

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

*** * R E V I S E D * ***

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, March 29, 2007

8:00 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of February 6, 2007.](#)
- DIRECTOR'S REPORT (if necessary).
- ~~EXECUTIVE SESSION — Arizona Department of Administration, Risk Management Services —
Consideration of Proposed Settlements under Rule 14.~~
- 1. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies.](#)
- 2. [ARIZONA PIONEERS' HOME - Consider Approval of Requested Transfer of Appropriations.](#)
- 3. [DEPARTMENT OF TRANSPORTATION - Review of Third Party Progress Report.](#)
- 4. DEPARTMENT OF PUBLIC SAFETY
 - A. [Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.](#)
 - B. [Quarterly Review of the Arizona Public Safety Communications Advisory Commission.](#)
- 5. [ARIZONA STATE UNIVERSITY - Review of Requested Transfer of Appropriations.](#)
- 6. [AHCCCS - Review of Medicaid Eligibility Privatization Request for Proposal.](#)

The Chairman reserves the right to set the order of the agenda.

3/23/07

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

February 6, 2007

The Chairman called the meeting to order at 8:10 a.m., Tuesday, February 6, 2007, in House Hearing Room 4, and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Aboud
	Representative Cajero Bedford	Senator Aguirre
	Representative Rios	Senator Flake
	Representative Yarbrough	Senator Garcia
		Senator Harper
		Senator Verschoor
		Senator Waring

Absent: Representative Adams
Representative Boone
Representative Lopez

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 18, 2006, Chairman Pearce stated that the minutes would stand approved.

Mr. Stavneak said that the schedule has been arranged so that if the Committee does not finish today, it will reconvene Thursday, February 8 at 8:00 a.m.

ADOPTION OF COMMITTEE RULES AND REGULATIONS

Mr. Stavneak presented the following proposed changes to the existing Committee rules:

Rule 13

Fiscal Notes are currently required to consider implementation costs for only 3 years. The adopted change requires fiscal notes to consider the full cost of implementation, irregardless of any timeframe.

Rule 14

This rule addresses the procedure for the settlement of state liability claims covered by the Risk Management Self-Insurance Fund.

Rule 14 requires the Arizona Department of Administration (ADOA) to submit information regarding risk management cases to the Committee. During the past few years, JLBC Staff has requested additional information items. This change incorporates these changes into the information already required to be submitted (*Attachment 1*).

This change updates the rules to require that an ADOA approved loss prevention plan be included in settlement proposal reports to JLBC Staff. If, for some reason, the information is not available and would hold up the settlement, ADOA can provide that information and explain the contingency. Additionally, this change requires a loss prevention plan when there is a verdict against the state in a trial.

Rule 15

This rule addresses requirements for confidentiality. This change deletes references to information in the public domain like newsletters. Mr. Stavneak said he was not aware of any confidential newsletters.

Mr. Stavneak said these changes would be placed in the JLBC Rules and Regulations for the upcoming 2 years.

Senator Burns moved that the rule changes as presented by the JLBC Director be adopted. The motion carried.

ARIZONA DEPARTMENT OF CORRECTIONS - Consider Approval and Review of Requested Transfer of Appropriations.

Mr. Stavneak stated that the Department of Corrections (ADC) is requesting approval and review of a requested transfer of appropriations which is shown on page 2 of the agenda document. *Table 1* shows the JLBC Staff recommended transfers from Employee Related Expenditures (ERE) employee benefits of \$6 million and County Jail Beds of \$1.5 million. This would indicate a surplus of \$7.5 million in those lines that would be transferred to the Overtime/Compensatory line item. Members who served on the Committee during the past 2 years would recognize this issue; the department has already come before the Committee once this fiscal year. In FY 2008, the Legislature increased correctional officers salaries, which was intended to reduce vacancies and, thereby, reduce overtime. The department has been able to reduce their overtime and fill more vacancies, but not as quickly as they had anticipated in the original budget. At the rate that the department is currently expending overtime, ADC is anticipating running out of overtime funding by April 2007.

Mr. Stavneak said that JLBC Staff is recommending approval of this item. JLBC Staff, however, is uncertain if there is a surplus of \$6 million in the ERE line and this issue may have to be revisited.

The second line item that needs to be taken into account is a transfer from the Private Prison Per Diem line to the Provisional Beds line. The Private Prison Per Diem line includes long-term contracts with private facilities that house prisoners in Arizona. Provisional beds are essentially short-term beds that state is renting. Unlike private beds, which we contract on a long-term basis and include facilities that the state will eventually own, provisional beds are short-term, rented and typically out-of-state. In the middle of FY 2006, a private contractor cancelled the 645 bed contract in Texas. The budget presumed that the ADC would replace the cancelled contract with private beds and, as a result, funding for these beds was placed in the Private Prison line. The department has not contracted for replacement of private beds, but instead prefers to replace the contract with provisional beds. ADC put out an RFP to award new provisional beds and is seeking to transfer about \$12 million out of the Private Prison Per Diem line into the Provisional Beds line.

The JLBC Staff has provided 3 options. Option 1 is a favorable review of this transfer request of \$12 million (this transfer will likely give the department more money than needed for 645 beds in the Provisional line). The department, as part of their supplemental for this year, is seeking a per diem increase in their provisional bed rate to begin to cover the additional cost. The transfer would begin to cover what is essentially part of their supplemental request. Option 2 is to transfer \$3.2 million from the Private to the Provisional line. This would be done at \$55 a day, which is the currently funded rate. The department is in the contractual process and the \$3.2 million transfer makes no assumption other than funding these beds at the current rate. The third option is to defer this issue until ADC actually negotiates a contract and then transfer the money at that time.

Mr. Stavneak summarized by saying that ADC has some surplus monies because the 645 beds from Texas were not replaced this year. He indicated that the Committee can either transfer the whole \$12 million, or transfer \$3.2 million, which is specifically the cost of contracting the 645 beds for about 3 months, or defer this item until the department actually reaches an agreement with a vendor with regard to the cost of provisional beds.

Senator Harper asked if this was ERE money that was set aside for benefits even though the positions were not filled. Mr. Stavneak said that was correct.

Senator Harper asked if the JLBC Staff recommended overtime transfer was a conditional part of budget negotiations with the Governor or if it is being given unconditionally.

Representative Pearce said that in past budget negotiations, money was added and pay increased in an effort to reduce overtime and fill positions, with hopes that the department could live within that overtime allotment. He said the department is doing a fairly good job of filling the vacancies and though we are seeing progress, he would like to see a faster gain.

Mr. Stavneak said that the broader issue regarding ADC's supplemental makes no commitments at this point if option 2 or 3 is taken. He said the department has a supplemental request for \$14 million; the broader issue, in terms of working with the Governor's Office, will be on the supplemental request.

Representative Pearce said that was a good point and that it was absolutely correct. He said that he was more inclined to go with option 3. He is concerned that discussions are being held about per diem rates before ADC is able to negotiate with private vendors and wanted to hear the department's response.

Representative Pearce said he noticed the transfer request involves additional funding for a higher per diem for provisional beds and asked why the Committee shouldn't wait to transfer those funds for this purpose until the department actually has an agreement for the provisional beds. He expressed concern that if the Committee approves a higher rate, clearly the state will pay a higher rate. He asked for a response.

Ms. Dora Schriro, Director, ADC, said they had an opportunity to talk about this at Appropriation hearings several weeks ago. She said that they continue to survey available beds around the country and ascertain their availability and their current per diem rates. Of all of the provisional beds that would be available or have been recently contracted for in other jurisdictions, the department has not found any beds below \$65 per day.

Representative Pearce said that he believed that strategically, it is not a good idea to discuss a higher per diem when the department is still in the process of negotiating those rates. He is aware of cost of living increases, but suspects there is a pretty competitive market competing for beds, and said we want bidders to compete knowing that the State is fiscally constrained. He is aware that ADC needs to have what they need to negotiate a good deal, but as a body, he does not feel the State should market the fact that we are going to pay more.

Ms. Schriro stated that, in part, their request concerns the transfer of money to contract for provisional beds rather than private beds.

Senator Flake asked why there was money in the County Jail Beds item to be transferred and if we are using the county beds funds as planned.

Ms. Schriro said that they are using county beds, but not as many as they have in prior years.

Senator Flake asked if it was at the county's request that we are not using more county jail beds.

Mr. Stavneak said ADC still contracts with Navajo County for 48 beds and that there are no more Coconino County beds available.

Representative Pearce agreed, and stated that Coconino said they could not take any more state inmates for a while, but that Navajo is still willing to take them.

Senator Aguirre asked if the \$65 per diem was an average cost for contracting new beds.

Ms. Schriro said that this is a going rate for provisional beds.

Representative Pearce said that was a good question. He said that does not limit ADC from negotiating and that there are good opportunities out there. He explained that facilities have an excess number of beds that are not contracted for and that ADC can use them as emergency beds. A better than normal rate is obtained once the beds pay for themselves and that, once all the associated costs for that facility are met, there is a profit margin that can be used to negotiate a better deal. Sometimes it is just the art of negotiation, depending on the beds. There is some competition. He does not want to take any of that off the table and he wants the department to be able to negotiate properly.

Senator Burns moved that the Committee approve the department's request to transfer \$6 million from the ERE line item and \$1.5 million from the County Jail Beds SLI to the Overtime/Compensatory Time SLI and to defer action on the Provisional Beds until the department negotiates a contracted rate for all replacement beds. The motion carried.

STATE LAND DEPARTMENT - Consider Approval of Amended Contract for Permanent Central Arizona Project Water Delivery.

Mr. Stavneak said that this involves the State Land Department and its contract with the Central Arizona Water Conservation District (CAWCD) for water from the Central Arizona Project (CAP).

Statute requires the JLBC Staff to approve this contract or any amendments to it. The contract was originally signed in 1986 and is now being amended 20 years later in conformance with some federal statutory changes. This includes the extension of the period of the contract from 50 to 100 years. The price of CAP water is set annually by the CAWCD Board. This makes no financial commitment in terms of how much we will be paying for CAP water for state trust land. The JLBC Staff has recommended an approval of the contract.

Senator Burns moved that the Committee adopt the recommendation as stated in the write-up by JLBC Staff to approve the contract. The motion carried

DEPARTMENT OF PUBLIC SAFETY (DPS)

A. Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

Mr. Stavneak stated that this item addresses the DPS quarterly review of the Arizona Public Safety Communications Advisory Commission. The commission is charged with the oversight of developing the state's interoperability system, which would allow first responders with different communication systems to communicate with one another. The commission spent about \$200,000 in the last quarter. They continue to develop the conceptual design. Currently, there is a contract out on the street. Both the JLBC Baseline and the Governor's budget have \$2.2 million, which would move this contract beyond conceptually designed to a detailed design. The JLBC Staff has recommended a favorable review of this item.

Representative Pearce said that somewhere down the line there will be a good price tag on this item if a plan is developed to move forward on statewide communications. He thinks this is critical. He expressed concern with negotiations that took place last year relating to the microwave communication system upgrade.

Representative Pearce said that he could not think of any project out there that is more critical than a statewide communication system for emergencies and that homeland security dollars should be at the front. He said that homeland security dollars should be prioritized, securing the boarder, obtaining communications and taking care of the infrastructural needs of this state are critical. He stated that communications is the backbone of any disaster and hopes that we continue to focus and spend these dollars wisely. He stated that he was unsure if the numbers are way down this year from what they have been from the federal government, which places a great burden on the state as we move forward.

Senator Burns moved that the Committee adopt the recommendation for a favorable review for the FY 2007 first quarter expenditures and progress for the statewide interoperability design project as stated in the write-up by the JLBC Staff. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS)

B. Review of the Microwave Communication System Upgrade Expenditures and Progress.

Mr. Stavneak said that there are a series of towers throughout the state in 3 loops that utilize microwave communications and allows DPS officers to communicate with one another. In last year's budget \$2.5 million was included from a combination of General Fund and Other fund sources to begin replacing and repairing the southern portion of this loop. There was a legislative intent statement that that money was to be supplemented by \$1.6 million in federal Homeland Security funds. The entire project was about \$4.1 million. Of those monies \$2.5 million was advanced appropriated for 3 years from FY 2007 through FY 2009. We have now learned that the federal Homeland Security monies will not be available for this project. The Committee has 2 options, a favorable or unfavorable review of the request.

In answer to Senator Waring's question, Mr. Stavneak stated that there was miscommunication on the JLBC Staff's part with the State Department of Homeland Security (DHS) which led JLBC Staff to believe that this was not an eligible project. This appears not to be the case. This was not an eligible project when the project was being done as a lease-purchase about 2 years ago, but it is eligible as a straight cash purchase.

Representative Pearce said that this has been a battle. He said the department had an agreement in writing for \$1.6 million to use for this project. Money was allocated for the Arizona Department of Transportation (ADOT) and Homeland Security for this project, because it is a critical priority for the State of Arizona. The Committee had a lengthy discussion with the previous Director on this issue. Afterwards priorities were set elsewhere after a deal had been made and he is very disappointed that it didn't work.

Senator Waring stated that he would like to see the list of projects that were more important than this. Later in the meeting, a list was distributed. See *Attachment 2*.

Senator Waring asked if this project is just replacing equipment that is worn out now. He said that interoperability is a long term plan.

Mr. Stavneak said he thinks that they are distinct projects but they do both operate under the DPS. He believes that the department is taking into account the requirements of eventual interoperability in the way they repair and replace the current microwave system. Mr. Stavneak added that he believes there is some high level coordination going on there from the DPS.

Representative Pearce said there is a relationship but they are 2 separate projects. This is fixing what is worn out, but the project is in 3 phases. This is Phase I of the project, and as we move through this there will be Phase II through Phase III. This is separate from the inoperability and must be replaced keeping where we are going with the other projects in mind, which is by far the bigger project.

Senator Waring said that he realizes that this is the first phase, and asked if he could just take off our dollar total and multiply it by 3, for central and northern. He asked what the total cost would be of the entire project and where would we look for cost savings since they are working together.

Mr. Stavneak said that the project was initially thought to cost about \$60 million. As you get more involved in the project and begin to see what is entailed, this is actually an example of where they would bring the price down. They are currently estimating the cost of the project for the entire state to be about \$47-\$48 million. Mr. Stavneak suggested allowing DPS to address the question of where costs savings could be found as they further refine their estimates.

Representative Pearce said that part of that is technology has gotten better and cheaper.

Mr. Stavneak said that under either option, JLBC Staff recommend 3 provisions: 1) having DPS submit an updated cost estimate on the southern loop of the project and of the entire project in its next report; 2) submit an expenditure plan for this project if it does not receive the Homeland Security monies because clearly the scope is going to change somewhat if we do not receive the monies and 3) should be revised because it would not so much be the issue of why it is an ineligible project, because we believe it is, but it would be more the question of making allocation decisions; why did they decide to allocate to projects and not just microwave communications. Mr. Stavneak further stated that a list of projects that were chosen for funding is now available and will be distributed.

Representative Pearce asked if anyone was present from Homeland Security. No one responded.

Senators Burns asked why the department didn't believe that this project was higher on the priority list than it apparently is. When the Committee receives the list, he would like to follow-up with the department on this issue.

Senator Burns asked if the \$17.7 million that was taken out of RICO (Racketeer Influenced and Corrupt Organizations Act) for the purposes of building a crime lab in Tucson could have been used for the microwave tower project and would those funds have been eligible for that project.

Mr. Curt Knight, Executive Director, Department of Public Safety, said as far as what monies are needed he could give an answer from a pure technology standpoint, but he said he didn't have a policy decision as far as where the money is going to come from. Mr. Knight thought it appropriate if Phil Case, Comptroller of DPS, answer the question.

Mr. Phil Case, Comptroller of DPS, said he believed it would have been an appropriate use of those monies. So, the answer to that question would be yes.

Mr. Stavneak said that the Governor's Office has just given JLBC Staff a budget amendment on Friday with regard to the DPS budget. As he mentioned in his presentation, along with the JLBC Baseline \$2.2 million has been added from the

General Fund for the interoperability project in terms of detailed design. The Governor's Office is now recommending \$2.2 million for the interoperability design from RICO settlement monies.

Representative Pearce asked Mr. Case if he knew how much DPS and AG has for the current RICO accounts.

Mr. Case said that there are several different RICO accounts and that it is somewhat a complicated answer. He said that Representative Pearce may be aware that from the single case of \$17.7 million, there is about \$26 million awarded the state. He said he couldn't speak about the AG's RICO accounts in general, but that with respect to DPS, they currently have about \$1 million available in their RICO accounts.

Representative Biggs said in a recent hearing, the AG's office said that there was \$1.7 or \$1.5 million in their RICO account and asked Mr. Case what RICO accounts he was referring to.

Mr. Case said that he couldn't speak to the AG's account, but he was present at that hearing and did hear that figure, but can't attest to the accuracy of those figures. With respect to DPS they have about \$1 million in their account right now, not including any monies that are obligated or encumbered for various projects.

Representative Biggs asked Mr. Case what RICO accounts he was referring to.

