan area will remain as the first steps of the permanent AERS solution in Coconino County. Operational field tests are planned beginning in mid-December. After successful operational and procedural tests, full AERS installation is scheduled to begin in mid-January 2006 with planned completion countywide for the second quarter of 2006.

Recognizing the increased border crime enforcement initiatives, site engineering has begun for ten additional remote communication sites focusing on improved coverage and interoperability along the international border. Equipment delivery times and DPS remote communication site space availability will establish installation dates and locations, also planned for the second quarter of 2006.

Mohave County recognized quick wins afforded by the AERS concept and has advanced the process with homeland security monies awarded to the county. With additional funding support from the Arizona Division of Emergency Management (ADEM) and engineering support from DPS, AERS will be deployed on three remote communication sites. Equipment delivery will establish the final installation dates currently planned for the second quarter of 2006.

The Public Safety Communications Commission in its Concept of Operations (ConOps) document recognized the importance of phased interoperability improvements, which build upon themselves, beginning with the deployment of the AERS concept. The ConOps timeline establishes an AERS implementation beginning in January 2006 through July 2009.

Question 3: "When the AERS solution is fully implemented, what portion of the state will be covered by the system? Please indicate the areas that will not receive coverage, and the reasons these areas will not receive coverage."

The short-term AERS deployment, as well as future long-term solutions, will ultimately take advantage of a statewide microwave system and remote communication sites under the ownership and management of the Arizona Department of Public Safety. Additionally, shared use of communications sites under the ownership and management of city, county, tribal and federal agencies may augment the coverage provided from DPS sites. DPS microwave and land mobile remote communication sites are positioned and engineered to provide land mobile radio coverage to support the operational demands of state agencies. Computer modeling studies completed in 2004 by the MACRO Corporation estimated over 70% of Arizona's land mass was afforded mobile radio coverage from existing DPS remote communication sites. The remaining, nearly 30% of Arizona, falls into several categories:

1) Federal parks and wilderness areas where coverage has historically been unnecessary or land-use restrictions preclude remote communication site development.

2) Federal military reservations where coverage has historically been unnecessary.

3) Tribal lands where coverage has historically been operationally unnecessary or where political, environmental, cultural and/or economic forces have limited remote site development.

4) State lands where operational demands of state agencies have not required coverage, or where the costs to develop remote communication sites in areas have overshadowed the need for radio coverage.

Question 4: "What is the cost of implementing AERS? Who is funding the project and what are the funding sources?"

As reported by the Arizona Department of Emergency and Military Affairs engineering consultant and their published report on interoperability, short-term interoperability improvements through the AERS implementation are estimated to be $6.3 million. Project funding is provided through the Arizona Office of Homeland Security with federal homeland security monies.

Thank you for the opportunity to clarify our responses from the November 29, 2005 JLBC meeting. If we can answer any further questions or assist you or your staff in any manner, please contact Mr. Curt Knight, Executive Director, PSCC at (602) 271-7400.

Sincerely,

DEPUTY

for Roger Vanderpool
Director

ej

cc: Representative Russell Pearce, Chairman
Senator Bob Burns, Vice-Chairman
House Speaker Jim Weiers
Senate President Ken Bennett
D. Clark Partridge, State Comptroller, GAO, ADOA
Gary Yaquinto, Director, OSPB
Curt Knight, Executive Director, PSCC, DPS

ARIZONA DEPARTMENT OF PUBLIC SAFETY

2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223-2000

JANET NAPOLITANO
GOVERNOR

ROGER VANDERPOOL
DIRECTOR

February 1, 2006

Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

Attached is our second quarterly report for the Arizona Public Safety Communications Advisory Commission (PSCC). Included is a narrative of our activities, along with the expenditure report for the reporting period of October 1, 2005 through December 31, 2005.

If we can answer any questions or assist you or your staff in any manner, please contact Mr. Curt B. Knight, Executive Director, PSCC at (602) 271-7400.

Sincerely,

Roger Vanderpool
Director

hb

Attachments

Staffing:

Ms. Dee Strickland transferred to another position within the Department of Public Safety. Upon Ms. Strickland's transfer, Ms. Holly Burkenbine accepted the PSCC Administrative Services Officer position effective December 17, 2005. Ms. Burkenbine is a 14-year DPS employee and will be responsible for the administrative/budgetary functions of the PSCC office.

PSCC Activities:

In May 2005, on behalf of the west valley public safety agencies, Glendale awarded a $300,000 Law Enforcement Terrorism Prevention Program (LETPP) grant to study the west valley public safety communication systems. The PSCC Support Office participated in the pre-award review of vendor responses, and most recently, in the kick-off meeting for the study.

DPS Highway Patrol Chief Jack Lane and Mr. Curt Knight provided testimony to the Joint Senate Committee on Government and the House of Representatives Committee on Government Reform and Government Finance Accountability on Arizona's emergency preparedness.

The PSCC responded to questions which were received after the last budget review. Questions revolved around the amount/use of federal funding for interoperability in the Phoenix metro area, scheduling and total costs of the Arizona Emergency Radio System (AERS) project, and the extent of coverage to be provided when AERS is fully deployed.

During this quarter, Mr. Curt Knight and Mr. Kevin Rogers met with various representatives from the Office of Homeland Security, Division of Emergency Management (DEMA), Maricopa County Sheriff's Office, Casa Grande Fire Department, Arizona State Land Department, and Mohave County Sheriff's Office to discuss interoperability and implementation of the Arizona Emergency Radio System (AERS).

Mr. Knight and Mr. Rogers attended and/or participated in: the Arizona Homeland Security Central Regional Advisory Committee meeting; discussed communication plans at the North and East Regional Advisory Committees with officials from Arizona Homeland Security and DEMA; met with the Government Information Technology Agency (GITA) to confer about project implementation justification procedures and administrative issues; met with the Director of Homeland Security and Motorola to discuss communication issues for TOPOFF 04; attended two Statewide Interoperability Executive Committee Operational Work Group sessions; and a JLBC budget hearing.

Mr. Rogers attended a Homeland Security grant process seminar at the ASU West Campus. He also observed communication issues regarding a statewide emergency exercise from the State Emergency Operations Center facility. He also traveled to

Holbrook to attend the northern Regional Advisory Committee meeting and presented information on AERS.

The Operational Work Group of the Statewide Interoperability Executive Committee (SIEC) has drafted and sent to the PSCC operational plans for multi-jurisdictional use of the AERS network. The Operational Work Group is made up of law enforcement, fire field command, as well as communication center personnel from throughout the state. They contributed their operational input and experiences to the draft plan. As recognized and emphasized in the PSCC's Concept of Operations document, operational polices and procedures are as important as technology, if not more important, to the interoperability solution.

Commission Meetings:

Summary of the October 2005 PSCC meeting:

The Concept of Operations document was formally accepted and signed by the Chairman and attending Commissioners. The National Law Enforcement and Corrections Technology Centers (NLECTC) and the PSCC have entered into a Memorandum of Understanding to compare technology and develop the Concept of Operations into a conceptual model.

Specific changes/additions to the General Policies regarding the Statewide Interoperability Executive Committee (SIEC) were announced and implemented.

Representative Steve Huffman drafted legislation to be included in this legislative session authorizing the Department of Public Safety to enter into financing options to replace the microwave system.

A Proof of Concept pilot project for AERS was scheduled to be deployed in Coconino County.

A representative from GITA provided an overview of their role with DPS, DEMA and the PSCC.

Summary of the January 2006 PSCC meeting:

The AERS pilot project was conducted during the Northern Arizona University Commencement Exercise. Over thirty public safety and support personnel from Northern Arizona University, Williams Police Department, Flagstaff Police Department and the Department of Public Safety took advantage of the early partial deployment of the AERS system in Coconino County to allow interagency communications between VHF, UHF and 800 MHz radio users during the recent commencement exercises.

Information on the AERS status and installation schedule was discussed. The Governance subcommittee was established with several individuals volunteering to serve. As documented in the Concept of Operations, a long-term governance structure needs to be addressed. The objective of this subcommittee will be to research, develop and recommend alternatives for the long-term management, operation, ownership, partnerships and funding which will become the governance structure for statewide interoperable radio solutions.

The Commission confirmed the critical key elements for Arizona's long-term solution as defined in its "Concept of Operations." The Commission also approved the timeline to define the long-term solution by the end of calendar year 2007 followed with an operational pilot system as a proof of concept by end of calendar year 2008.

Future PSCC meeting:

Tuesday, April 25, 2006 at 1:00 p.m.
Burton Barr Central Library
1221 North Central Avenue
Phoenix, Arizona

Budget:

Expenditures for the second quarter of FY 06 totaled $109,994.54. FY 06 vacancy savings to date total $232,050.00 (approximately 52% of allocated funds).

