STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

MEETING NOTICE

DATE: Thursday, May 10, 2001

TIME: 1:00 p.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order
- Approval of Minutes of February 16, 2001 and April 6, 2001.
- DIRECTOR'S REPORT (if necessary).

1. SCHOOL FACILITIES BOARD - Review of Sufficiency of Deficiencies Correction Monies with regard to Tourism and Sports Authority.

The Chairman reserves the right to set the order of the agenda.
05/09/01

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

February 16, 2001

The Chairman called the meeting to order at 8:20 a.m., Friday, February 16, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Solomon, Vice-Chairman	Representative Knaperek, Chairman
	Senator Arzberger	Representative Allen
	Senator Bee	Representative Burton Cahill
	Senator Brown	Representative Gray
	Senator Cirillo	Representative May
	Senator Rios	Representative Pearce
		Representative Pickens
		Representative Weason
Absent:	Senator Bowers	
	Senator Bundgaard	
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Rebecca Hecksel	Bob Hull
	Pat Mah	Lorenzo Martinez
Others:	Debbie Spinner	Office of the Attorney General
	Cynthia Choate	Office of the Attorney General
	Steve Lynch	General Counsel, Department of Corrections
	Cynthia Aydlett	Department of Corrections
	Dr. Lattie Coor	President, ASU
	Provost Chuck Backus	Provost, ASU East
	Elliott Hibbs	Arizona Department of Administration
	Dave Weller	Arizona Department of Administration

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 19, 2000, Representative Knaperek stated that the minutes would be approved as submitted.

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

At 8:21 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:20 a.m. the Committee reconvened into open session.

Senator Solomon moved *that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases:*

1. Lovins/King v. State
2. Montano v. State, et al.

The motion carried.

JOINT LEGISLATIVE BUDGET COMMITTEE - Adoption of Committee Rules and Regulations.

Senator Solomon moved *that the Committee adopt the rules and regulations of the Joint Legislative Budget Committee as presented by the JLBC Staff. The rules and regulations are the same as the Committee used in the last biennium.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle.
Richard Stavneak, Director, JLBC Staff, stated that this item is for the mileage reimbursement rate for state employees and is tied in statute to the Internal Revenue Service (IRS) rate. The IRS recently increased their rates from 32.5 cents to 34.5 cents.

In response to Representative Pickens question, Mr. Stavneak responded that legislators would also receive the rate increase.

Senator Solomon moved *that the Committee approve ADOA's request to increase the mileage reimbursement rate from 32.5 cents to 34.5 cents per mile, effective immediately. The costs associated with the rate increase are to be absorbed in the agencies' budgets without a change in the level of appropriations.* The motion carried.

B. Report on State Employee Health Plans.
Mr. Stavneak stated that there was no action required by the Committee on this item, however, it will require action next month in Executive Session. The Committee will be reviewing the conditions of the State Employee Health contract. The purpose is to have ADOA make a presentation, in terms of what was incorporated in their proposed Request for Proposal (RFP), so that the Committee is aware of the items that would be discussed at the next JLBC meeting.

Dave Weller, Acting Benefits Manager, ADOA, gave a presentation on the procurement process and health programs that are in progress. After Arizona's HMO reform passed into law last year, ADOA embarked on a strategy to ensure quality and affordable health plans and continued health coverage for employees and retirees. Elliott Hibbs, Director, ADOA, wrote to the Committee in November and explained that there was an impact to their current contract. He related in the letter that ADOA expended considerable effort to try to hold on until the 5th and final year of the contract, which is currently in existence.

Ultimately, they were faced with 2 choices. One of those was to finish the current contract with a 40% premium increase, and the loss of the Freedom of Choice plan. The other choice was to rebid, and they chose to rebid. ADOA devoted considerable time and effort in developing an RFP that would improve services to the rural population and provide an affordable Freedom of Choice plan statewide. They constructed both general and focus market research and compiled reliable guiding principles from several sources; the Legislature, Governor, survey results, and focus groups. ADOA will know the results of their procurement next month and will return to report to the Committee, as required by statute, at least 10 days before making the award.

Mr. Weller continued with his presentation.

Representative Knaperek asked what the increase will be in the actual health coverage premium. Mr. Weller responded that they do not yet know what the increase will be, however, they are expecting it will be less than 40%. ADOA does not know at this time what the employee/employer premium will be, but is suggesting a $25 single monthly employee premium and a $125 family premium. Mr. Weller said that when you look at the current average premiums being paid, $32 for single and $112 for family, and you then look at the market place and what is happening with other employer plans, that led them to come up with the $25/$125 premium.

Mr. Weller said that both United Health Care and Intergroup came to ADOA with increases approaching 60%. Combined with the other 2 vendors and their increases, the overall increase was then 40%. In response to Representative Knaperek's question, Mr. Weller said that both United Health Care and Intergroup are participating in the bidding process.

Representative Knaperek asked if there were any complaints with the bidding process. Mr. Weller stated that the process is a closed seal bid, and an evaluation committee reviews all of the offers received. The evaluation process should be completed by the end of the month. They will then make recommendations to the Director for awards.

Representative Knaperek said she had been told that ADOA makes the bidding process so restrictive that vendors may not want to participate. Mr. Weller said they do extensive market research prior to issuing an RFP to make sure it will be a competitive process.

Mr. Elliott Hibbs, Director, ADOA, said that there has been 1 written complaint regarding the process. He stated that it is an ongoing process and felt it was appropriate to discuss everything related to the bidding process at the time ADOA comes back to present to the Committee what has transpired during the evaluation of the bids.