Mr. Case said the accounts authorized by the statutes that were discussed at yesterday's DPS hearings.

Representative Pearce said it is complicated due to the fact that there are many accounts out there. Some agencies choose to have their own; others use the county attorney or the Attorney General. This has to be recognized (and they can provide a breakdown of that, and the Committee may request a breakdown) if there is an interest of what dollars are available. He said the Committee has opened the door for a lot of projects; some we may deem appropriate; others we may question.

Senator Garcia asked Mr. Case to explain how the funds are obtained from the RICO accounts.

Mr. Case said in the course of criminal investigation the department may seize under the civil forfeiture statute proceeds, (or ill-gotten gains) from criminal enterprises. The courts may then award them to DPS through either the AG's office or through county attorneys. Once those proceeds are awarded to the department they can be spent for department operations, usually for things such as overtime or equipment to further investigations or in support of other criminal justice purposes.

Senator Garcia said he wants to make sure that the money is funneled through the AG's office and then disbursed to DPS or the county attorneys.

Mr. Case said the money either goes through the AG's office if the AG's office is prosecuting the case or a county attorney's office if the county attorney is prosecuting the case. In many cases both of the law enforcement agencies work on a single case and it is up to the relevant attorney's office to disburse the proceeds to the extent that each agency participated in the case. In the case we have been discussing there are 2 criminal justice agencies involved; DPS and the AG's office. But they did some of the investigative work themselves and the money is to be divided up. Since DPS did the largest share of the work, it may get the largest percent of the proceeds of that case. The AG's office is getting the smaller share.

Senator Garcia asked whether the funds are generally targeted to a specific project, with regard to the awards.

Mr. Case said specific projects, have to be consistent with statute and the relevant attorney must approve the utilization of the funds. In the case of the southern regional crime lab, we would indicate to the AG's office that we have a desire to use the money for the southern regional crime lab. His office would have to indicate whether that use is consistent with statute or not. In this case, they obviously said that they thought it was an appropriate use of those funds.

Senator Garcia said that there are many projects that may be available, including gang prevention, but those who had the authority, made the decision that the southern Arizona crime lab was a top priority. The reality of this situation is choices were made; though the designation of money for the southern Arizona crime lab was not inappropriate, contrary to the statute. He asked if that statement was correct.

Mr. Case agreed that Senator Garcia was correct, in that there are choices to be made. An important point to make in this case is that it is an unusually large case. Typically the DPS utilizes and receives about \$3.5 million in RICO funds per year. Last year was unusually high as well; DPS expended about \$6 million. This year, with this tremendous award, DPS is

looking to spend or encumber \$20+ million. DPS would receive about \$3.5 million in a typical year. This single case represents an award of 5 or 6 times their normal annual amount from these kinds of projects. It is an usual windfall situation.

Senator Burns said he thought he heard the implication that maybe the crime lab was not an important use for the particular money. He said that is not the issue in his mind. The issue in his mind is where the money comes from to pay for the lab. In this case he thinks there is room for debate about whether or not RICO money should be used and there may be other funding sources that would be more appropriate, and he believes we ought to have that debate.

Representative Pearce asked Mr. Stavneak for clarification about the third bullet needing to be modified.

Mr. Stavneak said that rather than addressing why it is not an eligible use or what the eligible uses are, because we believe it is, the Committee if it so desires, could require a written statement from the department as to why they chose not to fund this project relative to this item.

Senator Burns moved that the Committee give a favorable review of the expenditures and upgrade to its Microwave Communications System with the caveat of including the 3 bullet points listed in the write-up with the modification to the third bullet point as presented by the Director. The motion carried.

The bullet points include:

- DPS submit an updated cost estimate on the southern loop of the project and of the entire project in its June 30, 2007 statutory report;
- DPS submit an updated expenditure plan and project timeline for the entire project, addressing the lack of Homeland Security monies with its June 30, 2007 report;
- Requesting from the Arizona Department of Homeland Security an explanation to the Committee regarding why the project has not received federal homeland security so far in FY 2007 and the prospect for federal homeland security funding for this project in the future.

DEPARTMENT OF REVENUE (DOR) - Review of Business Reengineering/Integrated Tax System (BRITS) Contract Amendment.

Mr. Stavneak said that at its October 2006 meeting, the Committee unfavorably reviewed DOR's \$14.8 million contract amendment with a vendor to finish converting individual income tax collections to BRITS. Delays that occurred in the process of pulling BRITS together were the reason for this unfavorable review. DOR is now requesting review of a new contract amendment for about \$2.2 million to extend the vendor's operation of the BRITS data center. When we contracted out with Accenture to develop BRITS software, they also had responsibility through a subsidiary named Accenture Technical Infrastructure Services (ATIS) to operate the BRITS data center. This would continue that operation from October 2007 through September 2008.

Mr. Stavneak said that JLBC Staff has provided at least 2 options: 1) a favorable review for the \$2.2 million; and 2) an unfavorable review, although DOR proceeded with the contract after receiving an unfavorable review last October. Mr. Stavneak stated that one of the concerns of the Committee in October was where was the Information Technology Authorization Committee's (ITAC) review of big ticket automation projects. Since the JLBC meeting, ITAC has reviewed the project and concurred with many of the suggestions that the Committee had made. Much of what the Committee recommended in October has been incorporated into ITAC's review of this project, including an independent party to begin reviewing the project. One of the items that ITAC recommended is that DOR come back and seek the Committee's input on the data center portion of the project.

Senator Burns asked if there was a cost estimate that will be incurred by DOR in order to run and operate the data center after this contract expires in 2008.

Ms. Kristine Ward, Deputy Director, DOR, said that is actually a part of the department's budget request. They requested that the Legislature provide authorization for them to go through the RFP process in FY 2008, and then DOR would come back to the Legislature and request an appropriation for the cost of the contract in the 2008 session.

Senator Burns said that the operation would not necessarily be by DOR personnel and asked if an RFP would be placed for a private company.

Ms. Ward answered, yes.

Senator Burns asked if work has begun with GITA to obtain their input as to how all of this fits together and how this contract situation would work.

Ms. Ward said they have not started working with GITA, though a budget issue was provided to GITA. She said that it is essential to run the BRITS system and the BRITS system is essential to running the department. She said that though DOR had been given an unfavorable review in the past, this is an opportunity to transition and she is asking for a favorable review.

Senator Burns moved that the Committee give a favorable review to the \$2.2 million contract amendment to continue operation of the BRITS data center, as recommended by the JLBC Staff. The motion carried.

DEPARTMENT OF EDUCATION - Review of Kinder Morgan Settlement.

Mr. Stavneak said that this item was dealt with in the June and September 2006 meetings. When there is a tax court ruling which reduces a company's property taxes, we end up adjusting the amount of Basic State Aid that it receives for a past year in order to provide what should have gone to that school district under the lower assessed value. This portion of the settlement deals with Pinal County in the amount of \$306,000. Yuma, Cochise and Maricopa Counties were given a favorable review for a corresponding issue at the June and September 2006 Committee meeting. The JLBC Staff recommends a favorable review.

Senator Burns moved that the Committee give a favorable review to provide \$306,400 in additional Basic State Aid funding to school districts in Pinal County due to assessment evaluation changes pertaining to the recent Kinder Morgan settlement as recommended by the JLBC Staff. The motion carried.

ATTORNEY GENERAL (AG)

A. Review of Uncollectible Debts.

Mr. Stavneak said this item comes before the Committee annually. After a period of time, the Attorney General determines that if a debt is not collectible, it can be removed from the state's accounting books. Removing the debt from the accounting books does not eliminate any liens that are placed on some of these properties, nor does it eliminate the need for an income tax audit or to find the person. From an accounting standpoint, the debt would no longer show up on the state's books. The JLBC Staff recommends a favorable review of the request pending information on 2 outstanding debts totaling \$6.8 million. There were 2 very large items within the amount of uncollectible debts. Typically, when one goes through the detail, one will find uncollectible debts for small dollar amounts. The JLBC Staff requested more information on these 2 debts given the large dollar amounts. Mr. Stavneak noted that this information was received yesterday from the Attorney General.

The first loan was made for \$3.4 million to create software for an Arizona Stock Exchange to facilitate the sale of stock. Mr. Stavneak understood that there was no collateral involved. The company defaulted on the loan. There is no one to pursue to repay the debt and the state was unable to sell the software.

In answer to Representative Biggs' question, Mr. Stavneak stated that the Department of Commerce lent the company money.

Representative Biggs asked if the loan was made with taxpayers' money.

Mr. Stavneak stated that there are loans made by the Commerce and Economic Development Commission (CEDC). Mr. Stavneak said he didn't know if this was the particular program under which the loan was made, but that it has been described to JLBC Staff as a loan.

Representative Biggs asked if money is lent to private businesses.

Mr. Stavneak said under the CEDC, for example, there are lottery proceeds that go to a fund that is then used in part for loans to private businesses.

The second case involves an individual who was fined by the Arizona Corporation Commission (ACC) and owed the state over \$3 million. ACC attempted to find this individual for about the last 7 years. They believed he moved to California and an investigator in California was hired. A number of proceeds have been used over the years and ACC attempted to find the

individual again in 2006 using skip tracing procedures, but still have not been able to find him. Mr. Stavneak explained that the AG's office can provide more details on their efforts and attempts to find this individual. The information the AG's office provided outlines a number of steps taken over the years in terms of their efforts to try to locate this individual.

Representative Pearce said he doesn't understand why this loan would be removed from the books. He said that just because the individual cannot be found is no reason to remove this loan and forgive the debt.

Mr. Stavneak said that this may be a question to pursue with the Attorney General. He said that taking this action removes the debt from the state's accounting books, but is not sure if this means that the Attorney General will never pursue payment action on the case again.

Representative Pearce said that we are using taxpayers' dollars to fund people that we should not be funding in most cases. He said he thinks it is a poor use of taxpayers' dollars. He believes there should be some oversight for the Department of Commerce.

Mr. Anthony Vitagliano, Section Chief Counsel from the Attorney General's Office stated that they can still pursue this person. This does not in any way forgive or eradicate his debt. It is basically a way that the client agency can keep track in showing this debt. If the individual were to ever attempt to obtain financing, it would come to the department's attention and his debt would have to be cleared before pursuing financing. This individual is currently 70+ years old and may be deceased. There have been rumors that he moved to California and outside counsel was hired to pursue him in California. The department was unable to find any records of any ownership or assets. To respond to the Committee's question, Mr. Vitagliano said the debt does not go away; it remains collectible. At this point in time, they won't skip trace it every 6 months, it will be on the longer term.

Representative Pearce said that part of his concern was that if the debt is removed from the books it would not get the attention or regular reminders to be resolved. Representative Pearce said that he could not imagine this person was in California and could not be located. He said that this is a lot of money. (He said he would think somebody would be able to locate this person, and that if he is dead there should be a record of that, for example, a death certificate.) He added that if this person was dead, the money must have been left to someone. This would be an ill-gotten gain for his heirs because it was not his money. Representative Pearce said that somewhere the taxpayers deserve the department to remain diligent on the recovery of these dollars.

Mr. Vitagliano said that he agreed. He clarified that the debt of \$3.3 million consisted of \$60,000 in costs, \$220,000 in restitution, and \$3 million in penalties and interest. He said that the individual did not receive \$3.5 million; he has been penalized \$3 million by the state.

Mr. Vitagliano said the second loan was made by the Department of Commerce to a business for \$3 million to create software for an Arizona Stock Exchange. He noted that no guarantee of repayment was taken by the Department of Commerce and therefore, the Attorney General investigation was focused on determining whether there was grounds.

Mr. Vitagliano said this debt was referred to their office several years after the Department of Commerce could not collect the money and the software could not be sold. He said that the debt was sent to the AG's office in 2001 and the attempts to collect the money did not begin until around 2005. He said he could provide additional information at the Committee's request.

Representative Yarbrough said that he would be interested in more detail on the transaction and would also be interested in knowing whether the AG attempted to pierce the corporate veil and pursue the individual. He said that if the Committee voted to approve the item, he would like to make an exception to this debt until further information is obtained.

Mr. Vitagliano said that they did get information and they looked at ways to pierce the corporate veil, but unfortunately found nothing.

Senator Burns said that he would assume that when the AG's office looks at these issues, especially these 2, there are obviously costs involved in trying to locate the involved people and at some point he would guess that the decision has apparently been made that you're throwing good money after bad. He asked how this determination comes about and how much has been spent in these particular cases.

Mr. Vitagliano said the key in collection is obviously the closest in time one is, the more likely chances there are of collecting the debt. He said that as these accounts get older, there is less likelihood of finding the money.

Senator Burns asked if Mr. Vitagliano had an estimate of the costs that have been incurred on these particular cases at this point.

Mr. Vitagliano said that number would have to be developed because they don't have collectors that determine how much money has been paid toward a debt. He said that before an item is ever determined uncollectible, they keep it out there from 3 to 15 years, and it must be approved by the collection supervisor and the state court collection chief. He said that he could obtain that information if the Committee wants it.

Representative Pearce said that he appreciated Mr. Vitagliano's response to some of the questions and it appears that he has the same concerns that the Committee has. He said that the Committee does not take lightly those who do not respect their responsibility to the taxpayer, and he questioned the Department of Commerce making loans of this nature. Representative Pearce said that he is going to make a motion that the Committee not approve removing items over \$100,000. He also said he has a hard time removing items that are over \$100,000 from the list.

There was discussion on what to put in the motion.

Mr. Stavneak said he thought the Committee would like JLBC Staff to communicate with the Department of Commerce to find out what their current loan procedures are in the context of what kind of guarantees they require. JLBC Staff would follow-up with them having them present before the Committee.

Representative Pearce said he thinks that is an excellent idea and would like to do that.

Senator Burns moved that the Committee give a favorable review of the AG's FY 2005 listing of \$16.8 million in uncollectible debt, with 2 exceptions: 1) \$3.4 million in uncollectible debt from Wunsch Auction Systems, Inc. and 2) \$3.4 million in uncollectible debt from Earl Serap, and further, to instruct the JLBC Staff to communicate with the Department of Commerce and find out what we can relative to their loan operations and procedures and with the possibility of the Department of Commerce appearing before the Committee at a later date to explain that. The motion carried.

ATTORNEY GENERAL (AG)

B. Review of Allocation of Settlement Monies.

Mr. Stavneak said that the AG provides information on the review of settlements. There are 2 settlements.

The first settlement is with Sony BMG, a company that placed anti-copying software on certain music CDs. The XCP software caused damage to some consumers' computers. As part of a nationwide settlement, \$313,000 will be deposited into the Arizona's Consumer Fraud Revolving Fund for attorney costs and fees. Refunds up to \$175 will be provided to consumers whose computers were harmed.

The second settlement is with Deed and Note Traders (DNT), a company that implemented a HomeSavers program for consumers who were facing foreclosure. The consumer would sell their home to this company and then rent it until they were able to buy it back. A number of problems were created in these circumstances. The consent decree provides restitution to 14 individuals who lost their homes in an amount exceeding \$234,000. In addition to that, \$200,000 was deposited into the Consumer Fraud Revolving Fund.

Representative Biggs asked if the AG's office has been reimbursing funds to their customers who were victims of these settlements.

Mr. Stavneak said yes.

Representative Pearce asked how you could replace a destroyed computer for \$175.

Mr. Stavneak agreed that \$175 would be a low price to purchase a new computer. He did not know if anyone lost the entire use of their computer and suggested that the AG's office address how they decided on the specific dollar amount.

Ms. Rene Rebillot, Section Chief Counsel, Consumer Protection and Advocacy Section, AG's Office, clarified they do not have a total dollar amount for the restitution right now. She said that this is a nationwide settlement in a number of states and at this point it is probably not remediable. She said that the software crashed the CD-ROM drive of some consumers. The

refund up to \$175 was for the CD-ROM, not for the computer. The restitution will be administered probably for the next 6 to 8 months nationwide.

Representative Pearce asked what the purpose was for depositing it into the Consumer Fraud Revolving Fund to pay for attorneys' costs and fees.

Ms. Rebillot said attorneys were not contracted out. This case was handled by the assistant attorney general in Tucson. The funds placed back into the Consumer Fraud Revolving Fund supports the enforcement efforts, costs, fees and investigative expenses. In these kinds of cases typically there are documents that are reviewed. In computer and software cases, there might be CDs or DVDs; there is quite a bit of work that goes into determining what kind of deceptive practices there were and negotiations to obtain an appropriate settlement.

Senator Burns moved that the Committee give a favorable review of the allocation plans from the Sony BMG settlement agreement and the DNT consent decree as recommended by the JLBC Staff. The motion carried.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (DEQ) – Review of Water Quality Permit Processing Times.

Mr. Stavneak said that DEQ was provided \$400,000 last year to hire outside contractors to reduce the backlog of permits waiting for processing. A footnote was added to the budget requiring a report on how quickly the department's processing their permits.

Mr. Stavneak said the department issues 48 different types of permits. The Licensing Timeframe (LTF) for processing was met for all but 1 permit type in FY 2006. The department is currently exceeding 4 of the 48 permit deadlines in FY 2007, but they anticipate only exceeding 2 of the deadlines by the end of the year.