PUBLIC SAFETY COMMUNICATIONS COMMMISSION BUDGET FY2006

FY 06 Quarterly Expenditure
Allocated Funds

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	$ 672,500.00	$ 95,292.07	$ 90,610.10	$ -	$ -	$ 486,597.83
ERE	$ 218,000.00	$ 14,166.03	$ 13,118.32	$ -	$ -	$ 190,715.65
PROFESSIONAL/OUTSIDE SVCS *	$ -	$ -	$ -	$ -	$ -	$ -
TRAVEL (IN STATE)	$ 41,400.00	$ 94.70	$ 1,010.41	$ -	$ -	$ 40,294.89
TRAVEL (OUT OF STATE)	$ 26,600.00	$ 1,529.25	$ -	$ -	$ -	$ 25,070.75
AID TO OTHER ORGANIZATIONS	$ 55,000.00	$ -	$ -	$ -	$ -	$ 55,000.00
OTHER OPERATING	$ 115,300.00	$ 45,792.66	$ 4,824.93	$ -	$ -	$ 64,682.41
BUILDINGS/BUILD IMPROVEMENT	$ -	$ -	$ -	$ -	$ -	$ -
NON CAPITAL EQUIPMENT	$ -	$ -	$ -	$ -	$ -	$ -
CAPITAL EQUIPMENT		$ 3,287.98	$ 430.78	$ -	$ -	$ (3,718.76)
INDIRECT COSTS	$ 129,300.00	$ -	$ -	$ -	$ -	$ 129,300.00
	$ 1,258,100.00					**$ 987,942.77**
QUARTERLY EXPENDITURES TOTALS		$ 160,162.69	$ 109,994.54	$ -	$ -	
				FY 06 TOTAL EXPENDITURES	**$ 270,157.23**	

FY 06 Quarterly Expenditure
Non Lapsing Funds

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	$ -	$ -	$ -	$ -	$ -	$ -
ERE	$ -	$ -	$ -	$ -	$ -	$ -
PROFESSIONAL/OUTSIDE SVCS *	$ 3,000,000.00	$ -	$ -	$ -	$ -	$ 3,000,000.00
TRAVEL (IN STATE)	$ -	$ -	$ -	$ -	$ -	$ -
TRAVEL (OUT OF STATE)	$ -	$ -	$ -	$ -	$ -	$ -
AID TO OTHER ORGANIZATIONS	$ -	$ -	$ -	$ -	$ -	$ -
OTHER OPERATING	$ -	$ -	$ -	$ -	$ -	$ -
BUILDINGS/BUILD IMPROVEMENT	$ -	$ -	$ -	$ -	$ -	$ -
NON CAPITAL EQUIPMENT	$ -	$ -	$ -	$ -	$ -	$ -
CAPITAL EQUIPMENT		$ -	$ -	$ -	$ -	$ -
INDIRECT COSTS	$ -	$ -	$ -	$ -	$ -	$ -
	$ 3,000,000.00					**$ 3,000,000.00**
QUARTERLY EXPENDITURES TOTALS		$ -	$ -	$ -	$ -	
				FY 06 TOTAL EXPENDITURES	**$ -**	

2ND QTR EXPENDITURES

OBJECT CODE	DATE	VENDOR		EXPENDED	SUB-TOTAL
	PERSONAL SERVICES				
6011	10/12/2005	SALARY		$ 15,045.96	
6011	10/26/2005	SALARY		$ 16,003.34	
6011	11/9/2005	SALARY		$ 14,628.89	
6011	11/23/2005	SALARY		$ 14,531.83	
6011	12/7/2005	SALARY		$ 14,058.73	
6011	12/21/2005	SALARY		$ 16,341.35	
				$ 90,610.10	**$ 90,610.10**
	EMPLOYEE RELATED EXPENSES				
6100	10/12/2005	ERE		$ 2,269.50	
6100	10/26/2005	ERE		$ 2,420.73	
6100	11/9/2005	ERE		$ 2,185.51	
6100	11/23/2005	ERE		$ 2,166.47	
6100	12/7/2005	ERE		$ 1,913.48	
6100	12/21/2005	ERE		$ 2,162.63	
				$ 13,118.32	**$ 13,118.32**
	PROFESSIONAL/OUTSIDE SERVICES				
				$0.00	**$0.00**
	TRAVEL IN-STATE				
6561	10/19/2005	DEWAYNE WOODIE	TRAVEL REIMB	$ 263.18	
6561	10/25/2005	DEWAYNE WOODIE	TRAVEL REIMB	$ 250.76	
6561	11/8/2005	KATHLEEN PALESKI	TRAVEL REIMB	$ 202.50	
6561	11/14/2005	DEWAYNE WOODIE	TRAVEL REIMB	$ 293.97	
				$ 1,010.41	**$ 1,010.41**
	TRAVEL OUT-OF-STATE				
6601					
				$0.00	**$0.00**
	AID TO OTHER ORGAINZATIONS				
6800					
				$0.00	**$0.00**
	OTHER OPERATING EXPENSES				
7179	10/25/2005	ALLTEL COMMUNICATIONS	CELL PHONE BILLS	$ 90.23	
7179	11/8/2005	VERIZON WIRELESS	CELL PHONE BILLS	$ 88.39	
7179	11/29/2005	VERIZON WIRELESS	CELL PHONE BILLS	$ 90.23	
7179	11/29/2005	ALLTEL COMMUNICATIONS	CELL PHONE BILLS	$ 80.17	
7179	12/30/2005	ALLTEL COMMUNICATIONS	CELL PHONE BILLS	$ 90.23	
7179	12/30/2005	VERIZON WIRELESS	CELL PHONE BILLS	$ 154.96	
				$594.21	**$594.21**
7266	10/5/2005	DANKA OFFICE IMAGING	COPIER MAINT AGREEMENT	$ 75.00	
7266	10/5/2005	ELECTRONIC SECURITY CONCEPTS	SECURITY ALARM REPAIR	$ 314.72	
7266	12/14/2005	DANKA OFFICE IMAGING	COPIER MAINT AGREEMENT	$ 75.00	
				$ 464.72	**$ 464.72**
7269					
				$0.00	**$0.00**
7311					
				$0.00	**$0.00**
7321	10/12/2005	AMERICAN EXPRESS	CHARGES	$ 395.67	
7321	10/19/2005	DPS- REIMB FOR SUPPLIES	SUPPLIES	$ 331.75	
7321	10/24/2005	AMERICAN EXPRESS	CHARGES	$ 542.49	
7321	10/25/2005	AMERICAN EXPRESS	CHARGES	$ 709.59	
7321	12/14/2005	AMERICAN EXPRESS	CHARGES	$ 928.06	
				$ 2,907.56	**$ 2,907.56**
7361					
				$0.00	**$0.00**
7374					
				$0.00	**$0.00**
7381					
				$0.00	**$0.00**
7455					
				$0.00	**$0.00**

7461							
					$0.00		$0.00
7472							
					$0.00		$0.00
7476							
					$0.00		$0.00
7481							
					$0.00		$0.00
7531	12/14/2005	AZ ASSOCIATION OF CHIEFS OF POLICE	MEMBERSHIP DUES - CONNER	$	125.00		
				$	125.00	$	125.00
7541							
					$0.00		$0.00
7599	12/14/2005	APCO AFC INC	FCC RADIO LICENSE APPLICATION	$	720.00		
7599	12/28/2005	AZ DEPT OF REVENUE	TAXES	$	13.44		
					$733.44		$733.44
	BUILDING/BUILD IMPROVEMENTS						
8182							
					$0.00		$0.00
	NON CAPITAL EQUIPMENT						
8411							
					$0.00		$0.00
8471							
					$0.00		$0.00
	CAPITAL EQUIPMENT						
8521							
					$0.00		$0.00
8551							
					$0.00		$0.00
8561							
					$0.00		$0.00
8571	9/20/2005	HEWLETT-PACKARD	SCANNER	$	430.78		
					$430.78		$430.78
8583	10/25/2005	ASAP SOFTWARE	AUTOCAD LT '06 MAINT SUBSCRIPTION	$	884.92		
				$	-	$	-
	INDIRECT COSTS						
9000							
					$0.00		$0.00
		TOTALS			$109,994.54		$109,994.54

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: February 21, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Bob Hull, Principal Research/Fiscal Analyst BH

SUBJECT: Arizona Department of Transportation – Review of Third Party Report

Request

The Arizona Department of Transportation (ADOT) requests review of its third party report. The General Appropriation Act for FY 2006 (Laws 2005, Chapter 286) included an increase of $140,000 and 3 FTE Positions for increased workload in third party quality assurance program. ADOT is required to submit quarterly progress reports within 30 days after the end of each calendar quarter regarding increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the report, since ADOT hired and began training the 3 new positions in early November 2005. The impact of filling the 3 new FTE Positions on the third party quality assurance section workload and backlog should be seen in future quarterly reports.
2. An unfavorable review of the report, since ADOT has allowed the waiting list of third party title and registration vendors to increase from 40 in FY 2005 to 106 in FY 2006.

The House of Representatives and Senate Appropriations Committees' adopted FY 2007 ADOT budget would reduce or eliminate ADOT's third party waiting lists and improve ADOT's quarterly reports as follows:

- Add $265,200 and 6 FTE Positions in FY 2007 for Motor Vehicle Division (MVD) staff to contract with 145 authorized title and registration third parties.
- Add $88,400 and 2 FTE Positions in FY 2007 for MVD staff to eliminate the vehicle identification number inspections waiting list.
- Expand the current third party reporting footnote to include data and waiting lists for other third parties besides the title and registration third parties.
- Add a footnote requiring that ADOT report to the JLBC for review by November 30, 2006, whether ADOT can review less than 10% of the third party title and registration transactions and still retain statistical validity.