Representative Knaperek said she understood that ADOA must abide by confidentiality but if they wait that long they might not be able to influence the process and will end up with no choice for state employees, especially in rural areas of the state. Mr. Hibbs said that it would not be too late because when ADOA next meets with the Committee in Executive Session they will not have made the awards yet.

Representative Allen asked if they were getting lots of responses to the RFP. Mr. Hibbs said they have 4 responses, which is sufficient to be able to evaluate whether they have quality bids or not.

Representative Knaperek asked if those 4 were for the entire state or 4 bidders for Maricopa County. Mr. Hibbs responded that each of the bidders were allowed to bid on any or all of 3 areas. In response to Representative Knaperek's question Mr. Hibbs said that all areas have at least more than 1 bidder.

Representative Pearce stated that there have been rumors that the increased costs are, in part, due to HB 2600. Mr. Hibbs said that there were some increased costs as a result of HB 2600. Under the current contract ADOA has with providers, a number of them have been losing substantial amounts of money with the state contract. He further stated that ADOA completed their bid at a very good time, 1997, when there was no indication that health care costs and prescription costs would rise so rapidly.

Senator Solomon felt it important to make sure that members and the public were aware that it was not HB 2600 that is responsible for raising rates by providers.

Discussion continued on the impact of HB 2600.

Representative Gray asked why the health care contract is for 8 years. Mr. Hibbs said that an 8-year contract is a misnomer. They would like to have a contract for 8 years because the process is expensive. However, in the contract there is only a 2- to 3-year cap on rates, so they are not anticipating going any longer than 2 to 3 years in terms of holding those contracts. In addition to that, they are renewable on an annual basis. If ADOA gets to the point where they believe there is a better opportunity to go back out to bid during any of that time, they are able to do that.

In response to Representative Gray's question Mr. Hibbs said that behavioral health will be included in the bidding. He said ADOA asked the bidders to include the increase that would be imposed on the premium, which is expected to be between 1% and 5%.

In response to Senator Cirillo's question, regarding additional money in the budget to cover the expected increases, Mr. Hibbs said there is added money to reflect the fact that they expect the total premium for health care to be much higher than in the past.

Mr. Stavneak said that funding has been added to the FY 2002 and FY 2003 budget to accomplish that. Employee premiums should not increase above the current average of $32 single and $112 family.

Senator Cirillo pointed out that the state recognizes what is happening with costs and is trying to offset some of that increase.

Discussion continued on state employee health plans.

In response to a point raised by Representative Pearce, Senator Solomon stated that their intention is not to raise salaries only to turn around and raise insurance premiums.

Representative May said that ASU West made a request when ADOA put out the RFP to allow state employees, at their own personal expense, to purchase additional coverage for domestic partners. He asked why that was not included in the RFP.

Mr. Hibbs said they were relying on existing law and the advice of counsel not to include this in the RFP. He further stated that they are required by statute to provide coverage for state employees and it would take a statutory change to expand that to other people. Representative May stated he disagreed with that decision.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) - Report on Grand Canyon Airport Funding.

Mr. Bob Hull, JLBC Staff, stated that this was a report and no Committee action was required. ADOT proposes to use the remaining $238,700 of the FY 2001 appropriation to operate the Grand Canyon Airport either through the end of FY 2001 or until it is leased to a non-profit corporation, whichever occurs first. The current law requires them to lease the airport by March 1 and they are not going to make that date.

At its June 22, 2000 meeting the Committee reviewed ADOT's plan to expend up to $397,500 (7½ months, July 18, 2000 through March 1, 2001) of the FY 2001 appropriation to operate the Grand Canyon Airport until it is leased. The $238,700 being reviewed is the balance of the $636,200 appropriation for FY 2001.

Representative Knaperek asked how long the Committee has been dealing with this issue and why the problem has not been resolved. Mr. Hull responded that it had been at least 2 or 3 years. The first attempt to privatize the airport was legislation to create the Grand Canyon Airport Authority, which operated for about 9 months. It was subsequently determined that the Grand Canyon Airport Authority was still considered an entity of the state and did not exempt them from the administrative rule making process, personnel process and the procurement rules which was desired. They wanted to create an Airport Authority which would be exempt from, or not be subject to, so much state bureaucracy. When it was determined that that was not accomplished, there was another law to remove the Grand Canyon Airport Authority and give it back to ADOT and allow them to lease it to a non-profit corporation.

That is where they are now, with a law that requires the airport be leased by March 1. Subsequent to that law, ADOT determined that in connection with a non-profit corporation that might lease it, they would still be subject to these same rules and requirements. There is another bill in this session, SB 1218, which would exempt a non-profit corporation who would lease the airport, from those procurement and personnel issues. Also, in the current legislation, the airport leasing entity could bond for more than 20 years, and the March 1 deadline to lease the airport is removed. If that passes then ADOT believes it would be able to complete the lease, perhaps before the end of the fiscal year.

Senator Cirillo said that he believes they need a cutoff date on this or the Committee will continue to see this issue arise.

<u>Representative Gray moved</u> that the Committee concur with ADOT's proposal to release the remaining $238,700 of the FY 2001 appropriation to operate the Grand Canyon Airport either through the end of FY 2001 or until it is leased to a non-profit corporation, whichever occurs first. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY - Review of Federal Social Services Block Grant (SSBG) Expenditure Plan.