Mr. Stavneak said that the JLBC Staff is recommending 2 options, a favorable or unfavorable review.

Representative Pearce asked why DEQ chose not to use FY 2007 appropriations to contract out staff to process permits, knowing that there was an increase of permits.

Ms. Joan Cart, Director of the Water Quality Division, DEQ, said that the Water Quality Division issues 3 general categories of permits that are subject to Licensing Time Frame laws, including surface water and drinking water permits. DEQ processes about 3,000 permits a year.

The subject of the DEQ report, as stated by Mr. Stavneak, is the \$200,000 in General Funds and \$200,000 in water quality fee funds for contracting permits in order to attempt to reduce the timeframe. Regarding surface water permits, DEQ has been able to issue 4 permits, expending \$182,000 from the General Fund.

Senator Burns moved that the Committee give a favorable review of the report documenting water quality permit processing times for FY 2006 and 2007 as recommended by JLBC Staff, which includes the recommendation that DEQ report to the Committee on its rationale for not using the FY 2007 \$200,000 allocation from the Water Quality Fee Fund for additional contract permitting staff. The motion carried.

ARIZONA STATE UNIVERSITY (ASU) - Review of Walter Cronkite School of Journalism.

Mr. Stavneak said an extensive discussion concerning this item was held at the November 2006 Committee meeting. At that time, ASU had not released its construction plans of the Cronkite School of Journalism for the Committee's review, so subsequently the item has been brought back so the Committee can get a full picture of what is happening.

The school will be financed with a City of Phoenix bond issuance and would cost about \$71 million for a 217,000 square foot building. The cost of construction is being paid for by the City of Phoenix. ASU's charge will be \$2 per square foot for building renewal over the next 4 or 5 years, with an approximate cost of \$435,000.

The JLBC Staff has recommended 2 options, a favorable or unfavorable review.

Mr. Stavneak said that the Joint Committee on Capital Review (JCCR) just reviewed a broader issue on Downtown Campus housing at its January meeting. At that point the Committee, at Senator Burns' suggestion, gave the campus housing project an unfavorable review because he thought the creation of the campus should have undergone more legislative oversight.

Since that point, Senator Burns has had some conversations with ASU officials with regard to how we might better improve the process of the Legislature being involved in campus sighting, as well as issues about indirect debt financing and the Committee's review of those items.

Representative Biggs asked if the building renewal costs are about \$435,000. Mr. Stavneak said that was correct.

Representative Biggs asked who will be obligated to pay for the building renewal costs.

Mr. Stavneak said the fund source has not been specified to date. He said some type of local fund money may be used; not General Fund monies. One of the items that has been typically attached to items like this, which is on page 2 of the memo, is that a favorable review by the Committee does not mean that there is a commitment to provide General Fund money for any costs associated with it.

Senator Burns said in regard to the discussion he had with ASU, there is a possibility of coming up with some legislation that would expand legislative oversight for these projects; this project would fall under that oversight.

Senator Burns said that it is his understanding that the equipment costs are about 10% of this particular project and that this is higher than normal. The assumption is that some of that has to do with the expensive Channel 8 TV equipment costs. He asked if there were plans to move the equipment or if new equipment would be purchased to replace that equipment.

Mr. Richard Stanley, Senior Vice-President and University Planner for AGU, said that an equipment budget has not been established, but they are working to establish one now. The current cost estimate is \$30 a square foot for furniture, fixtures and equipment, which is not highly out of line. Specifically, the costs are driven by a combination of technical equipment associated with KAET and the journalism program. The building would include 2 studios which will be used by students and will be equipped for regular student news broadcasts, as well as other ongoing student needs. Those facilities are new and will be substantially better than those available to the school on the Tempe Campus. Many of those equipment costs will be new to the University. For KAET, we will be moving much of the equipment that exists today at the Tempe Campus into the new studio in this building. There will be some costs associated with moving the satellite equipment necessary for receiving and transmitting the Public Broadcast System broadcasts. They attempt to re-use every bit of equipment that is movable and re-usable for the project.

Senator Burns moved that the Committee give a favorable review of the design and construction of the Walter Cronkite School of Journalism/KAET Channel 8 project as recommended by the JLBC Staff, including the standard provision that a favorable does not constitute an endorsement of General Fund appropriations to offset any operations and maintenance costs when the project is complete. The motion carried.

EXECUTIVE SESSION

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

At 10:00 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 10:55 a.m. the Committee reconvened into open session.

A. Department of Environmental Quality – Review of Request for Proposals for the Vehicle Emissions Inspection Program Contract.

Senator Burns moved that the Committee give a favorable review of the Vehicle Emission Inspection Program Contract as recommended by JLBC Staff.

Representative Pearce said that the motion would include an emphasis to move toward the model that was discussed in the Executive Session. The motion carried.

B. Arizona Department of Transportation – Review of Proposed Assessment Plan for New Motor Vehicle Division Computer System.

Senator Burns moved that Item B (ADOT's proposed MVD Computer System Assessment Plan) of the Executive Session be given a favorable review as recommended by the JLBC Staff. The motion carried.

Without objection the Committee meeting adjourned at 11:10 a.m.

Respectfully submitted:

Tanya Smith, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 14 CONTINUED

STATE LIABILITY CLAIMS (CONTD)

- O. Whether the State has any claim or right of recovery against other parties, e.g., subrogation or indemnification.
- P. An agency AND AN ARIZONA DEPARTMENT OF ADMINISTRATION response that shall contain the following information:
 - 1. Actions taken to eliminate or limit the future risk of liability to the state.
 - 2. Statement as to any disciplinary action(s) taken against any employee(s) that were negligent in carrying out their duties.
 - 3. ~~THE ARIZONA DEPARTMENT OF ADMINISTRATION'S APPROVED LOSS PREVENTION PLAN.~~
 - 3. *AN AGENCY LOSS PREVENTION PLAN APPROVED BY THE ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA). IF AN APPROVED PLAN IS NOT AVAILABLE, ADOA WILL PROVIDE AN EXPLANATION OF WHY IT IS NOT APPROVED AT THAT TIME, AND A TIMETABLE FOR SUBMITTING AN APPROVED PLAN.*
- 4. In conjunction with the settlement procedures prescribed pursuant to this rule, the Risk Management Division shall:
 - A. Annually report to the Committee on 1) the operations of the Division, 2) the status of pending claims and lawsuits, 3) information on actual judgements and settlements, 4) STATUS OF CLAIMS AND LAWSUITS REPORTED ON THE PRIOR YEAR ANNUAL REPORT, 5) NUMBER OF CLAIMS AND LAWSUITS FILED SINCE THE LAST REPORT, 6) NUMBER OF LIABILITY CASES TAKEN TO TRIAL WITH INFORMATION ON THE VERDICTS AND JUDGEMENT AMOUNTS, and 7) projected fund balances.
 - B. With the assistance of the Attorney General, propose to the Committee any changes in State insurance coverage, State statutes, State liability principles or claims procedures which may help to limit future State liability.
 - C. ~~PROVIDE THE COMMITTEE WITH A DEPARTMENT APPROVED LOSS PREVENTION PLAN FROM ANY TRIAL THAT RESULTS IN A JUDGEMENT AGAINST THE STATE IN AN AMOUNT EQUAL TO OR GREATER THAN THAT WHICH REQUIRES JLBC SETTLEMENT AUTHORITY.~~
 - C. *PROVIDE THE COMMITTEE WITH AN AGENCY LOSS PREVENTION PLAN THAT RESULTS FROM A JUDGMENT AGAINST THE STATE IN AN AMOUNT EQUAL TO OR GREATER THAN THAT WHICH REQUIRES JLBC SETTLEMENT AUTHORITY. WITHIN SIXTY DAYS AFTER PAYMENT OF THE JUDGEMENT, ADOA WILL EITHER INDICATE APPROVAL OF THE PLAN, PROVIDE AN EXPLANATION OF WHY IT IS NOT APPROVED, OR PROVIDE AN EXPLANATION AS TO WHY A PLAN IS NO LONGER APPLICABLE.*

2006 Homeland Security Grant Program SHSGP

<i>Jurisdiction</i>	<i>Project Name</i>	<i>Allocated</i>	<i>Sub-allocation</i>
State Agencies			
ADOHS	Operating Budget	1,031,080.00	
ASU	Emergency Operations Center	159,435.00	
ADEM	Total	541,485.00	
	Planning		223,007.00
	Exercise		77,044.00
	Training		241,434.00
Subtotal		1,732,000.00	
Central Region			
Arizona Department of Public Safety (DPS)	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,666.00	
Gila River Indian Community	GRIC Critical Infrastructure Protection Team	\$60,000.00	
Glendale Police Department	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,667.00	
Maricopa County Emergency Management	Arizona Red Cross Shelter Facility Training	\$35,000.00	
Maricopa County Emergency Management	CERT Training G-317	\$267,750.00	
Maricopa County Emergency Management	Region Citizen Corps Planner	\$127,580.00	
Maricopa County Emergency Management	Regional Training & Exercise	\$127,402.00	
Maricopa County Human Svcs	Special Transportation Services Communications Equipment	\$97,208.00	
Maricopa County Sheriff's Office (MCSO)	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,667.00	
Maricopa County Sheriff's Office (MCSO)	MCSO Jails Mobile Commander Center	\$58,220.00	
Mesa Police Department	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,667.00	
Paradise Valley Police Department	Law Enforcement Minimum Level PPE	\$30,000.00	
Phoenix Fire Department	IST and RRT Logistical Support Vehicles	\$480,000.00	
Phoenix Fire Department	IST Instructors and IST Training	\$390,000.00	
Phoenix Police Department	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,667.00	
Phoenix Police Department	Unified Data Sharing Project	\$249,000.00	
Tempe Police Department	EOD Quick Response Vehicles and Render-Safe Equipment	\$103,667.00	
Subtotal		2,544,161.00	
East Region			
Gila County Sheriff's Office	Training Initiative	\$51,307.00	
Gila County Sheriff's Office	Exercise Initiative	\$51,306.00	
Graham County	VHF Radio System Multi-Cast Points	\$345,000.00	
Graham County	Radio Communication Cache	\$75,000.00	
Greenlee County Emergency Management	Fire/EMS VHF Repeater on Guthrie Mountain	\$48,860.00	
Queen Valley	Repeater Tower	\$12,947.00	
Subtotal		584,420.00	
North Region			
Apache County	Power generator, IT equip, printers, fax, internet connectivity, EOC workstations, etc...	\$39,627.00	
Coconino County Sheriff's Office	Satellite Equip for Command Trailers	\$7,927.50	

2006 Homeland Security Grant Program SHSGP

<i>Jurisdiction</i>	<i>Project Name</i>	<i>Allocated</i>	<i>Sub-allocation</i>
Eagar Police Department/ Town of Eagar/ Apache County	Software, hardware, computers, printers and data input for the GIS system	\$65,500.00	
Flagstaff Fire Department	Regional Deployment/Local Exercise	\$11,698.50	
Flagstaff Police Department/CCS	CBRN Incident Response Vehicle	\$101,531.00	
Flagstaff Police Department	Explosive Device Mitigation Training	\$5,970.00	
Flagstaff Police Department	Logos Imaging Radiographic Processor system	\$24,000.00	
Holbrook Police Department	Radio Interoperability System/ PD door entry/exit security system/ O-T for Northern Region Exercise/ Digital in-car system	\$25,000.00	
Hopi Tribe	Enhancement and upgrade of dispatch consoles for both local LE agencies	\$75,000.00	
Navajo County Emergency Management	Purchase an 18' equipment/EOC trailer with onboard electrical system	\$15,000.00	
Navajo County Emergency Management	Purchase of two 16' equipment trailers and needed response equipment on behave of Navajo County Citizens Corp Council	\$18,000.00	
Navajo County Sheriff's Office	Upgrade to it's 32kbps UHF mobile radio system to 64 kbps UHF Mobile Data System with integrated GPS	\$92,018.00	
Navajo Nation	Assessment to identify and assess communication systems with agencies within Navajo, external data sources, such as NCIC, ACJIS...	\$100,127.00	
Page Fire Department	Radio & SCBA's	\$24,000.00	
Show Low Fire District	Purchase ACU-T communications component	\$13,335.00	
Show Low Fire District	Purchase the portable Drager MultiIMS ion mobility spectrometer to detect chemical warfare agents	\$11,774.00	
Springerville Fire Department	Personal protective equipment (structural fire fighting ensembles RKB 1.8) that are certified as PPE.	\$34,000.00	
Springerville Police Department	Install amplifiers and indoor antennas to boost cell phone reception in the police department and EOC area.	\$8,000.00	
Springerville Police Department	Establishing a visual means of notification for the community. Includes a digital sign that will be placed in a location visible to the public on an everyday basis	\$28,000.00	
Subtotal		700,508.00	
South Region			
Bisbee Police Dept.	Incident command vehicle, generator, mobile telephone system, non p25 mobile radios, computer system/database, 1 tone dually truck, 2 ATVs	\$11,122.00	
Cochise County Emergency Services	Bi-National Plan	\$10,000.00	
Cochise County Emergency Services	Haz Mat Training	\$10,000.00	
Cochise County Emergency Services	Haz Mat Exercise	\$10,000.00	
Cochise County- Sierra Vista, Fry and Douglas Fire Department	Emergency response for hazmat and terrorism	\$15,000.00	
Cocopah Tribe	Public safety radios	\$55,000.00	

2006 Homeland Security Grant Program SHSGP

<i>Jurisdiction</i>	<i>Project Name</i>	<i>Allocated</i>	<i>Sub-allocation</i>
Douglas Police Department	p25 vhf simulcast repeaters, tower, p25 dispatch console radio integration, freq agile station, Arizona Emergency Radio System suite	\$102,013.00	
Golder Ranch Fire District	Technical rescue equipment	\$15,000.00	
Green Valley Fire District	Mobile data terminal and CMO/WMD software	\$10,000.00	
Northwest Fire District	Standardize and interoperable equipment	\$18,000.00	
Pascua Yaqui Nation	project 25 radios	\$50,000.00	
Pima County OEMHS	SHSS Project Planning	\$276,000.00	
San Luis Police Department	P25 conventional/trunking handhelds, mobile radios, 800 mhz repeater site	\$20,748.00	
Santa Cruz County Emergency Management	Implement standard operating procedures and consitent response plans; develop comprehensive training plan	\$31,000.00	
Santa Cruz County Emergency Management	hazardous response mats	\$62,135.00	
Santa Cruz County Emergency Management	p25 integrated narrowband vhf trunked radio system (p25 trunking capabilities, 250 project 25 trunked portables, 250 project 25 trunked mobiles	\$110,000.00	
Santa Cruz County Emergency Management	Implement HSEEP Exercise Project	\$15,000.00	
Santa Cruz County Emergency Management	Implement Regional Training to Expand Regional Collaboration	\$15,000.00	
Tohono O'odham Nation	Support Pima County wireless integration network	\$73,000.00	
Tohono O'odham Nation	Planning	\$55,000.00	
Tucson Fire Department	Advanced Nazmat life support training	\$10,000.00	
Tucson Fire Department	RRT Equip for heavy rescue trucks	\$40,000.00	
Tucson Police Department	Special operations personnel raining and exercise	\$70,000.00	
Wellton Police Department	P25 conventional/trunking handhelds, mobile radios	\$9,486.00	
Willcox Police Department	2 position cad dispatch, p25 vhf radio system, freq agile station, aers suite	\$75,000.00	
Yuma County Sheriff's Office	Enhanced Law Enforcement Response - Sheriff	\$10,000.00	
Yuma County Sheriff's Office	Training & Exercise - Sheriff	\$40,000.00	
Yuma Police Department	Repeaters & Radios - Yuma PD	\$152,882.00	
Subtotal		1,371,386.00	
West Region			
Chloride Fire District	Upgrade comms system-radio repeater, portable radio & mobile radios	\$22,802.73	
La Paz County	Upgrade Regional Dispatch Center Equipment	\$75,274.00	
La Paz County Emergency Management	Peer to peer wireless access software	\$28,000.00	
Lake Mohave Ranchos Fire District	Upgrade comms system-radio repeater, portable radio & mobile radios	\$16,644.82	
Mohave County	Back-up power generators to ensure Emergency Alert System coverage	\$53,000.00	
Mohave Sheriff's Office	Expansion of Arizona Emergency Radio System	\$54,500.00	
Mohave, La Paz & Yavapai	210 portable narrow band radios & software for SAR volunteer	\$112,000.00	
Quartzsite Fire District	Radio Repeater	\$31,299.98	

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

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 Bayer Corporation consent judgment.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan from the Bayer Corporation consent judgment. 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.