(Continued)

Analysis

MVD's third party quality assurance section has 23 approved FTE Positions in FY 2006 to check third party title transactions. ADOT hired and began training the 3 new positions in early November 2005, making 20 filled FTE Positions in the second quarter of FY 2006. The impact of filling the 3 new FTE Positions on the third party quality assurance section workload and backlog should be seen in future quarterly reports.

ADOT reports that they reviewed 50,673, or 15.5%, of the 327,112 third party title transactions in the second quarter of FY 2006. Third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy, and 100% of the work for those who do not. They had a backlog of 37,286 transactions to review, which they estimate would take 39 business days. ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions.

ADOT reports that 106 interested parties were on the waiting list to conduct title transactions in the second quarter of FY 2006, which is a 165% increase from 40 in the first quarter of FY 2005. The following table shows this information for the first 2 quarters of FY 2005 and FY 2006.

Third Party Quality Assurance

	FY 2005		FY 2006	
	1st Qtr	**2nd Qtr**	**1st Qtr**	**2nd Qtr**
FTE Positions Approved	20	20	23	23
FTE Positions Filled	18	18	16	20
Third Party Title Transactions	261,508	287,846	374,190	327,112
Title Transactions Reviewed	43,447	46,558	41,829	50,673
% of Transactions Reviewed 1/	16.6%	16.2%	11.2%	15.5%
Backlog of Transactions to Review 2/	50,895	53,564	38,604	37,286
Backlog in Business Days 2/	47	38	41	39
Third Party Title Transactions Waiting List	40	67	106	106

1/ Third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy and 100% of the work for those who do not.
2/ ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions.

The types and number of businesses on the third party title transactions waiting list is as follows.

Individual Entrepreneurs	32
Check Cashing Companies	26
Automobile Dealerships	14
Title Service Companies	11
Income Tax Preparers	5
Insurance Companies	4
Credit Unions	3
Convenience Stores	3
Notary Services	3
Auto Recycling Dealers	2
Pay Day Loan Companies	2
INS Claims and Legal Document Preparation Companies	1
Total	106

(Continued)

In addition, MVD's appropriation also includes $250,000 and 5 FTE Positions in FY 2006 from the Highway User Revenue Fund to allow commercial driver schools and up to 15 motorcycle dealers to become authorized third parties to administer their respective driver license examination. These entities constitute a second type of third parties, for whom MVD provides oversight of work that is not MVD work, such as driver training schools and traffic survival schools. ADOT does not report on this type of third party in their quarterly reports required by the Chapter 286 footnote.

RS/BH:ym

Arizona Department of Transportation

Office of the Director
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

David P. Jankofsky
Deputy Director

January 26, 2006

JAN 26 2006
JOINT BUDGET COMMITTEE

The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Senator Burns:

Laws of 2005, Chapter 286, Section 98 requires that the Department of Transportation report to the Joint Legislative Budget Committee on the progress of increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

<u>Progress on Increasing Third Party Transactions:</u>

- Second quarter of FY 2005, authorized third party providers processed 287,846 title transactions.
- Second quarter of FY 2006, authorized third party providers processed 327,112 title transactions.
- A 14% increase in third party title transactions.

<u>Status of Third Party Quality Assurance Staffing:</u>

The Third Party Management Support Unit has 23 authorized FTEs. In the second quarter of FY 2006, 17 positions were filled. The six vacant positions, which include the 3 new Liability Insurance Enforcement (LIE) funded positions, have been advertised, interviews were completed, positions have been accepted, and all new employees have started training at the Third Party Management Support Unit.

<u>Workload:</u>

- Number of Third Party Transactions Reviewed
  - Second quarter FY 2005 = 46,558
  - Second quarter FY 2006 = 50,673
  - A 9% increase in reviewed transactions.
- Average Number of Reviews Per Employee Per Month:
  - Second quarter FY 2005 = 1,411

  - Second quarter FY 2006 = 1,876
  - A 33% increase in the number of reviews per employee.

- Response to E-Mail Inquires:
  - Second quarter FY 2005 responses = 2,400
  - Second quarter FY 2006 responses = 2,657
  - The 11% increase in e-mail responses may be attributable to an in-depth quality assurance review of VLT collections.

Backlog:

- Second quarter of FY 2005, there was a 38-business day backlog of 53,564 title transactions.
- Second quarter of FY 2006, there was a 39-business day backlog of 37,286 title transactions.

Moratorium on Accepting New Third Parties:

- In the second quarter of FY 2005, there were 67 interested parties on the waiting list.
- In the second quarter of FY 2006, there were 106 interested parties on the waiting list.

If you have any questions, please contact Terry Trost at 602-712-8981.

Sincerely,

Victor M. Mendez

cc: Representative Russell Pearce, Vice-Chairman, JLBC
✓Richard Stavneak, Director, JLBC
Gary Yaquinto, Director, OSPB
Bob Hull, Principal Research/Fiscal Analyst, JLBC
Marcel Benberou, Principal Budget Analyst, OSPB

ADOT

Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

David P. Jankofsky
Deputy Director

December 30, 2005

RECEIVED
DEC 30 2005
JOINT BUDGET COMMITTEE

Representative Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Representative Pearce:

Laws of 2005, Chapter 286, Section 98 requires that the Department of Transportation report to the Joint Legislative Budget Committee on the progress of increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

<u>Progress on Increasing Third Party Transactions:</u>

- First quarter of FY 2005, authorized third party providers processed 261,508 title transactions.
- First quarter of FY 2006, authorized third party providers processed 374,190 title transactions.
- A 41.3% increase in third party processed transactions.

<u>Status of Third Party Quality Assurance Staffing:</u>

The Third Party Management Support Unit has 22 authorized FTEs. In the first quarter of FY 2006, 16 positions were filled. The six vacant positions, which includes the 3 new Liability Insurance Enforcement (LIE) funded positions, have been advertised. It is our hope to fill all vacant positions in January, 2006.

<u>Workload:</u>

- Number of Third Party Transactions Reviewed
  - First quarter FY 2005 = 43,447
  - First quarter FY 2006 = 41,829
  - The 3.7% drop in reviewed transactions is attributable to staff vacancies.
- Average Number of Reviews Per Employee:
  - First quarter FY 2005 = 1,299
  - First quarter FY 2006 = 1,092
  - The 15.9% decrease in the number of reviews per employee is attributable to a more in-depth quality assurance review of reported VLT collections by third party providers.

- Response to E-Mail Inquires:
  - First quarter FY 2005 responses = 2,024
  - First quarter FY 2006 responses = 2,600
  - The 28.5% increase in e-mail responses is attributable to the above mentioned in-depth quality assurance review of VLT collections.

Backlog:

- First quarter of FY 2005, there was a 47 business day backlog of 50,895 title transactions.
- First quarter of FY 2006, the backlog was 41 business days of 38,604 title transactions.
- The Third Party Management Support Unit expended 192 hours of overtime to reduce the backlog.

Moratorium on Accepting New Third Parties:

- In the first quarter of FY 2005, there were 40 interested parties on the waiting list.
- In the first quarter of FY 2006, there were 106 interested parties on the waiting list.

If you have any questions, please contact Terry Trost at (602) 712-8981.

Sincerely,

FOR

Victor M. Mendez, Director

cc: Senator Robert Burns, Vice-Chairman, JLBC
Richard Stavneak, Director, JLBC
Gary Yaquinto, Director, OSPB

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES

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LINDA J. LOPEZ
STEPHEN TULLY

DATE: February 21, 2006

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Shelli Carol, Fiscal Analyst SC

SUBJECT: Arizona Board of Regents – Review of Progress Report on the Phoenix Medical Campus and Report on Strategies to Prevent a State Doctor Shortage

Request

The Arizona Board of Regents (ABOR) requests Committee review of its progress report, required by Laws 2005, Chapter 330, on the University of Arizona (UA) Phoenix Medical Campus (PMC).

Chapter 330 directed UA to establish a medical campus at the former site of Phoenix Union High School. These 3 existing buildings are under renovation, a $19 million project that UA will finance through 30 years of $1.5 million lease payments ($1 million from the General Fund).

To support PMC, Chapter 330 appropriated $6 million from the General Fund to UA, as well as $1 million from the General Fund to create the Arizona State University (ASU) Department of Biomedical Informatics. Chapter 330 limited appropriated support to this level for just 1 class of 24 students, as they progress through their educations.

However, UA envisions, by FY 2025, adding at least 1.2 million square feet to house 680 medical students, 1,660 science students, and 140 bioinformatics students. At its September 28, 2005 meeting, the Committee gave a favorable review to these initial operational and capital plans for PMC, with the provision that the review did not constitute endorsement of any specific level of General Fund appropriations. Additionally, at its October 2005 meeting, the Joint Committee on Capital Review (JCCR) favorably reviewed an associated research infrastructure lease-purchase facility, the Arizona Biomedical Collaborative (ABC) Building, which adjoins PMC.

Recommendation

The JLBC Staff recommends a favorable review of the progress report, with the provision that this review does not constitute endorsement of any level of General Fund appropriations for the Phoenix Medical Campus. The Committee previously included this provision with its original favorable review of the PMC plans.