Ms. Pat Mah, JLBC Staff, reported that in 1998 Congress reduced the SSBG funding, which is reflected in Table 1 of the JLBC Agenda book. The Arizona Legislature responded to the cut by appropriating additional Temporary Assistance for Needy Families (TANF) Block Grant monies. This agenda item relates to $2.6 million in TANF money for FY 2001. There was a footnote in the General Appropriation Act that said the money had to be used in a way that minimized cuts to local and state providers as opposed to minimizing cuts to the agency's operating budget.

<u>Senator Solomon moved</u> *that the Committee adopt a favorable review as recommended by the JLBC Staff for the DES SSBG Expenditure Plan.* The motion carried.

ARIZONA STATE UNIVERSITY (ASU) - Report on East Campus Multi-Year Funding Plan.

Representative Knaperek said there were issues regarding ASU East that the Committee needed to be aware of and had requested that ASU submit their student enrollment and funding estimates for the development of the ASU East Campus.

Mr. Lorenzo Martinez, JLBC Staff, stated this item has to do with a report on the ASU East Campus development. The ASU plan shows the enrollment growth that they anticipate over the next few years to get the campus to 5,000 full-time equivalent (FTE) students and the costs associated with that enrollment. ASU East and ASU West will not be funded on a formula basis until each campus reaches 5,000 FTE students.

Senator Cirillo noted that in the interim the Committee should be looking at both universities and community colleges formulas for allocations, especially when a new community college is being built or an addition to a university. He is not sure the formula they have been using for several years is currently adequate.

<u>Dr. Lattie Coor, President ASU,</u> thanked the Committee for the opportunity to speak about ASU and to present a multi-year funding plan. Dr. Coor said that Senator Cirillo was correct in saying the overall formula for funding for universities and community colleges warrants a look. The problem is there is no mechanism for funding enrollment growth at ASU East. The current instrument used is called the 22-to-1 ratio, which records enrollment growth on the main campuses. Every 22 new FTE students triggers funds to be appropriated. In 1990 the Arizona Board of Regents made a very detailed study of enrollment growth in the 3 Arizona universities, up to the year 2015. They predicted that enrollment at ASU, and its multiple sites, would grow to 75,000 students. With authorization from the Regents, that called for a campus in the East Valley that could accommodate from between 5,000 to 10,000 students.

Dr. Coor continued his presentation by going over each of the bulleted items of his funding plan (see Attachment A).

<u>Dr. Chuck Backus, Provost, ASU East</u>, presented the outlook for ASU East. He said that it is true that JLBC does not have a formula for handling new campus development. The state very rarely decides to start a university campus from zero and take it up very quickly to meet large student demand. More importantly it is complicated to try to predict as there are no general guidelines to follow. Even within the state, ASU East and ASU West have totally different circumstances, and different education philosophies under which these campuses were started. Certainly there are two different implementation routes for funding of these campuses. In the case of ASU West it was decided that the first stage of development was going up to 5,000 FTE. They decided first to build a campus physically and then handle the 5,000 FTE students. It has taken a little longer than most thought to build up to that level.

What ASU has done in their funding request is take the existing level and project over the next 2 years what they anticipate the student response will be. That projection is then put in the budget request to meet that response. Their predicted student enrollment growth has been right on target. Provost Backus said it may have been difficult for legislators to project 2 years ago that the enrollment would grow 34% the first year of the biennium and 36% the second year of the biennium.

At the request of the JLBC, ASU has taken a longer-range look at enrollment, development and funding. Provost Backus said if you choose the same figures as ASU West, 5,000 FTE, and develop a budget, what will it take in the way of student services, structures and people and what are the costs associated with each of those categories.

Representative Knaperek said that to her recollection ASU West was started as a Junior/Senior upper division university. She asked what the vision is for ASU East.

Dr. Coor said applied technology and applied science is such a growing field in industry and the valley, that they took a school of technology, which was in the College of Engineering at the Main Campus and moved it to the East Campus where it immediately expanded. The money that was attached to the faculty at the Main Campus also moved, so there were no additional costs. Now that Intel has given ASU a state-of-the-art fabricating facility and Motorola is staffing it, the student demand in that field, and industry demand for those students have created a rapidly growing field.

Dr. Coor said that one of the issues that has been before all of the university presidents is the extent to which the student population is counted as part of the Main Campus as a whole or identified as part of a newer campus. Northern Arizona

University wisely incorporates their student enrollment growth in the whole of the university. It was the Legislature in the mid 1980s, that in the magnitude of growth in the valley decided that appropriations will go to ASU West, ASU Main, and ASU East. It becomes too complex to have them commingled in the same budget.

Representative Gray said they have had the "22-to-1" formula since the 1980s. She asked what the average freshman and sophomore class sizes are in all of the universities. Dr. Coor said he did not have that information with him but would provide it to the Committee. For major research universities the student-to-faculty ratio average runs about 14 to 1. At ASU Main where they have the largest freshman class, 6,200 students, they have a required cap on the freshman composition courses of no larger than 25 students. They have reduced the size of the mathematics courses in the freshmen and sophomore years down from 70 to about 35. They still have some classes in the 200-300 range.

Representative Knaperek asked if when they refer to student count is that including transfers and also is it broken out by new students and transfer students. Dr. Coor responded that any figure you see of new dollars are net of any students transferred from the Main Campus to ASU East. When they are transferred, the dollars that support the faculty and others move with them.