In January 2007, the Attorney General and 29 other states entered into a multistate settlement with Bayer Corporation as a result of their consumer fraud investigation of Bayer Corporation's sale of Baycol, a cholesterol-lowering drug. The investigation determined that Bayer Corporation did not adequately disclose to consumers that the risks for myopathy, a muscle tissue disorder, and rhabdomyolysis, a potentially fatal disease marked by destruction or degeneration of skeletal muscle, are significantly higher for Baycol than for other cholesterol-lowering drugs. The total multistate settlement amount is \$8 million, of which \$200,000 will be deposited into Arizona's Consumer Fraud Revolving Fund for attorney costs and fees. In addition, the settlement requires Bayer Corporation to register and report the results of select clinical trials and prohibits them from making false, misleading or deceptive representations of their products.

RS/LR:ts



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Rene Rebillot
Consumer Protection &
Advocacy Section

February 6, 2007



The Honorable Timothy S. Bee
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 Russell K. Pearce
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: State v. Bayer Corporation

Dear Gentlemen:

The Attorney General participated in a multistate settlement with 29 other states in the consumer fraud investigation of Bayer Corporation. As a result of the settlement, a Consent Judgment was filed and approved by Maricopa Superior Court. A copy of the Consent Judgment is enclosed.

In May of 1998, Bayer "launched" Baycol, a cholesterol-lowering drug. As the last statin in a crowded market, Bayer favorably priced Baycol to increase market share. All statins carry a known risk of myopathy¹ and rhabdomyolysis²; the risk for Baycol, however, was significantly higher compared to other statins, particularly at higher doses and when combined with genfibrozil, another cholesterol lowering drug. During the investigation, the

¹ A disorder of muscle tissues.

² A potentially fatal disease marked by destruction or degeneration of skeletal muscle.

Hon. Timothy S. Bee
Hon. James P. Weiers
Hon. Russell K. Pearce
February 6, 2007
Page 2

states found evidence that Bayer Corporation failed to adequately disclose the known risks of Baycol to prescribers and consumers.

The Judgment's most significant accomplishment is the requirement that Bayer: (i) register at www.ClinicalTrials.gov all Non-Exploratory phase II studies and all phase III and IV studies at the time the studies are initiated; and (ii) post the results of all phase II, III, and IV clinical studies at www.ClinicalStudyResults.org. In addition to the Registry and Results Posting, the Judgment prohibits Bayer from making any "false, misleading or deceptive representation regarding any of its Products in violation of all applicable laws and regulations."

Bayer Corporation will pay the states \$8 million. Arizona is expected to receive \$200,000 for costs and fees. The costs and attorney's fees will be placed in the Consumer Fraud Revolving Fund pursuant to A.R.S § 44-1531.01.

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:

cc: The Honorable Robert L. Burns
The Honorable Marsha Arzberger
The Honorable Phil Lopes
Mr. Richard Stavneak
Ms. Leah Ruggieri
Mr. Timothy Nelson
Mr. Richard Travis
Mr. John Stevens

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Fiscal Analyst

SUBJECT: Arizona Pioneers' Home - Consider Approval of Requested Transfer of Appropriations

Request

The Arizona Pioneers' Home requests Committee approval to transfer a total of up to \$325,800 from the Personal Services line and the Prescription Drug Special Line Item (SLI) to the Employee Related Expenditures (ERE) line in FY 2007.

Because the Arizona Pioneers' Home has a detailed line item budget, A.R.S. § 35-173 requires Committee approval of transfers to or from the Personal Services and ERE line items.

Recommendation

The JLBC Staff recommends that the Committee approve the agency request to transfer up to \$167,900 from Personal Services and up to \$157,900 from the Prescription Drug SLI to the Employee Related Expenditures line in FY 2007. The Personal Services line and the Prescription Drug SLI appear to have enough funding surpluses available in FY 2007 to cover this shortfall.

Analysis

According to the Arizona Pioneers' Home, the total amount required for ERE will be \$1.8 million for FY 2007 as compared to the appropriated \$1.5 million. The JLBC Staff concurs with the updated ERE estimate of \$1.8 million. During FY 2006, the Committee approved a total transfer of \$257,800 from the Personal Services line and Prescription Drugs SLI to ERE. *Table 1* below shows the current appropriations within these line items and the balance following the proposed transfer.

(Continued)

Table 1

Personal Services & Prescription Drugs SLI Transfers to ERE

<u>Line Item</u>	<u>Original Appropriation</u>	<u>Proposed Transfers</u>	<u>Revised Appropriation</u>
Personal Services	\$3,597,100	\$(167,900)	\$3,429,200
Prescription Drugs SLI	436,400	(157,900)	278,500
Employee Related Expenditures	\$1,510,800	\$ 325,800	\$1,836,600

JLBC Staff has determined that this shortfall is related to a change in the fund source for payment of health insurance costs. Health insurance premiums for General Fund FTE Positions are paid differently than premiums for Other Appropriated Funds. In the case of the Arizona Pioneers' Home, the agency was funded for a total of 115.8 FTE Positions, including 93.4 FTE Positions from the General Fund in FY 2005. Due to an increase in revenue in the State Charitable Land Fund, all General Fund FTE Positions were shifted to this Other Appropriated Fund in FY 2006, and this continued to be the case in FY 2007. With the General Fund, ERE is "swept" and the agency pays the amount that is appropriated. Other Appropriated Funds, however, pay the actual cost of ERE. Since ERE had initially been paid through a General Fund sweep, the Arizona Pioneers' Home had initially underpaid the actual ERE costs. When the fund source shifted to Other Appropriated Funds, the charges to the agency increased although the appropriation did not, and a shortfall occurred.

RS/AU:ss

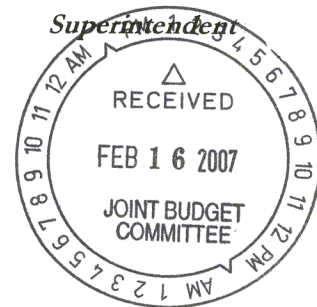
Arizona Pioneers' Home

Janet Napolitano
Governor

300 South McCormick Street
Prescott, Arizona 86303
(928) 445-2181 - FAX (928) 778-1148

Gary Olson

Superintendent



February 15, 2007

Representative Russell Pearce, JLBC Chairman
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007

RE: Shortage in Arizona Pioneers' Home Employee Related Expenses (ERE) Budget

Dear Chairman Pearce,

In review of the Arizona Pioneers' Home (APH) ERE Budget for fiscal year 2007, it is estimated that a shortage in the amount of approximately \$325,775.53 (worst case scenario) will occur by year end. Currently the Arizona Pioneers' Home will be in error until April when our next allotment of funds is received. A similar shortage occurred last fiscal year, and the JLBC approved a transfer of monies from the Arizona Pioneers' Home personal services and prescription drugs special line item budgets to correct the deficiency.

Last year a comparative analysis was performed by the General Accounting Office between the APH and two like sized agencies. In said analysis, a significant difference between the costs associated with Health Insurance premiums for the Arizona Pioneers' Home (Yavapai County) and the two like sized agencies (Maricopa County) resulted in part of the difference. Secondly, as of last fiscal year, the Arizona Pioneers' Home appropriated funds were derived primarily from state charitable land trust funds versus the general fund. In this, the way in which ERE payments are deducted is different—ERE is deducted from the general fund in a sweep at the beginning of the year based on projections, and ERE is deducted from other appropriated funds, such as the state charitable land trust, in a pay period by pay period basis reflecting actual costs.

In this, it was discovered that due to the Health Insurance premium differences, the ERE Budget was under budgeted for FY2006 and FY2007, and Health Insurance premiums increased in October 2006. This has been partially rectified in the FY2008 and FY2009 budget requests, where the shortage should be reduced by approximately one third. It is hoped that the remaining difference will be rectified in the FY2010 and FY2011 budgets.

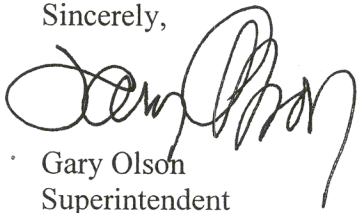
In light of this, I am requesting placement on the next Joint Legislative Budget Committee meeting agenda to request a transfer of projected surplus funds from our personal services budget which will have an estimated surplus of \$167,884.42. This will still leave a projected shortage of approximately

\$157,891.11. In this, I am requesting a transfer of the remaining projected deficiency from our prescription drug line item budget, as we did last year.

If we do not cover the shortage through a transfer of funds, the ERE Budget will continue to be in error.

Thank you for your prompt attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Olson", written over the printed name and title.

Gary Olson
Superintendent

c: Richard Stavneak, JLBC Director
James Apperson, Governor's Office of Strategic Planning and Budget Director
January Contreras, Policy Advisor for Health

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

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

Request

The Arizona Department of Transportation (ADOT) requests review of its third party progress report. The General Appropriation Act for FY 2007 (Laws 2006, Chapter 344) included an increase of \$353,600 and 8 FTE Positions to contract with 145 authorized title and registration third parties in FY 2007 and eliminate the vehicle identification number inspections waiting list. 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 Motor Vehicle Division (MVD) third party staffing, workload and quality assurance backlog.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the third party quality assurance report, given the progress ADOT is making in reducing the third party quality assurance backlog and removing the moratorium on certain new third parties. The next quarterly report on third party quality assurance is due by April 30, 2007.

Analysis

The General Appropriation Act for FY 2007 expanded ADOT's quarterly third party reports to include data and waiting lists for other third parties besides the title and registration third parties. In addition, it seeks to reduce or eliminate ADOT's third party waiting lists by adding 6 FTE Positions in FY 2007 for MVD to contract with 145 authorized title and registration third parties, and 2 FTE Positions in FY 2007 for MVD to eliminate the vehicle identification number inspections waiting list. The Committee gave a favorable review of the third party quality assurance report for the first quarter of FY 2007 at its December 18, 2006 meeting.

(Continued)

Third Party Title Transactions Quality Assurance

The section's backlog of title transactions continued at 20 business days in the second quarter of FY 2007 (down from 31 business days in FY 2006), due to a pilot project that cut in half the percent of third party work that was reviewed by MVD quality assurance.

ADOT removed the moratorium on new title transaction third parties in FY 2006 and is processing applications for 111 entities, including both those on the former waiting list and new applicants who are interested in becoming third parties. There are currently 74 existing third parties, including 13 new offices that have opened in FY 2007.

Third Party Vehicle Identification Number Inspections

ADOT removed the moratorium on new vehicle identification number third parties in FY 2006 and is processing applications for 102 entities, including both those on the former waiting list and new applicants who are interested in becoming third parties. There are currently 397 existing third parties, including 41 new offices that have opened in FY 2007.

Third Party Driver Schools

ADOT has 5 filled FTE Positions out of the 7 FTE Positions that oversee commercial and non-commercial driver schools and driver license examiners in the second quarter of FY 2007.

ADOT has 2 filled FTE Positions out of the 4 FTE Positions that oversee traffic survival schools and high schools driver education in the second quarter of FY 2007. Their approved staffing has not changed from FY 2005. MVD licenses traffic survival schools and certifies instructors. Drivers with certain traffic violations are required by MVD or a court to attend and successfully complete a traffic survival school in order to avoid driver license suspension. There are 77 traffic survival school third parties and 55 entities are on the waiting list.

High school driver education is administered by the Department of Education. MVD licenses the driver education instructors. There are 76 high school driver education third parties. There is no high school driver education waiting list.

RS/BH:ym



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

January 30, 2007

John A. Bogert
Chief of Staff

Victor M. Mendez
Director

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



Dear Representative Pearce:

Laws of 2006, Chapter 344, Section 32, please find the Department's FY2007 second quarter progress report on the third party program.

We are pleased to report that the number of transactions being handled by Third Party Offices increased: almost 6% as compared to the first quarter of this year; and over 12% as compared to the same time last year. And we fully expect this positive trend to continue. As of 12/31/06, there are 74 Third Party Locations including 13 new locations that were opened after the moratorium lifted. In addition, we have 111 Third Party locations in the implementation process. If all 111 successfully complete this process, there will be 185 Third Party locations statewide.

We continue to reduce the backlog in Third Party Title and Registration: nearly 50%, in both volume and number of business days. This decrease is due in large part to the pilot project that redefined the process by which work would be selected for quality control. This new process will be rolled out statewide within the next week and we look forward to reporting on our success with this effort in our next report.

In addition, 30 of the 43 positions assigned to the Third Party Quality Assurance Unit are now filled and the remaining 13 positions are under active recruitment. This has had a positive impact on our ability to review transactions and increased our e-mail response times.

If you have any questions about the information contained in this report, please contact Melissa Wynn at (602) 712-4617.

Sincerely,

Victor M. Mendez

Attachment

cc: Senator Robert Burns, Vice-Chairman, JLBC
Richard Stavneak, Director, JLBC
James Apperson, Director, OSPB
Bob Hull, Principal Research/Fiscal Analyst, JLBC
Marcel Benberou, Principal Budget Analyst, OSPB



FY 2007 Second Quarterly Report

Authorized **Third Parties** are regulated under A.R.S. Title 28 Chapter 13. These entities have a contract with the Division and offer the same services that are offered in Division field offices.

I. Title and Registration Third Parties

Title and Registration Third Parties (Traditional Third Parties) have a physical “brick and mortar” structure that offers the public most, if not all, services a Division field office provides. Title and Registration Third Parties are connected directly to the Division’s title and registration and driver license databases, which allows them to process transactions online in the convenience of their own offices. Title and Registration Inspection Third Parties conduct Verification of Vehicle Inspections, which require a visual inspection of the vehicle and the manual completion of the Verification of Vehicle Inspection form. Title and Registration Inspection Third Parties do not process transactions online.

A. Title and Registration Third Party

- **Title and Registration Third Party Transactions:**

3 rd Party Transactions		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	374,190	327,112
<i>FY 2007</i>	347,679	367,954

12% increase in third party title transactions over second quarter FY 2006.

- **Title and Registration Third Party Staffing:**

The Third Party Management Support Unit (Quality Assurance) has a total of 30 FTEs and 13 limited positions. House Bill 2863 authorized six new FTEs. In addition, MVD created 13 limited positions. In the second quarter of FY 2007, 27 of the 30 FTE positions and three of the 13 limited positions were staffed. The remaining 13 vacant positions have been advertised and are in the hiring process.

Q/A Staff Status		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	16	17
<i>FY 2007</i>	25	30

- **Title and Registration Third Party Workload:**

Number of Third Party Transactions Reviewed		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	41,829	50,673
<i>FY 2007</i>	44,833	55,008

9% increase for reviewed transactions over the second quarter FY 2006.

Average Number of Reviews Per Employee Per Month		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	1,092	1,876
<i>FY 2007</i>	1,359	1,834

2% decrease for the number of reviews per employee over second quarter FY 2006, due to training of new employees.

Average Number of Responses to E-Mail Inquiries		
	1st Qtr	2 nd Qtr
<i>FY 2006</i>	2,600	2,657
<i>FY 2007</i>	2,900	3,183

20% increase for the number of e-mail responses pertaining to quality assurance review over second quarter FY 2006.

- **Title and Registration Third Party Backlog:**

Backlog in Business Days		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	41	39
<i>FY 2007</i>	20	20

Backlog in Title Transactions		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	38,604	37,286
<i>FY 2007</i>	23,090	19,579

Second quarter of FY 2007, there was a 20-business day backlog of 19,579 title transactions. This is a 47% decrease in the backlog from FY 2006 to FY 2007. This decrease resulted from a pilot project that reduced the percent of work quality controlled in an effort to reduce the backlog.

- **Title and Registration Third Party Moratorium on Accepting New Title and Registration Third Parties:**

As of 12/31/06, there are 74 Title and Registration Third Party locations which include 13 new locations opened since lifting the moratorium.

MVD attempted to contact all of the 121 companies (118 from 3rd quarter list plus 3 additional in 4th quarter) on the waiting list from FY 2006. Of these, 83 were unreachable or were no longer interested, which left 38 that wished to move forward in the application process. The waiting list was eliminated by July 2006.

Moratorium / Waiting List	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
<i>FY 2006</i>	106	106	118	0
<i>FY 2007</i>	0	0		

Since the time the waiting list was eliminated, other interested parties have submitted, and continue to submit, requests to be become third parties. There are 22 of these that wish to continue to move forward with the application process. Combine these with the companies from the waiting list and there are a total of 60 companies requesting new third party locations. These 60 companies have requested an additional 124 new locations. We have opened 13 and have 111 in the implementation process. If all 111 complete the implementation process, there will be 185 Title and Registration Third Party locations.

Implementation is tracked in a four-phase process. The following is the status in each phase as of the end of the second quarter of FY 2007.

Phase 1: Contact entities on the waiting list to confirm their continued interest.

Attempts were made to contact all the entities on the waiting list to confirm their continued interest. Some were no longer in business, no longer interested, did not reply, or were unreachable. A total of 60 were still interested and were requested to submit updated business plans or site plans for review. The 60 included 45 new applicants as well as 15 existing third parties that want to open 54 additional locations.

Status: MVD is awaiting business plans from 21 applicants of the 45 new applicants in Phase 1. MVD also is awaiting site plans on nine locations of the 54 new locations requested by existing third parties.

Phase 2: Interested entities submit business plan; Selection Panel reviews applicants.