(Continued)

Analysis

In the first 5 months of FY 2006 (through November 30), ABOR, UA, and ASU expended or encumbered a total of $3.7 million for PMC and related projects. This amount consists of $1.4 million, mostly for salaries and consultants, from the $6 million UA appropriation; $0.6 million, largely for salaries and general operational expenses, from the $1 million ASU appropriation; and $1.7 million from the ABC Building budget for architectural and project management fees.

University accounting practices encumber salaries and employee-related expenditures for the remainder of the fiscal year at its beginning, or upon hire of a new employee, whichever is later. Therefore, the above amounts are likely overstated. The initial UA $6 million budget assumed faculty and staff salaries for a full year, although all personnel were not in place at the beginning of FY 2006.

A City of Phoenix bond election in March 2006 seeks voter approval for an additional $2.7 million to historically restore the exteriors of all 3 Phoenix Union High School buildings, as well as the interior of the auditorium building, as recommended by the city's Historic Preservation Bond Subcommittee. Additionally, the UA Institute for Advanced Telemedicine and Telehealth has secured a $0.4 million U.S. Department of Health and Human Services grant to outfit some of the auditorium's interactive meeting spaces.

As of November 30, 2005, UA had hired 7 faculty or staff, while ASU had hired 13. These individuals are developing the PMC and bioinformatics curricula. UA has identified 32 faculty candidates, with the goals of filling 12 positions by spring 2006 and 25 positions by July 2007. Additionally, 4 current ASU basic medical faculty members are in line to receive joint appointments to the UA College of Medicine. Meanwhile, ASU is seeking a chairperson for its Department of Biomedical Informatics and expects to fill this position in the spring.

ASU began recruiting graduate students for its biomedical informatics program in January 2006. The university plans to start recruiting doctoral students next year. Meanwhile, UA is preparing PMC marketing and admissions materials for release in March 2006.

The renovation of Phoenix Union High School is proceeding on schedule for completion in summer 2006. Other than those plans favorably reviewed by JCCR for the ABC Building, ABOR reports no substantial changes to the PMC scope or schedule.

Report

Also at its September 28, 2005 meeting, the Committee requested from ABOR a report on strategies to prevent doctor shortages in the state. ABOR addressed the Committee's 4 questions as follows:

- *How increased medical students without increased residency positions results in additional doctors in Arizona, and*
- *How replacing out-of-state educated medical students participating in Arizona residency programs with Arizona educated medical students increases the total number of doctors in Arizona.*

  UA reports, because it only accepts Arizona residents into its College of Medicine, that higher proportions of its graduates enter residencies in Arizona, compared to the national average. UA also states that it is requesting increased residency funding from federal and state governments. However, UA does not provide information on how it envisions its efforts would increase the total numbers of doctors within the state.

(Continued)

- *Formal agreements with area hospitals to financially support clinical activities if the plan proceeds to its second phase.*

  UA explains that it is still developing the PMC curriculum, which will include inpatient, outpatient, and simulated clinical experiences throughout all 4 years of the program. UA does not plan to negotiate clinical agreements with area hospitals until the curriculum is in place.

- *Specific proposals to partner with private medical schools to address a potential doctor shortage.*

  UA states that it is working alongside private medical schools for more residency and financial aid funding.

The JLBC has recommended a footnote within the UA Health Sciences Center budget to require continuing semiannual reports on the doctor shortage issue.

RS/SC:ss

ARIZONA BOARD OF Regents

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Arizona State University Northern Arizona University The University of Arizona

December 22, 2005

Representative Russell K. Pearce, Chair
Senator Robert L. Burns, Co-Chair
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Re: Arizona Board of Regents December 31, 2005, Progress Report Pursuant to SB 1517

Dear Representative Pearce and Senator Burns:

Pursuant to SB 1517 (Laws 2005, Chapter 330), the Arizona Board of Regents is pleased to submit for your review our December 31, 2005, Progress Report on the development of The University of Arizona College of Medicine–Phoenix. This report was authorized for submission by the Board of Regents at its December 1, 2005, meeting.

Our Progress Report is responsive to the four specific requests contained in SB 1517 and reflects progress on the Phoenix Program as of November 30, 2005. As required by SB 1517, we will submit for review to the JLBC any significant material changes to the Phoenix Program operational plan, and to the JCCR any significant material changes to the Phoenix Program capital plan, as they may occur.

The Arizona Board of Regents, The University of Arizona, and Arizona State University continue to work with the Arizona Commission on Medical Education and Research (ACMER) as we move forward with the Phoenix Program. We again thank the Legislature and Governor for providing state funding to support this historic and critically important effort. We appreciate your Committee's oversight role, and trust that this Progress Report is responsive to the statutory mandate.

Sincerely,

Christina A. Palacios
President

c: Governor Janet Napolitano
Members, Joint Legislative Budget Committee
Members, Joint Committee on Capital Review
Members, Arizona Board of Regents
President Peter Likins, The University of Arizona
President Michael Crow, Arizona State University
Executive Director Joel Sideman
Richard Stavneak, JLBC Director

ARIZONA BOARD OF REGENTS
DECEMBER 31, 2005, PROGRESS REPORT ON
THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE–PHOENIX PROGRAM
AS REQUIRED BY SB 1517 (Laws 2005, Chapter 330)

SB 1517 requires the Arizona Board of Regents (ABOR) to submit to JLBC by December 31, 2005, "a progress report on the Phoenix medical campus. This document shall include at least the following:

1. *Detail on expenditures to date by the Arizona Board of Regents, its institutions, and its partners.*
2. *The status of renovations to Phoenix Union High School.*
3. *The status of faculty, staff, and student recruiting.*
4. *Any changes to the project scope or schedule*

There is also an ongoing obligation for ABOR to submit any significant material changes to the Phoenix program operational plan or capital plan from the plans last submitted to JLBC."

1. Detail on expenditures to date by the Arizona Board of Regents, its institutions, and its partners.

Table 1 below is an update of Table 1 on page 9 of the Arizona Board of Regents Response to SB 1517 (Laws 2005, Chapter 330), dated September 1, 2005 (hereinafter referred to as the September 1, 2005, ABOR response). An additional column has been added that includes expenditures for the first five months of FY 2006 (from July 1, 2005, through November 30, 2005) by the Arizona Board of Regents, The University of Arizona, and Arizona State University. Additional expenditure detail for ABOR, the UA, and ASU, through November 30, 2005, is shown in Tables 2, 3, and 4, respectively.

Table 1. Arizona Board of Regents, The University of Arizona, and Arizona State University FY 2003-FY 2006 Expenditures for The University of Arizona College of Medicine–Phoenix (through November 30, 2005)

	FY 2003	FY 2004	FY 2005	FY 2006 (through 11/30/05)	Total
Arizona Board of Regents					
Salaries	$ 10,892	$ 5,630	$ 0	$ 0	
Operations	59,595	79,130	68,965	31,023	
Subtotal ABOR	**$ 70,487**	**$ 84,760**	**$ 68,965**	**$ 31,023**	**$ 255,235**
The University of Arizona					
Salaries			$ 140,000	$ 932,324	
Operations			170,300	434,157	
Subtotal UA			**$ 310,300**	**$1,366,481** [1]	**$ 1,676,781**
Arizona State University					
Salaries			$ 3,750	$ 325,849	
Operations			2,750	242,345	
Subtotal			**$ 6,500**	**$ 568,194** [1]	
Capital (on behalf of UA and ASU)				1,712,600	
Subtotal ASU			**$ 6,500**	**$2,280,794**	**$ 2,287,294**
GRAND TOTAL	**$ 70,487**	**$ 84,760**	**$ 385,765**	**$3,678,298**	**$ 4,219,310**

[1] Source of funding for these expenditures is the FY 2006 state appropriations of $6 million to the UA and $1 million to ASU under SB 1517 (Laws 2005, Chapter 330).

Table 2. Arizona Board of Regents FY 2006 Expenditure/Encumbrance Detail as of November 30, 2005, for The University of Arizona College of Medicine–Phoenix

Arizona Board of Regents	Expenditure/ Encumbrance
SALARIES AND ERE	
Subtotal Salary and ERE	**$ 0**
OPERATIONS	
Consulting services	$ 24,000
Printing, delivery charges, supplies for JLBC responses	7,023
Subtotal Operations	**$ 31,023**
GRAND TOTAL ABOR	**$ 31,023**

Table 3. The University of Arizona FY 2006 Expenditure/Encumbrance Detail as of November 30, 2005, for The University of Arizona College of Medicine–Phoenix

The University of Arizona		Expenditure/ Encumbrance [2]
SALARIES AND ERE	FTE%	
Program Coordinator	80%	$ 48,069
Special Asst. to Dean Curriculum Construction	100%	68,955
Special Asst. to Dean and Office Manager	100%	96,735
Special Asst. to Vice Dean, Clinical Professor, Dept. of Family and Community Medicine	100%	132,817
Senior Project Manager: COM 1, 2, 3	100%	137,230
Department Head, Basic Medical Sciences	100%	178,419
Vice Dean, Administration	100%	270,099
Subtotal Salary and ERE		**$ 932,324**
OPERATIONS		
Consulting services		$ 384,000
Materials and supplies		1,100
Non-capital equipment (computers and media)		14,963
Development and outreach		14,313
In-state travel		3,062
Faculty recruitment		16,719
Subtotal Operations		**$ 434,157**
GRAND TOTAL UA		**$ 1,366,481** [1]

[1] Source of funding for these expenditures is the FY 2006 state appropriation of $6 million under SB 1517 (Laws 2005, Chapter 330).