Provost Backus noted that in the last couple of years the growth at ASU has been from 1,000 to 2,000 students. Of those students about 25% have transferred from the Main Campus.

REPORT ON RECENT AGENCY SUBMISSIONS

There was no discussion on this item and no Committee action was required.

Without objection, the meeting adjourned at 10:40 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Knaperek, Chairman

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

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

April 6, 2001

The Chairman called the meeting to order at 8:40 a.m., Friday, April 6, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Solomon, Vice-Chairman	Representative Knaperek, Chairman
	Senator Arzberger	Representative Allen
	Senator Bee	Representative Burton Cahill
	Senator Brown	Representative May
	Senator Cirillo	Representative Pearce
	Senator Rios	Representative Pickens
		Representative Weason
Excused:	Senator Bundgaard	Representative Gray
Absent:	Senator Bowers	
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Patrick Fearon	Gina Guarascio
	Rebecca Hecksel	Kim Hohman
	Indya Kincannon	Beth Kohler
	Pat Mah	Steve Schimpp
	Tony Vidale	
Others:	Debbie Spinner	Office of the Attorney General
	Ed Logan	Executive Director, Board of Appraisal
	Ed Wren	Legislative Council
	Pat Chorpenning	Director, Arizona Dept. of Veterans' Services
	Paul Mortensen	Director, Arizona Auto Theft Authority
	Paul Boelhauf	Arizona Auto Theft Authority
	Tom Prose	Chief Assistant Attorney General
	Tracy Essig	Assistant Attorney General
	Frank Hinds	Department of Administration
	Ted Ferris	President and CEO, Tourism and Sports Authority
	Steve Betts	Attorney, Arizona Cardinals
	John Arnold	Deputy Director, School Facilities Board
	Gary Peterson	Consultant
	A.J. LaFaro	Citizen of Tempe

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

At 8:41 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:30 a.m. the Committee reconvened into open session.

Senator Solomon moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the following case:

1. Asarco, Inc. v. Arizona Department of Revenue, et al.

The motion carried.

SCHOOL FACILITIES BOARD (SFB) - Review of Sufficiency of Deficiencies Correction Monies with regard to Tourism and Sports Authority.

Mr. Patrick Fearon, JLBC Staff, said this issue related to Proposition 302 which establishes a Tourism and Sports Authority, which among other things would provide for a new stadium. Proposition 302 would prevent the State Treasurer from transferring to the Authority any car rental surcharges or new hotel taxes from financing that facility until the School Facilities Board certifies that it has sufficient resources to cover its deficiencies correction program. A letter in the JLBC Staff agenda book from the Executive Director of the SFB provides that certification. A table on page 3 of the JLBC Staff memo displays the different funding sources for the deficiencies corrections.

Representative Knaperek asked if, referring to dedicated money, the language used in the JLBC Staff memo is the same language used in the referendum. Mr. Fearon replied that it was.

Representative Knaperek said that since money has not gone out to bond yet, technically the money is not dedicated. Mr. Fearon said that the SFB and the Authority may be better able to answer that. However, he said that the bonding would take place soon, possibly by early June.

Senator Cirillo said that it appears they are $1.4 million short. Mr. Fearon said that the current estimate of the cost has a 2% cushion built in and also the current statutes give the SFB the ability to instruct the State Treasurer to transfer sufficient funding into the Deficiencies Correction Fund.

Mr. A. J. LaFaro, a resident of Tempe, expressed opposition concerning Proposition 302. He said the citizens of Tempe were not allowed to vote on the $41+ million that the City of Tempe will be providing toward the infrastructure and site preparation. He said the citizens were led to believe that in the City of Tempe the city charter required a referendum of 10% of the total registered voters, which would be about 6,500 to 7,000 signatures that would have had to accumulate in a 30-day period of time. The city clerk came to him 3 days after the 30-day period and said they had made a mistake, and said it actually is 10% of people that voted in the last election. He felt that the citizens of Tempe as well as Maricopa County have been misled concerning the entire Proposition. Mr. LaFaro continued with his comments regarding Proposition 302.

Representative Pearce expressed his appreciation to Mr. LaFaro for coming before the Committee and said he also has concerns regarding misinformation with the Proposition.

Representative Knaperek said that one of her concerns with the issue of the stadium bill itself is the infrastructure costs. She was told that there would be a small infrastructure cost and people would be able to vote.

Representative Knaperek said that the Committee is going to delay this item until the bonding in June.

Senator Solomon moved that the Committee reagenda this item for its June JLBC meeting. The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS) - Consider Approval of Transfer of Appropriations.

Ms. Beth Kohler, JLBC Staff, said that DHS is requesting a transfer from the Children's Health Insurance Program (CHIP) Direct Services Line Item to the Administration program. The JLBC Staff recommends the Committee not approve this request for 2 reasons: 1) CHIP is funded from the Medically Needy Account, which is intended to fund health care services to medically needy and medically indigent individuals and this would not be appropriate funding for No Wrong Door, and 2) the JLBC Staff does not believe the provisions along with the transfer of monies were intended for departments to fund new programs. They were intended to transfer monies between existing programs.

Senator Solomon moved the JLBC Staff recommendation to not approve the transfer of $360,000 from the Children's Health Insurance Program Direct Services Line Item to the Administration program operating budget for costs associated with the implementation of No Wrong Door. The motion carried.

BOARD OF APPRAISAL - Review of Unanticipated FY 2001 Costs.