Once updated business plans are received from new applicants, a Selection Panel composed of Motor Vehicle Division Assistant Directors reviews the plans. Upon approval, the applicant is moved to Phase Three, the implementation stage. The Selection Panel does not review existing third parties desiring to add new locations, but they must submit site plans for the locations before they can proceed to Phase Three.

Status: The Selection Panel has approved 24 new applicants, totaling 51 new locations. Forty-three of the 54 locations submitted by 15 existing third parties have been approved.

Phase 3: Implementation stage proceeds; approximately two-three months for a new applicant.

This is the most time-consuming, comprehensive phase, taking approximately two to three months for a new third party. Procedural steps include site selection by the prospective third party, installation of data lines, creation of a bank account for daily deposits, ordering and configuring of hardware and network equipment, ordering supplies, criminal record checks, training, certification, contract review and completion with signing, review and approval of signage, and coordination with ADOT Information Technology Group to create office identification numbers, batch numbers and user identification. The Motor Vehicle Division conducts site visits and gives final approval before a third party can begin operations. This phase can go more quickly for an existing third party that plans to add one or more new locations, since the third party is familiar with the process and has many of the steps already in place.

Status: All of the 24 new applicants approved to date have begun implementation in Phase 3. Fourteen of the 15 existing third parties, adding 43 new locations, have begun the Phase Three process.

Phase 4: Third party opens for business.

All implementation procedures are completed and approved, and the third party opens for business.

Status: A total of 13 new third party locations have opened as of December 31, 2006. Four new applicants have opened a total of five locations, along with six existing third parties opening eight.

B. Title and Registration Third Party Inspections

- **Title and Registration Third Party Inspection Transactions:**

3 rd Party Inspection Transactions		
	1st Qtr	2 nd Qtr
<i>FY 2006</i>	38,937	40,988
<i>FY 2007</i>	37,647	40,751

0.6% decrease in third party inspections over second quarter FY 2006. This figure will vary depending on the number of vehicles requiring inspections.

- **Title and Registration Third Party Inspection Staffing:**

The Third Party Inspection Program has a total of 4.0 FTEs (House Bill 2863 authorized 2 new positions). In the second quarter of FY 2007, two of the four positions were staffed. Two positions are vacant, a hiring list was requested, and interviews will be conducted in the Third Quarter.

Inspection Staff Status		
	1 st Qtr	2 nd Qtr
<i>FY 2006</i>	1	2
<i>FY 2007</i>	2	2

- **Title and Registration Third Party Inspection Workload:**

Due to limited staffing, quality control of third party inspections was not conducted. Once the two vacant positions are filled and trained, quality control of inspections will begin, therefore there is nothing to report. This activity, although required, was not conducted due to limited staffing.

- **Title and Registration Third Party Inspection Reconciliation Reports Reviewed:**

Third Party Inspection Reconciliation Reports are submitted by the fifth day of each month and contain inventory usage information of each Third Party Inspection Company. All Reconciliation Reports are reviewed monthly.

Reconciliation Reports Reviewed		
	1st Qtr	2nd Qtr
<i>FY 2006</i>	1,125	1,122
<i>FY 2007</i>	1,098	1,161

3% increase in reconciliations reviewed over second quarter FY06.

- **Title and Registration Third Party Inspection Moratorium on Accepting New Inspection Third Parties:**

There are currently 397 Third Party Inspection Companies that represent 41 new locations opened since lifting the moratorium.

We attempted to contact all of the 138 companies on the waiting list from FY 2006. Of these, 77 were unreachable or were no longer interested, which left 61 that wished to move forward in the application process. The waiting list was eliminated by July 2006.

Since the time the waiting list was eliminated, other interested parties have submitted, and continue to submit, requests to be become third parties. There are 82 of these that wish to continue to move forward with the application process. Combine these with the companies from the waiting list and there are a

total of 143 companies requesting new third party locations. These 143 companies have requested an additional 143 new locations. We have opened 41 and have 102 in the implementation process.

Moratorium / Waiting List	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	115	122	129	138
FY 2007	0	0		

II. Driver License Examination/Professional Driving Schools

A. Driver License Examination (DLE) contractors are third parties and are regulated under Title 28. These contractors are only authorized to perform the same driver license examination that is available in a Division field office – CDL, Non-commercial or Motorcycle. An applicant must still go to a Division field office, or a traditional Third Party in some instances, to complete the process and be issued a credential.

- Driver License Examination Transactions:**

<i>Commercial</i>			<i>Non-Commercial</i>		
	1 st Qtr	2 nd Qtr		1 st Qtr	2 nd Qtr
FY 2006	2,507	2,422	FY 2006	579	592
FY 2007	3,085	2,651	FY 2007	672	524*

9% increase in commercial driver license examination score sheets processed and 12% decrease in non-commercial driver license examination score sheets processed compared to second quarter FY 2006.

*Note: The decrease in non-commercial DLE transactions is due to a reduction in contracted examiners. Several examiners declined to accept the division's new electronic requirements and chose to discontinue this activity.

- Driver License Examination Staffing:**

SB 1254 authorized five additional staff positions designated to lift the moratorium on commercial driver license schools and examiners (3.0 FTEs) and up to 15 Motorcycle schools (2.0 FTEs). The team consists of a total of six staff members – three for Driver License Examination and three for Professional Driver school. One of the DLE positions was vacant as of 12/31/06.

Driver License Examination (DLE) staff status

	1 st Qtr	2 nd Qtr
FY 2006	1	1
FY 2007	3	2

- **Driver License Examination Workload:**

Number of Driver License Examination score sheets data entered.

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	2,507	2,422
FY 2007	3,085	2,651

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	579	592
FY 2007	672	524

Number of Driver License Examination score sheets reviewed.

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	3,085	2,651

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	672	524

Average number of Driver License Examination score sheet reviews per employee per month over the second quarter of FY06.

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	514	442

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	112	87

*Note: Now that the program has assigned specific employees to specific duties, the calculations for the second quarter of FY07 reflect activity of the 2 employees assigned to DLE.

Driver License Examination Audit reviews completed.

Commercial

	1 st Qtr	*2 nd Qtr
FY 2006	25	26
FY 2007	21	14

Non-Commercial

	1 st Qtr	*2 nd Qtr
FY 2006	1	0
FY 2007	0	0

*Note: During the 2nd quarter of FY07 there was a decrease in the number of audits conducted by ADOT Audit and Analysis.

- **Driver License Examination Backlog:**

Where "backlog" means work that has been received, is still within statutory timeframe for processing, but not yet completed. All Program data entry and processing is completed within statutory timeframes. Using the above definition, there is no Driver License Examination backlog.

- **Driver License Examination Waiting List.**

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	47	49
FY 2007	0	0

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	31	31
FY 2007	0	0

B. Professional Driver Training Schools (PDS) are regulated under A.R.S. Title 32 Chapter 23 and are not considered third parties. The Division licenses Professional Driver Training Schools. The license is valid until the end of the calendar year and must be renewed annually. Professional Driver Training Schools train students how to operate a motor vehicle (commercial [CDL], automobile or motorcycle), or “offer training and educational sessions that are designed to improve the habits of drivers” (Traffic Survival School). Standard PDSs are allowed to issue a Certificate of Completion (CoC) that waives the requirement for the applicant to take the examination at a Division field office or T&R third party office. Traffic Survival Schools issue a CoC that, when presented to the Division, is evidence that the individual attended an assigned class and met the requirements of law.

- **Professional Driver Training School Transactions:**

<i>Commercial</i>			<i>Non-Commercial</i>		
	1 st Qtr	2 nd Qtr		1 st Qtr	2 nd Qtr
FY 2006	0	0	FY 2006	6,821	6,239
FY 2007	0	0	FY 2007	7,408	5,400*

13% decrease in non-commercial Professional Driver Training School certificates issued compared to second quarter of FY06.

*Note: There was a reduction in non-commercial transactions; the number varies based on customer demand for PDS training.

** Professional Driver Training Schools that teach commercial drivers do NOT issue certificates of completion.

- **Professional Driver Training School Staffing:**

SB 1254 authorized five additional staff positions designated to lift the moratorium on commercial driver license schools and examiners (3.0 FTEs) and up to 15 Motorcycle schools (2.0 FTEs). The team consists of a total of six staff members – three for Driver License Examination and three for Professional Driver school. Two of the PDS positions were vacant as of 12/31/06.

Professional Driver School (PDS) staff status

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	2	1

- **Professional Driver Training School Workload:**

Number of Professional Driver School certificates data entered.

<i>Commercial</i>			<i>Non-Commercial</i>		
	1 st Qtr	2 nd Qtr		1 st Qtr	2 nd Qtr
FY 2006	0	0	FY 2006	6,821	6,239
FY 2007	0	0	FY 2007	7,408	5,400

Number of Professional Driver School certificates reviewed over the second quarter FY06.

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	0	0

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	7,408	5,400

Average number of Professional Driving School certificates of completion reviews per employee per month over the second quarter of FY06:

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	0	0

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	1,235	1,800*

*Note: Now that the program has segregated duties, the calculations for the second quarter of FY07 reflect activity of the 1 employee assigned to PDS.

** Professional Driver Training Schools that teach commercial drivers do NOT issue certificates of completion.

Professional Driver Training School Audit reviews completed:

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	0	0
FY 2007	0	0

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	2	0
FY 2007	2	4

- **Professional Driver Training School Backlog:**

Where “backlog” means work which has been received, is still within statutory timeframe for processing, but not yet completed. All Program data entry and processing is completed within statutory timeframes. Using the above definition, there is no Professional Driving Training School backlog.

- **Professional Driver Training School Moratorium:**

Motorcycle School Update – Expansion up to 15: Seven schools have been licensed, and eight applications are in process. The moratorium-induced motorcycle waiting list is currently at nine. The waiting list is beyond the expansion of 15.

Commercial Driver License (CDL) Update - The waiting list for new CDL examiners and schools has been eliminated.

Driving School Update – Since the response to the relaxing of the CDL moratorium is not as heavy as anticipated, management has allowed the program to use the available staff to relax the moratorium and offer driving schools an opportunity to become licensed until the workload begins to tax the staff. The non-commercial waiting list, excluding motorcycle schools, has also been eliminated.

Moratorium Waiting List:

Commercial

	1 st Qtr	2 nd Qtr
FY 2006	43	43
FY 2007	0	0

Non-Commercial

	1 st Qtr	2 nd Qtr
FY 2006	36	38
FY 2007	9*	9*

*Note: The waiting list (9) consists of those motorcycle schools beyond the 15, due to the moratorium.

III. Traffic Survival School

- Traffic Survival School Transactions:**

	1 st Qtr	2 nd Qtr
FY 2006	9,293	8,410
FY 2007	10,102	9,091

8% increase in Traffic Survival School certificates issued compared to second quarter of FY06.

- Traffic Survival School Staffing:**

Traffic Survival School Program received no additional staffing or funding, therefore the moratorium remains in place.

- Traffic Survival School Workload:**

Number of Traffic Survival School certificates data entered.

	1 st Qtr	2 nd Qtr
FY 2006	9,293	8,410
FY 2007	10,102	9,091

Traffic Survival School Audit reviews completed:

	1 st Qtr	2 nd Qtr
FY 2006	6	7
FY 2007	4	3

- Traffic Survival School Backlog:**

Where "backlog" means work that has been received, is still within statutory timeframe for processing, but not yet completed. All Program data entry and processing is completed within statutory timeframes. Using the above definition, there is no TSS backlog.

- **Moratorium on Accepting New Traffic Survival Schools:**

There are currently 77 Traffic Survival Schools. The Traffic Survival School Program received no additional funding or staffing, therefore the moratorium remains in place.

Traffic Survival School waiting list:

	1 st Qtr	2 nd Qtr
<i>FY 2006</i>	49	49
<i>FY 2007</i>	55	55

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Expenditure Plan for the Gang and
Immigration Intelligence Team Enforcement Mission

Request

Pursuant to the General Appropriation Act (Laws 2006, Chapter 344), the Department of Public Safety (DPS) is required to submit for review an expenditure plan for the \$7 million and \$10 million appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) prior to their expenditure.

DPS has submitted for review, a proposal to use an additional \$1.1 million of the \$7 million appropriation to fund costs associated with adding an additional 11 sworn officers to GIITEM. To date, the department has received a favorable review for the use of \$5.9 million of the \$7 million to fill 37 GIITEM positions. Legislative intent specifies the \$7 million appropriation is to be used for an additional 100 sworn positions within DPS, including 50 for immigration and border security.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the department's request with the following provisions:

- DPS submit to the JLBC by April 25, the one-time and ongoing costs associated with all approved expenditures from the \$7 million appropriation. This information would help determine the number of positions DPS would be able to fill with the current appropriation.
- DPS submit a revised expenditure plan prior to: 1) expending any additional monies beyond the reviewed expenditures; or 2) expending the approved amounts on items not in their current plan.

(Continued)

Analysis

Additional DPS Officers - \$7 million

Laws 2006, Chapter 344 appropriates \$7 million and 100 FTE Positions for sworn DPS personnel, of which 50 are for immigration and border security. To date, DPS has received a favorable review for the use of \$5.9 million to: 1) fund costs associated with 37 DPS sworn positions; and 2) expand their recruiting efforts. DPS is now requesting a favorable review for the use of an additional \$1.1 million to hire 11 more sworn officers to GIITEM. *Table 2* identifies the department's expenditure plan for the total \$6.9 million amount.

Table 2			
FY 2007 GIITEM Expenditure Plan - \$7 Million			
	<u>Proposed Plan</u>	<u>Previously Approved</u>	<u>Total</u>
FTE Positions	11	37	48
Personal Services	\$282,100	\$1,818,500	\$2,100,600
Employee Related Expenditures	115,700	872,800	988,500
Other Operating Expenditures:			
Officer Related	163,600	765,000	928,600
Recruiting	0	410,000	410,000
Office Space	0	367,500	367,500
Equipment:			
Vehicles	493,700	1,628,000	2,121,700
Total	\$1,055,100	\$5,861,800	\$6,916,900

As indicated above, the department's plan would fund costs associated with an additional 11 DPS sworn positions, including salary and employee benefits, vehicles, training, risk management charges, fuel equipment and office space. The proposed expenditure plan relating to the additional 11 officers appears to be reasonable relative to the department's cost per officer schedule.

To date, all of the 37 previously approved DPS sworn positions have been filled and expenditures through the 2nd quarter totaled \$389,200. In addition, DPS has encumbered \$2 million for equipment. If the department receives a favorable review of their request, it is anticipated that all of the 11 positions would be filled by April. Of the 11 proposed positions, the department believes 10 would be lateral hires from other law enforcement agencies.

Overview/Update - \$10 million

In addition to the \$7 million, Laws 2006, Chapter 344 appropriates \$10 million to DPS to: 1) expand the existing GIITEM into a multi-jurisdiction task force known as the Gang and Immigration Intelligence Team Enforcement Mission, and 2) for new functions relating to immigration enforcement, including border security and border personnel.

Previously, DPS received a favorable review for the use of \$2.3 million of the \$10 million appropriation. At this time, the department is not requesting approval for the use of any additional monies beyond the \$2.3 million that has previously been approved. The \$2.3 million is anticipated to fund the purchase of specialty equipment and license plate readers (LPR), the expansion of the GangNet system, and the operating costs associated with 10 federal Border Patrol agents expected to work with GIITEM. Through the 2nd quarter, DPS has only expended \$347,800 of an anticipated \$2.3 million. The \$347,800 reflects monies that were encumbered for the purchase of an armored vehicle.

The department's current report indicates the 10 Border Patrol agents are anticipated to join GIITEM by the end of April. Previously, DPS estimated this would occur by February. The federal Border Patrol

(Continued)

agents are not DPS employees; however, they would be assigned to the GIITEM task force. Due to federal law governing United States agencies, the proposed expenditures would fund the operating costs, excluding Personal Services, for the positions.

The \$1.1 million for LPR's and the expansion of the GangNet system received a favorable review from the Committee providing the department gained approval from the Information Technology Authorization Committee (ITAC). In January, the department received ITAC approval for the LPR project and DPS plans to expend \$454,700 to purchase, deploy, and operate 12 mobile license plate readers.

RS/ML:ym



ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

JANET NAPOLITANO ROGER VANDERPOOL
Governor Director

January 30, 2007

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



Dear Mr. Stavneak:

Laws 2006, Chapter 344 requires the Department to submit quarterly expenditure reports to the JLBC regarding separate \$7 million and \$10 million appropriations to the Gang Intelligence and Immigration Team Enforcement Mission (GIITEM) Special Line Item. DPS is also required to submit any revisions to our expenditure plan and to inform the Committee about the status of Project Investment Justifications (PIJs) related to two technology projects that were previously reviewed. The following information addresses each of these reporting requirements.

Quarterly Report

In the second quarter, the Department began to expend the GIITEM monies, consistent with the reviewed expenditure plan. As of December 31, 2006, we had incurred the following expenditures and encumbrances.