[2] Salary amounts reflect both salary and employee-related expenses (ERE) through June 30, 2006, commencing with date of hire or date of assuming new duties. University practice is to encumber salary and ERE at beginning of fiscal year for the entire year.

As shown in Table 3 on page 14 of the September 1, 2005, ABOR response, the UA anticipates spending the majority of its FY 2006 budget during the remainder of the 2006 fiscal year (December 1, 2005, through June 30, 2006) on new personnel and the attendant operational expenses and on capital project costs, primarily media and information technology for the newly renovated COM 1, 2, and 3 buildings.

In addition to the 12 new basic science educators, the UA College of Medicine will hire a Vice Dean, an Associate Dean, Research, and Associate Dean, Academic Affairs, as well as associated support personnel.

Table 4. Arizona State University FY 2006 Expenditure/Encumbrance Detail as of November 30, 2005, for the Department of Biomedical Informatics (BMI)

Arizona State University		Expenditure/ Encumbrance [2]
SALARIES AND ERE	**FTE%**	
Office Specialist, Sr.	5%	$ 1,507
Tech Supp Analyst, Sr.	3%	1,962
Administrative Assistant	10%	2,762
Research Assistant Professor	17%	11,390
Graduate Research Assistant	50%	11,750
Graduate Research Assistant	50%	11,750
Research Assistant Professor	100%	33,333
Clinical Professor	40%	36,000
Administrative Associate	100%	38,000
Clinical Professor	25%	41,667
Tenure-track Assistant Professor	50%	43,334
Associate Director	50%	45,902
Interim Chair	20%	46,492
Subtotal Salary and ERE		**$ 325,849**
OPERATIONS		
Consulting and printing services		$ 31,432
Materials and supplies		1,600
Non-capital equipment (computers)		6,543
Development and outreach		4,502
Out-of-state travel		1,672
Faculty recruiting		37,263
Faculty start-up		84,333
Seminars and symposia		75,000
Subtotal Operations		**$ 242,345**
Subtotal Salaries and Operations		**$ 568,194** [1]
CAPITAL		
ABC (on behalf of UA and ASU):		
Pre-construction services (DPR Construction, Inc.)		$ 183,000
Architecture and engineering fees, programming, reimbursables		1,331,600
Project management, rent		198,000
Subtotal Capital		**$ 1,712,600**
GRAND TOTAL ASU		**$ 2,280,794**

[1] Source of funding for these expenditures is the FY 2006 state appropriation of $1 million under SB 1517 (Laws 2005, Chapter 330) to establish the Department of Biomedical Informatics (BMI).

[2] Salary amounts reflect both salary and employee-related expenses (ERE) through June 30, 2006. University practice is to encumber salary and ERE at beginning of fiscal year for the entire year.

2. The status of renovations to Phoenix Union High School.

Renovations to the three former Phoenix Union High School buildings (preliminarily designated as COM 1, COM 2, and COM 3, from west to east) are progressing according to schedule. COM 1 and COM 3 will be substantially complete by late June 2006, and COM 2 (auditorium) will be substantially complete by late July 2006. The goal set by DPR Construction, Inc., the contractor, is to have all contracts in place with all subcontractors by December 1, 2005. Construction status as of November 30, 2005, is as follows:

- New core facilities: Concrete foundations and bases are in place. Contractor will begin extending the cores up from the foundation by December 1, 2005.
- COM 1: Structural steel and floors are completed.
- COM 2 (auditorium): Steel framing is in place.
- COM 3: Construction of interior walls has begun.
- The audio/visual equipment for the project has been specified and will be ready to bid in December 2005.
- Furniture selection and specification is underway.

The City of Phoenix Education Bond Subcommittee recommended that $1.5 million of a proposed bond issuance to go before the Phoenix voters in March 2006 be allocated for the completion of the interior renovation of COM 2 (auditorium). The City's Historic Preservation Bond Subcommittee recommended that $1.19 million of the bond issuance be allocated for the rehab of the exterior of all three COM buildings. This funding will provide the historical buildings, built in the early 20th century, with replica wood windows, stucco and plaster repairs, repainting, historical reconstruction work, and landscape restoration in front of the COM 2 (auditorium). The Mayor and City Council approved the Subcommittees' recommendations on November 1, 2005.

The Institute for Advanced Telemedicine and Telehealth (THealth) in Phoenix was the recent recipient of a U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA) award that will provide $391,200 to fund the interior finish-out of second-floor space in COM 2 (auditorium). As described on page 59 of the September 1, 2005, ABOR response, THealth's mission is to create next-generation innovations in health care delivery and education, especially those that leverage advances in medical informatics, wireless telecommunications, telemedicine/telehealth, simulation, and robotics. The design for the interior finish-out is in the design development phase and will soon be sent to DPR Construction, Inc. for initial pricing. The audio/visual equipment has been specified and will be ready to bid in December 2005.

3. The status of faculty, staff, and student recruiting.

<u>Department of Basic Medical Sciences</u>:

Faculty Recruitment. The Arizona Board of Regents approved on December 2, 2005, the establishment of the Department of Basic Medical Sciences, in collaboration with ASU, as the first academic unit of the UA College of Medicine–Phoenix Program. The search committee for the Basic Medical Sciences faculty is chaired by Mark Haussler, PhD, Regents' Professor in Biochemistry, who also serves as head of the new Basic Medical Sciences Department. The search committee includes representatives from the College of Medicine faculty in Tucson and Phoenix, ASU, TGen, and Barrows Neurological Institute. The faculty of the Basic Medical Sciences Department will consist of a core of current UA and ASU life scientists, complemented by faculty drawn from a national search, to yield a faculty of 25 by July 1, 2007.

As of December 1, 2005, the search committee had received and ranked over 340 applications for basic science faculty positions. The candidates were representative of top medical schools and universities, leading biotech companies, and worldwide health care institutions. All basic sciences disciplines were well represented in the applicant pool. The committee has identified 32 candidates as highly qualified, and by mid-December 2005 will invite individuals for interviews in Arizona. Interviews will occur primarily in January 2006, with the goal of filling the first 12 faculty positions in Spring 2006.

Concurrent with this search process, and also under Dr. Haussler's leadership, the Phoenix Program has worked with ASU to identify ASU candidates for joint appointment with the UA College of Medicine to serve as basic medical sciences faculty. As of November 30, 2005, efforts are underway to establish joint appointment for four such candidates in the basic medical sciences. These four highly qualified individuals are over and above the 32 who will be invited for interviews. The Phoenix Program will also identify potential candidates for joint appointment from other research and health care organizations in Phoenix.

Curriculum Development. The UA College of Medicine has established an Academic Working Group, chaired by Dr. Haussler, to develop the initial academic framework and curriculum for the new integrated four-year Phoenix Program. The Academic Working Group includes representatives from the UA College of Medicine faculty in Tucson and Phoenix and from ASU. As new faculty members are recruited for the Phoenix Program, they will join the Academic Working Group and assume primary responsibility for completing the new curriculum.

The Academic Working Group is charged with establishing core objectives, structure, teaching methodologies, and assessment methodologies for the new curriculum. The curriculum will be developed in conformance with the Liaison Committee on Medical Education (LCME) standards, timeline, and process requirements for accreditation. The goal of the Phoenix Program is to graduate physicians who have the competencies and skills to provide first-rate patient care and adapt to the changing demands for new knowledge, skills, and attitudes in the health care field. To this end, the Phoenix Program will build from the competencies of the new *ArizonaMed* curriculum developed by the UA College of Medicine–Tucson Program in patient care, medical knowledge, interpersonal and communication skills, professionalism, practice-based learning and improvement, and systems-based practice. The Phoenix Program curriculum will emphasize biomedical informatics, personalized medicine, integrated basic science and clinical education, and critical thinking for physicians. The curriculum will be presented in an integrated fashion, including life sciences and clinical training throughout all four years. In addition, the curriculum will include contemporary methodologies of case-based instruction and small group learning communities.

The Academic Working Group initially established an admissions subcommittee and a faculty and appointments subcommittee to develop the necessary processes in these areas. Additional subcommittees will be formed to address specific areas of curriculum content, teaching methodologies, clinical training, and related areas as the development moves forward.

Staff Recruitment. The UA College of Medicine has begun key administrative staff recruitment. The senior leadership post for the new program will be the Vice Dean, Phoenix Program. Recognizing the importance of this position and the unique opportunity presented by establishing a new four-year medical school program, the UA College of Medicine has contracted with the Korn/Ferry search firm to conduct a national search for this position. Representatives from the firm are scheduled to meet in December 2005 with the Dean of the UA College of Medicine and key faculty and administrative personnel to initiate the search process. In the interim, the UA College of Medicine has established and filled the position of Vice Dean, Administration to coordinate the Phoenix Program efforts pending the recruitment of the new Vice Dean.

The UA College of Medicine also has begun recruitment for the Associate Dean, Academic Affairs through national advertisements, postings, and directed inquiries. On-site interviews with the top candidates will begin in December 2005 and will be completed in early January 2006. The College will begin recruitment for the Associate Dean, Research in January 2006. The Associate Dean, Clinical Affairs has already been appointed.