Ms. Kim Hohman, JLBC Staff, said that last year's General Appropriation Act appropriated the greater of $50,000, or 20% of a 90/10 agency's FY 2001 appropriation. The agency is requesting $80,500 to address higher than expected investigation expenses.

Mr. Ed Logan, Director, Board of Appraisal, said there has been an increase in complaints to be investigated. He said that every complaint is investigated by the Board, however, not every complaint is sent out to contract investigators. Those that go out to contract investigators are more complex and require further investigation before the Board makes an appropriate decision.

Representative Pickens asked if the 20% cushion was available for the next budget year. Mr. Logan responded that it applied only for this budget year.

Senator Solomon moved that the Committee give a favorable review to the Board of Appraisal's request to use $80,500 to address higher than expected investigations expenses. This amount includes $2,000 for the Office of Administrative Hearings cost allocation plan to be implemented in FY 2001. The motion carried.

JLBC Staff - Report on Calculation of Classroom Site Fund Per Pupil Amounts.

Mr. Steve Schimpp, JLBC Staff, referred to tables 4 and 5 for agenda item #3 in the JLBC Agenda book, which show the estimated Classroom Site Fund Revenue and Per Pupil amounts for FY 2002 under various scenarios.

Senator Cirillo asked how the assumed sales tax growth of 4% compared with what was planned in total sales tax growth for next year. Mr. Stavneak said that the rate assumed would be in the 6.5% range.

Representative Weason expressed concern that they were locking in the per pupil amount of $240.56. If the March JLBC forecast assumes a 7.9% to 8.7% sales tax growth, then we are denying our school children about $20.00.

Representative Knaperek said it was her understanding that it would not be locked in. Mr. Schimpp said one thing that could impact the number is SB 1481. There is an amendment to change the formula retrospectively, and if that goes through, it would change the number. If that does not happen the number is, in fact, a fixed number. There is no mechanism in the law for changing the number once it is established.

Representative Weason asked if once the number is locked in would the Legislature have to statutorily create a change mechanism to alter the number for future years. Mr. Schimpp said that was correct. Mr. Stavneak said that money stays in the fund and if there were surplus monies, that money gets rolled into the calculation for the next year.

Representative Pickens asked, regarding the weighted versus unweighted system, if you go to an unweighted student count would there actually be more money per student. Mr. Schimpp said in terms of how it would affect individuals, the unified district generally would not be affected, it would typically be a wash for them. High school districts generally would lose under unweighted because they benefit from the weighted system, and conversely elementary schools would benefit more from the unweighted system.

Senator Solomon moved that the Committee approve the information as presented by the JLBC Staff where the JLBC Staff recommended a Classroom Site allocation of $240.56 per pupil for FY 2002. The motion carried.

DEPARTMENT OF VETERANS' SERVICES - Review of Proposed Expenditures from the Veterans' Home Contingency Special Line Item.

Ms. Indya Kincannon, JLBC Staff, said the Department of Veterans' Services requests review to spend $300,000 from the Veterans' Home Contingency Special Line Item in order cover unexpected costs associated with nurses' stipends.

Representative Knaperek stated that, for a point of clarification as she understands it, there was an overpayment to some nurses and this money would be used to cover that expense. Ms. Kincannon indicated that was correct.

Senator Solomon moved that the Committee give a favorable review to the transfer of $300,000 from the Veterans' Home Contingency Special Line Item to Personal Services ($264,800) and Employee Related Expenditures ($35,200). The motion carried.

AUTO THEFT AUTHORITY (ATA) - Review of Expenditure Plan.

Mr. Tony Vidale, JLBC Staff, said this item was for review of the ATA's expenditure plan to spend an additional $287,200, pursuant to a footnote in the General Appropriation Act. They would like to expend the monies on a grant to the Task Force to reimburse local law enforcement.

Representative Weason asked what the agency's year-end balance was.

Mr. Paul Boelhauf, Administrative Assistant, ATA, said that the agency has collected a lot of past-due revenue and at the end of this fiscal year they are anticipating a year-end balance of $2.4 to $2.5 million, much of which has been included in the budget request for the next 2 years. In response to Representative Weason's question, Mr. Boelhaus said that these funds are not encumbered funds, all expenditures by the ATA are appropriated.

Representative Pearce stated that this was a new agency and has been underfunded for some time. Now there is a network to get it back where it needs to be running. It is also one of the more successful ATA's in the nation. There are no extra monies, this is money dedicated for this purpose with an agreement with the insurance companies, which benefits all of us with premium reductions.

Senator Solomon asked what the recovery of stolen property was for a 2-year period prior to the creation of the ATA and how many felony arrests there were for a corresponding period, 2 years prior.

Mr. Paul Mortensen, Director, ATA, said that over the last 4.5 years since they have been in operation there has been recovery of over $60 million by the Task Force. The Task Force has returned $11 for each dollar that was spent. The return is significant and goes back to the consumer.

Senator Solomon said she recognizes what the Task Force has done and is very supportive of it. However, she would like the Committee to know, by comparison, how much stolen property was recovered prior to the establishment of the Task Force.

Representative Knaperek asked if there has been an audit of the Task Force. Mr. Mortensen said it has recently been completed, and will show the information Senator Solomon was looking for.