Line Item	\$7 Million Approp.	\$10 Million Approp.
Personal Services	\$255,600	\$0
Employee Related Expenditures	115,023	0
Travel – In State	10,500	0
Travel – Out of State	400	0
Other Operating Expenditures	4,200	0
Equipment	3,500	0
Subtotal - Expenditures	\$389,200	\$0
Equipment	1,984,200	347,800
Subtotal – Encumbrances	\$1,984,200	\$347,800
TOTAL – Expend./Encumb.	\$2,373,400	\$347,800

Expenditure Plan Revisions

At this point, we have filled all 37 of the DPS positions we had expected to fill. This is slightly ahead of schedule, as we had not anticipated filling 2 of these positions until the 3rd quarter. We now expect to fill up to an additional 11 DPS positions, as reflected in the following tables. With respect to other agency positions, we are somewhat behind schedule but currently expect to fill these 10 positions by the end of April as shown below.

Month Hired	DPS Lieutenant	DPS Sergeant	DPS Officer	Other Agency Officer	Total
January '07		1	3		4
February '07			3	3	6
March '07			3	5	8
April '07			1	2	3
Total	0	1	10	10	21

Of the new DPS positions, we expect several to be lateral hires from other agencies. This will represent the first time in the history of DPS that other agency officers have been hired directly into the Criminal Investigations Division. The cost to support the new DPS positions is shown below.

Line Item	\$7 Million Approp.
FTE Positions	11
Personal Services	\$282,100
Employee Related Expenditures	\$115,700
Other Operating Expenditures	\$163,600
Equipment	\$493,700
Total	\$1,055,100

As in the original expenditure plan, the other operating expenditures line includes training, risk management, vehicle maintenance, fuel, and office space for each position. The equipment line includes 11 vehicles, police equipment, and office equipment for each position.

License Plate Reader PIJ Update

The JLBC previously approved the use of a portion of the \$10 million appropriation for 12 license plate readers, contingent upon receiving approval from the Information Technology Authorization Committee (ITAC). We received ITAC approval on January 24, 2007 (see attachment). We will now proceed with our plan to expend approximately \$454,700 to purchase, deploy, and operate these readers to apprehend and deter gang members and others involved in vehicle theft, drug trafficking, and human smuggling.

Mr. Richard Stavneak, Director
January 30, 2007
Page 3 of 3

If you have any questions, please contact Chief Mikel Longman, Criminal Investigations, at 602-223-2812 on operational matters or Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov on budgetary matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger Vanderpool". The signature is fluid and cursive, with a large initial "R" and a stylized "V".

Roger Vanderpool
Director

attachment

JANET NAPOLITANO
GOVERNOR



CHRIS CUMMISKEY
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
100 North 15th Avenue, Suite 440
Phoenix, AZ 85007

January 24, 2007

Colonel Roger Vanderpool, Director
Arizona Department of Public Safety
2102 West Encanto Blvd.
Phoenix AZ 85005

Dear Roger:

The Information Technology Authorization Committee (ITAC) met this date to review the
"Mobile License Plate Reader – Phase II" project.

The ITAC voted in the affirmative for **Approval** of the technology project.

You may proceed to secure additional approvals as required from the Joint Legislative Budget Committee, the Office of Strategic Planning and Budgeting and the State Procurement Office.

Best wishes,

A handwritten signature in black ink, appearing to be "Chris Cummiskey". The signature is written over the text "Best wishes," and extends to the right, ending in a large, stylized loop.

Chris Cummiskey
Director, State CIO

FS: mm

cc: Sharon Wilson, DPS
Larry Scarber, DPS
Tyler Palmer, JLBC
Jim Apperson, OSPB
James Scarboro, SPO
Frank Somers, GITA

GITA# PS07006

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Fiscal Analyst

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

Request

Pursuant to A.R.S. § 41-1830.42C, the Department of Public Safety (DPS) has submitted for review their FY 2007 second quarter expenditures and progress for the statewide interoperability design project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. Second quarter expenditures totaled \$166,700 of approximately \$4.3 million in FY 2007 funding. Activities in the second quarter addressed projects identified in the Public Safety Communication Advisory Commission (PSCC) timeline relating to both the “short-term” and “long-term” interoperable solutions.

Analysis

Background

The Arizona 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.

Activities

PSCC progress in the second quarter regarding the timeline and the “short-term” interoperable solution included increasing the number of Arizona Emergency Radio System (AERS) user agencies to 45. The PSCC is also on schedule to complete the installation of equipment for AERS at 28 remote communications sites by May 1, 2007. The full deployment of AERS, which includes the installation of

(Continued)

equipment at over 40 sites, is expected by July 2009. This system will provide basic interoperability to first responders (Milestone 9).

In addition to the installation of AERS equipment, the Statewide Interoperability Executive Committee (SIEC) has developed a standard for common mutual aid radio channel naming to facilitate interoperability (Milestone 11).

With respect to the “long-term” interoperable solution, the consulting firm contracted to create the conceptual design to the solution has continued gathering and analyzing information to prepare the conceptual design and has indicated a possibility of accelerating the conceptual design and the pilot project ahead of the current schedule. The conceptual design is scheduled to be completed in July 2007 (Milestones 10, 14).

The FY 2008 JLBC Baseline and the Executive recommendation both originally included \$2.2 million from the General Fund for the detailed design of the long-term interoperable communication system. However, the Attorney General’s office has since announced its plans to allocate \$2.2 million in settlement monies from a recent anti-racketeering case to fund this phase of the project. In addition, on February 12, 2007, the Appropriations Subcommittee on Transportation and Criminal Justice adopted a motion specifying its intent that the interoperability system be funded with anti-racketeering monies. The detailed design will enable the testing and deployment of the final system.

Expenditures

Laws 2004, Chapter 275 included a non-lapsing appropriation of \$3 million to DPS in FY 2005 for design costs of a statewide radio interoperability communication system. At the beginning of FY 2007, \$2,987,200 was remaining from that non-lapsing appropriation. In addition, the FY 2007 General Appropriation Act appropriated \$1,335,000 to DPS from the General Fund for the PSCC through the Statewide Interoperability Special Line Item. Therefore, there was a total of \$4,322,200 in available monies for expenditure in FY 2007.

In the second quarter, the PSCC expended roughly \$103,300 for costs associated with the 7 filled staff FTE Positions. During the second quarter, 2 FTE Positions at PSCC were vacated, causing the decrease in expenditures from the first quarter to the second. Those 2 positions were filled again later in the quarter.

Total second quarter expenditures also included \$63,400 from the PSCC’s non-lapsing funds paid to the consulting firm contracted to create the conceptual design to the “long-term” solution. Total expenditures for the quarter were \$166,700, leaving \$3,901,600 for the remainder of FY 2007.

Table 1 indicates FY 2007 monies available for expenditure and first and second quarter expenditures.

Table 1

PSCC Appropriation & Expenditures

	FY 2007 Funding <u>Available</u>	1st Quarter <u>Expenditures</u>	2nd Quarter <u>Expenditures</u>
Personal Services	\$ 737,300	\$118,100	\$ 79,600
Employee Related Expenditures	230,100	20,100	13,900
Professional & Outside Services	2,987,200 ^{1/}	65,700 ^{2/}	63,400 ^{2/}
Travel - In State	41,400	400	400
Travel - Out of State	26,600	2,500	-
Other Operating Expenditures	299,600	47,100	9,400
Equipment	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenditures	\$4,322,200	\$253,900	\$166,700

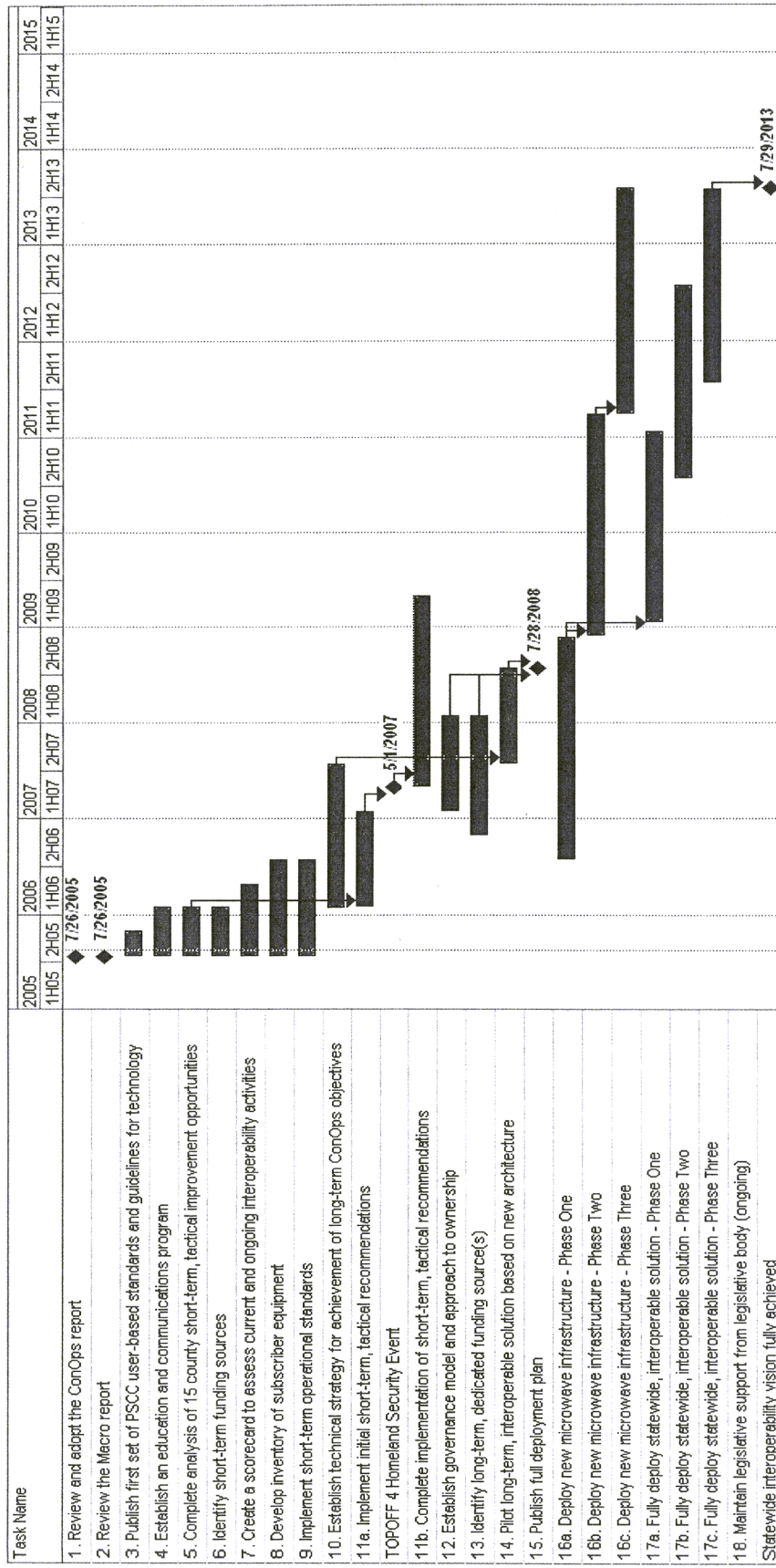
^{1/} The amount remaining from the Laws 2004, Chapter 275 non-lapsing appropriation of \$3 million is included in the Professional & Outside Services line.

^{2/} Expenditures in Professional & Outside Services for both quarters are from the \$3 million in non-lapsing monies.

RS/JC:ss

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



consulting

Engagement: 220847450

For internal use of Arizona Public Safety Communications Commission (PSCC) only.
Gartner is a trademark of Gartner, Inc. or its affiliates.

Gartner.

© 2005 Gartner, Inc. and/or its affiliates.
All rights reserved.
26 October 2005 — Page 5

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

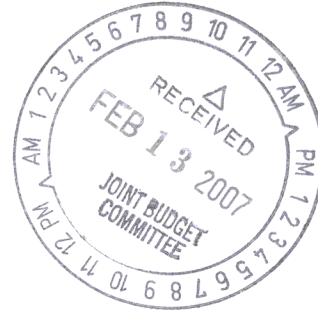


JANET NAPOLITANO
GOVERNOR

ROGER VANDERPOOL
DIRECTOR

February 13, 2007

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



Dear Mr. Stavneak:

Attached is our FY 2007 second quarter report for the Arizona Public Safety Communications Commission (PSCC). Included is a narrative of our activities and progress relative to milestones identified in our Concept of Operations document for the reporting period of October 1, 2006 through December 31, 2006.

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,

A handwritten signature in black ink, appearing to read "Roger Vanderpool".

Roger Vanderpool
Director

HB

Attachments

PSCC Concept of Operations Milestone Activities:

The following quarterly activities provide an update of progress on the milestones and timeframes established in the Arizona Public Safety Communications Commission Concept of Operations document.

Milestone 4 – Education and Communication Program:

Mr. Curt Knight continues efforts by meeting with incumbent and newly elected State Senators and Representatives. These meetings are being conducted to provide information on the PSCC and to discuss the FY 2008 and 2009 budget requests. There continues to be a broad supportive interest from all members, while also expressing interest in other means to support the project both politically and fiscally to advance its progress more quickly. Based upon these expressed interests to support and advance the project more quickly, the PSCC Support Office has developed a draft document detailing elements that historically caused delays in projects of this magnitude.

Milestone 9 – Implement Short-Term Operational Standards:

Milestone 11 – Implement Short-Term Tactical Recommendations:

Installation continues of the Arizona Emergency Radio System (AERS) equipment at remote communications sites. The Arizona Department of Public Safety (DPS) Wireless Systems Bureau and the Arizona Division of Emergency Management (DEMA) are on schedule with the anticipated completion of twenty-eight operational sites by May 1, 2007 which will provide basic interoperability to first responders. The operational plan and all related technical documentation on the mutual aid frequencies can be found on the PSCC website: <http://www.azdps.gov/pssc/standards.asp>.

As discussed previously, the initial deployment targets interagency and interdisciplinary communications focused on transportation corridors, population centers and the international border. While a single statement to definitively express percentages or square miles of radio coverage for an area would be nice, we often find a picture is superior to words or numbers to express radio coverage. Attached is a computer-generated, conservative estimate of the May 1, 2007 AERS network coverage.

AERS has already been shown to be an effective interim solution for interoperable communications in both Coconino and Mohave Counties. (See attached January 2007 Transmit newsletter, page 3). To date, forty-five public safety agencies throughout Arizona have signed a Memorandum of Understanding to use the AERS network as part of an overall interagency communications solution. Based on continued funding support through DEMA and Department of Homeland Security, the final AERS deployment of more than forty sites is scheduled for July 2009.

Public Safety Communications Commission

The Operational Work Group of the Statewide Interoperability Executive Committee (SIEC) has developed and recommended a standard for common radio channel name usage to facilitate interoperability. The Arizona SIEC approved the recommended nomenclature standard for mutual aid radio channels. Although seemingly minor, the lack of a standardized channel naming plan is recognized as a major operational road block to interoperability. Without a standard nomenclature, first responders are faced with situations where radios may be correctly programmed with mutual aid channels for an area, yet different jurisdictions or disciplines may mark or name the channels in differing ways, thus limiting or even at times preventing interagency communications. The SIEC will continue these types of operational standards' recommendations for improving interoperability. Standards for operational policies and procedures will be beneficial in improving interoperability regardless of the technology in use.

Milestone 10 – Establish Technical Strategy for Long-Term Objectives:

Milestone 14 – Pilot Long-Term Solution:

Based on support for the DPS/PSCC's FY 08 & 09 budget requests, optional phases of the Federal Engineering contract may be awarded to advance the demonstration project into a final system design for competitive procurement as well as expand the proven demonstration project into Phase I of a full statewide deployment. Encouraged by the show of support and interest from legislators discussed in Milestone #4, Federal Engineering has suggested scheduling adjustments to accelerate the definition of the conceptual design while also then accelerating the demonstration project.

Milestone 12 – Establish Governance Model and Approach to Ownership:

Federal Engineering provided a briefing at the January 23, 2007 Commission meeting on governance and ownership activities and structures they see being developed for other large regional and jointly-owned and operated radio systems statewide. As pointed out in the Concept of Operations, the aspect of funding both the initial and ongoing, as well as operations, ownership, maintenance and management or GOVERNANCE is a critical element of a business case and our progress forward.

Federal Engineering has begun the review/research of other regional/statewide governance structures related to shared-radio systems as part of their work for our business case.

Milestone 13 – Identify Long-Term Funding Sources:

In addition to the outreach and education elements outlined in Milestone #4, the PSCC Support Office has expanded its research into possible Department of Homeland Security grants which may be applicable to the planning, design and expansion of the demonstration project. as well as the statewide microwave system deployment. Within

Public Safety Communications Commission

the optional services phase of our existing contract, the PSCC Support Office has solicited a statement of work and quote from Federal Engineering to support our efforts in recognizing and applying for applicable grants.

Milestone 16 – Deploy New Microwave Infrastructure:

Discussions on how best to achieve a four-year deployment of both the microwave infrastructure replacement as well as the final interoperable radio solution have been conducted. Key obstacles and steps to a solution are being identified.