Student Recruitment. The Academic Working Group subcommittee on admissions is developing both the admissions process for the Phoenix Program and the manner in which it will coordinate with the current UA College of Medicine admissions program. Marketing and admissions materials for the College of Medicine–Tucson and Phoenix Programs will be available for prospective students in March 2006. The first class of 24 students for the Phoenix Program will matriculate in July 2007.

Department of Biomedical Informatics (BMI):

Faculty Recruitment. Dr. Sethuraman Panchanathan has been named Interim Director of ASU's Department of Biomedical Informatics (BMI). The following faculty positions have been hired:

- Interim Director: Academic Administration and Leadership; Imaging Informatics
- Tenure-track Assistant Professor: Biostatistics; Bioinformatics
- Clinical Professor: Curriculum Development; Medical Informatics
- Clinical Professor: Medical Informatics; Clinical Databases
- Research Assistant Professor: Artificial Intelligence
- Research Assistant Professor: Bioinformatics

A targeted search is underway to hire a Chair for the Department of Biomedical Informatics. The Department has established a faculty search committee with an anticipated hire date of Spring 2006.

Staff Recruitment. The following staff has been hired:

- Associate Director: Strategic Planning, Program Development
- Administrative Assistant: Office Management and Administration

In support of biomedical informatics start-up activities, BMI shares staff resources with the Department of Computer Science and Engineering (CSE). Shared BMI/CSE staff includes:

- Technical Support Analyst: Provides web support to the BMI website.
- Administrative Assistant: Serves as receptionist; assists BMI visitors.
- Office Specialist, Sr.: Provides budget, payroll, and office management support.

A consultant has been hired to assist with program development and the hiring of a Chair and senior faculty for BMI.

Two graduate research assistants have been hired to assist with program development and provide analytic support:

- Graduate Research Assistant: Masters student in the Computational Bioscience program at ASU
- Graduate Research Assistant: Masters student in the Department of Computer Science and Engineering

BMI Curriculum Approvals and Student Recruitment. *Master's Degree in Biomedical Informatics:* The proposal for the master's degree in Biomedical Informatics will be submitted for internal review on December 15, 2005, and will be submitted to the Arizona Board of Regents with an anticipated approval date of

June 2006. Student recruitment for the first year will be internal to ASU and will begin in January 2006.

Graduate Concentration *in Biomedical Informatics:* The proposal for the graduate concentration in Biomedical Informatics will be submitted for internal review on December 15, 2005. Student recruitment for the concentration will begin in January 2006.

Doctoral Degree in Biomedical Informatics: The proposal for the doctoral degree in Biomedical Informatics will be submitted for internal review in Fall 2006 and will be submitted to the Arizona Board of Regents with an anticipated approval date of December 2006. Student recruitment will begin in January 2007.

Informatics in the Medical School Curriculum: Dr. Panchanathan is a member of the Academic Working Group designing the curriculum for the new UA College of Medicine–Phoenix Program. He is working closely with representatives from the UA College of Medicine and from ASU to infuse informatics literacy and training into the Phoenix Program curriculum.

4. Any changes to the project scope or schedule.

The only change to the project scope or schedule as of November 30, 2005, involves the Arizona Biomedical Collaborative (ABC) facility.

Arizona Biomedical Collaborative (ABC)

- At its September 29, 2005, meeting the Arizona Board of Regents awarded project approval to the UA and ASU for construction of the Arizona Biomedical Collaborative (ABC) building and approved a $2.4 million budget increase. Total project cost is now $29.6, with the identification by ASU of an additional $2.4 million available from state Research Infrastructure appropriations (HB 2529) to begin in July 2007. This funding will finish the proposed ASU shell space and provide for biomedical informatics equipment, laboratory equipment, computer servers, upgraded HVAC, additional electrical support, and additional design fees resulting from programming.

- ABOR also approved at its September 29, 2005, meeting an amendment to the Intergovernmental Agreement (IGA) with the City of Phoenix approved on January 23, 2004, to permit purchase from the City of Phoenix at a purchase price of $590,000 the land on which ABC will be constructed. The sale of Certificates of Participation (COPs) to finance building construction requires that the land be purchased by ABOR prior to commencement of construction rather than purchasing the land through annual lease payments that would have been paid as an operating cost as originally planned.

- At its October 26, 2005, meeting, the Joint Committee on Capital Review (JCCR) recommended a favorable review of the ABC building project, provided that the UA and ASU submit to the JCCR for approval any expenditures that exceed $100,000 or 10 percent of the original contingency total for add alternates that expand the scope of the project.

ARIZONA BOARD OF Regents

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Arizona State University ***Northern Arizona University*** ***University of Arizona***

February 15, 2006

Mr. Richard Stavneak
Director, Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Re: Arizona Board of Regents Response to September 30, 2005, JLBC Questions relating to The University of Arizona College of Medicine-Phoenix

Dear Mr. Stavneak:

The Arizona Board of Regents is pleased to submit responses to the four questions related to the development of The University of Arizona College of Medicine–Phoenix contained in your September 30, 2005, letter to me. These responses have been compiled with input from The University of Arizona and Arizona State University and were authorized for submission by the Board of Regents at its February 2, 2006, meeting.

The Arizona Board of Regents, The University of Arizona, and Arizona State University continue to work with the Arizona Commission on Medical Education and Research (ACMER) as we move forward with the Phoenix Program. We again thank the Legislature and Governor for providing state funding to support this historic and critically important effort. We appreciate your Committee's oversight role and trust that these responses are helpful to the Committee.

Please contact me if you require further information.

Sincerely,

Christina A. Palacios
President

Attachment

c: Governor Janet Napolitano
Members, Joint Legislative Budget Committee
Members, Joint Committee on Capital Review
Members, Arizona Board of Regents
President Peter Likins, The University of Arizona
President Michael Crow, Arizona State University
Executive Director Joel Sideman

ARIZONA BOARD OF REGENTS
RESPONSES TO 4 JLBC QUESTIONS DATED SEPTEMBER 30, 2005, RELATING TO THE UNIVERSITY OF ARIOZNA COLLEGE OF MEDICINE-PHOENIX PROGRAM

"At its September 28, 2005 meeting, the Committee gave a favorable review for the operational and capital plans for the Phoenix Medical Campus in FY 2006. The Committee requested that the Arizona Board of Regents report back to the Committee by February 15, 2006, with responses on the following questions":

1. ***How increased medical students without increased residency positions results in additional doctors in Arizona.***

Solving the physician shortage in Arizona requires a series of coordinated efforts. The first step in this process is to increase both the number of University of Arizona College of Medicine graduates *and* the number of residency positions in the state.

Currently, more than enough residency positions exist in Arizona to accommodate all University of Arizona medical school graduates who choose to do their residencies in Arizona. *The first step in addressing Arizona's physician shortage is to increase the number of Arizona graduates to fill the existing residency positions.* Then, as discussed below, we must work to increase the number of residency positions, which can lead to more practicing physicians, whether educated in Arizona or in other states.

In 2004 Arizona had the lowest ratio of medical students-to-residency positions of any state with a medical school; this means that there are more available residency positions than Arizona medical school graduates (see Table 1 below). The ratio of medical students-to-residency positions demonstrates that, as of 2004, residency slots were available for all in-state medical school graduates. Even with the 600 new medical students projected for the full expansion of the Phoenix Program by 2015, the medical student-to-residency ratio in Arizona will reach only 1:1.

Table 1. Total Medical Students, Total Residency Positions, and Ratio of Medical Students to Residency Positions by State 2004

State *(italicized states have no medical school)*	**Total Medical Students**	**Total Residency Positions**	**Medical Students/ Residencies Ratio** (in ascending order)
United States	**67,656**	**100,176**	**0.68**
Alaska	0	23	0.00
Delaware	0	260	0.00
Idaho	0	43	0.00
Maine	0	260	0.00
Montana	0	17	0.00
Wyoming	0	34	0.00
Arizona	**425**	**1,076**	**0.39**
Wisconsin	585	1,451	0.40
Connecticut	805	1,877	0.43
New York	6,988	14,941	0.47
Rhode Island	328	683	0.48
California	4,388	9,117	0.48
Colorado	537	1,058	0.51
Washington	782	1,485	0.53
Massachusetts	2,493	4,704	0.53
New Jersey	1,313	2,425	0.54
Michigan	2,223	4,086	0.54
Minnesota	1,074	1,958	0.55
Florida	1,663	2,852	0.58
Hawaii	253	394	0.64
New Mexico	306	472	0.65
Oregon	446	682	0.65
Pennsylvania	4,491	6,803	0.66
Maryland	1,756	2,568	0.68
North Carolina	1,815	2,551	0.71
Utah	415	568	0.73
Ohio	3,472	4,631	0.75
Texas	4,837	6,261	0.77
Iowa	579	743	0.78
Missouri	1,820	2,311	0.79
Alabama	903	1,087	0.83
Mississippi	408	489	0.83
Illinois	4,566	5,435	0.84

State *(italicized states have no medical school)*	Total Medical Students	Total Residency Positions	Medical Students/ Residencies Ratio (in ascending order)
Georgia	1,591	1,888	0.84
Virginia	1,691	1,990	0.85
Arkansas	557	618	0.90
Tennessee	1,635	1,802	0.91
South Carolina	879	968	0.91
Oklahoma	585	632	0.93
Indiana	1,137	1,197	0.95
New Hampshire	303	315	0.96
Kentucky	970	966	1.00
Louisiana	1,727	1,658	1.04
District of Columbia	1,830	1,728	1.06
Nevada	216	187	1.16
Kansas	708	612	1.16
Puerto Rico	968	779	1.24
Vermont	403	247	1.63
Nebraska	938	540	1.74
North Dakota	228	103	2.21
South Dakota	204	89	2.29
West Virginia	1,415	512	2.76

Sources: Accreditation Council for Graduate Medical Education (ACGME) Resident Physician Population by Specialty and State - Academic Year 2003-2004, available from http://www.acgme.org/acWebsite/CMS/ cms_index.asp; Association of American Medical Colleges (AAMC) Medical Student Enrollment by State, 2004, available from http://www.aamc.org/data/facts/2004/factsenrl.htm

The University of Arizona College of Medicine graduates seek and secure Arizona residencies. Last year, 59% of the UA College of Medicine graduates entered residencies in Arizona. According to a recent *Journal of the American Medical Association* article[1], this figure is second only to California, where 64% of California medical school graduates entered residencies in California. The national average was only 39%. Arizona's position has been sustained over the past decade. Hence, we are currently doing an excellent job at retaining our medical students for their residency training.