Representative Pearce said that the ATA was established in 1991 and has only been funded for the last 4.5 years. Prior to that the state's auto theft was increasing in the double digits every year. We went from number 23 in the nation in 1984 to number 1 in the nation in 1990 and continued to leap ahead of other states. For the first time since the inception of the ATA there are reductions of auto theft in the state. Arizona has grown faster than any other state in the nation because of the demographics and location to the border. That is turning around now and heading in the right direction and its all due, in part, to the ATA.

Representative Weason asked how the $11 return Mr. Mortensen spoke of goes back to the consumer. Mr. Mortensen said that it should go back to the consumer, however, for many people their claims are paid within 30 days after the theft of their vehicle. In effect the money really goes back to the insurance company. The return to the insurance companies will hopefully get back to the consumer in the form of lower insurance premiums. In answer to Representative Weason's question, Mr. Mortensen said that the 30-day pay off policy was in effect before the creation of the ATA.

Senator Rios asked how they define auto theft. Mr. Mortensen said that every theft of a vehicle without the owners consent is considered auto theft.

Representative Weason asked where the $287,200 will be spent. Mr. Mortensen said that it will go to the Task Force in the form of equipment, manpower needs, etc. She also asked what the cost is of the administrative office. Mr. Mortensen said he does not know the exact figure but it is less than the cap of 10%.

Senator Solomon moved that the Committee give a favorable review to the Auto Theft Authority's request to expend $287,200. The motion carried.

ATTORNEY GENERAL

A. Review of Uncollectible Debts.

Ms. Gina Guarascio, JLBC Staff, stated that this item concerns an annual report of uncollectible debt. The Attorney General's Office operates as a collection agency for many state agencies. For a variety of reasons some of these debts, which amount to $7.6 million for FY 2000, are uncollectible. After JLBC review of the report the General Accounting Office will be able write-off this bad debt.

Representative Knaperek wanted to know why a debt is listed as uncollectible. Ms. Guarascio said that there are a variety of reasons a debt could be uncollectible, including bankruptcy, inability to locate the debtor or a settlement reached with the debtor.

Mr. Tracy Essig, Assistant Attorney General, said that often the Attorney General is not able to locate the debtor, or a corporation may be defunct, or the debtor may not have any assets.

Representative Knaperek said she realizes this is the first time the report has been prepared, but she felt it would be helpful to the Committee to have more detailed information such as the reason each debt is listed as uncollectible, the date the debt was determined uncollectible, as well as the date the collections work began, and the amount collected on each debt. The Committee would also like to see the report set up like a balance sheet. Mr. Essig said they would be able to provide that information in the format requested.

Representative Knaperek asked why there were names for some people and not others on the report, and what "DBA" referred to. Mr. Essig said that some of the information was from the Department of Revenue (DOR) and there was an issue of confidentiality, where the names could not be listed. Others were from sources that were public information. He said that DBA means "doing business as."

Senator Cirillo asked that with the recent passage in Congress of tightening up the bankruptcy laws, if Mr. Essig thought they saw the ability to collect from these people on the list. Mr. Essig said that Arizona is one of the leaders in activity and actions on collections. Most of the bankruptcies filed today are Chapter 7. They will look at those and see what kind of income is received and what kind of property is held and then may be forced to go into Chapter 13. If they are in Chapter 13 as opposed to Chapter 7, clearly there may be an increase in the amount the Attorney General's Office is going to receive.

Senator Cirillo asked if it will make things better if that bill passes. Mr. Essig said that if it passes it may allow the debtor to pay over a longer period of time.

Senator Solomon asked what length of time the Collections Section keeps the accounts open before they decide the account is uncollectible. Mr. Essig said that there are several types of debts they deal with. There are state court collections, bankruptcy, and eminent domain. They all require different treatment and some take longer than others. Senator Solomon also asked what percentage of total debt is uncollectible. Mr. Essig said the report shows that for FY 2000 65% of those cases that were referred were collected on, which leaves 35% as uncollectible. The cost of collections is 16¢ for every dollar received. The total amount collected last year was $11.6 million.

Senator Solomon moved *that the Committee give a favorable review of the Attorney General's FY 2000 listing of uncollectible debts referred to the Attorney General for collection.* The motion carried.

B. Review of Allocation of Settlement Monies (Grant Woods v. American Tobacco, Inc.)

Ms. Guarascio said this item was a review of the allocation plan of settlement money received by the Attorney General. In the settlement reached with the tobacco industry they agreed to pay in-house costs and attorneys' fees associated with the tobacco litigation. For Arizona, this amount is $1.2 million. As part of the tobacco settlement, the National Association of Attorneys' General (NAAG) was designated as the mechanism for review of expenses and determination of payment related to attorneys' fees. NAAG reviewed the expenses submitted by the Attorney General's Office and determined that $1,160,064 was due to the state for reimbursement of these costs pursuant to the agreement. The allocations to DOR, AHCCCS, and DHS were based on actual costs paid by these agencies during the course of the tobacco settlement litigation. To determine the allocation among the Attorney General's funds, the Attorney General first reimbursed each fund for actual expenses incurred during the tobacco settlement litigation. The remainder was divided between the Anti-Trust Revolving Fund and the Consumer Fraud Revolving Fund.

Representative Knaperek stated that there is more money than the actual costs and questioned what the money would be spent on.

Mr. Tom Prose, Chief Assistant Attorney General, said that the dollars are going to be put in 2 funds. The Anti-Trust Revolving Fund and the Consumer Fraud Revolving Fund, and is earmarked for the cost of operations in regards to activities in these 2 areas. The money cannot be used to pay for attorneys' fees.