Staffing:

In December, two PSCC support staff vacancies were filled. Mr. Jeff Miner is the new Project Manager, replacing Mr. Kevin Rogers who became the Department of Public Safety's Wireless Systems Bureau Manager in November. Mr. Miner is a highly experienced telecommunications veteran and brings an immeasurable amount of project management and engineering knowledge. Also, Mr. John James has filled the Marketing Specialist position to assist with the technical writing and desktop publishing services.

Future PSCC Meetings:

Tuesday, April 24, 2007 at 1:00 p.m.
Burton Barr Central Library
1221 North Central Avenue
Phoenix, Arizona

Tuesday, July 10, 2007 at 1:00 p.m.
Flagstaff City Hall
211 West Aspen Avenue
Flagstaff, Arizona

Budget:

Expenditures for the second quarter of FY 2007 totaled \$103,341.45. The substantial decrease is attributed to the salary and employee-related expenses of the vacated PSCC Communications Specialist and Project Manager positions.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Arizona State University - Review of Requested Transfer of Appropriations

Request

Arizona State University requests Committee review for a transfer of \$11.1 million from the ASU - Tempe Operating Lump Sum appropriation to the Downtown Phoenix Campus (DPC) Special Line Item line in FY 2007.

A footnote in the General Appropriation Act requires Committee review of any proposed transfer to or from the amounts appropriated for the DPC Special Line Item in FY 2007.

Recommendation

The JLBC Staff recommends a favorable review of the request to transfer \$11.1 million from the Operating Lump Sum to the DPC Special Line item in FY 2007. Of this amount, \$9.3 million does not represent new expenditures by the DPC, but rather existing costs associated with the DPC that were not initially captured in the FY 2007 DPC Special Line Item appropriation. This portion of the requested transfer would therefore allow for an accurate reflection of all DPC costs. The remaining \$1.8 million transfer request represents additional funding to enhance the budgets of DPC academic units and would not require an additional appropriation from the General Fund in future years.

Analysis

In FY 2007, the College of Public Programs and departments from the College of Nursing, University College, and the School of Global Health moved from the ASU – Tempe Campus to the ASU DPC. To reflect the costs associated with these academic departments and projected enrollment growth at the DPC, the total appropriation for the DPC Special Line Item grew from \$0.5 million in FY 2006 to \$34.7 million in FY 2007. Because the FY 2007 appropriation of \$34.7 million did not represent all costs associated with the DPC, ASU is requesting to transfer an additional \$11.1 million from the ASU – Tempe Operating Lump Sum to the DPC Special Line Item.

(Continued)

Of the \$11.1 million transfer request, \$9.3 million is for administrative functions not specific to a particular academic department. The cost for each of these administrative functions is based on the approved ASU – DPC Provost’s budget for the campus and includes the following functions:

- \$1.8 million for student affairs;
- \$1.7 million for utilities;
- \$1.5 million for university technology;
- \$1.4 million for ongoing operations and maintenance;
- \$1.2 million for public safety;
- \$0.9 million for library services;
- \$0.8 million for academic affairs and enrollment, administrative, and financial services.

The remaining \$1.8 million of the total transfer request would enhance the overall budget for DPC academic departments. This amount represents discretionary funding allocated from the ASU-Tempe Operating Lump Sum appropriation and would not require an additional appropriation from the General Fund in future years. Specifically, ASU would increase their FY 2007 budgets for each academic unit as follows:

- \$912,400 to the College of Public Programs for new positions and Other Operating Expenditures;
- \$837,500 to the College of Nursing and Healthcare Innovation for additional faculty, additional administrative costs, and the establishment of an ASU Health Center;
- \$62,700 to the University College and Provost’s office for a web master position and miscellaneous expenses.

RS/LR:ts

ASU
ARIZONA STATE UNIVERSITY



February 21, 2007

The Honorable Russell K. Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Representative Pearce:

Pursuant to HB 2863 (Laws 2006, Chapter 344), notwithstanding A.R.S. 35 -173C, any proposed transfer to or from the amounts appropriated for the Downtown Phoenix Campus special line item shall require prior review by the Joint Legislative Budget Committee.

The Downtown Phoenix Campus special line item appropriated amount is \$34,720,800. The special line item amount was developed using the 2006 permanent base state budgets of the three colleges (Nursing and Healthcare Innovation, Public Programs, and University College) that were scheduled to move from the Tempe campus to the Downtown Phoenix Campus during the Fall 2006 (first) phase of the establishment of the Downtown Phoenix Campus, as well as the 2006 estimated base state budget for the Downtown Phoenix Campus Office of the Provost. The special line item amount includes appropriated enrollment growth funding and appropriated statewide adjustments funding, per the JLBC Fiscal Year 2007 Appropriations Report.

Arizona State University requests the transfer of an additional amount of \$11,098,100 from the Tempe Campus to the Downtown Phoenix Campus special line item. The additional amount reflects the difference between the special line item amount and the 2007 base state budgets for the College of Nursing and Healthcare Innovation, the College of Public Programs, and University College, and the Downtown Phoenix Campus Office of the Provost as well as the 2007 base state budgets for the operating units that support and are co-located with the Downtown Phoenix Campus academic programs (see attached).

Arizona State University requests the placement of the review of the proposed transfer amount agenda item on the agenda of the next meeting of the Joint Legislative Budget Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Stanley".

Richard Stanley
Senior Vice President and University Planner

Office of the President

Fulton Center 410, 300 E University Dr.
PO Box 877705 Tempe, AZ 85287-7705
(480) 965-8972 Fax (480) 965-0865
www.asu.edu/president

AGENCY NAME & AFIS CODE: ARIZONA STATE UNIVERSITY AT THE TEMPE CAMPUS (ASA)
 COST CENTER/PROGRAM NAME: DOWNTOWN PHOENIX CAMPUS
 FUND NAME AND AFIS NUMBER: General Fund - 1000; Collections/Other - 1411
 ASU AT THE DOWNTOWN CAMPUS

**SCHEDULE 3A
SUBPROGRAM EXPENDITURES**

ASU AT THE DOWNTOWN CAMPUS SUBPROGRAM EXPENDITURES	ACTUAL FY 2006	APPROPRIATED FY 2007 (Per Feed Bill)	ADJUSTMENTS TO TIE TO APPROPRIATIONS REPORT	ADJUSTMENTS TO DOWNTOWN PHOENIX CAMPUS PROGRAMS	DOWNTOWN PHOENIX CAMPUS ACADEMIC AND SUPPORT UNITS	ESTIMATED FY 2007
Nursing	9,718.1	9,123.5	9,123.5	1,100.5		10,224.0
Public Programs:						
Instruction	10,547.8	11,041.2	11,041.2	1,007.6		12,048.8
Center for Urban Studies	227.1	264.3	264.3	(102.2)		162.1
Morrison Institute for Public Policy	377.6	417.4	417.4	(10.7)		406.7
Center for Nonprofit Leadership & Management	194.4	141.9	141.9	0.7		142.6
Advanced Public Executive Program (APEP)	213.1	109.9	109.9	(10.5)		99.4
University College	9,146.3	11,095.8	11,095.8	1,973.3		13,069.1
Provost/VP Downtown Phoenix Campus	1,086.2	1,408.2	1,408.2	(422.3)		985.9
Academic Affairs	83.1				426.6	426.6
Library Services	531.9				851.0	851.0
University Technology					1,458.2	1,458.2
Student Affairs	91.2				1,909.3	1,909.3
Enrollment Services	13.4				328.0	328.0
Administrative Services					375.5	375.5
Financial Services					105.7	105.7
Mail Services					34.8	34.8
Public Safety	79.1				1,197.5	1,197.5
Operations and Maintenance					1,402.9	1,402.9
Utilities					1,792.1	1,792.1
Statewide Adjustments (per Appropriations Report)			1,492.4	(393.3)	(1,099.1)	
Unexplained (per Appropriations Report)			477.2	(125.8)	(351.4)	
Forced Vacancy Savings (Personal Services and Related ERE)		(851.0)	(851.0)	(189.8)	(160.5)	(1,201.3)
TOTAL	32,309.3	32,751.2	34,720.8	2,827.5	8,270.6	45,818.9

DATE PREPARED: FEBRUARY 15, 2007

NOTES:

1. The ACTUAL FY 2006 column reflects actual state expenditures for academic programs located at the Downtown Phoenix Campus (the College of Public Programs, the College of Nursing and Healthcare Innovation, and University College) and the ancillary academic and other units supporting those programs.
2. The APPROPRIATED FY 2007 column reflects the estimated FY07 state budgets for academic programs located at the Downtown Phoenix Campus. The budget amounts reflect legislative changes to ASU budget information provided to the JLBC staff. The column ties to the Downtown Phoenix Campus Special Line Item in HB 2863, Chapter 344, Sec. 35.
3. The ADJUSTMENTS TO TIE TO APPROPRIATIONS REPORT column depicts \$1,969,600 in statewide adjustments/other changes to the Downtown Phoenix Campus Special Line Item in HB 2863, Chapter 344, Sec. 35. The column ties to the Downtown Phoenix Campus Special Line Item in the JLBC Fiscal Year 2007 Appropriations Report.
4. The ADJUSTMENTS TO DOWNTOWN PHOENIX CAMPUS PROGRAMS column reflects the FY 2007 state budgets for academic programs located at the Downtown Phoenix Campus. The budgets consist of general funds and collections from students enrolled in courses funded by the Downtown Phoenix Campus. The incremental investment beyond the Appropriations Report Special Line Item amount is intended to sustain the growth and development of the Colleges located at the Downtown Phoenix Campus.
5. The DOWNTOWN PHOENIX CAMPUS ACADEMIC AND SUPPORT UNITS column reflects the FY 2007 state budgets for the ancillary academic and other units supporting the academic programs located at the Downtown Phoenix Campus.
6. The ESTIMATED FY 2007 column reflects the FY 2007 state budgets for both the academic programs located at the Downtown Phoenix Campus and the ancillary academic and other units that support the academic programs.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JAKE FLAKE
JORGE LUIS GARCIA
JACK W. HARPER
THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2007
KIRK ADAMS
ANDY BIGGS
TOM BOONE
OLIVIA CAJERO BEDFORD
LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: March 23, 2007

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Arizona Health Care Cost Containment System – Review of Medicaid Eligibility
Privatization Request for Proposal

Request

Laws 2006, Chapter 331 required the Arizona Health Care Cost Containment System (AHCCCS) to issue a Request for Proposal (RFP) to privatize the agency's eligibility determination and redetermination system by March 31, 2007. While requiring an RFP, the legislation allows AHCCCS to decide whether to enter into a contract to privatize eligibility and redetermination services.

Instead of issuing an RFP, AHCCCS is releasing a Request for Information (RFI) to privatize eligibility for Traditional and Proposition 204 populations. An RFI is more of an information collection process while an RFP solicits bids to perform a specific function. The Department of Economic Security (DES) administers the eligibility process for most Traditional and Proposition 204 populations.

AHCCCS intends to release a privatization RFP for KidsCare Services at a subsequent time. Unlike Traditional and Proposition 204, AHCCCS administers all KidsCare eligibility.

Recommendation

The Committee has at least the following options:

1. A favorable review. AHCCCS claims that the Traditional/Proposition 204 eligibility determination process is complex and requires further information before issuing an RFP.
2. An unfavorable review. The subject of the RFP, the KidsCare population, constitutes only 7% of the AHCCCS population.

Under either option, the Committee may want to clarify that AHCCCS should return when its KidsCare eligibility RFP is available.

(Continued)

Analysis

AHCCCS has an intergovernmental agreement with the Department of Economic Security (DES) to provide Medicaid eligibility services for most of the Traditional and Proposition 204 caseloads, which generally are those clients with incomes below 100% of the Federal Poverty Level (FPL). Most of these clients already qualify for other services administered by DES such as Temporary Assistance for Needy Families or Food Stamps. Applications may be initiated at DES offices, hospitals, health centers, or other governmental offices such as AHCCCS or the Social Security Administration. DES verifies data on the application and notifies applicants of their eligibility status. In contrast, AHCCCS administers eligibility for KidsCare and KidsCare Parents with incomes above 100% of the FPL.

Laws 2006, Chapter 331 required AHCCCS to issue an RFP to solicit bids to privatize its eligibility process. While requiring an RFP, Chapter 331 permits AHCCCS to decide whether to accept any of the bids.

In AHCCCS' submission, they have voiced 3 primary concerns related to the issuance of an RFP to privatize its eligibility services. These concerns include: (1) the complexity of the eligibility process and the fact that 3 different entities perform eligibility determination (AHCCCS, DES and the Social Security Administration). AHCCCS was unsure if the intent of the privatization legislation was to include all 3 entities; (2) AHCCCS felt that March 31, 2007 was not enough time to develop an adequate RFP for a project of this size and (3) because of start-up issues in a similar project in Texas, AHCCCS suggested a slower approach to privatization.

As a result of these concerns, AHCCCS has proposed the following 2-tiered approach:

1. Develop a Request for Information (RFI) to solicit the opinion of vendors and the public on the feasibility of privatizing the Traditional and Proposition 204 populations. The Traditional and Proposition 204 populations represent approximately 93% of the state's Medicaid population. AHCCCS plans on issuing its RFI on the Traditional and Proposition 204 eligibility determination after Committee review and plans on sharing the results by April 2007.
2. Develop a Request for Proposal (RFP) to privatize the eligibility determination for KidsCare Services. This population includes the KidsCare and KidsCare Parents populations. According to AHCCCS, the federal government allows state's more flexibility in privatizing KidsCare Services eligibility determinations than the Traditional and Proposition 204 populations. AHCCCS intends to wait to submit its RFP to privatize KidsCare Services eligibility determination for Committee review until KidsCare Parents and KidsCare outreach budget issues are resolved. AHCCCS feels that these 2 issues will significantly impact the scope of the RFP.

AHCCCS' RFI includes 9 questions which focus on 3 primary areas. These areas include:

- 1) System operations, specifically how the vendor would operate eligibility services, including how the proposed system would save the state money.
- 2) Request for proposal advice, specifically how to word a future RFP.
- 3) Prior privatization experience.

Other States

In January 2006, Texas began a 10-month phased-in privatization of its eligibility functions. The Texas plan intended to retain a smaller group of state employees to make the final eligibility determination, as required by federal law. In May 2006, Texas switched back to having state employees process applications because of problems with their contractor. Effective March 13, 2007 Texas announced that it

(Continued)

was ending its privatization contract and hoped to reassume control of all eligibility operations by November 1.

In December 2006, Indiana signed a contract to begin an 18-month phase-in beginning in August 2007 to privatize their eligibility determination process for Medicaid. The federal government will have staff on site in Indiana to monitor the privatization process and will require monthly performance reports.

RS/RF:ym



Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Janet Napolitano, Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

January 24, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington, #217
Phoenix, AZ 85007



Dear Representative Pearce:

Laws 2006, Chapter 331, Section 29 stated the following:

“Notwithstanding any other law, the Arizona health care cost containment system administration shall issue a request for proposals and may execute a contract to privatize eligibility determination and re-determination services by March 31, 2007. The request for proposals shall focus on how the privatization process would save the state money compared to its current system of eligibility determination and re-determination. The Arizona health care cost containment system administration shall submit the request for proposals before release and the contract before award to the joint legislative budget committee for review.”

The eligibility process is incredibly complex and involves three different agencies and millions of annual applications and renewals for Medicaid services. The bulk of the work is done by the Department of Economic Security (DES). The eligibility workers for DES are also responsible for eligibility determinations for other programs including Cash Assistance and Food Stamps. All of these programs and agencies face different federal requirements and regulations in relation to the privatization of services. Given the complexities involved and the limited timeframe established by the legislation, the Arizona Health Care Cost Containment System (AHCCCS) pursued a two-track approach to address the session law requirements.

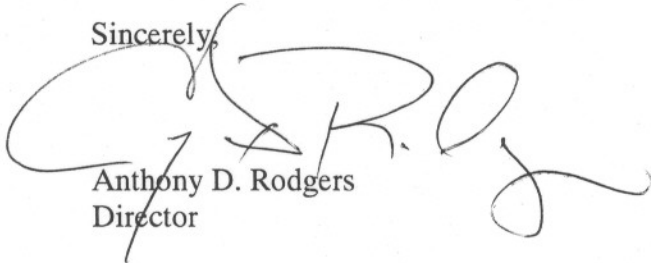
1. AHCCCS has been working with DES to develop a Request for Information (RFI) regarding the eligibility determination services offered. This RFI is attached and is being submitted for Joint Legislative Budget Committee (JLBC) review as required by the language in Chapter 331.

2. AHCCCS is in the process of developing a Request for Proposal (RFP) for privatization of Title XXI (KidsCare and KidsCare Parents) eligibility services. The federal government currently allows more freedom to states to privatize these services than is currently allowed for Title XIX (DES eligibility). The RFP will be submitted to the JLBC for review upon completion of development.

The Honorable Russell Pearce, Chairman
January 24, 2007
Page 2

Please see the attachment provided which delineates the current schedule for both the RFI and RFP. Please contact Tom Betlach at (602) 417-4483 should you have additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Rodgers', with a large, stylized flourish extending from the end of the signature.