[1] Barbara Barzansky and Sylvia I. Etzel, "Education Programs in U.S. Medical Schools, 2004-2005," *Journal of the American Medical Association*, September 7, 2005, 294(9): 1068-1074

The second step in addressing the physician shortage is to increase the number of residency positions. This will allow Arizona to recruit more residents from other states. Because physicians are most likely to practice in the same geographical area as their residency, this is an excellent complementary strategy for dealing with the physician shortage. Although final numbers have yet to be determined, the UA College of Medicine-Tucson Program plans to expand substantially (perhaps by as many as 200 new positions) its residency programs at University Physicians Healthcare Hospital at Kino during the next five years, subject to approval by the Accreditation Council for Graduate Medical Education (ACGME), and funding from the Centers for Medicare and Medicaid Services. Efforts are also underway to secure funding for additional residency positions in Phoenix and in other parts of the state.

2. ***How replacing out-of-state educated medical students participating in Arizona residency programs with Arizona educated medical students increases the total number of doctors in Arizona.***

The most effective way to increase the number of physicians in Arizona is to increase both the number of medical school graduates and the number of residency positions. UA College of Medicine graduates seek Arizona residencies in extremely high numbers: 59% of UA College of Medicine graduates remain in Arizona for residencies, while the national average for in-state retention is 39%. This is related, in part, to the fact that the UA College of Medicine accepts only Arizona residents; few other medical schools have this requirement. Because of these circumstances, it is anticipated that at least 50% of all UA College of Medicine graduates will establish medical practices in Arizona. (For further discussion on this issue, please see September 26, 2005, Arizona Board of Regents Responses to JLBC Questions; and Appendix A, *The Arizona Physician Workforce Study*, to the September 1, 2005, Arizona Board of Regents Response to Senate Bill 1517 (Laws 2005, Chapter 330).)

The increase in residency positions over the next years means that the total number of residents likely to establish practices in Arizona will also increase. Arizona has 20 residency positions for every 100,000 people. Other western states, including California, Colorado, Washington, New Mexico, Utah, and Texas, have 25 or more training spots per 100,000. In order for Arizona to reach even this level, it must add 300 residency training positions.

The presence of a medical school in the same community as residency programs strengthens the residency programs in several ways. Residents are expected to be involved in teaching medical students; therefore, to the extent that they train together, this enhances learning for both. Also, all residency review committees (RRCs—the accrediting bodies for medical residencies) require that faculty members are involved in research. For subspecialty training (fellowships), the residents themselves are expected to do research. In both cases, the presence of a medical school with a strong research program has the potential to boost the research experience for residents.

An increase in the number of graduates from the UA College of Medicine will not simply substitute Arizona graduates for out-of-state graduates in residency slots, but will help to increase the total number of medical residents in Arizona. An increase in the number of medical residents, as well as medical school graduates, in Arizona increases the number of physicians available to practice in the state, including its rural and underserved areas.

3. *Formal agreements with area hospitals to financially support clinical activities if the plan proceeds to Level II.*

The University of Arizona College of Medicine currently has formal arrangements in place with nine teaching hospital facilities in Phoenix for the 80 students from the College of Medicine's third- and fourth-year classes who participate in clinical rotations in Phoenix. It is anticipated that the need for Phoenix-based clinical training will continue under the new ArizonaMed curriculum at the Tucson campus. In addition, the College of Medicine's new four-year program in Phoenix will include integrated clinical education for its students in all four years. The College of Medicine plans to review its current agreements for clinical education in light of the new curricula under development.

Clinical education must be based upon the specific curriculum for the underlying program. As the College of Medicine develops the curriculum for the Phoenix Program and the clinical component of the new ArizonaMed curriculum in Tucson, it will work with its many clinical partners in Phoenix to secure the necessary agreements for clinical education for its students. The Governor's Arizona Commission on Medical Education and Research (ACMER) will provide policy guidance and coordination for this work.

The clinical education will include outpatient ambulatory opportunities, as well as inpatient rotations and opportunities, and will include new areas of clinical education, such as simulation laboratories. The new curriculum will emphasize clinical integration throughout the four years of medical school. This curriculum will require a different and expanded utilization of clinical faculty throughout medical student training. These arrangements will require thorough planning and will need to be staged to reflect the growth in the number of medical students being trained in Phoenix over the next 15 years, including reaching Level II for the Phoenix Program. The goal of these agreements will be to provide excellent clinical education for UA College of Medicine students in a manner that is economically sustainable. In order to avoid clinical arrangements that are not consistent with specific curriculum requirements, however, the College of Medicine believes it is important to first establish the Phoenix Program and the clinical components of the ArizonaMed curriculum before initiating new clinical agreements.

4. Specific proposals to partner with private medical schools to address a potential doctor shortage.

The University of Arizona College of Medicine is working with private medical schools in Arizona to support a series of initiatives to address the physician shortage. First, the UA College of Medicine and private medical schools are supporting legislation to expand access to student loans and scholarships to encourage medical students to practice in rural and underserved areas of Arizona. Second, the UA College of Medicine and private medical schools are supporting legislation to increase the number of residency positions in the state. Physicians tend to establish practices in the location of their residencies. *Our strategy to expand the number of residency opportunities in Arizona, coupled with an increase in in-state medical student graduates, has the highest potential to increase the number of practicing physicians in the state.*

The University of Arizona College of Medicine is committed to working with all sectors of the health care field—from private medical schools to hospital and health care systems to community physicians and insurers—to identify and implement measures to increase the number of physicians in Arizona. There is room in our state for a range of medical education providers.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE:	February 21, 2006
TO:	Senator Bob Burns, Chairman Members, Joint Legislative Budget Committee
THRU:	Richard Stavneak, Director RS
FROM:	Steve Schimpp, Assistant Director SS
SUBJECT:	Arizona Department of Education – Review of Full-Day Kindergarten Research

Request

Pursuant to A.R.S. § 15-901.02(P), the Arizona Department of Education (ADE) released a comprehensive review of existing research on Full-Day Kindergarten (FDK) instruction on December 1, 2005. A.R.S.§ 15-901.02(Q) stipulates that the Legislature shall not consider the appropriation of any additional state monies for FDK until after the Joint Legislative Budget Committee has reviewed the ADE report.

Recommendation

The Committee has the option of either a favorable or unfavorable review.

Background

Recently, ADE submitted the Full-Day Kindergarten (FDK) report required by Laws 2005, Chapter 329. For the report, the department was required to conduct a comprehensive review of the existing research on FDK instruction. The review was to emphasize longitudinal studies that assess the long-term academic impact of FDK instruction.

The ADE report reviews 13 academic studies on the effects of FDK. The report's Executive Summary is attached and a brief excerpt from it appears below:

"ADE found that there are an insufficient number of well-designed research studies documenting the duration of FDK benefits beyond the 2nd Grade. The lack of sufficient data creates challenges for making sound conclusions related to students' academic outcomes. Many studies describe FDK and its short-term academic benefits, but researchers, advocates and policy makers seem to agree that more longitudinal studies exploring the long-term effects of FDK are needed."

The complete ADE report is available at http://www.ade.az.gov/pio/Press-Releases/2005/Default.asp (12-02-2005 press release).

RS/SSc:ym

State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

Academic Impacts of Full-Day Kindergarten Instruction: A Comprehensive Review of Existing Research

EXECUTIVE SUMMARY

A comprehensive review of existing research with an emphasis on studies employing a longitudinal design was conducted by the Arizona Department of Education, Early Childhood Education Section to compile a summary report per ARS §15-901.02.P.

Data addressing the academic impacts of full-day kindergarten instruction was collected from a wide variety of sources including direct research, meta-analyses of research studies, other summaries of existing data, and public and private policy position statements. Research studies or reports describing the effects of full-day kindergarten other than academic impacts were not considered for this report. Information from the various sources of documentation was reviewed to identify commonalities and consistencies among the reported effects.