Representative Knaperek asked if there were particular items this money would go towards. Mr. Prose said that it would pay for operations as opposed to an appropriation from the General Fund.

Representative Pearce asked if those dollars were already allocated or appropriated to the agency for expenses as part of the budget issue. He said these should really be General Fund dollars. He felt it was inappropriate to put dollars in a fund where there was no oversight by the Legislature.

Mr. Prose said that when his office takes action on consumer fraud law, anti-trust law or racketeering, and recovers the cost, if they are successful, for the attorney's time, those monies go back into the revolving fund. That is the way the statute is set up and those monies are used to continue to pay for the operation of the office. That offsets the money that would otherwise come out of the General Fund.

Senator Solomon moved *that the Committee give a favorable review to the Attorney General's request of the allocation of funds received pursuant to a case settlement.* The motion carried.

The allocation is as follows:

Attorney General --	
Consumer Fraud Revolving Fund	$494,168
Anti-Trust Revolving Fund	424,452
Anti-Racketeering Revolving Fund	73,168
Department of Revenue (DOR)	109,000
Arizona Health Care Cost Containment System (AHCCCS)	36,525
Department of Health Services (DHS)	22,750
TOTAL	**$1,160,064**

REPORT ON RECENT AGENCY SUBMISSIONS

The JLBC Staff agenda book contained information on the following agency reports:
- Supreme Court - Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund.
- Arizona Department of Transportation - Local Transportation Assistance Fund Report.
- Department of Health Services - Report on Tobacco Tax Program Evaluations.
- Department of Economic Security - Bimonthly Report on Arizona Works.

There was no discussion on this item and no Committee action was required.

Without objection, the meeting adjourned at 10:40 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Laura Knaperek, Chairman

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 9, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REVIEW OF SUFFICIENCY OF DEFICIENCIES CORRECTION MONIES WITH REGARD TO TOURISM AND SPORTS AUTHORITY

Background

At its April 6, 2001 meeting, the JLBC considered the School Facilities Board (SFB) request to review that sufficient monies have been dedicated to the Deficiencies Correction Fund to bring Arizona's school districts up to the board's minimum facility adequacy standards. Under Proposition 302, passed by Maricopa County voters in the general election of November 2000, this review is required before the SFB can certify to the State Treasurer that sufficient resources have been dedicated to the deficiencies correction program. That certification is required before the State Treasurer may transfer revenues from increased car rental surcharges and hotel taxes to the newly formed Tourism and Sports Authority.

The Committee's review of this item was deferred to the June meeting. (Attachment 1 is the JLBC Staff's analysis of this issue from the April meeting.)

Current Status

Since the April 6 meeting, the SFB has been proceeding with the process of selling the revenue bonds that will provide the primary source of funding for the deficiencies correction projects. The first $500,000,000 of the bonds were priced and sold in New York earlier this week. The bonds will be delivered and receipts from the issue are expected to be deposited into the bond proceeds fund on or about June 5, 2001. The SFB expects to issue the remaining $300,000,000 in bonds during mid-2002.

We have also received a clarification of the steps leading to the board's certification of the sufficiency of funds. At the time of the April meeting, we believed that the board needed to certify the sufficiency of funds prior to the JLBC meeting. Upon further legal review, Proposition 302 requires that the board, in consultation with OSPB, make its certification of sufficient funds to the State Treasurer only ***after*** review by the JLBC.

(Continued)

There has also been some question recently as to the board's position on the sufficiency of funds. The attached letter from the board's Executive Director (Attachment 2) clarifies that the current funding provided in the budget would be sufficient to meet the SFB's current estimate of deficiencies correction costs. The letter states that "with the funds currently allocated within the biennial budget, assuming the federal construction funds can be used for this project, along with the $800 million in bond funds authorized by the School Facilities Board, adequate funds have been dedicated to meet these estimated costs."

At present, work is proceeding on a number of Tourism and Sports Authority projects, including baseball spring training facilities that are to be financed by Proposition 302 proceeds. Construction of a baseball facility in Surprise is scheduled to begin on May 21, 2001 to ensure that the stadium will be ready for next spring. Surprise officials are willing to proceed with construction with the knowledge that the Committee is providing a favorable review of the project. The Committee's review of this agenda item at the May 10 meeting will provide guidance as to whether the project should begin as planned.

Proposal

Representative Knaperek proposes favorable review of this agenda item that the board has sufficient monies available for deficiencies corrections. The review would be contingent upon the state's actual receipt of proceeds from the SFB's revenue bonds by June 5.

RS/PF:jb
Attachment: (2)

STATE OF ARIZONA

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DATE: March 28, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Fearon, Senior Fiscal Analyst PF

SUBJECT: SCHOOL FACILITIES BOARD - REVIEW OF SUFFICIENCY OF DEFICIENCIES CORRECTION MONIES WITH REGARD TO TOURISM AND SPORTS AUTHORITY

Request

The School Facilities Board (SFB) wishes to certify that sufficient monies have been dedicated to the Deficiencies Correction Fund to bring Arizona's school districts up to the board's minimum facility adequacy standards. This certification is required before the State Treasurer may transfer revenues from increased car rental surcharges and hotel taxes to the tourism and sports authority established by Proposition 302, passed by Maricopa County voters in the general election of November 2000. Proposition 302 requires the JLBC to review the SFB's certification.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the SFB certification. Both the JLBC and Executive's budget recommendation, in combination with revenue bonding and prior year monies, provide enough monies to fund the board's current estimate of resolving the deficiency corrections.