Anthony D. Rodgers
Director

Attachment

cc: Jim Apperson, Director, OSPB
Tracy Waering, Director, DES
Richard Stavneak, Director, JLBC
Tom Betlach, AHCCCS
Linda Skinner, AHCCCS
Monica Coury, AHCCCS

TIMELINE FOR AHCCCS RFP ON PRIVATIZATION OF ELIGIBILITY: KEY MILESTONES

Activity	Completion Date		Comments
	RFP – Title XXI (Sept Award)	RFI – Medicaid (March Submittal)	
Complete initial draft of the RFP/RFI for internal review	Early January 2007	December 15, 2006	4 months to get RFP draft prepared 3 months to get RFI draft prepared
Present draft RFP/RFI to JLBC	End February 2007	January 2007	
Release RFP/RFI	March 30, 2007	February 15, 2007	
Hold Bidder's conference	April 6, 2007	NA	Assumes 1 week after RFP release
Written questions due to AHCCCS	April 10, 2007	NA	Assumes about 10 days after RFP release
Responses to questions released	April 20, 2007	NA	Assumes about 3 weeks after RFP release
Closing date for Bidder to submit RFP / RFI	May 25, 2007	March 19, 2007	8.0 weeks after RFP release 4.5 weeks after RFI release
Complete evaluation of RFP / compile RFI responses	July 11, 2007	April 2, 2007	6 weeks for RFP 2 weeks for RFI
Conduct BFO and/or oral presentations	July 25, 2007	NA	2 week for RFP
Review contract / RFI responses with JLBC	August 2007	April 2007	
Award contract and begin implementation	Sept 3, 2007	NA	
Begin service operations	Mid-January 2008	NA	Assumes 4.5 months for implementation

REQUEST FOR INFORMATION

Privatization of Arizona Medicaid Eligibility Services

1.0 PURPOSE:

The purpose of this Request for Information (RFI) is to gather community and vendor comments and interest concerning the feasibility of competitively procuring a private vendor to process Medicaid eligibility applications and renewals currently managed by the Department of Economic Security (DES), Family Assistance Administration, for the Arizona Health Care Cost Containment System (AHCCCS) Title XIX program. Federal law mandates that final determination of Medicaid eligibility continue to be the responsibility of a state merit employee. This RFI excludes the eligibility determination process for KidsCare (SCHIP), the Arizona Long Term Care System (ALTCS), Supplemental Security Income Medical Assistance Only (SSI MAO) and Medicare Savings Programs, which are managed by AHCCCS.

2.0 INTRODUCTION:

The Medicaid program (Title XIX of the Social Security Act) is a state and federal partnership that uses a blend of federal and state matching monies to fund the provision of health care services to low-income individuals and families. Under federal law, states are required to cover certain groups of individuals (e.g., children age 6 and older below 100% of federal poverty guidelines, elderly, and disabled Social Security Income (SSI) beneficiaries). States may also elect to cover other optional groups of low-income individuals (e.g., pregnant women above 133% of the federal poverty guidelines or the medically needy) under their Medicaid state plan or through federal waiver options such as home and community based waivers. In order to be determined eligible for Medicaid, individuals must submit an application and meet certain federal and state eligibility requirements. These requirements may include citizenship or residency status, age, pregnancy, disability, income and resources. The requirements for determining Medicaid eligibility vary from state to state.

The AHCCCS Administration is the state agency responsible for administering Arizona's Medicaid program. The AHCCCS program operates under a federal Medicaid Section 1115 research and demonstration waiver, delivering services to enrolled members through prepaid capitated health plans. An overview of the program can be found in the *2005 AHCCCS Overview*, on the AHCCCS web site at:

<http://www.ahcccs.state.az.us/publications/overview/2005/contents.asp>.

Specific information about the eligibility requirements for the AHCCCS program can be found at: <http://www.ahcccs.state.az.us/Publications/Reference/IncomeLimits/EligibilityRequirements.pdf>. Responsibility for determining Medicaid eligibility is divided between DES and the AHCCCS Administration. The DES Family Assistance Administration determines eligibility under Section 1931 of the Social Security Act and under the Sixth Omnibus Reconciliation Act (SOBRA). The AHCCCS Administration determines eligibility for SSI MAO, Medicare Savings Programs, KidsCare and ALTCS. The federal Social Security Administration determines SSI eligibility.

REQUEST FOR INFORMATION

Privatization of Arizona Medicaid Eligibility Services

3.0 BACKGROUND:

- 3.1 Legislation: As a result of legislation that was passed last year in Arizona (Laws 2006, Chapter 331, Section 29), the AHCCCS Administration is considering issuing a Request for Proposal for a private vendor to process Medicaid eligibility applications and renewals that are currently processed by DES. The legislation states that “the request for proposals shall focus on how the privatization process would save the state money compared to its current system of eligibility determination and redetermination.” The AHCCCS Administration is planning to issue a separate Request for Proposal for a private vendor to process Title XXI eligibility applications and renewals in the spring of 2007.
- 3.2 Current Medicaid Eligibility Services Performed by DES: The AHCCCS Administration has an intergovernmental agreement with the DES Family Assistance Administration to provide Medicaid eligibility services. (Please see Attachment A for appropriation allocations passed through to DES, and annual caseload and workload information.) Under this agreement, DES performs initial eligibility determinations for applicants of Medicaid only, as well as conducts the Medicaid portion of joint applications, which may include one or more of Cash Assistance, Food Stamps, and General Assistance. DES determines Medicaid eligibility for the following eligibility categories: AHCCCS Care, Deemed Newborn, Section 1931, Federal Emergency Services, Medical Expense Deduction, SOBRA women and children, and Transitional Medical Assistance. Other major eligibility services performed by DES include: 1) conducting periodic renewals of Medicaid eligibility, 2) processing any changes in a member’s circumstances that may affect eligibility, 3) notifying individuals of approvals, denials or adverse actions, 4) exchanging eligibility data with the AHCCCS Administration, 5) conducting pre-hearing conferences and attending eligibility appeal hearings, 6) providing case files for quality control reviews, and 7) participating in development of Medicaid policies and procedures.
- 3.3 Description of Medicaid Eligibility Process: Medicaid applications may be initiated at DES eligibility offices located throughout the State, at community organizations (e.g., hospitals, approved medical provider offices, federally qualified health centers, regional behavioral health authorities), or at other governmental offices such as the AHCCCS KidsCare office or Social Security Administration offices. A copy of the general AHCCCS eligibility application is available at:
<http://www.ahcccs.state.az.us/Publications/Forms/Member/UniversalApp/ApplicationforAHCCCSHealthInsurance.pdf>, and a copy of the DES joint application is available at:
<http://www.de.state.az.us/faa/appcenter.asp>.

The DES eligibility offices receive applications by mail, fax, via the Internet, or from applicants who personally drop off their applications. Once a completed application is received, DES schedules an interview with the applicant (interviews are not required under some circumstances: if the information is received from the AHCCCS Administration, a behavioral health agency or electronically). The interviews are generally conducted in a local DES office, but may also be conducted in the applicant’s home, by telephone, or in a

REQUEST FOR INFORMATION

Privatization of Arizona Medicaid Eligibility Services

hospital. DES verifies certain information on the eligibility application and notifies all applicants of approval or denial. The records for applicants who are denied Medicaid eligibility, but may be potentially eligible for KidsCare (Title XXI) or Health Insurance Flexibility and Accountability (HIFA) parents, are sent electronically to the AHCCCS Administration through the Technical Interface Process System. DES is required to make a decision on the eligibility of the Medicaid applicant within forty-five (45) days of receipt of application, with few exceptions. These exceptions include pregnant applicants, whose eligibility status must be decided within twenty (20) days, and hospitalized applicants, whose eligibility status must be determined within seven (7) days. DES is also required to meet or exceed established standards of accuracy in the determination of eligibility for Medicaid benefits or be subject to corrective action plans and potential sanctions.

DES conducts Medicaid eligibility renewals utilizing a similar process as described above for the initial application process. All Medicaid recipients must have their Medicaid eligibility recertified no less than once every twelve (12) months. Several Medicaid eligibility categories require the renewal to occur more frequently. These include Transitional Medical, Medical Spend Down, and Cash Assistance related cases, for which the renewals occurs no less than every six (6) months, and Pregnant Women for which the renewal occurs after the postpartum period.

DES receives, reviews, and updates any changes in eligibility status that are received from members, or from other sources such as the AHCCCS health plans. Changes reported most frequently include address changes and related cost of living adjustments, changes in income, and changes in medical expenses. DES determines the affect of a reported change on the member's eligibility status and discontinues eligibility if appropriate.

DES maintains information on individuals who are or were receiving Medicaid, Cash Assistance, General Assistance, or Food Stamps utilizing a DES database referred to as Arizona's Technical Eligibility Computer System. Eligibility decisions and changes are transferred daily to the AHCCCS Prepaid Medicaid Management Information System, which maintains information on individuals who are or were receiving AHCCCS benefits.

For more detailed information about Medicaid eligibility criteria and the DES eligibility process, see Arizona Administrative Code (ACC) Title 9, Chapter 22, Article 14: *AHCCCS Medical Coverage for Families and Individuals*.

4.0 RFI RESPONSE:

Assuming the AHCCCS Administration pursues a competitive Request for Proposal for the procurement of administrative services for the processing of Medicaid eligibility applications and renewals, and based on the information provided in this RFI, please provide responses to the following questions:

REQUEST FOR INFORMATION
Privatization of Arizona Medicaid Eligibility Services

1. States have had varying degrees of success in contracting with private vendors to perform eligibility determination functions for state Medicaid programs. To ensure a successful Request for Proposal, it is important that the AHCCCS Administration utilizes the lessons learned from these other states who have undertaken similar endeavors.

Question: Describe your experience in successfully implementing and conducting Medicaid eligibility in other states. This description should include the following information: name of the state or states in which you are working or have worked and the period of time the work was performed, the types of services performed for the state, the number of Full Time Equivalents devoted to providing the services, average annual revenue received for providing these services, and the average number of applications and renewals processed on a monthly basis.

In addition: What were the most important elements for successful implementation and ongoing operation and what were the most significant difficulties encountered? What strategies did you employ to overcome any challenges or barriers that were encountered?

2. As reflected in the legislation, one of the key reasons for consideration being given to privatizing Medicaid eligibility at this time is to save the State money. At the same time, the State wants to ensure that an effective and efficient eligibility system is put in place that provides excellent customer service and results in accurate and timely determinations.

Question: Describe the eligibility determination model you would recommend using in Arizona that would ensure the highest quality of customer service and accurate and timely determinations at the lowest cost? In describing the model, please identify 1) changes in operational processes or eligibility policy that you would recommend be implemented and explain why, and 2) components of the model that will allow the performance of this function to provide equal or superior service to clients and reduce costs.

3. One of the challenges in designing any Medicaid eligibility system is avoiding unnecessary duplication and/or service gaps. For example, an individual should not be required to fill out separate program applications (e.g., KidsCare, Medicaid, Food Stamps) and have each program independently verify the same information (e.g., individual's income).

Question: What processes could be implemented to ensure the avoidance of unnecessary duplication of services or service gaps? In particular, how can duplication of effort be minimized between the private vendor staff conducting Medicaid eligibility, and DES staff who conduct eligibility for Food Stamps, Cash Assistance and General Assistance and AHCCCS staff who conduct SCHIP eligibility?

REQUEST FOR INFORMATION
Privatization of Arizona Medicaid Eligibility Services

4. DES receives two types of Medicaid applications: One type is for applicants who are only applying for Medicaid and the other type is for individuals who are applying for Medicaid and Cash Assistance, Food Stamps, or General Assistance.

Question: Do you believe it would be beneficial for the AHCCCS Administration to distinguish between these two types of application groups in designing the Request for Proposal requirements? If so, why and how should the Request for Proposal requirements differ between the two groups? Would you have an interest in processing eligibility applications and renewals for only one of these groups, and if so, which group and why?

5. Eligibility data must be electronically transmitted from DES to the AHCCCS Administration. In addition, many AHCCCS applicants or recipients are also eligible for Food Stamps, Cash Assistance, or General Assistance. Ensuring system compatibility between the AHCCCS Administration, DES, and the private vendor will be vital to providing seamless customer service and the accurate and timely creation of eligibility status records.

Question: What type of system would you as the private vendor advocate using (e.g., your own, the State's), and what type of interfaces will ensure the successful transmission of information between the private vendor and DES/AHCCCS? In addition, drawing upon your previous experience and knowledge, provide an estimate of the length of time required to design, test, and implement these systems, and a projection of the cost to Arizona for the development and ongoing maintenance of the systems and interfaces. Finally, what strategies would you use to overcome any technological obstacles encountered in performing the necessary eligibility determination duties?

6. Federal law requires a merit status state employee to make the final eligibility determination for Medicaid.

Question: How would you work with DES and AHCCCS employees to ensure that this requirement is met in an efficient and effective manner?

7. Timely and accurate determinations of Medicaid eligibility are critical to the individuals seeking health care services under the AHCCCS program with performance standards being prescribed at the federal and State level.

Question: What type of quality assurance and process improvement program would you implement to ensure that all individuals receive Medicaid eligibility determinations with the highest probability of accuracy while adhering to the specific timeliness requirements? What additional contract performance standards do you recommend that the AHCCCS Administration consider including in a Request for Proposal in the area of customer service, processing of eligibility applications and renewals, complaints and appeals, and financial management?

REQUEST FOR INFORMATION
Privatization of Arizona Medicaid Eligibility Services

8. The continuation and development of community partnerships is considered by the AHCCCS Administration to be a critical component in the success provision of Medicaid eligibility determination services. For example, DES eligibility workers are out-stationed in all major hospitals throughout Arizona, federally qualified health centers participate in the Health-e Arizona Application program (a web-based Title XIX/XXI application process used by community organizations) and certain providers facilitate the eligibility process for pregnant women through their participation in the Baby Arizona program (expedited process which includes completing the Medicaid application during the first prenatal visit).

Question: How can the AHCCCS Administration in a Request for Proposal best ensure that a private vendor would effectively maintain these local community partnerships and at the same time develop new partnerships that maximize the use of new and existing community resources?

9. **Question:** Provide any additional information that you feel may be beneficial to the AHCCCS Administration in developing this Request for Proposal.

5.0 HOW TO RESPOND:

- 5.1. The response should not be more than twenty (20) written pages and must include the Company name, address and telephone number. In addition, please provide the name, title, telephone number and e-mail address of your organization's designated contact person for questions or clarification of your response.
- 5.2. Respondents shall submit four (4) hard copies and one (1) electronic copy (Microsoft Word document preferred).
- 5.3. All responses must be submitted no later than **3:00 P.M. (MST), March 19, 2007.**
- 5.4. Responses should be sent or delivered to:

Arizona Health Care Cost Containment System (AHCCCS)
Contracts and Purchasing, Mail Drop 5700
ATTN: Jamey Schultz, Contract Management Specialist
701 East Jefferson Street
Phoenix, Arizona 85034

- 6.0 CONFIDENTIAL INFORMATION:** If a respondent believes that portions of its RFI response should remain confidential, the respondent shall clearly identify those portions of its response they wish to maintain as confidential and include a statement detailing the reasons why the information should not be disclosed. Such reasons shall describe the specific harm or prejudice that may arise.

REQUEST FOR INFORMATION
Privatization of Arizona Medicaid Eligibility Services

AHCCCS contracts personnel shall determine whether the identified information should remain confidential.

- 7.0 REIMBURSEMENT:** The AHCCCS Administration will not reimburse any respondent for the cost of preparing and submitting a response to this RFI.

REQUEST FOR INFORMATION
Privatization of Arizona Medicaid Eligibility Services

ATTACHMENT A:

SELECT DES MEDICAID DATA

The following tables contain select relevant pieces of information regarding initial Medicaid eligibility determination and eligibility redetermination conducted by DES. This information is delineated in cases, where a case represents a family unit applying for services.

Initial Applications Received (cases)

FY 2006	466,134
FY 2005	450,483

Applications by Type (cases for fiscal year 2006)

Medical Assistance Only	251,530
Medicaid with at least one other program	214,604

Redetermination Interviews Conducted

FY 2006	350,207
FY 2005	284,193

Client Changes Processed

FY 2006	2,076,353
FY 2005	2,122,206

State Appropriation by Year for Medicaid Eligibility

	FY 2005	FY 2006	FY 2007
MAO			
State Funds	\$ 21,245,400	\$ 22,441,700	\$ 27,657,600
TXIX	24,098,300	25,000,400	30,330,200
MAO Total	\$ 45,343,700	\$ 47,442,100	\$ 57,987,800
Prop 204			
State Funds	\$ 13,416,300	\$ 17,726,700	\$ 21,405,900
BNCF*	5,566,700	2,395,400	2,531,900
TXIX	13,663,800	14,283,400	17,933,800
Prop 204 Total	32,646,800	34,405,500	41,871,600
Grand Total	\$ 77,990,500	\$ 81,847,600	\$ 99,859,400

*Budget Neutrality Compliance Fund