ADE found that there are an insufficient number of well-designed research studies documenting the duration of full-day kindergarten benefits beyond second grade. The lack of sufficient data creates a challenge for making sound conclusions related to students' academic outcomes. Many studies describe full-day kindergarten and its short-term academic benefits, but researchers, advocates and policymakers seem to agree that more longitudinal studies exploring the long-term effects of full-day kindergarten are needed. Although many researchers conclude that some existing studies lack rigor in design and do not always factor in other issues that may affect the study results (i.e. socioeconomic status, language, etc.), the majority of these studies have resulted in similar enough findings to allow for general agreement of the following *(*denotes studies in which the author demonstrated statistical significance but did not explain the educational impact)*:

- Children who participate in full-day kindergarten demonstrate greater achievement gains during their kindergarten year than do their half-day peers. This is especially true for children from disadvantaged backgrounds.
- Full-day kindergarten may help reduce the achievement gap between minority or low-socioeconomic status students and non-minority students or students who are not disadvantaged.
- Participation in a full-day kindergarten program that utilizes age appropriate instructional practices is not detrimental to a child's growth and development.
- The review found only one study that extended through fourth grade. The authors of that study (Weiss & Offenberg, 2002) concluded:

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"...students who had attended full-day kindergarten were 26 percent more likely than former half-day kindergartners to make it to third grade without repeating a grade" (Brewster & Railsback, 2002).

"Full-day kindergarten students also had 'significantly higher achievement scores in reading, math and science, higher report card marks and better attendance' by third grade (p.2), although by fourth grade they had higher achievement in science only, and higher attendance" (Brewster & Railsback, 2002).

- One study reviewed examined data from the Early Childhood Longitudinal Study, Kindergarten Class 1998-99 which looked at children kindergarten through third grade. The authors concluded:

  "Initial findings from this report did not detect any substantive differences in children's 3rd grade achievement relative to the type of kindergarten program (full-day vs. half-day) they attended" (Rathbun, 2004).

- The review found two studies that collected data through second grade. Both studies were conducted on children in the Montgomery County Public School District and found:

  Compared to an average of scale scores from the three years prior to implementing the early childhood program initiatives (which included full-day kindergarten), the full-day participants' grade 2 scale scores on the Comprehensive Test of Basic Skills (CTBS) increased by 8 points in reading, 9 points in language, 7 points in language mechanics, 13 points in mathematics, and 24 points in mathematics computations. Half-day participants' scale scores increased 2 points in reading, 4 points in language, 2 points in language mechanics, 3 points in mathematics, and 10 points in mathematics computations. The differences in scale score increases between full-day and half-day participants were statistically significant in all areas (Larson, 2003). *

  "The analysis of whether the spring Grade 2 CTBS Reading performance was at or above the 50th national percentile showed that the [full-day kindergarten] effect for students receiving both [Free and Reduced Meals Services] FARMS and [English as a Second Language] ESOL services persisted. However, the beneficial [full-day kindergarten] effect seen for all students at the end of kindergarten is no longer seen in the spring of Grade 2 [as compared to students from low socio-economic backgrounds]" (Alban et. al. 2003).

- One study reviewed looked at data through first grade. Using the Dynamic Indicators of Basic Early Literacy Skills (DIBELS) scores, the study found:

  "...children who had been in a full-day, Reading First kindergarten were more likely to be at benchmark at the end of first grade with 10.3 percent more students testing at benchmark compared to the half-day students" (Wolfersteig, 2005).

- The remaining studies reviewed examined longitudinal data from the beginning to the end of the kindergarten year.

The studies reviewed are summarized as follows and numbered the same as the full report:

1. **Reducing the School Performance Gap Among Socio-economically Diverse Schools: Comparing Full-Day and Half-Day Kindergarten Programs (2003)**
   - "…the improvements for the Grade 2 class of 2003 were significantly greater in the schools characterized by high poverty when compared with schools in wealthier neighborhoods. The net effect of this ~~phenomenon~~ was to reduce the disparities in achievement between those schools in the wealthy and those in the poor neighborhoods" (Larson, 2003)
   - "A review of four successive years of Grade 2 test scores for students continuously enrolled since kindergarten in high-poverty schools showed that [children from full-day kindergarten classrooms] attained an average scale score equivalent to the 78th national percentile level; whereas for the prior three years [when students came from half-day kindergarten programs], students from those same schools produced average scale scores equivalent to just the 52nd national percentile level" (Larson, 2003).

2. **Evaluation of the Longitudinal Impact of Comprehensive Early Childhood Initiatives on Student Academic Achievement (2003)**
   - Tracked performance from kindergarten through second grade.
   - "[The author's] analysis of the spring kindergarten foundational reading skills verified the full-day kindergarten benefit reported previously for students receiving both [Free and Reduced Meals Services] FARMS and [English as a Second Language] ESOL services. This is in addition to a [full-day kindergarten] main effect that benefited all students in this sample [as compared to half-day kindergarten students]" (Alban et. al. 2003).
   - "The analysis of whether the spring Grade 2 CTBS Reading performance was at or above the 50th national percentile showed that the [full-day kindergarten] effect for students receiving both FARMS and ESOL services persisted. However, the beneficial [full-day kindergarten] effect seen for all students at the end of kindergarten is no longer seen in the spring of Grade 2 [as compared to students from low socio-economic backgrounds]" (Alban et. al. 2003).

3. **Arizona Reading First Evaluation Report (2005)**
   - "Of the 2004-2005 first graders who participated in full-day kindergarten, 15.6 percent were at intensive [the lowest level] at the end of first grade, 8.4 percent less than for the half-day group at 24.0 percent" (Wolfersteig, 2005).

4. **The Effects of Full Day Versus Half Day Kindergarten: Review and Analysis of National and Indiana Data (2004)**
   - Study was a summary of previously reported research related to full-day kindergarten nationally and in Indiana.

5. **Full-day and Half-day Kindergarten in the United States: Findings from the Early Childhood Longitudinal Study, Kindergarten Class of 1998-99 (2004)**
   - Students in full-day programs gained 10.6 scaled score points in their reading scores from fall to spring, compared to students in half-day programs who gained 9.4 scaled score points. In math, students in full-day programs gained 8.6 scaled score points from fall to spring, compared to students in half-day programs who gained 7.8 scaled score points. *

6. **From Kindergarten Through Third Grade: Children's Beginning School Experiences (2004)**
   - "Initial findings from this report did not detect any substantive differences in children's 3rd grade achievement relative to the type of kindergarten program (full-day vs. half-day) they attended" (Rathbun, 2004).

7. **Summary of Research: Full-Day Kindergarten (2001)**
   - Study was a summary of research related to full-day kindergarten; specific data were not included in the report.
   - "Research shows that most full-day kindergarten students demonstrate somewhat higher academic and social achievement than half-day kindergarten students; however, the higher academic achievement seems to diminish somewhat over time. . . Now that half of the nation's kindergartners are in full-day programs, research should be able to show which children benefit the most and if the benefits last throughout a student's school career." (Martinez & Snider, 2001).

8. **Effects of Three Kindergarten Schedules on Achievement and Classroom Behavior (2001)**
   - Study measured growth of reading, writing and math between October and April for half-day, full-day and alternate-day kindergarten programs.
   - "No significant differences between the standardized test scores of children in each group were found in math and writing" (Hildebrand, 2001).
   - "The full-day kindergarten group scored significantly higher in reading than did the alternate-day and half-day groups" (Hildebrand, 2001).

9. **Full-Day Kindergarten: Exploring an Option for Extended Learning (2002)**
   - Study was a summary of research related to full-day kindergarten; specific data were not included in the report.

10. **The Effect of Kindergarten Program Types and Class Size on Early Academic Performance (2004)**
    - Authors used the ECLS-K database to conclude, "Past full-day kindergarten research findings were substantiated showing that young children in full-day kindergarten made greater achievement gains than half-day participants" (Yan & Lin, 2004).

11. **The Effects of Full-Day Kindergarten on Student Achievement and Affect (1996)**
    - The study compared reading and math achievement made during the kindergarten year between full-day and half-day kindergarten students.

- Full-day kindergarten students, on average, demonstrated a 6.1 higher score in reading and an 8.0 higher score in math than their half-day counterparts. Both differences were considered statistically significant.*

12. **What Do They Do All Day? Comprehensive Evaluation of a Full-Day Kindergarten (1997)**
    - The authors spent a two-year period examining academic outcomes in full-day and half-day kindergarten programs.
    - "Academic outcomes at the end of the kindergarten year indicated slightly greater progress in kindergarten and higher levels of 1st-grade readiness among children in the full-day program" (Elicker & Mathur, 1997).

13. **A Comparison of the Literacy Effects of Full-Day vs. Half-Day Kindergarten (2001)**
    - The study used interviews with teachers and pre-post testing of children's literacy skills during the kindergarten year.
    - Measured on Clay's Observation Sub-scales, full-day kindergarten participant mean scores increased an average of 15.41 points compared to an 8.27 mean score average increase for half-day participants. The author concludes, "Children in the full-day programs experienced significantly greater growth in the prerequisite skills for reading than did children in the half-day program" (da Costa & Bell, 2001).*

The full report also reviews three policy reports written for the Goldwater Institute, WestEd, and the National Institute for Early Education Research. These reports do not contain an analysis of data, but reflect the authors' views and recommendations regarding full-day kindergarten.