Analysis

Proposition 302 created a Tourism and Sports Authority to oversee the construction and operation of a multipurpose facility that will primarily be used to host sporting events, including professional football games. The Authority will finance the facility by issuing revenue bonds backed by income from increased car rental charges and hotel taxes. In addition, the Authority will oversee capital issues related to Cactus League baseball and the construction of youth recreational facilities.

Proposition 302 prohibits the State Treasurer from distributing the increased tax revenues to the Authority until the SFB certifies that sufficient monies are dedicated to the Deficiencies Correction Fund to bring Arizona's public schools up to the board's minimum school facility adequacy standards, pursuant to A.R.S. § 15-2021. The SFB provides that certification in the attached letter.

(Continued)

Estimated Cost of Deficiencies Correction. In March 2001, the SFB presented a revised estimate of $1,078,124,200 for resolving all school facility deficiencies based on statewide assessment data from Arizona school districts. A breakdown of this estimate is presented in Table 1. The revised estimate probably is more accurate than the preliminary estimate of approximately $1,171,000,000 released by the SFB last year because many program elements (such as "emergency deficiencies" and "space deficiencies") have now been bid or even completed. It nonetheless contains a 2% cushion for contingencies. The final funding requirements for deficiencies correction will not be known, however, until all required projects are bid and under way.

Table 1

Revised Cost Estimate for Deficiencies Correction Program

Deficiencies Correction	$ 794,615,700
Networking	100,000,000
Impact on Market (8%)	63,569,300
Equipment Purchases	55,000,000
Project Management	47,676,900
Margin of Error (2%)	15,892,300
Operations	1,370,000
Total	**$1,078,124,200**

Funding Mechanism. To date, deficiencies correction has been funded by General Fund appropriations and special non-appropriated "transfers" from Transaction Privilege Tax (TPT) revenues. Under Proposition 301 (Education 2000), approved in the November 2000 general election, these traditional sources of funding will be supplemented by up to $800,000,000 in revenue bonds in FY 2002 and FY 2003. To provide the certification in the attached letter, the board relies on the availability of the TPT transfers and the revenue bonds. These sources are discussed further below.

- **TPT Transfers.** By December 1 of each even-numbered year, the board reports to JCCR regarding the estimated amounts needed for Deficiencies Corrections in the following 2 fiscal years. By December 1 of each odd-numbered year, the board provides an update to JCCR regarding the estimated amount needed for the 2nd year of the biennium. By January 1 of each year, the board instructs the State Treasurer of the TPT amount to be credited in the following fiscal year to the Deficiencies Correction Fund. The amount to be credited is not subject to the legislative appropriation process, and is not capped.

- **Revenue Bonds**. Under Proposition 301, $800,000,000 of the projected deficiencies correction cost now can be funded with School Improvement Revenue Bonds. Debt service on the bonds will be paid out of revenues generated by a 0.6% increase in the state sales tax. Although the board believes that some technical issues currently would preclude issuing the bonds, it expects those issues to be resolved during the current legislative session. The board believes that it will be able to issue the first tranche of bonds in the first week of June 2001. If the technical issues regarding the bonds are not resolved, the board would require greater TPT transfers.

In addition to the TPT transfers and revenue bonds, the current FY 2002 and FY 2003 budget proposal (the green sheet) includes transfers of $12,000,000 in General Fund monies and $15,000,000 outstanding in the School Capital Equity Fund for deficiencies correction in FY 2003. The SFB will receive approximately $16,000,000 in federal "School Renovation Grants." The table below indicates that these additional funds, together with earlier funding for deficiencies correction, would essentially cover the current estimated cost of the program.

(Continued)

Table 2

Funding Breakdown for Deficiencies Correction

Prior Year Funds	$ 233,790,000
Proposition 301	800,000,000
FY 2003 General Fund Transfer	12,000,000
FY 2003 Transfer from School Capital Equity Fund	15,000,000
FY 2003 Federal School Renovation Grants	16,000,000
Total Funding	**$1,076,790,000**

The identified funding sources would be insufficient to cover the deficiencies correction program only if the current estimated cost of the program proves too low or if a funding source is eliminated. Because of its ability to instruct the State Treasurer to transfer TPT funds, however, the board controls its own funding and could cover any shortfall unless the Legislature intervenes.

RS/PF:jb

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Jane Dee Hull

Executive Director
Dr. Philip E. Geiger

The Honorable Laura Knaperek
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

May 9, 2001

Dear Representative Knaperek:

The School Facilities Board estimates that the cost of correcting all Deficiencies in the Arizona Public Schools is $1.078 billion. With the funds currently allocated within the biennial budget, assuming the federal construction funds can be used for this project, along with the $800 million in bond funds authorized by the School Facilities Board, adequate funds have been dedicated to meet these estimated costs.

Once the Joint Legislative Budget Committee reviews the submission of the Tourism and Sports Authority, the School Facilities Board can take action to confirm the above certification.

Should you need any further information, please feel free to contact me at (602) 542-6143.

Sincerely,

Philip E. Geiger (ds)

Philip E. Geiger

C: The Honorable Carol Springer, State Treasurer
The Honorable Ruth Solomon
School Facilities Board Members
Ted Ferris, ATSA President
Patrick Fearon, JLBC Analyst
Jaime Molera
Christy Anderson
Tom Betlach
David Lujan, Esq. Asst. Attorney General

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